NEW ISSUE – BOOK-ENTRY-ONLY

RATINGS:
Moody's: "Aa2"
S&P: "AA+"
Fitch: "AA+"

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental Payment designated as and constituting interest paid by the County under the Facility Lease, and received by the Owners of the Series 2014A Certificates, is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Special Counsel is of the further opinion that interest evidenced by the Series 2014A 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 is also of the opinion that interest evidenced by the Series 2014 Certificates is exempt from State of California personal income taxes. Special Counsel observes that interest evidenced by the Series 2014B Certificates is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest evidenced by, the Series 2014 Certificates. See "Tax Matters" herein.

COUNTY OF SAN DIEGO
CERTIFICATES OF PARTICIPATION

$91,675,000
(Edgemoor and RCS Refunding) Series 2014A

$2,075,000
(Edgemoor and RCS Refunding) Series 2014B
(Taxable)

Dated: Date of Delivery

Due: October 15, as shown on the inside cover

The County of San Diego Certificates of Participation (Edgemoor and RCS Refunding) Series 2014A (the "Series 2014A Certificates") and the County of San Diego Certificates of Participation (Edgemoor and RCS Refunding) Series 2014B (Taxable) (the "Series 2014B Certificates" and, together with the Series 2014A Certificates, the "Series 2014 Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of September 1, 2014 (the "Trust Agreement"), by and among Zions First National Bank, as trustee (the "Trustee"), the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation"). The Series 2014 Certificates evidence proportionate undivided interests in base rental payments (the "Base Rental Payments") to be made by the County pursuant to that certain Facility Lease, dated as of September 1, 2014 (the "Facility Lease"), by and between the County and the Corporation, pursuant to which the County will sublease from the Corporation certain real property and all the improvements thereon or to be located thereon, as more particularly described herein (the "Leased Property"). See "Security and Sources of Payment for the Series 2014 Certificates – Base Rental Payments" herein. The proceeds of the Series 2014 Certificates will be applied to (i) prepay all of the County's outstanding Certificates of Participation (2005 Edgemoor Project and 1996 Regional Communications System Refunding) and Certificates of Participation (2006 Edgemoor Completion Project), (ii) fund a reserve fund for the 2014 Certificates and (iii) pay certain costs of issuance incurred in connection with the Series 2014 Certificates. See "Plan of Refunding" herein.

Interest represented by the Series 2014 Certificates is payable on April 15 and October 15 of each year, commencing on April 15, 2015. The Series 2014 Certificates will be delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Series 2014 Certificates. Individual purchases of the Series 2014 Certificates will be made in book-entry form only. Purchasers of the Series 2014 Certificates will not receive certificates representing their ownership interests in the Series 2014 Certificates purchased. Principal and interest payments represented by the Series 2014 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 2014 Certificates. See Appendix D – "Book-Entry System" attached hereto.

The Series 2014A Certificates are subject to optional and extraordinary prepayment, as described herein. The Series 2014B Certificates are subject to make-whole and extraordinary prepayment. See "The Series 2014 Certificates – Prepayment" herein.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL PAYMENTS UNDER THE FACILITY LEASE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE SERIES 2014 CERTIFICATES NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL PAYMENTS UNDER THE FACILITY LEASE 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. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2014 Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Special Counsel to the County, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California, and for the County and the Corporation by the County Counsel. It is anticipated that the Series 2014 Certificates in definitive form will be available for delivery through the facilities of DTC on or about September 3, 2014.

BofA Merrill Lynch

Citigroup

J.P. Morgan
Academy Securities

Dated: August 19, 2014

MATURITY SCHEDULE

$91,675,000
(EDGEMOOR AND RCS REFUNDING) SERIES 2014A

BASE CUSIP No.†: 797391

Maturity (October 15)	Principal Amount	Interest Rate	Yield	Price	CUSIP Suffix†
2015	$4,400,000	5.000%	0.120%	105.443	Y37
2016	4,625,000	5.000	0.370	109.752	Y45
2017	4,840,000	4.000	0.640	110.351	Y52
2018	5,065,000	5.000	0.910	116.487	Y60
2019	5,240,000	2.000	1.260	103.655	Y78
2020	5,430,000	5.000	1.530	120.186	Y86
2021	5,650,000	3.000	1.840	107.703	Y94
2022	5,885,000	5.000	2.060	121.869	Z28
2023	6,180,000	5.000	2.270	122.365	Z36
2024	6,500,000	5.000	2.420	123.026	Z44
2025	6,835,000	5.000	2.590	121.325[C]	Z51
2026	7,185,000	5.000	2.730	119.945[C]	Z69
2027	7,550,000	5.000	2.860	118.680[C]	Z77
2028	7,945,000	5.000	2.950	117.814[C]	Z85
2029	8,345,000	5.000	3.010	117.241[C]	Z93

[C] Priced to October 15, 2024 call date at par.

$2,075,000
(Edgemoor and RCS Refunding) Series 2014B (Taxable)

BASE CUSIP No.†: 797391

Maturity (October 15)	Principal Amount	Interest Rate	Yield	Price	CUSIP Suffix†
2015	$515,000	0.415%	0.415%	100.000	2A6
2016	520,000	0.815	0.815	100.000	2B4
2017	520,000	1.435	1.435	100.000	2C2
2018	520,000	1.920	1.920	100.000	2D0

COUNTY OF SAN DIEGO, STATE OF CALIFORNIA

COUNTY OF SAN DIEGO
BOARD OF SUPERVISORS

Greg Cox	First District
Dianne Jacob, Chair	Second District
Dave Roberts, Vice Chair	Third District
Ron Roberts	Fourth District
Bill Horn	Fifth District

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COUNTY OFFICIALS

Helen N. Robbins-Meyer, *Chief Administrative Officer*
Donald F. Steuer, *Assistant Chief Administrative Officer / Chief Operating Officer*
Tracy M. Sandoval, *Deputy Chief Administrative Officer / Auditor & Controller*
Dan McAllister, *Treasurer – Tax Collector*
Thomas E. Montgomery, *County Counsel*

******

SPECIAL SERVICES

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

Trustee and Escrow Agent
Zions First National Bank
Los Angeles, California

Financial Advisor
Public Resources Advisory Group
Los Angeles, California

Verification Agent
Grant Thornton
Minneapolis, Minnesota

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 2014 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the County, the Corporation, or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2014 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 facts.

The information set forth herein has been provided by the County and other sources that are believed by the County to be reliable. 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 respective 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.

The information and expressions of opinion 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 County or the Corporation since the date hereof. This Official Statement is submitted with respect to the sale of the Series 2014 Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the County and the Corporation.

In connection with the offering of the Series 2014 Certificates, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Series 2014 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 2014 Certificates to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the inside cover page hereof and such public offering prices may be changed from time to time by the Underwriters.

The County maintains a website at http://sdpublic.sdcounty.ca.gov/. The information presented therein is not a part of this Official Statement, is not incorporated by reference herein, and should not be relied upon in making an investment decision with respect to the Series 2014 Certificates.

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COUNTY OF SAN DIEGO
CERTIFICATES OF PARTICIPATION

$91,675,000 **(Edgemoor and RCS Refunding) Series 2014A**	**$2,075,000** **(Edgemoor and RCS Refunding) Series 2014B** **(Taxable)**

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2014 Certificates being offered, and a brief description of this Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement and the Facility Lease (herein defined). See Appendix C – "Summary of Principal Legal Documents – Definitions" attached hereto.

General

This Official Statement, including the cover page, 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 (Edgemoor and RCS Refunding) Series 2014A (the "Series 2014A Certificates") and the County of San Diego Certificates of Participation (Edgemoor and RCS Refunding) Series 2014B (Taxable) (the "Series 2014B Certificates" and, together with the Series 2014A Certificates, the "Series 2014 Certificates"). The Series 2014 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of September 1, 2014 (the "Trust Agreement"), by and among Zions First National Bank, as trustee (the "Trustee"), the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation") to (i) finance the prepayment of all of the County's outstanding Certificates of Participation (2005 Edgemoor Project and 1996 Regional Communications System Refunding) (the "Series 2005 Certificates") and Certificates of Participation (2006 Edgemoor Completion Project) (the "Series 2006 Certificates" and, together with the Series 2005 Certificates, the "Prior Certificates"), (ii) fund a reserve fund for the 2014 Certificates and (iii) pay certain costs of issuance incurred in connection with the Series 2014 Certificates. See "Plan of Refunding" herein.

The County will lease certain real property and all improvements thereon or to be located thereon, as more particularly described herein (the "Leased Property"), to the Corporation pursuant to a Site Lease, dated as of September 1, 2014 (the "Site Lease"), by and between the County and the Corporation. The County will sublease the Leased Property from the Corporation pursuant to a Facility Lease, dated as of September 1, 2014 (the "Facility Lease"), by and between the County and the Corporation. The Series 2014 Certificates evidence proportionate undivided interests in base rental payments (the "Base Rental Payments") to be made by the County as the rental for the Leased Property under and pursuant to the Facility Lease. See "Security and Sources of Payment for the Series 2014 Certificates – Base Rental Payments" herein.

Security and Source of Payment for the Series 2014 Certificates

Under the Facility Lease, in consideration for the use and occupancy of the Leased Property, the County has agreed to make certain payments designated as Base Rental Payments and certain other payments designated as Additional Payments with respect to the Leased Property (collectively, the "Additional Payments"), in the amounts, at the times and in the manner set forth in the Facility Lease. Base Rental

Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Series 2014 Certificates. The County has covenanted in the Facility Lease to take such action as may be necessary to include all Base Rental Payments and Additional Payments due thereunder in its operating budget for each Fiscal Year commencing after the date of the Facility Lease, and to make all necessary appropriations for such Base Rental Payments and Additional Payments.

Pursuant to an Assignment Agreement, dated as of September 1, 2014 (the "Assignment Agreement"), by and between the Trustee and the Corporation, the Corporation will assign to the Trustee, for the benefit of the Owners of the Series 2014 Certificates, among other things, all of its right, title and interest under the Site Lease and all rights to receive Base Rental Payments under the Facility Lease, including the right to receive Base Rental Payments under the Facility Lease. See Appendix C – "Summary of Principal Legal Documents – Facility Lease," and "– Trust Agreement" attached hereto.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL PAYMENTS UNDER THE FACILITY LEASE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE SERIES 2014 CERTIFICATES NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL PAYMENTS UNDER THE FACILITY LEASE 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 2014 Certificates – Base Rental Payments" and "– Abatement" herein.

The Series 2014 Certificates

The Series 2014 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 2014 Certificates will be dated their date of delivery and mature on October 15 in the years set forth on the inside cover page hereof. The interest represented by the Series 2014 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 2014 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 2014 Certificates is payable on April 15 and October 15 of each year, commencing on April 15, 2015.

The Series 2014 Certificates will be delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), which will act as securities depository for the Series 2014 Certificates. Individual purchases of the Series 2014 Certificates will be made in book-entry form only. Purchasers of the Series 2014 Certificates will not receive certificates representing their ownership interests in the Series 2014 Certificates purchased. Principal and interest payments represented by the Series 2014 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 2014 Certificates. See "The Series 2014 Certificates – General" herein and Appendix D – "Book-Entry System" attached hereto.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the portion of each Base Rental Payment designated as and constituting interest paid by the County under the Facility Lease, and received by the Owners of the Series 2014A Certificates, is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Special Counsel is of the further opinion that interest evidenced by the Series 2014A 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 is also of the opinion that interest evidenced by the Series 2014 Certificates is exempt from State of California personal income taxes. Special Counsel observes that interest evidenced by the Series 2014B Certificates is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest evidenced by, the Series 2014 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, with respect to each fiscal year of the County, commencing with Fiscal Year 2013-14, by no later than nine months after the end of the respective fiscal year, 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 F – "Form of Continuing Disclosure Agreement" attached hereto.

Forward-Looking Statements

Certain statements included or incorporated by reference in this 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 reasonable, there can be no assurance that such expectations will prove to be correct. The County is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

Miscellaneous

The Series 2014 Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval by Special Counsel as to the legality of the Facility Lease and the Trust Agreement and certain other conditions.

The description herein of the Trust Agreement, the Site Lease, the Facility Lease and the Assignment Agreement and any other agreements relating to the Series 2014 Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Series 2014 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 since the date hereof.

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

THE LEASED PROPERTY

The County will sublease the Leased Property from the Corporation pursuant to the Facility Lease. The Leased Property consists of certain real property and the skilled nursing facility located thereon in the City of Santee, California on approximately 11.74 acres of the County's 326-acre Edgemoor property. The skilled nursing facility is a two-story, 180,300 square feet complex that consists of three residential wings and a central plant that houses certain utility pipes and drains for the entire facility. The skilled nursing facility accommodates 192 residents and is operated by the County of San Diego. The skilled nursing facility was completed in January 2009 and occupancy began in July 2009. The total capital cost of the skilled nursing facility was approximately $123 million, of which $83 million was financed with proceeds of the Series 2005 Certificates, $34 million was financed with proceeds of the Series 2006 Certificates and $7 million was appropriated by the County from its General Fund.

PLAN OF REFUNDING

The Series 2014 Certificates are being executed and delivered to (i) provide for the prepayment of the Prior Certificates, (ii) fund a reserve fund for the Series 2014 Certificates and (iii) pay certain costs of issuance incurred in connection with the Series 2014 Certificates. The Series 2005 Certificates were executed and delivered in the original principal amount of $112,395,000 to finance the construction of the skilled nursing facility described above and prepay the County of San Diego Certificates of Participation (1996 Regional Communications System Financing). The Series 2006 Certificates were executed and delivered in the original principal amount of $42,390,000 to finance the completion of the skilled nursing facility.

The Prior Certificates to be paid on the maturity date thereof or prepaid with proceeds of the Series 2014 Certificates consist of the following:

Certificates of Participation (2005 Edgemoor Project and 1996 Regional Communications System Refunding)

Maturity Date (February 1)	Principal Amount	Interest Rate	Prepayment Date (February 1)	Prepayment Price	CUSIP†
2015	$ 250,000	4.00%	--	--	797391YU7
2015	3,690,000	5.00	--	--	797391ZT9
2016	4,130,000	5.00	2015	100%	797391YV5
2017	4,335,000	5.00	2015	100	797391YW3
2018	4,550,000	5.00	2015	100	797391YX1
2019	4,770,000	5.00	2015	100	797391YY9
2020	3,590,000	5.00	2015	100	797391YZ6
2021	3,770,000	5.00	2015	100	797391ZA0
2022	3,955,000	5.00	2015	100	797391ZB8
2023	4,155,000	5.00	2015	100	797391ZC6
2024	4,360,000	5.00	2015	100	797391ZD4
2025	4,580,000	5.00	2015	100	797391ZE2
2026	4,810,000	5.00	2015	100	797391ZF9
2027	5,050,000	5.00	2015	100	797391ZG7
2028	5,300,000	5.00	2015	100	797391ZH5
2029	5,570,000	5.00	2015	100	797391ZJ1
2030	5,845,000	5.00	2015	100	797391ZK8

Certificates of Participation (2006 Edgemoor Completion Project)

Maturity Date (February 1)	Principal Amount	Interest Rate	Prepayment Date (February 1)	Prepayment Price	CUSIP†
2015	$ 1,550,000	5.00%	--	--	797391H51
2016	1,625,000	5.00	--	--	797391H69
2017	1,705,000	5.00	2016	100%	797391H77
2018	1,795,000	5.00	2016	100	797391H85
2019	1,885,000	5.00	2016	100	797391H93
2020	1,975,000	4.00	2016	100	797391J26
2021	2,055,000	4.00	2016	100	797391J34
2026	11,645,000	4.25	2016	100	797391J42
2030	11,260,000	4.45	2016	100	797391J59

† CUSIP data, copyright 2014, American Bankers Association. CUSIP data herein is set forth for convenience of reference only. The Corporation, the County and the Underwriters assume no responsibility for its accuracy.

A portion of the net proceeds of the Series 2014 Certificates will be deposited into the escrow fund established under the Escrow Agreement, dated as of September 1, 2014 (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, as to provide amounts sufficient (a) to provide for the payment when due of the interest on the Series 2005 Certificates due on February 1, 2015, (the "Series 2005 Certificate Prepayment

Date"), (b) to prepay the remaining outstanding Series 2005 Certificates on the Series 2005 Certificate Prepayment Date, at the prepayment price equal to 100% of the outstanding principal amount of the Series 2005 Certificates, (c) to provide for the payment when due of the principal and interest on the Series 2006 Certificates due on and prior to February 1, 2016, (the "Series 2006 Certificate Prepayment Date") and (d) to prepay the remaining outstanding Series 2006 Certificates on the Series 2006 Certificate Prepayment Date, at the prepayment price equal to 100% of the outstanding principal amount of the Series 2006 Certificates (the sum of the amounts referred to in clauses (a) through (d) of this paragraph are hereinafter referred to as the "Prepayment Price").

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 2014 Certificates and certain other amounts are expected to be applied approximately as follows:

	Series 2014A Certificates	Series 2014B Certificates
Sources:		
Principal Amount of Certificates	$ 91,675,000	$2,075,000
Original Issue Premium	15,070,292	--
Amounts Released	6,819,941	4,372,412
Total Sources	$113,565,233	$6,447,412
Uses:		
Prepay Prior Certificates	$105,898,208	$6,333,626
Base Rental Payment Fund	2,630,176	14,690
Reserve Fund	4,460,341	86,704
Costs of Issuance(1)	576,508	12,393
Total Uses(2)	$113,565,233	$6,447,412

(1) Includes underwriters' discount, rating agencies fees, financial advisor fees, title insurance fees, legal fees, trustee fees and printing costs and other costs of issuance.
(2) Totals may not add due to rounding.

THE SERIES 2014 CERTIFICATES

The following is a summary of certain provisions of the Series 2014 Certificates. Reference is made to the Series 2014 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 2014 Certificates will be dated their date of delivery and principal with respect to the Series 2014 Certificates will be payable on the dates set forth on the inside cover page of this Official Statement. The interest represented by the Series 2014 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 2014 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 2014 Certificates will be payable semiannually on each April 15 and October 15 of each year, commencing on April 15, 2015 (each, an "Interest Payment Date") and will be computed on the basis of a 360-day year of twelve 30-day months.

Book-Entry System

The Series 2014 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 2014 Certificates will be delivered in book-entry 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 2014 Certificates. Individual purchases of the Series 2014 Certificates will be made in book-entry form only. Purchasers of the Series 2014 Certificates will not receive certificates representing their ownership interests in the Series 2014 Certificates purchased. Principal and interest payments represented by the Series 2014 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 2014 Certificates. See Appendix D – "Book-Entry System" attached hereto.

Prepayment

Optional Prepayment of the Series 2014A Certificates. The Series 2014A Certificates maturing on or after October 15, 2025 are subject to optional prepayment prior to maturity on or after October 15, 2024 at the option of the County, in whole, or in part, on any date, at a prepayment price equal to the principal amount of the Series 2014A Certificates to be prepaid, plus accrued but unpaid interest to the prepayment date.

Make Whole Optional Prepayment of the Series 2014B Certificates. The Series 2014B Certificates will be subject to optional prepayment prior to the scheduled principal payment date, at the election of the County, in whole or in part, on any date at a prepayment price equal to the greater of:

(1) 100% of the principal amount of the 2014B Certificates to be prepaid; or

(2) the sum of the present values of the scheduled payments of principal and interest to the scheduled principal payment date of such 2014B Certificates to be prepaid, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2014B Certificates are to be prepaid, discounted to the date on which such 2014 Certificates are to be prepaid on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (hereinafter defined) plus 15 basis points; plus, in either case, accrued interest on such 2014 Certificates to be prepaid to the prepayment date.

Treasury Rate means, as of the prepayment date, the yield to maturity as of such prepayment date of the United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the prepayment date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the prepayment date to maturity; provided, however, that if the period from the prepayment date to maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used. The prepayment price will be determined by an independent accounting firm, investment banking firm or financial consultant retained by the County at the County's expense and such prepayment price shall be conclusive and binding on the owners of the 2014B Certificates.

Extraordinary Prepayment. The Series 2014 Certificates are subject to prepayment on any date prior to their respective maturity dates, as a whole, or in part, at the written direction of the County, from the net proceeds of any insurance or condemnation award with respect to the Leased Property or portions thereof, at a prepayment price equal to the sum of the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium.

Notice of Prepayment. Notice of prepayment will be mailed by first class mail by the Trustee, on behalf and at the expense of the County, not less than 30 nor more than 60 days prior to the redemption date to the respective Owners of Series 2014 Certificates designated for redemption at their addresses appearing on the Series 2014 Certificate registration books of the Trustee. Each notice of prepayment will state the date of such notice, the Series 2014 Certificates to be redeemed, the Series and date of issue of such Series 2014 Certificates, the prepayment date, the prepayment price, the place or places of prepayment (including the name and appropriate address or addresses), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity are to be redeemed, the distinctive Series 2014 Certificate numbers of the Series 2014 Certificates of such maturity to be redeemed and, in the case of Series 2014 Certificates to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that such prepayment may be rescinded by the County and that, unless such prepayment is so rescinded, on said date there will become due and payable on each of such Series 2014 Certificates the prepayment price thereof or of said specified portion of the principal amount thereof in the case of a Series 2014 Certificate to be redeemed in part only, together with interest accrued thereon to the prepayment date, and that from and after such prepayment date interest thereon will cease to accrue, and will require that such Series 2014 Certificates be then surrendered at the address or addresses of the Trustee specified in the prepayment notice.

The insufficiency of any notice will not affect the sufficiency of the proceedings for prepayment. The failure of any Owner to receive any prepayment notice mailed to such Owner and any defect in the notice so mailed will not affect the sufficiency of the proceedings for prepayment.

The County has the right to rescind any optional prepayment by written notice to the Trustee on or prior to the date fixed for prepayment. Any notice of prepayment shall be cancelled and annulled if for any reason funds are not available on the date fixed for prepayment in full of the Series 2014 Certificates then called for prepayment, and such cancellation will not constitute an Event of Default hereunder. The Trustee will mail notice of such rescission of prepayment in the same manner as the original notice of prepayment was sent.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2014 CERTIFICATES

Base Rental Payments

General. The Series 2014 Certificates represent the aggregate principal components of the Base Rental Payments under the Facility Lease. The Series 2014 Certificates evidence proportionate undivided interests in an amount of Base Rental Payments to be made by the County pursuant to the Facility Lease. The County is required under the Facility Lease to make Base Rental Payments subject to the provisions of the Facility Lease related to abatement. The County has covenanted in the Facility Lease to take such action as may be necessary to include all Base Rental Payments and Additional Payments with respect to the Leased Property in its operating budget for each fiscal year commencing after the date of the Facility Lease and to make the necessary appropriations for such Base Rental Payments and Additional Payments. Base Rental Payments are scheduled to be paid as set forth herein.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL PAYMENTS UNDER THE FACILITY LEASE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE SERIES 2014 CERTIFICATES NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL PAYMENTS UNDER THE FACILITY LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The Trustee, pursuant to the Trust Agreement, will receive Base Rental Payments for the benefit of the Owners. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Series 2014 Certificates. Except as expressly provided in the Trust Agreement, the Trustee will not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County or the Corporation of the other agreements and covenants required to be performed by them, respectively contained in the Facility Lease or in the Trust Agreement. Additional Payments payable by the County under the Facility Lease include, among others, amounts sufficient to pay certain taxes and assessments and insurance premiums, and certain administrative costs.

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

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

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL PAYMENTS UNDER THE FACILITY LEASE DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE SERIES 2014 CERTIFICATES NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS OR TO PAY ADDITIONAL PAYMENTS UNDER THE FACILITY LEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. See Appendix C – "Summary of Principal Legal Documents – The Facility Lease – Rental Payments – Rental Abatement" attached hereto.

Base Rental Payments Schedules. The Facility Lease provides that, notwithstanding the dates designated as the Base Rental Payment Dates, all Base Rental Payments due in any Fiscal Year after June 30, 2015 shall be due and payable in one sum on July 5 of each year (the "Prepayment Amount"), commencing on July 5, 2015. Failure of the County to comply with this provision of the Facility Lease shall constitute an event of default under the Facility Lease. The interest components of the Base Rental Payments will 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 hereunder. The obligation to make the Base Rental Payments will commence as of the date of delivery of the Series 2014 Certificates.

A table of annual debt service payments under the Facility Lease is set forth below.

Payment Date (Fiscal Year Ending)	Series 2014A Certificates			Series 2014B Certificates			Total Base Rental Payments[(1)]
	Principal	**Interest**	**Subtotal**	**Principal**	**Interest**	**Subtotal**	
2015	$ --	$ 2,630,175.83	$ 2,630,175.83	$ --	$14,689.77	$ 14,689.77	$ 2,644,865.60
2016	4,400,000.00	4,155,150.00	8,555,150.00	515,000.00	22,752.63	537,752.63	9,092,902.63
2017	4,625,000.00	3,929,525.00	8,554,525.00	520,000.00	19,565.00	539,565.00	9,094,090.00
2018	4,840,000.00	3,717,100.00	8,557,100.00	520,000.00	13,715.00	533,715.00	9,090,815.00
2019	5,065,000.00	3,493,675.00	8,558,675.00	520,000.00	4,992.00	524,992.00	9,083,667.00
2020	5,240,000.00	3,314,650.00	8,554,650.00	--	--	--	8,554,650.00
2021	5,430,000.00	3,126,500.00	8,556,500.00	--	--	--	8,556,500.00
2022	5,650,000.00	2,906,000.00	8,556,000.00	--	--	--	8,556,000.00
2023	5,885,000.00	2,674,125.00	8,559,125.00	--	--	--	8,559,125.00
2024	6,180,000.00	2,372,500.00	8,552,500.00	--	--	--	8,552,500.00
2025	6,500,000.00	2,055,500.00	8,555,500.00	--	--	--	8,555,500.00
2026	6,835,000.00	1,722,125.00	8,557,125.00	--	--	--	8,557,125.00
2027	7,185,000.00	1,371,625.00	8,556,625.00	--	--	--	8,556,625.00
2028	7,550,000.00	1,003,250.00	8,553,250.00	--	--	--	8,553,250.00
2029	7,945,000.00	615,875.00	8,560,875.00	--	--	--	8,560,875.00
2030	8,345,000.00	208,625.00	8,553,625.00	--	--	--	8,553,625.00
Total	$91,675,000.00	$39,296,400.83	$130,971,400.83	$2,075,000.00	$75,714.40	$2,150,714.40	$133,122,115.23

(1) Amounts reflect the aggregate amount of scheduled Base Rental Payments under the Facility Lease on October 15 of any calendar year and the April 15 of the immediately following calendar year.

Reserve Fund

The Reserve Fund shall be held by the Trustee and shall be kept separate and apart from all other funds held by the Trustee. 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 2014 Certificates and Additional Certificates executed and delivered pursuant to the Trust Agreement (the "Additional Certificates" and, together with the Series 2014 Certificates, the "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 (a) or (b) 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. "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 October 15 to and including the following October 14 during the term of the Facility Lease; provided that the final Lease Year shall terminate on the expiration date of the Facility Lease. "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.

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. "Reserve Fund Credit Facility" means 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, issued by a financial institution or insurance company whose unsecured debt obligations (or for which obligations secured by an insurance company's insurance policies) are rated, at the time of delivery of such Reserve Fund Credit Facility, in at least the second highest rating category (without respect to any modifier) of each rating agency then rating the Certificates.

The County will initially fund the Reserve Fund with proceeds of the Series 2014 Certificates in the amount of $4,547,045. See Appendix C – "Summary of Principal Legal Documents – Trust Agreement – Reserve Fund" attached hereto.

Insurance

The Facility Lease provides that the County will secure and maintain, or cause to be secured and maintained, at all times with insurers of recognized responsibility, insurance against the risks and in the amounts set forth in the Facility Lease. Such insurance includes "all risk" insurance against loss or damage to the Leased Property, which must be maintained at any time in an amount per occurrence (the "Per Occurrence Amount") at least equal to the lesser of (1) the cumulative replacement value of the Leased Property, and, in the case of a policy covering more than the Leased Property, as permitted by the Facility Lease 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 or (2) the aggregate amount of the principal component of all then-remaining Base Rental Payments payable under the Facility Lease. This insurance may 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 "all risk" coverage as a joint insured with one or more other public agencies located within or outside of the County which may be limited in an amount per occurrence in the aggregate for insureds in amount at least equal to the Per Occurrence Amount 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. The County anticipates that it will secure and maintain "all risk" insurance covering the Leased Property through an insurance policy described in the immediately preceding sentence. As a consequence, the Leased Property will not be covered through a stand-alone insurance policy 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 Leased Property 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 Leased Property in the same fiscal year, then the County and the Trustee may be unable to make a claim under such insurance policy for such loss or damage and there may not otherwise be any other insurance covering such loss or damage to the Leased Property.

The County will also obtain rental interruption insurance with respect to the Leased Property in an amount sufficient at all times to pay the total rent payable under the Facility Lease for a period of not less than two years' of Base Rental Payments for the Leased Property.

The Facility Lease provides that the amount of coverage required may be reduced to a smaller amount if an insurance consultant retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. The County is under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake.

For additional information regarding the County's risk management programs, see Appendix A - "County of San Diego Financial, Economic and Demographic Information – County Financial Information - Risk Management" and "– Insurance Coverage Respecting Lease Obligations and Long-Term Loans" and Appendix C - "Summary of Principal Legal Documents - The Facility Lease - Maintenance; Taxes; Insurance and Other Charges - Insurance" attached hereto.

Abatement

Except to the extent of (i) amounts held by the Trustee in the Base Rental Payment Fund or the Reserve Fund with respect to the Series 2014 Certificates; (ii) amounts received in respect of rental interruption insurance; and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Series 2014 Certificates or Additional Certificates, during any period in which, by reason of material damage, destruction, title defect, or condemnation, there is substantial interference with the use and possession by the County of any portion of the Leased Property, rental payments due under the Facility Lease, will be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments, in which case rental payments will be abated only by an amount equal to the difference. In the event the County will assign, transfer or sublease any or all of the Leased Property, or other rights under the Facility Lease, as permitted by the Facility Lease, for purposes of determining the fair rental value available to pay Base Rental Payments, annual fair rental value of the Leased Property, will first be allocated to the Facility Lease, as provided in the Facility Lease. Any abatement of rental payments will not be considered an Event of Default under the Facility Lease. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, rendered defective or condemned.

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

Substitution

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

Additional Certificates

In addition to the Series 2014 Certificates, the County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners, provide for the execution and delivery of Additional Certificates representing additional Base Rental Payments. The Trustee may execute and deliver to or upon the request of the County such Additional Certificates, in such principal amount as shall reflect the additional principal components and interest components of the Base Rental Payments, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the County or the Corporation, but such Additional Certificates may only be executed and delivered upon compliance by the County with the provisions set forth in the Trust Agreement and subject to the specific conditions set forth in the Trust Agreement, which conditions include execution and delivery of an amendment to the Facility Lease providing for an increase in the Base Rental Payments to be made thereunder. See Appendix C - "Summary of Principal Legal Documents – Trust Agreement – Additional Certificates" attached hereto.

THE CORPORATION

The Corporation was organized on June 12, 1984, as a nonprofit public benefit corporation pursuant to the Nonprofit Public Corporation Law of the State of California. The Corporation's purpose is to render assistance to the County in its acquisition of leased properties, real property and improvements on behalf of the County. Under its articles of incorporation, the Corporation has all powers conferred upon nonprofit public benefit corporations by the laws of the State of California, provided that it will not engage in any activity other than that which is necessary or convenient for, or incidental to the purposes for which it was formed. The Corporation has no taxing authority. The Corporation has no liability to the Owners of the Series 2014 Certificates and has pledged none of its moneys, funds or assets toward the Base Rental Payments or Additional Payments under the Facility Lease, or toward the payment of any amount due in connection with the Series 2014 Certificates.

The Corporation is a separate legal entity from the County. It is governed by a five-member Board of Directors (the "Board of Directors") appointed by the Board of Supervisors of the County. The Corporation has no employees. All staff work is performed by employees of the County. The members of the Corporation's Board of Directors are Michel Anderson, Jeff Kane, John Todd, Armando Martinez, and Peter Smith.

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

The Corporation has not entered into any material financing arrangements with respect to the Series 2014 Certificates other than those referred to in this Official Statement. The Corporation has previously executed and delivered other certificates of participation and financing arrangements that are unrelated to the Series 2014 Certificates. The Corporation's other certificates of participation and financing arrangements are secured by other sources of repayment that are not available to owners of the Series 2014 Certificates. Further information concerning the Corporation may be obtained from the San Diego County Capital Asset Leasing Corporation office at 1600 Pacific Highway, Room 166, San Diego, California 92101.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Series 2014 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 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 POLITICAL SUBDIVISION THEREOF WITHIN the meaning of any constitutional or statutory debt limitation or restriction.

Although the Facility Lease does not create a pledge, lien or encumbrance upon the funds of the County, the County is obligated under the Facility Lease to pay Base Rental Payments from any source of legally available funds (subject to certain exceptions) and the County has covenanted in the Facility Lease that, for as long as the Leased 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 Fund revenues of the County.

Additional Obligations of the County

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

The Base Rental Payments and other payments due under the Facility Lease (including payment of costs of repair and maintenance of the Leased Property, taxes and other governmental charges levied against the Leased 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

Upon the occurrence of an Event of Default under the Facility Lease, the Trustee must thereafter maintain the Facility Lease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the Leased Property, regardless of whether or not the County has abandoned the Leased Property; THIS IS THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE FACILITY LEASE OR OTHERWISE IN THE EVENT OF A DEFAULT UNDER THE FACILITY LEASES. There is no remedy of acceleration of the total Base Rental Payments due over the term of the Facility Lease, nor is the Trustee empowered to sell the Leased Property, and use the proceeds of such sale to prepay the Series 2014 Certificates or pay debt service thereon. The County shall remain liable and agrees to keep or perform all covenants and conditions contained in the Facility Lease to be kept or performed by the County and, to pay the rent to the end of the term of the Facility Lease and further agrees to pay such rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Facility Lease for the payment of rent hereunder (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 2014 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 2014 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 2014 Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs the bankruptcy proceedings for public agencies such as the County, there are no involuntary petitions in bankruptcy. If the County were to file a petition under Chapter 9 of the Bankruptcy Code, the owners of the Series 2014 Certificates could be prohibited from taking certain steps to enforce their rights under the Trust Agreement. In a decision dated March 8, 1995, the United States Bankruptcy Court for the Central District of California ruled that a pledge granted by Orange County pursuant to a resolution adopted by that county in connection with the issuance of tax and revenue anticipation notes ("TRANs") was not effective with respect to general revenues accruing to the County after the filing of a petition in bankruptcy. The resolution obligated Orange County to set aside a specified amount of revenues in certain months in order to secure the payment of its TRANs. On July 12, 1995, the United States District Court for the Central District of California reversed the order of the Bankruptcy Court and held that the obligation created under the resolution adopted by Orange County is a statutory lien which survived the filing of Orange County's bankruptcy petition.

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county, but was not required to directly address the state statute that provides for the lien in favor of holders of tax and revenue anticipation notes. The County may invest, and direct the Trustee to invest, amounts held in the Reserve Fund, the Base Rental Payment Fund and the Administrative Expense Fund in the Treasury Pool, which amounts are pledged to repay the Series 2014 Certificates. In the event of a petition for the adjustment of County debts under Chapter 9 of the Bankruptcy Code, a court might hold that the Owners of the Series 2014 Certificates do not have a valid and/or prior lien on the Base Rental Payments where such amounts are deposited in the Treasury Pool and may not provide the Owners of the Series 2014 Certificates with a priority interest in such amounts. In that circumstance, unless the Owners could "trace" the funds that have been deposited in the Treasury Pool, the owners would be unsecured (rather than secured) creditors of the County. There can be no assurance that the Owners could successfully so "trace" the pledged taxes and other revenues.

Abatement

Except to the extent of (i) amounts held by the Trustee in the Base Rental Payment Fund or the Reserve Fund, (ii) amounts received in respect of rental interruption insurance, and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Series 2014 Certificates or Additional Certificates, during any period in which, by reason of material damage, destruction, title defect, or condemnation, there is substantial interference with the use and possession by the County of any portion of the Leased Property, rental payments due under the Facility Lease, shall be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments, in which case rental payments shall be abated only by an amount equal to the difference. Any abatement of rental payments shall not be considered an Event of Default under the Facility Lease. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property, so damaged, destroyed, rendered defective or condemned.

Seismic Events; Force Majeure

The Leased Property is located within a seismically active area, and damage from an earthquake could be substantial. Further, the County is not obligated under the Facility Lease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Leased 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 Leased Property, if any, can be renewed or will be maintained by the County in the future, or will be available to pay Base Rental Payments or debt service on the Series 2014 Certificates. If there is no earthquake insurance on the Leased Property is damaged in an earthquake, the Base Rental Payments would be subject to abatement. See "Risk Factors – Abatement" herein.

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

TAX MATTERS

Series 2014A Certificates

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, the portion of each Base Rental Payment designated as and constituting interest paid by the County under the Facility Lease, and received by the Owners of the Series 2014A 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 2014A 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 E hereto.

To the extent the issue price of any maturity of the Series 2014A Certificates is less than the amount to be paid at maturity of such Series 2014A Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Series 2014A 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 2014A 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 2014A Certificates is the first price at which a substantial amount of such maturity of the Series 2014A 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 2014A Certificates accrues daily over the term to maturity of such Series 2014A 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 2014A Certificates to determine taxable gain or loss upon disposition (including sale, prepayment, or payment on maturity) of such Series 2014A Certificates. Beneficial Owners of the Series 2014A Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Series 2014A Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2014A Certificates in the original offering to the public at the first price at which a substantial amount of such Series 2014A Certificates is sold to the public.

Series 2014A 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 2014A 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 2014A 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 2014A Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Series 2014A 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 2014A Certificates may adversely affect the value of, or the tax status of interest evidenced by, the Series 2014A 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 2014A 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 amounts treated as interest evidenced by, the Series 2014A Certificates may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends 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.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest evidenced by the Series 2014A Certificates to be subject, directly or indirectly, in whole or in part, 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. For example, Representative Dave Camp, Chair of the House Ways and Means Committee released draft legislation that would subject interest on obligations like the Series 2014A Certificates to a federal income tax at an effective rate of 10% or more for individuals, trusts, and estates in the highest tax bracket, and the Obama Administration proposed legislation that would limit the exclusion from gross income of interest on obligations like the Series 2014A Certificates to some extent for high-income individuals. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2014A Certificates. Prospective purchasers of the Series 2014A Certificates should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel is expected to express 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 2014A 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 2014A Certificates ends with the execution and delivery of the Series 2014A 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 2014A 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 2014A 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 2014A Certificates, and may cause the County or the Beneficial Owners to incur significant expense.

Series 2014B Certificates

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series 2014B Certificates that acquire their Series 2014B Certificates in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect, and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the IRS with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Series 2014B Certificates as part of a hedge, straddle or an integrated or conversion transaction, or investors whose "functional currency" is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences or (ii) the indirect effects on persons who hold equity interests in a holder. In addition, this summary generally is limited to investors that acquire their Series 2014B Certificates pursuant to this offering for the issue price that is applicable to such Series 2014B Certificates (i.e., the price at which a substantial amount of the Series 2014B Certificates are sold to the public) and who will hold their Series 2014B Certificates as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a Series 2014B Certificate that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a Series 2014B Certificate (other than a partnership) that is not a U.S. Holder. If a partnership holds Series 2014B Certificates, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Series 2014B Certificates, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Series 2014B Certificates (including their status as U.S. Holders or Non-U.S. Holders).

U.S. Holders

Interest. In the opinion of Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions and assuming compliance with certain covenants, the portion of each Base Rental Payment designated as and constituting interest paid by the County under the Facility Lease, and received by the Owners of the Series 2014A Certificates, is exempt from State of California personal income taxes. Interest evidenced by the Series 2014B Certificates is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or accrual or receipt of interest evidenced by, the Series 2014B Certificates. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix E hereto.

Stated interest evidenced by the Series 2014B Certificates generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. Federal income tax purposes.

The Series 2014B Certificates are not expected to be treated as executed and delivered with original issue discount ("OID") for U.S. federal income tax purposes because the stated redemption price at maturity of the Series 2014B Certificates is not expected to exceed their issue price, or because any such excess is expected to only be a de minimis amount (as determined for tax purposes).

Disposition of the Series 2014B Certificates. Unless a non-recognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the County) or other disposition of a Series 2014B Certificate will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Series 2014B Certificate will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest evidenced by the Series 2014B Certificates) and (ii) the U.S.

Holder's adjusted U.S. federal income tax basis in the Series 2014B Certificate (generally, the purchase price paid by the Series 2014B Certificate decreased by any amortized premium). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Series 2014B Certificates, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Series 2014B Certificates exceeds one year. The deductibility of capital losses is subject to limitations.

Tax on Net Investment Income. Certain non-corporate U.S. Holders of Series 2014B Certificates will be subject to a 3.8% tax on the lesser of (1) the U.S. Holder's "net investment income" (in the case of individuals) or "undistributed net investment income" (in the case of estates and certain trusts) for the relevant taxable year and (2) the excess of the U.S. Holder's "modified adjusted gross income" (in the case of individuals) or "adjusted gross income" (in the case of estates and certain trusts) for the taxable year over a certain threshold (which in the case of individuals will be between $125,000 and $250,000, depending on the individual's circumstances). A U.S. Holder's calculation of net investment income generally will include its interest income on the Series 2014B Certificates and its net gains from the disposition of the Series 2014B Certificates, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of this tax to your income and gains in respect of your investment in the Series 2014B Certificates.

Information Reporting and Backup Withholding. Payments on the Series 2014B Certificates generally will be subject to U.S. information reporting and "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Series 2014B Certificates may be subject to backup withholding at the current rate of 28% with respect to "reportable payments," which include interest paid on the Series 2014B Certificates and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Series 2014B Certificates. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) there has been a failure of the payee to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS.

Non-U.S. Holders

Interest. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," payments of principal of, and interest evidenced by, any Series 2014B Certificate to a Non-U.S. Holder, other than (1) a controlled foreign corporation, a such term is defined in the Code, which is related to the County through stock ownership and (2) a bank which acquires such Series 2014B Certificate in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. withholding tax provided that the beneficial owner of the Series 2014B Certificate provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the Series 2014B Certificates. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "FATCA," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the Authority) or other disposition of a Series 2014B Certificate generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the County) or other disposition and certain other conditions are met.

U.S. Federal Estate Tax. A Series 2014B Certificate that is held by an individual who at the time of death is not a citizen or resident of the United States will not be subject to U.S. federal estate tax as a result of such individual's death, provided that, at the time of such individual's death, payments of interest with respect to such Series 2014B Certificate would not have been effectively connected with the conduct by such individual of a trade or business within the United States.

Information Reporting and Backup Withholding. Subject to the discussion below under the heading "FATCA," under current U.S. Treasury Regulations, payment of principal and interest evidenced by any Series 2014B Certificates to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the Series 2014B Certificate or a financial institution holding the Series 2014B Certificate on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. If a financial institution, other than a financial institution that is a qualified intermediary, provides the certification, the certification must state that the financial institution has received from the beneficial owner the certification set forth in the preceding sentence, set forth the information contained in such certification, and include a copy of such certification, and an authorized representative of the financial institution must sign the certificate under penalties of perjury. A financial institution generally will not be required to furnish to the IRS the names of the beneficial owners of the Series 2014B Certificates that are not United States persons and copies of such owners' certifications where the financial institution is a qualified intermediary that has entered into a withholding agreement with the IRS pursuant to applicable U.S. Treasury Regulations.

In the case of payments to a foreign partnership, foreign simple trust or foreign grantor trust, other than payments to a foreign partnership, foreign simple trust or foreign grantor trust that qualifies as a withholding foreign partnership or a withholding foreign trust within the meaning of applicable U.S. Treasury Regulations and payments to a foreign partnership, foreign simple trust or foreign grantor trust that are effectively connected with the conduct of a trade or business within the United States, the partners of the foreign partnership, the beneficiaries of the foreign simple trust or the persons treated as the owners of the foreign grantor trust, as the case may be, will be required to provide the certification discussed above in order to establish an exemption from withholding and backup withholding tax requirements. The current backup withholding tax rate is 28%.

In addition, if the foreign office of a foreign "broker," as defined in applicable U.S. Treasury regulations pays the proceeds of the sale of a Series 2014B Certificate to the seller of the Series 2014B Certificate, backup withholding and information reporting requirements will not apply to such payments provided that such broker derives less than 50% of its gross income for certain specified periods from the conduct of a trade or business within the United States, is not a controlled foreign corporation, as such term is defined in the Code, and is not a foreign partnership (1) one or more of the partners of which, at any time during its tax year, are U.S. persons (as defined in U.S. Treasury Regulations Section 1.1441-1(c)(2)) or (2) which, at any time during its tax year, is engaged in the conduct of a trade or business within the United States. Moreover, the payment by a foreign office of other brokers of the proceeds of the sale of a Series 2014B Certificate will not be subject to backup withholding unless the payer has actual knowledge that the payee is a U.S. person. Principal and interest so paid by the U.S. office of a custodian, nominee or agent, or the payment by the U.S. Office of a broker of the proceeds of a sale of a Series 2014B Certificate, is subject to backup withholding requirements unless the beneficial owner provides the nominee, custodian, agent or broker with an appropriate certification as to its non-U.S. status under penalties of perjury or otherwise establishes an exemption.

FATCA. Sections 1471 through 1474 of the Code, impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of U.S. source interest (including OID) and sales proceeds of debt obligations held by or through a foreign entity. Withholding under FATCA generally will apply to (i) payments of U.S. source interest (including OID) made after June 30, 2014, (ii) gross proceeds from the sale, exchange or retirement of debt obligations paid after December 31, 2016 and (iii) certain foreign "pass-thru" payments no earlier than January 1, 2017, but exempt from withholding any payments made on and proceeds realized from the disposition of obligations that are outstanding on July 1, 2014 and are not substantially modified after that date, which exemption should exclude the Series 2014B Certificates from the withholding provisions of FATCA. Prospective investors should nonetheless consult their own tax advisors regarding FATCA and its effect on them.

Resolution of Audit by Internal Revenue Service

The IRS has an ongoing program of examining tax-exempt obligations to determine whether, in the view of the IRS, interest evidenced and represented by such obligations is properly excluded from gross income for federal income tax purposes. In recent years, the IRS has increased the frequency and scope of its audit and other enforcement activities regarding tax-exempt organizations and their debt instruments, and such organizations are increasingly subject to a greater degree of scrutiny by the IRS. The IRS recently closed its examination of the Series 2006 Certificates with no change to the position that interest received by the beneficial owners of the Series 2006 Certificates is excludable from gross income under section 103 of the Code.

Special Counsel will deliver its opinion upon the issuance of the Series 2014 Certificates regarding the validity of the Series 2014 Certificates and its opinion that assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2014A Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). A complete copy of the proposed form of opinion of Special Counsel is contained in APPENDIX E – "FORM OF SPECIAL COUNSEL OPINION" attached hereto.

CERTAIN LEGAL MATTERS

Orrick, Herrington & Sutcliffe LLP, Special Counsel to the County, will render its opinion with respect to the legality of the Facility Lease and the Trust Agreement. A complete copy of the proposed form of opinion of Special Counsel is contained in Appendix E hereto. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California and for the County by the County Counsel.

FINANCIAL STATEMENTS

The general purpose financial statements of the County for the Fiscal Year ended June 30, 2013, 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 15, 2013.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Series 2014 Certificates, Grant Thornton, 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 Investment Securities and the interest thereon to pay the respective Prepayment Price of the Series 2005 Certificates and the Series 2006 Certificates on their respective prepayment dates.

LITIGATION

No litigation is pending or threatened against the County or the Corporation concerning or contesting the validity of the Facility Lease, the Site Lease, the Trust Agreement or the Continuing Disclosure Agreement. The County is not aware of any litigation pending or threatened questioning the political existence of the County or the Corporation or contesting the County's ability to cause the execution and delivery the Series 2014 Certificates or pay the Base Rental Payments pursuant to the Facility Lease. There are a number of lawsuits and claims pending against the County. Other than as described in this section and in Appendix A, the County does not believe that any of these proceedings could have a material adverse impact upon the financial condition of the County.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") have assigned the Series 2014 Certificates their ratings of "Aa2," "AA+" and "AA+," respectively. 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 at 250 Greenwich Street, New York, New York 10007; Standard and Poor's Ratings Services, 55 Water Street, New York, New York 10041; and Fitch Ratings, One State Street Plaza, New York, New York 10004. 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 respective rating agencies, if in the judgment of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2014 Certificates.

UNDERWRITING

The Series 2014 Certificates are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated, on behalf of itself, Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Academy Securities (collectively the "Underwriters"), pursuant to a Purchase Contract with the County (the "Purchase Contract"). The Underwriters have agreed, subject to certain conditions, to purchase the Series 2014A

Certificates at a price of $106,562,608.96 (representing the principal amount of the Series 2014A Certificates of $91,675,000.00, plus an original issue premium of $15,070,291.65 and less an Underwriters' discount of $182,682.69). The Underwriters have agreed, subject to certain conditions, to purchase the Series 2014B Certificates at a price of $2,070,923.19 (representing the principal amount of the Series 2014B Certificates of $2,075,000.00, less an Underwriters' discount of $4,076.81). The Purchase Contract relating to the Series 2014 Certificates provides that the Underwriters will purchase all of the Series 2014 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 2014 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 three sentences have been provided by Citigroup Global Markets Inc., one of the underwriters for the Series 2014 Certificates: Citigroup Global Markets Inc. ("CGMI") has entered into a distribution agreement UBS Financial Services ("UBS") for the distribution to retail investors of certain municipal securities offerings. CGMI may share a portion of its underwriting compensation UBS with respect to any Series 2014 Certificates that are allocated to retail orders submitted by UBS. Any such sharing will not affect the aggregate underwriting compensation set forth above or CGMI's share of such compensation.

The following two sentences have been provided by J.P. Morgan Securities LLC, one of the Underwriters of the Series 2014 Certificates: J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Series 2014 Certificates, has entered into a negotiated dealer agreement (the "Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement (if applicable to this transaction), CS&Co. will purchase Series 2014 Certificates from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2014 Certificates that CS&Co. sells.

The following two sentences have been provided by Academy Securities Inc., one of the Underwriters of the Series 2014 Certificates: Academy Securities Inc., one of the Underwriters of the Series 2014 Certificates, intends to enter into distribution agreements (the "Distribution Agreements") with TD Ameritrade, JHS Capital Advisors, Inc, COR Capital Markets, E*Trade Securities LLC, R Seelaus & Co. Inc., IFS Securities, Ladenburg Thalman & Co, Higgins Capital Management, Inc., Ridgeway & Conger , National Alliance Securities, Sutter Securities Inc. and, Wedbush Securities, Inc., Puplava Securities, New Bridge Securities Corporation, Maxim Group LLC, World Equity Group, and World First Financial for the retail distribution of certain municipal securities offerings, at the original issue prices. Pursuant to these Distribution Agreements (if applicable for this transaction), Academy Securities, Inc. may share a portion of its underwriting compensation with these firms.

Certain of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage services. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the County, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities, which may include credit default swaps) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the County or the Corporation.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

FINANCIAL ADVISOR

Public Resources Advisory Group, has served as Financial Advisor to the County in connection with the delivery of the Series 2014 Certificates. The Financial Advisor has not been engaged, nor has it undertaken, to make an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

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 2013-14, by no later than nine months after the end of the respective fiscal year, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system ("EMMA") 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 through EMMA 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 for the benefit of the holders of the Bonds and in order to assist the Underwriters in complying with the Rule. See Appendix F – "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. The County notes the following with respect to its continuing disclosure filings within the last five years. In connection with the continuing disclosure agreement for the Redevelopment Agency of the County of San Diego's Gillespie Field Project Revenue Refunding Bonds, Series 2005A, the audited financial statements and annual report for Fiscal Year 2011-12 was filed 10 days late and the annual report for Fiscal Year 2008-09 omitted the table on projected tax increment revenues which is required to be included with the operating and financial data in the annual report. In connection with the County's continuing disclosure covenants for the 2002 Pension Obligation Bonds, the 2004A Pension Obligation Bonds and the 2004C Pension Obligation Bonds (collectively, the "Pension Obligation Bonds"), the County did not submit a notice of a rating change in May 2013 when S&P upgraded National Public Finance Guarantee Corp. from "BBB" to "A." This rating change did not affect the ratings on the Pension Obligation Bonds, which are set forth in the comprehensive annual financial reports of the County included as part of each annual report. The County recently filed a notice of this rating change to the insurer of the Pension Obligation Bonds. The official statements for the County's Series 2005 Certificates and Series 2006 Certificates and the San Diego Regional Building Authority's Lease Revenue Bonds (County Operations Center and Annex Redevelopment Project), Series 2009A stated that the annual reports to be filed under the continuing disclosure agreements for these certificates and bonds are required to be filed no later than eight months after the end of the County's fiscal year. However, these continuing disclosure agreements provide that the annual reports are required to be filed no later than nine months after the end of the County's fiscal year end. The annual reports for these certificates and bonds for Fiscal Year 2008-09 were filed in March 2010. The annual reports for these certificates and bonds for Fiscal Year 2009-10 filed in December 2010 stated that the filing deadline of March 1 referenced in the official statements for these certificates and bonds was incorrect and the filing date for the annual reports under the respective continuing disclosure agreements for these certificates and bonds is no later than nine months after the end of the County's fiscal year end.

CHANGES FROM PRELIMINARY OFFICIAL STATEMENT

In addition to updates to the Preliminary Official Statement dated August 11, 2014 (the "Preliminary Official Statement") as a result of pricing, the information appearing under the caption "Resolution of Audit by Internal Revenue Service" has been updated to reflect the IRS' closing of its examination of the Series 2006 Certificates with no change to the position that interest received by the beneficial owners of the Series 2006 Certificates is excludable from gross income under section 103 of the Code. In addition, the information appearing in Appendix A under the caption "San Diego County Employees Retirement Association – Investment – Investment Policy" has been updated to reflect Association's asset class benchmarks and policy targets as of July 1, 2014.

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 2014 Certificates. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the County since the date hereof.

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

COUNTY OF SAN DIEGO

By: /s/ Tracy M. Sandoval
Deputy Chief Administrative Officer /
Auditor and Controller

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 2013-14 Adopted Operational Plan (the "Fiscal Year 2013-14 Adopted Budget") is approximately $4.97 billion, of which $3.85 billion relates to the County's General Fund budget. The County's Fiscal Year 2014-15 Revised Recommended Operational Plan (defined herein) is approximately $5.08 billion, of which $3.86 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 Deputy Chief Administrative Officer/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 2004-05 through 2013-14:

TABLE 1
TOTAL COUNTY EMPLOYEES[1]

Year	Total Employees
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	15,067
2011-12	15,174
2012-13	15,609
2013-14	16,328

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.

County employees are represented by nine 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; San Diego County Supervising Probation Officers' Association, and The Association of San Diego County Employees (ASCDE). The County has labor agreements with the SEIU and the ASDCE effective through June 22, 2017, the Deputy Sheriffs' Association effective through June 21, 2018 and all other unions, effective through June 25, 2015. The terms of any expiring agreement will continue to be applied until a new agreement is finalized.

Agreements with all unions include reductions to the County's portion of the employee paid retirement offset, flexible benefit increases, and two lump sum salary payments (one in July 2013 and one in July 2014) equivalent to 2% of base pay for all represented bargaining units with the exception of those represented by the District Attorney Investigator Association, the Deputy Sheriffs' Association and SEIU. In addition, bargaining units represented by the SEIU and the Association of San Diego County Employees will receive 2% base salary increases in 2015 and 2016. The agreement with the Deputy Sheriffs' Association includes reductions to the County's portion of the employee paid offset, a base salary increase of 8% over the term of the contract, flexible benefit increases and a one-time monetary payment of $750. The remaining County employees are unrepresented.

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 "Tier B" retirement benefit was created for newly hired general employees in all bargaining units effective August 28, 2009. Tier B 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 Tier B (such prior tier being referred to herein as "Tier A") 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, Tier B 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 in Tier A 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.

In July 2012, the Employer Offsets rates for non-safety employees ranged from 1% to 7% of their salary, and the Employer Offsets rates for safety employees ranged from 1% to 11.755% of their salary.

On September 12, 2012, the Governor signed Assembly Bill 340, the California Public Employees' Pension Reform Act ("PEPRA"). PEPRA provisions took effect on January 1, 2013. PEPRA requires the County to impose certain retirement benefit changes for new employees who become new members on or after January 1, 2013. In accordance with PEPRA, the County implemented two new tiers of retirement benefits ("Tier C"). For general employees, Tier C has a benefit formula described as 2% at 62. For safety members, Tier C will have a benefit formula described as 2.7% at 57. The implementation of Tier C is mandated and therefore is not subject to negotiation. However, additional provisions of PEPRA, which allow employers to share some or all of the employers' normal cost and UAAL cost with current employees, are subject to negotiation. For more information on the County's retirement system, see "San Diego County Employees Retirement Association" herein.

The County has negotiated amendments to the Employer Offsets (herein defined) for all represented bargaining units. Pursuant to the amendments, the Employer Offsets are reduced and/or eliminated beginning December 27, 2013, based on the applicable bargaining unit. The Employer Offsets rates for the District Attorney Investigators Association was completely eliminated in 2013. The Employer Offset rates for the Deputy County Counsels Association, Deputy District Attorney Association and the Public Defender's Association were reduced 1.5% in exchange for a 1.5% wage increase on December 27, 2103. The Employer offsets for bargaining units represented by the SEIU, Local 221 and those represented by The Association of San Diego County Employees were reduced on December 27, 2013 depending on bargaining unit and will be eliminated in exchange for a County-neutral amount that remains to be determined on June 9, 2017. The Employer Offset for the Deputy Sheriffs' Association were reduced by two-thirds in exchange for a 3.6% salary increase on June 27, 2014 and will be eliminated effective June 2018. The rate of Employer Offsets, as in effect after the aforementioned reductions, will remain in effect unless modified pursuant to subsequent collective bargaining agreements.

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 2011-12 and 2012-13, the Fiscal Year 2013-14 Adopted Budget, 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 2013-14, the County Assessor received 7,119 appeals, including appeals relating to real property, business personal property, boats and airplanes. Through July 25, 2014 of Fiscal Year 2014-15, the County Assessor has received 685 appeals, including appeals relating to real property, business personal property, boats and airplanes which reflects a 27% decline in appeals for the year to date. Table 2 below sets forth the number of appeals received by the County Assessor and the number of affected parcels since Fiscal Year 2004-05. See "Economic and Demographic Information – Foreclosures; Notices of Loan Default" herein.

TABLE 2
ASSESSMENT APPEALS
Fiscal Years 2004-05 through 2013-14

Fiscal Year	Appeals[1]	Parcels
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	21,772	26,635
2010-11	15,748	19,589
2011-12	19,215	27,916
2012-13	14,627	16,376
2013-14	7,119	8,776
2014-15[2]	685	687

Source: County of San Diego Assessor/Recorder/County Clerk.
(1) Appeal may relate to the reassessment for one or more parcels.
(2) Data as of July 25, 2014.

Ad Valorem Property Taxation

Table 3 below sets forth the assessed valuation of property within the County subject to taxation for Fiscal Years 2004-05 through 2013-14:

TABLE 3
ASSESSED VALUATION OF PROPERTY
SUBJECT TO AD VALOREM TAXATION
Fiscal Years 2004-05 through 2013-14
(In Thousands)

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Valuation	Exemption[1]	Net Assessed Valuation for Tax Purposes[2]
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
2011-12	174,658,242	216,383,122	14,483,422	405,524,786	12,537,490	392,987,296
2012-13	173,840,948	217,588,947	14,693,957	406,123,852	13,165,008	392,958,844
2013-14	179,943,404	224,701,971	15,195,049	419,840,424	13,856,802	405,983,622

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, if any.

Table 4 below sets forth the approximate tax levied against the ten largest property taxpayers in the County for Fiscal Year 2013-14. These tax payments represent approximately 4.53% of the total secured property tax levied by the County for Fiscal Year 2013-14, which amount is $4,815,864,485.

TABLE 4
TEN LARGEST TAXPAYERS
Fiscal Year 2013-14

Property Owners	Business Area	Approximate Tax[1]
San Diego Gas & Electric Company	Gas and Electric Utility	$87,007,049
Southern California Edison Co.	Electric Utility	35,875,444
Irvine Co.	Real Estate	19,995,798
Qualcomm Inc	Telecommunication	18,573,859
Kilroy Realty LLP	Real Estate	15,781,405
Pacific Bell Telephone Company	Telecommunication	10,658,898
Host Hotels and Resorts	Hospitality	9,242,345
O C/S D Holdings LLC	Real Estate	7,596,075
One Park Boulevard LLC	Real Estate	7,245,071
B S K Del Partners LLC	Real Estate	6,135,288

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 thirty-three 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 for five years, the property becomes subject to the Treasurer-Tax Collector's power to sell.

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 and special districts. 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 for Fiscal Years 2004-05 through 2013-14.

TABLE 5
SECURED TAX ROLL STATISTICS
Fiscal Years 2004-05 through 2013-14

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
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	979,128	388,209,168,091	4,474,096,680	33,228	80,367,474	1.80
2011-12	979,386	391,319,634,514	4,537,672,296	30,565	65,585,438	1.45
2012-13	981,161	391,853,256,766	4,559,744,934	25,092	48,369,874	1.06
2013-14[4]	982,322	405,031,663,348	4,815,864,485	25,000	48,150,000	1.00

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 Bill, 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 twenty percent of the original redemption amount, a redemption fee of thirty-three dollars, a payment plan set-up fee of sixty-three dollars, and an annual plan maintenance fee of seventy-one dollars. 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 one and one half percent 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 2010-11 through 2012-13. Table 7 sets forth the audited General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Years 2008-09 through 2012-13.

TABLE 6
COUNTY OF SAN DIEGO
GENERAL FUND BALANCE SHEET
For Fiscal Years 2010-11 through 2012-13
(In Thousands)

	Audited 2011[2]	Audited 2012[2]	Audited 2013[2]
ASSETS			
Pooled Cash and Investments	$ 1,286,610	$ 1,321,049	$ 1,441,132
Cash with Fiscal Agents	20	109	26
Investments with Fiscal Agents	2	2	2
Property Taxes Receivables, net	149,980	135,292	112,833
Receivables, net	465,866	516,727	507,780
Due from Other Funds[1]	34,625	63,218	41,603
Prepaid Items	48	40	88
Inventories	10,187	11,369	11,219
Restricted Assets – Cash with Fiscal Agents	156	157	158
Restricted Assets – Lease Receivable	6,299	5,568	4,818
TOTAL ASSETS	$ 1,953,793	$ 2,053,531	$ 2,119,659
LIABILITIES			
Accounts Payable	$ 101,157	$ 118,055	$ 108,434
Accrued Payroll	39,890	44,996	46,597
Due to Other Funds[1]	36,813	36,162	41,568
Deferred Revenues	128,164	123,144	114,826
Unearned Revenue	253,389	243,327	206,812
TOTAL LIABILITIES	$ 559,413	$ 565,684	$ 518,237
FUND BALANCES			
Nonspendable:			
Not in Spendable Form:			
Loans, Due From Other Funds and Prepaids	1,070	1,074	1,128
Inventories and deposits with others	10,187	11,369	11,219
Restricted for:			
Grantors – Housing Assistance	55,338	54,360	54,902
Donations	3,363	2,949	3,265
Laws or regulations of other governments:			
Construction, maintenance and other costs for justice, health, and social facilities and programs	24,411	50,825	55,556
Other Purposes	131,844	137,579	181,541
Committed to:			
Realignment Health, Mental Health and Social Services	69,297	65,297	65,297
Unforeseen Catastrophic Events	55,500	55,500	55,500
Capital projects' funding	353,165	339,453	285,038
Other Purposes	36,777	54,984	58,996
Assigned to:			
Subsequent one-time expenditures[3]	0	0	132,541
Other Purposes	40,614	51,325	51,985
Unassigned	612,814	663,132	644,454
TOTAL FUND BALANCES	$ 1,394,380	$ 1,487,847	$ 1,601,422
TOTAL LIABILITIES AND FUND BALANCES	$ 1,953,793	$ 2,053,531	$ 2,119,659

(Table continued on subsequent page.)

(Table continued from prior page.)

Source: County of San Diego Auditor and Controller.

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

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

(3) The General Fund's fund balance classification of Assigned to Subsequent One-time Expenditures represents a GASB Statement 54 recommended classification of fund balance in circumstances in which a portion of existing fund balance is included as a budgetary resource in the subsequent year's budget to eliminate a projected excess of expected expenditures over expected revenues. For the County of San Diego, this amount represents Board of Supervisors approved one-time uses of fund balance. For fiscal years ended 2011 and 2012, the amounts of fund balance to be used for subsequent one-time expenditures were $210,065 and $112,912, respectively, and are included in Unassigned fund balance in those years.

TABLE 7
COUNTY OF SAN DIEGO
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For Fiscal Years 2008-09 through 2012-13
(In Thousands)

	Audited 2008-09	Audited 2009-10	Audited 2010-11	Audited 2011-12	Audited 2012-13
Revenues:					
Taxes	$ 930,584	$ 904,515	$ 894,222	$ 925,861	$ 904,358
Licenses, Permits and Franchise Fees	35,838	40,967	42,643	42,552	43,255
Fines, Forfeitures and Penalties	56,252	53,996	51,826	50,905	45,523
Revenue From Use of Money and Property	28,396	23,171	24,479	17,099	12,785
Aid From Other Governmental Agencies:					
State	878,902	814,553	904,749	958,169	1,057,850
Federal	729,675	824,821	818,217	831,859	816,640
Other	134,026	91,478	57,874	65,542	116,303
Charges for Current Services	282,151	277,252	320,966	336,057	336,888
Other	61,847	33,757	51,542	54,161	27,122
Total Revenues	$ 3,137,671	$ 3,064,510	$ 3,166,518	$ 3,282,205	$ 3,360,724
Expenditures:					
Current:					
General Government	$ 236,874	$ 197,124	$ 209,293	$ 203,179	$ 213,340
Public Protection	1,126,903	1,055,315	1,079,836	1,140,718	1,178,229
Public Ways and Facilities	690	10,063	5,543	1,300	1,441
Health and Sanitation	630,633	635,148	671,276	735,916	789,704
Public Assistance	1,039,496	1,034,340	1,055,530	1,034,961	1,039,540
Education	808	906	957	844	948
Recreation and Cultural	29,274	28,102	30,637	31,175	28,732
Capital Outlay	8,059	27,184	21,965	33,249	17,599
Debt service:					
Principal(1)	32,125	28,777	26,735	23,200	24,670
Interest	12,255	17,025	15,044	17,308	19,203
Payment to Refunded Bond Escrow Agent	0	4,436	0	0	0
Total Expenditures	$ 3,117,117	$ 3,038,420	$ 3,116,816	$ 3,221,850	$ 3,313,406
Excess (Deficiency) of Revenues over (under) Expenditures	$ 20,554	$ 26,090	$ 49,702	$ 60,355	$ 47,318
Other Financing Sources (Uses):					
Sale of Capital Assets	$ 29	$ 338	$ 414	$ 360	$ 71
Refunding Bonds Issued(2)	443,515	0	0	0	0
Payment to Escrow Agent/Refunded Bond(2)	(441,038)	0	0	0	0
Transfers In(3)	230,296	226,039	274,448	244,148	263,203
Transfers Out(4)	(285,232)	(223,042)	(151,061)	(212,578)	(196,867)
Total Other Financing Sources (Uses)	$ (52,430)	$ 3,335	$ 123,801	$ 31,930	$ 66,407
Net Change in Fund Balance	$ (31,876)	$ 29,425	$ 173,503	$ 92,285	$ 113,725
Fund Balances at Beginning of Year	1,220,466	1,190,038	1,220,108	1,394,380	1,487,847
Increase (Decrease) in Reserve for Inventories	1,448	645	0	0	0
Increase (Decrease) in Nonspendable Inventories			769	1,182	(150)
Fund Balances at End of Year	$ 1,190,038	$ 1,220,108	$ 1,394,380	$ 1,487,847	$ 1,601,422

Source: Comprehensive Annual Financial Reports of the County.
(Table continued on subsequent page.)

(Table continued from prior page.)

(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.

(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 expenditures 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.

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 Deputy Chief Administrative Officer/Auditor and Controller is responsible for monitoring and reporting expenditures within budgeted appropriations.

Fiscal Year 2013-14 Budget and Financial Position of the County

The Fiscal Year 2013-14 Adopted Budget for the County's General Fund included expenditures of approximately $3.85 billion and revenues and other financing sources of approximately $3.85 billion. In accordance with the normal practice of the County, the Fiscal Year 2013-14 Adopted Budget has been adjusted to reflect carry-over appropriations from the prior fiscal year and program needs not included in the Fiscal Year 2013-14 Adopted Budget. As of March 31, 2014, the County's Fiscal Year 2013-14 General Fund Amended Budget (the "Fiscal Year 2013-14 Amended Budget") included expenditures of $4.3 billion and revenues and other financing sources of $4.3 billion. As of March 31, 2014, as reported in the Fiscal Year 2013-14 Third Quarter Operational Plan Status Report and Budget Adjustments (the "Third Quarter Report") to be presented to the Board of Supervisors on May 6, 2014, based on the first nine months of Fiscal Year 2013-14, the County projected that its General Fund expenditures for Fiscal Year 2013-14 would be below the Fiscal Year 2013-14 Amended Budget by $283.9 million and its General Fund revenues and other financing sources would be above the Fiscal Year 2013-14 Amended Budget by $12.5 million. The net variance was a projected savings to the County's General Fund of $296.4 million, which would be added to any remaining unassigned General Fund Balance as of June 30, 2014 net of amounts approved by the Board of Supervisors for one-time uses of fund balance in Fiscal Year 2014-2015 of $167.1 million and proceeds from the sale of the County Operations Center Annex of $57.2 million.) GASB classification of fund balance included as a budgetary resource in the subsequent year's budget are reflected as Assigned Fund Balance beginning in 2013. Unanticipated proceeds of $57.2 million from the sale of the County Operations Center Annex will be reflected as Committed Fund Balance as of June 30, 2014 in accordance with Board Policy B-37 *Use of Capital Project Funds* which requires that proceeds from the sale of land and structures be dedicated to future capital needs. See also "– Status of Available Fund Balance" below.

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

- $52.8 million in net positive salary and benefit appropriation variance in all groups from lower than budgeted salaries and employee benefits costs due to staff turnover and department management of vacancies.
- $113.3 million in net positive appropriation variance in Services and Supplies across the County in all groups.
    - In Health and Human Services Agency ("HHSA"), projected positive variance of $64.5 million resulted from various contracted services in Administrative Support, Behavioral Health Services, County Child Welfare Services, Public Health Services and Regional Operations; lower than estimated growth in In-Home Supportive Services Individual Provider costs and in the Community Based Care Transitions Program; and savings in various other Services and Supplies.
    - In the Land Use and Environment Group ("LUEG"), positive variances of $10.0 million are largely due to various one-time projects in Planning and Development Services and Department of Public Works; in the Department of Environmental Health related to delays in implementation of the Vector Habitat Remediation Program and careful management of expenditures to ensure costs do not exceed revenue; and in the LUEG Executive Office due to delays in information technology projects.
    - In the Public Safety Group ("PSG"), projected positive variance of $9.0 million is due to a project delay for the tree removal grant program in San Diego County Fire Authority; underspending in Assembly Bill 109 (the Public Safety Realignment Act) ("AB 109") contracted housing and supervision services in the Probation Department; and savings in various departments including the defense of special circumstances, facilities management, information technology, minor equipment, uniform allowance and efforts to reduce overall costs.
    - In the Community Services Group ("CSG"), projected positive variance is attributable largely to Housing and Community Development ("HCD") due to savings in multi-year projects and various information technology costs.
    - In Finance and General Government ("FGG"), projected positive variances are mainly in the Auditor and Controller, Human Resources and County Technology Office due to lower than expected information technology expenditures, savings in employee benefit administration costs and positive claims experience associated with the County's insurance policies.
    - In Finance Other, the positive appropriation variance is primarily due to countywide general expenses including pension stabilization funds.
- A net positive appropriation variance of $68.0 million in Other Charges reflects variances in HHSA, Finance Other and in CSG offset by a negative variance in PSG. In HHSA, the positive variance of $55.8 million is mainly the result of revised caseload levels in

Regional Operations CalWORKs, in Child Welfare Services based on revised estimates of caseload levels and growth trends and in Behavioral Health Services resulting from a decrease in State Hospital costs. In Finance Other, the positive variance is due to lower than budgeted tax and revenue anticipation note borrowing costs and various lease payment savings. In CSG, a positive variance is projected in HCD due to lower than anticipated expenditures on multi-year projects. A net negative variance of $2.0 million is projected in PSG mainly in the Sheriff's department ($4.6 million) due to cost for medical support and care of persons in the detentions facilities offset by savings in Contributions for Trial Courts ($1.8 million) to align the expenditure level required to support the revenue sharing requirements related to Trial Court funding as well as in the Office of Emergency Services ($0.8 million) due to spending delays.

- $20.0 million in contingency reserves that are projected to be unspent at year-end.
- $29.3 million in management reserves in HHSA ($20.0 million), in FGG ($6.0 million) and in CSG ($3.3 million) that are projected to be unspent at year-end.

The projected over realized revenue of $12.8 million includes positive variances totaling $96.9 million and negative variances of $84.1 million. The positive revenue variance of $96.9 million is expected in the following categories: Other Financing Sources ($60.2 million) mainly due to proceeds from the sale of the County Operations Center Annex; Taxes-Current Property ($24.0 million) and Taxes-Other Than Current Secured ($7.2 million) due to increase in assessed value; Licenses, Permits and Franchises ($2.8 million); and Revenue From Use of Money and Property ($2.6 million). The negative variance is largely in Intergovernmental Revenue ($77.3 million) as a result of expenditure savings in caseload-driven programs, multi-year projects and contracted services as set forth above, in Fines, Forfeitures and Penalties ($5.7 million), in Miscellaneous Revenue ($0.9 million) and in Charges For Current Services ($0.2 million) due to reimbursements for Low Income Health Program cases.

Table 8 below sets forth the County's Adopted and final Amended Budgets for Fiscal Year 2012-13. The table also sets forth the Adopted Budget for Fiscal Year 2013-14, the Amended Budget as of March 31, 2014, the projected expenditures and revenues and other financing sources as reported in the Third Quarter Report, and the variance between the projected actual amounts and those contained in the Fiscal Year 2013-14 Amended Budget. The full report may be viewed on the County's website at http://www.sdcounty.ca.gov/auditor/qfbr.html. The information on such website is not incorporated herein by reference. The table also sets for the General Fund CAO Recommended Operational Plan Budget and the Revised CAO Recommended Operational Plan Budget for Fiscal Year 2014-15.

TABLE 8
GENERAL FUND
ADOPTED AND AMENDED BUDGET FOR FISCAL YEAR 2012-13,
ADOPTED AND AMENDED BUDGET AND PROJECTED RESULTS FOR
FISCAL YEAR 2013-14 AND RECOMMENDED AND REVISED CAO RECOMMENDED
OPERATIONAL PLAN BUDGET FOR FISCAL YEAR 2014-15
(In Thousands)

	2012-13 Adopted Budget	2012-13 Amended Budget(1)	2013-14 Adopted Budget	2013-14 Amended Budget(4)	Projected Year-End Results(2)	Variance from Amended Budget(3)	2014-15 Recommended Budget(5)	2014-15 Revised CAO Recommended Operational Plan(6)
APPROPRIATIONS								
Public Safety	$ 1,223,862	$ 1,265,974	$1,286,206	$1,354,808,	$1,323,391	$31,417	$1,337,060	$1,344,406
Health and Human Services	1,891,276	1,917,434	1,959,450	1,998,528	1,842,933	155,595	1,861,724	1,861,724
Land Use and Environment	145,933	157,306	158,661	173,023	156,672	16,352	163,082	163,082
Community Services	75,775	85,496	67,888	85,266	68,565	16,701	72,446	72,446
Finance and General Government and Other	360,097	733,225	360,517	679,913	636,411	43,502	382,931	398,098
Contingency Reserve and Designations Increases	0	0	0	0	0	0	0	0
Contingency Reserve and Increases in Fund Balance Commitments	21,961	21,961	20,328	20,328	328	20,000	22,748	22,912
Total Appropriations(3)	$ 3,718,904	$ 4,181,398	$3,853,052	$4,311,867	$4,028,300	$283,567	$3,839,990	$3,862,667
BUDGETED REVENUES								
Current Property Taxes	$ 510,491	$ 510,491	$ 523,615	$523,615	$547,644	$24,030	$558,694	$563,622
Taxes Other Than Current Property Taxes	383,772	383,772	382,956	382,956	390,188	7,232	398,415	401,701
Licenses, Permits and Franchises	41,563	41,563	42,297	42,297	45,111	2,814	44,089	44,089
Fines, Forfeitures and Penalties	52,005	54,022	50,218	51,727	46,007	(5,720)	34,382	34,508
Use of Money and Property	13,903	13,903	12,045	12,045	14,676	2,630	11,023	11,023
Aid from Other Government Agencies	2,016,098	2,064,722	2,108,665	2,160,583	2,083,303	(77,280)	1,978,469	1,978,118
Charges for Current Services	289,942	292,909	305,435	312,877	312,670	(207)	344,270	344,495
Miscellaneous Revenues and Other Financing Sources	296,114	298,092	294,469	309,643	368,962	59,319	310,336	316,551
Total Budgeted Revenues(3)	$ 3,603,888	$3,659,474	$3,719,701	$3,795,743	$3,808,561	$12,817	$3,679,677	$3,694,106
Estimated Use of Committed Fund Balance	$ 544	$ 544	$811	$811	$811	$0	$1,422	$1,422
Estimated Use of Unassigned Fund Balance	114,472	114,472	132,541	132,541	132,541	0	158,891	167,139
Estimated Use of Fund Balance for Encumbrances	0	406,908	0	382,772	382,772	0	0	0
Total Resources Utilized(3)	$ 3,718,904	$ 4,181,398	$ 3,853,052	$4,311,867	$4,324,685	$12,817	$3,839,990	$3,862,667
Net savings from the Fiscal Year 2013-14 Amended Budget						$296,384		

(Table continued on subsequent page.)

(Table continued from prior page.)

Source: County of San Diego Auditor and Controller.

(1) Reflects appropriations, budgeted revenues and other financing sources included in the 2012-13 Adopted Budget as amended and adjusted to include all budgeted appropriations and revenues as of June 30, 2013.

(2) Reflects, as of March 31, 2014, the amended budget and projections of the expenditures and revenues of the County's General Fund for Fiscal Year 2013-14.

(3) Reflects, as currently projected, the difference between the budgeted expenditures, revenues and other financing sources of the County's General Fund in the Fiscal Year 2013-14 Amended Budget as of March 31, 2014 and the projected expenditures, revenues and other financing sources of the County's General Fund for Fiscal Year 2013-14. 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) Reflects carry over appropriations from the prior fiscal year.

(5) Reflects appropriations, revenues and other financing sources included in the 2014-15 Recommended Budget.

(6) Reflects appropriations, revenues and other financing sources included in the 2014-15 Revised CAO Recommended Operational Plan Budget.

Status of Available Fund Balance

Included in the Fiscal Year 2013-14 Adopted Budget were appropriations based on Assigned to Subsequent One-Time Expenditures General Fund Balance of approximately $132.5 million. For fiscal years ended 2011 and 2012, the amounts of fund balance to be used for subsequent one-time expenditures were $210.1 million and $112.9 million, respectively, and are included in Unassigned fund balance. The unassigned portion of the General Fund Balance as of June 30, 2013 was $644.5 million. See Table 6 entitled "General Fund Balance Sheet" herein for a description of the fund balance of the General Fund.

Subsequent to the adoption of the Fiscal Year 2013-14 Budget, the Board of Supervisors approved the appropriation of an additional $8.8 million in unassigned General Fund Balance for the acquisition of fire apparatus ($0.5 million), acquisition and land improvement of the Sheriff's Lakeside Substation ($2.5 million), preliminary planning for the Crime Lab/Property and Evidence Warehouse/Central Investigations Building project ($0.1 million), regional services identified in the cost recovery proposal for Public Works and Planning and Development Services ($0.7 million), phase one of the Renewable Energy Plan ($0.3 million), and construction of the: County Administration Center ("CAC") Waterfront Park ($2.0 million), Pine Valley Park Ball Fields ($1.5 million), Sheriff's Defensive Tactics building ($0.3 million), Juvenile Ranch Facility Staff Housing ($0.5 million), and Camp Barrett Staff Housing ($0.4 million), which reduced the available unassigned portion of General Fund fund balance to $611.5 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 2013-14, an additional $19.9 million in unassigned General Fund Balance was approved to be used for various items, including appropriations for the fund balance commitment increase in Department of Environmental Health ($0.5 million), purchase of X-Ray equipment for Department of Animal Services ($0.2 million), staff, appraisal, and option consideration payments costs related to the transfer of the two Caltrans parcels ($0.1 million), consultant services to develop education, outreach, and compliance programs resulting from the new 2013 State Municipal Stormwater Permit requirements and Total Maximum Daily Loads for bacteria in county watersheds ($0.9 million), construction improvements for Ramona Grasslands phase one ($0.4 million), staff and due diligence costs related to the Borrego Springs Community Library ($0.2 million), and for negotiated one-time salaries and benefits payments ($17.6 million).

In the Second Quarter Operational Plan Status Report and Budget Adjustments (the "Second Quarter Report"), which is based on the fourth to sixth months of Fiscal Year 2013-14, an additional $3.9 million in unassigned General Fund Balance was approved to be used for various items, including appropriations for the CAC Waterfront Park security ($0.9 million), the Sheriff's Transfer, Assessment and Release Unit ($1.0 million), Aqua Caliente campground repairs ($0.6 million), consultant services for

Public Works ($0.9 million), Montezuma Valley Road repairs ($0.4 million), and for negotiated one-time salaries and benefits payments ($0.1 million).

In the Third Quarter Report, an additional $0.4 million are proposed to be appropriated using unassigned General Fund fund balance for the new 2013 State Municipal Stormwater Permit requirements and Total Maximum Daily Loads for bacteria in county watersheds.

If there were no further uses of fund balance for the remainder of the year and the projected $296.4 million in net savings in the 2013-14 budget (as shown in Table 8) were to be realized, the unassigned General Fund Balance as of June 30, 2014 would be $683.6 million, which excludes amounts Assigned to Subsequent One-Time Expenditures General Fund Balance of $167.1 million and $57.2 million of proceeds generated by the sale of the County Operations Center (COC) which will be Committed for future capital use. 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 County does not prepare any formal update of its General Fund Balance projections after the third quarter. The next formal update of the County's General Fund Balance will occur in connection with the audit of the basic financial statements of the County for the Fiscal Year ending June 30, 2014, which is expected to be completed by December 31, 2014.

County's Fiscal Year 2014-15 Recommended Budget and the Operational Plan

Recommended Operational Plan

The County annually prepares a two-year operational plan, the most recent of which was received by the County's Board on May 6, 2014 (the "Recommended Operational Plan"). The first year of the Recommended Operational Plan is the Fiscal Year 2014-15 Recommended Budget and the second year represents an estimate of the revenues and expenditures of the County for Fiscal Year 2015-16. 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 Recommended Budget for the County General Fund for Fiscal Year 2014-15 is approximately $3.84 billion, with Total Appropriations of approximately $3.84 billion, Total Revenues of approximately $3.68 billion, and total estimated use of the Fund Balance Component Decreases and Use of Fund Balance of approximately $1.42 million and $158.89 million, respectively. See Table 8 entitled "GENERAL FUND ADOPTED AND AMENDED BUDGET FOR FISCAL YEAR 2012-13, AND ADOPTED AND AMENDED BUDGET AND PROJECTED RESULTS FOR FISCAL YEAR 2013-14 AND RECOMMENDED AND REVISED CAO RECOMMENDED OPERATIONAL PLAN BUDGET FOR FISCAL YEAR 2014-15" herein for a summary of the County's 2014-15 Recommended Budget. The Recommended Operational Plan is available on the County's website at http://www.sdcounty.ca.gov/auditor/budinfo.html, but is not incorporated herein by reference.

Summary of General Fund Financing Sources

In the Recommended Operational Plan, General Fund Financing Sources total $3.84 billion for Fiscal Year 2014-15, a $13.1 million or 0.3% decrease from Fiscal Year 2013-14. They are expected to decrease by $77.4 million or 2.0% in Fiscal Year 2015-16. In comparison, the Fiscal Year 2013-14 Adopted Budget was 3.6% higher than the prior year, while the previous ten fiscal years saw an average annual growth rate of 3.4%. General Fund Financing Sources can be categorized as one of three types:

Program Revenue, General Purpose Revenue, or Use of Fund Balance (including Fund Balance Component Decreases – formerly Reserves/Designation Decreases).

Program Revenues. Program Revenues are expected to total approximately $2.65 billion in Fiscal Year 2014-15 and $2.63 billion in Fiscal Year 2015-16. These revenues make up 69.1% of General Fund Financing Sources in Fiscal Year 2014-15, 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 3.2% over the Fiscal Year 2013-14 Adopted Budget compared to an average annual growth for the last ten years of 3.1%.

General Purpose Revenue. General Purpose Revenue, budgeted at approximately $1,025.2 million in Fiscal Year 2014-15 and $1,049.2 million in Fiscal Year 2015-16, comprise approximately 26.7% 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 and use tax (and property tax in lieu of sales tax), real property transfer tax, Aid from Redevelopment Successor 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 87% of General Purpose Revenue tied to activity in the real estate market. From Fiscal Year 2002-03 through Fiscal Year 2012-13, General Purpose Revenue grew by an annual average of $38.5 million. Fiscal Year 2013-14 saw an increase in budgeted General Purpose Revenue of $10.8 million.

For Fiscal Year 2014-15, the $1,025.2 million budgeted for General Purpose Revenue is an increase of $47.3 million from the Fiscal Year 2013-14 budgeted amount of $978.0 million. The assessed value of real property declined in 2009 and 2010 (following the credit crisis and economic downturn that began in 2007), grew marginally in 2011, and declined slightly in 2012. For 2013, a 1% projected increase in overall assessed value of real property is projected.

Use of Fund Balance. Use of Fund Balance, including Fund Balance Component Decreases totals approximately $160.3 million in Fiscal Year 2014-15 and $79.6 million in Fiscal Year 2015-16. It represents 4.2% of General Fund Financing Sources in Fiscal Year 2014-15. This resource is used for one-time expenses, not for the support of ongoing operations. This compares with $133.4 million in uses of fund balance in the Fiscal Year 2013-14 Adopted Budget, which equaled 3.5 % of total General Fund Financing Sources.

In the Recommended 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: management reserves, one-time major maintenance, labor costs due to negotiated one-time salary and benefit payments, one-time funding for County Administration Center Waterfront Park security, one-time funding for Pre-Arraignment Release program, Sheriff's Transfer, Assessment and Release Unit implementation, San Diego County Fire Authority one-time funding for volunteer station equipment, fuel costs, and contract costs, one-time training, recruitment and retention for the volunteer firefighter program, aerial Fire Suppression "Call When Needed" support, bridge funding to support the Probation Department due to the loss of Senate Bill 678 and Title IV-E Foster Care funding, one-time contracted vocational, educational, and life skills services for high-risk offenders, Juvenile Diversion program support in the Probation Department, bridge funding for Contribution to Trial Courts to support the statutory payments to the State, one-time administrative and logistical support needs for the San Diego County Fire Authority, bridge funding for costs associated with fire protection and emergency medical services, Health and Human Services continuous improvement and integration projects, Grand Avenue clinic sale proceeds commitment for Public Health, one year extension of the cultural broker consultant services for a pilot program to enhance child safety and family stability in the Child Welfare system and to allow for a more accurate evaluation of the outcomes, Agriculture, Weights and Measures Red Imported Fire Ant survey, Parks and Recreation Lindo Lake study/basin environmental documents and permitting, Green Building Program and Homeowner Relief Act fee waivers, Planning and Development Services Transportation Impact Fee update, zoning ordinance revisions to encourage composting activities, road maintenance projects, design of the San Diego River flood forecast model, Purchase of Agriculture Conservation Easements ("PACE") program support, LUEG business process reengineering projects, Watershed Protection Program to fund Total Maximum Daily Load and Water Improvement projects necessary to comply with new Stormwater Permit requirements, one-time funding to continue the SMART building program aka Building Automation System, County Administration Center maintenance projects including electrical, and heating, ventilation, and air conditioning system, training certifications for employee development, internship programs, Workforce Academy for Youth program, grants provided to community organizations, Public Works school safety enhancement, and Temporary help for contract monitoring and other functions in various departments.

June 30, 2014 General Fund Balance Assigned to Subsequent One-Time Expenditures will serve as the funding source for various one-time information technology projects, such as: digitizing records and one-time IT projects in the District Attorney's Office, San Diego County Fire Authority Advanced Situational Awareness for Public Safety Network, Public Defender software and programming changes associated with receiving discovery electronically, Health and Human Services technological improvements to support *Live Well San Diego* and the delivery of integrated services, Emergency Medical Services pre-hospital patient records scanning project, Testing and remediation costs related to Microsoft Office 2013 upgrade, IT applications in Agriculture, Weights and Measures such as the Trapping iPad application and the Pierce's Disease iPad application, Agriculture, Weights and Measures business registration and investigative process through Accela, Documentum upgrade and recording, Air Pollution Control District paperless project, Business Case Management System infrastructure upgrades, new civic engagement webpage, Open Data Platform project to deploy a public-facing dashboard for LUEG, application discretionary work for LUEG, development of public website with historical and real-time automated flood warning data, Justice Electronic Library System (JELS), T360 and Case Management System development and enhancement, external webpage enhancement for the Auditor and Controller, Adobe FrameMaker publishing software upgrade for the Comprehensive Annual Financial Report (CAFR), TeamMate suite upgrade, Oracle Fusion Middleware upgrade, emergent and/or unanticipated County Technology, Office platform needs, planned enhancements and upgrades to the Electronic Approval (EA) system, SharePoint, JELS, MyRequests, DocVault systems and nondiscretionary work request for break/fixes, SharePoint platform upgrade, Enterprise Document Processing Platform licenses during migration (Reveille, Adobe CQ & Forms, LiveCycle, Captiva, SharePoint Connector) and upgrade documentation, Automated Runbooks, Application Rationalization and Roadmapping Tool, Adobe upgrades for Board of Supervisors Districts Two, Three, and Four websites, Data Loss Prevention, Patient Protection and Affordable Care Act (the "Affordable Care Act") compliance module, NeoGov online testing, AS400 hardware and operating system upgrade, SQL database environment upgrade, digital signage pilot project, Kronos application upgrade including workforce scheduler, electronic hand held devices for recording polling place accessibility and survey data in the field, online campaign financial disclosure filing system, wellness portal, Enterprise Resource Planning data services, one-time enterprise IT contracts, various mobile applications to improve the efficiency of Probation case management and supervision, and for complaints and service request in LUEG departments using the Accela Automation platform.

June 30, 2014 General Fund Balance Assigned to Subsequent One-Time Expenditures will also fund various one-time facility maintenance and upgrades, such as: renovation and remodel of the Emergency Operations Center, Construction of the San Diego County Real-time Network Base Station in the Lakeside/Santee area, assessment of accessibility in key public facilities, American with Disabilities accessibility projects, and energy projects. Various equipment purchase/replacement, such as San Diego County Fire Authority rescue and safety equipment, San Diego County Fire Authority fire apparatus and apparatus replacement commitment, Training equipment for the Public Defender Vista and South Bay branches, Weco Electric Meter Tester, Medical Examiner equipment replacement, vehicle purchase for Integrated Pest Control and Huonglongbing staff, traffic safety enhancement equipment, accident scan equipment for County litigation, webcams at Low Water Crossings, preservation of standard and safe roadway maintenance levels: Closed Circuit Television Video for video within County culverts, Library 24/7 machines, image scanning equipment, fingerprinting equipment for background investigations, and other minor equipment to support volunteers and employee development.

The Recommended Operational Plan also includes various rebudgets, such as: defense of special circumstance cases, vehicle purchases to meet Agricultural Water Quality inspection requirements, Documentum Record Manager integration, Documentum upgrade for Environmental Health, tribal liaison consultant and support, fire victim permit fee waiver, Land Use Data imaging project, development of an onsite wastewater treatment program in compliance with AB 885, *Onsite Sewage Treatment Systems* (2000), Accela upgrade for Environmental Health, Environmental Health support for beach water quality monitoring, Asset Management application, business process reengineering for LUEG departments, Business Case Management System rebudget (various underground utility one-time projects and purchase of commercial off the shelf software to allow display and markup of Capital Improvement Program design drawings for electronic review), mobile applications and web portal design, Geographic Information Systems infrastructure upgrade, Parcel Genealogy, Business Intelligence contract Phase III, Q-matic system upgrade, Customer Routing in Land Development Process, electronic document review/submittal automation, PACE program support and zoning ordinance update, Multiple Species Conservation Program ("MSCP") (North) Resource Management Plans to protect biological and cultural resources, Planning and Development Services continuous improvement program customer service and cultural awareness training, Firestorm 2007 rebuilding permit fee waiver, Comprehensive Renewable Energy Plan, Planning and Development Services General Plan amendments for property-specific requests, code enforcement abatements, San Diego Association of Governments Quality of Life to fund water quality projects and programs, Integrated Regional Water Management data management system grant match, and Proctor Valley Road closure, Warehouse Asset Tracking system, and poll worker internet site.

Summary of Total Appropriations in the Recommended Operational Plan

The Recommended Operational Plan includes appropriations totaling $5.06 billion for Fiscal Year 2014-15 and $4.85 billion for Fiscal Year 2015-16. This is an increase of $80.5 million or 1.6% for Fiscal Year 2014-15 from the Fiscal Year 2013-14 Adopted Budget. Appropriations for the General Fund are $3.84 billion, a $13.1 million or 0.3% decrease from Fiscal Year 2013-14. The General Fund constitutes 75.9% of the County's total appropriations. Further, the Fiscal Year 2014-15 Recommended Operational Plan reflects a staffing increase of 410.00 full time equivalents ("FTEs"). This is comprised of 402.00 FTE increase in the General Fund and 8.00 FTE increase in other funds. This will increase budgeted FTEs for the County from 16,627.00 in Fiscal Year 2013-14 to 17,037.00 in Fiscal Year 2014-15.

The Recommended Operational Plan by Group/Agency includes decreased appropriations in HHSA, and Finance & General Government, while they are increasing in Land Use and Environment, Public Safety, Community Services, Finance Other, and Capital Program. HHSA, at $1.9 billion, continues to constitute the largest share of the budget at 37.6%, followed by the Public Safety Group at $1.6 billion, or 32.2%.

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

Public Safety Group – includes a recommended net increase of 5.6% or $85.8 million from the Fiscal Year 2013-14 Adopted Budget and a net increase of 27.00 staff years. The increase primarily relates to increased costs as a result of negotiated labor agreements and increases in County retirement contributions, growth in Proposition 172, the *Local Public Safety Protection and Improvement Act of 1993* funding, reclassification of penalty assessment funds, increased law enforcement staffing in the Sheriff's Department, decreased staffing levels in the Probation Department and the planned use of one-time resources. All mandated services are maintained.

Health and Human Services Agency – includes a recommended net decrease of 4.8% or $96.5 million from the Fiscal Year 2013-14 Adopted Budget and a net increase of 360.00 staff years. The decrease is associated with the transition of the Low Income Health Program to the expanded Medi-Cal program offset by an increase in staff years, an increase due to negotiated labor agreements, increased County retirement contributions, and costs associated with contracted services and client payments. Adjustments to funding and caseloads are also recognized.

Land Use and Environment Group – includes a recommended net increase of 4.4% or $17.7 million from Fiscal Year 2013-14 Adopted Budget and an increase of 6.00 staff years. Significant increases are in: negotiated labor agreement costs and County retirement contributions; the mobile incentives grant award program; information technology projects; various County roads, airports and San Diego County Sanitation District capital improvement projects; business process reengineering projects; and the addition of staff years.

Community Services Group – includes a recommended net decrease of 7.7% or $23.2 million from the Fiscal Year 2013-14 Adopted Budget and an increase of 11.00 staff years. The increase is due to increased salaries and benefits for existing employees and for 11.0 new positions, one-time projects for energy efficiency and major maintenance projects, library books and materials, vehicle fuel, operating transfers between internal service funds, and fund balance component increase for the Registrar of Voters. Partially offsetting decreases include payments for contracted facilities services and one-time capital equipment expenditures.

Finance and General Government Group – includes a recommended net decrease of 0.8% or $3.2 million from the Fiscal Year 2013-14 Adopted Budget and an increase of 6.00 staff years. The increase is due primarily to a reduction in one-time Countywide information technology (IT) projects and support, partially offset by negotiated labor agreements and increased County retirement contributions.

Capital Program – includes a recommended net increase of 39.7% or $23.2 million from the Fiscal Year 2013-14 Adopted Budget. The amount budgeted in the Capital Program for Capital Projects can vary significantly from year to year based on the size and scope of capital needs in the coming years. The Fiscal Year 2014-15 Capital Program includes $81.7 million for the following capital projects:

- $50.0 million of initial funding for the Sheriff's Crime Lab, with an estimated total project cost of $104.8 million;
- $10.0 million for the MSCP;
- $9.7 million for the Borrego Springs Community Library;
- $1.5 million for Guajome Regional Park Electrical, Water and Sewer; and
- $0.6 million for Sweetwater Regional Park Photovoltaic Phase II.

The Capital Program also includes $9.9 million for the Edgemoor Development Fund to pay debt service on the 2005 Certificates and the 2006 Certificates (each as defined in the forepart of this Official Statement) and other costs to improve the Edgemoor property.

Finance Other – includes a recommended net increase of 10.4% or $30.3 million from the Fiscal Year 2013-14 Adopted Budget. 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. In the Fiscal Year 2014-15 Recommended Budget, the General Fund contribution to the Capital Program includes appropriations for the initial funding for the Sheriff's Crime Lab of $50.0 million, MSCP of $10.0 million, for a new Borrego Springs Community Library of $9.7 million, for Guajome Regional Park Electrical, Water and Sewer of $1.5 million, and for the Sweetwater Regional Park Photovoltaic Phase II of $0.6 million. In addition, lease payments for certain long-term lease obligations have decreased by $1.9 million as a result of decreases in certain scheduled leases.

County's Fiscal Year 2014-15 Revised CAO Recommended Operational Plan

Revised CAO Recommended Operational Plan

Subsequent to the presentation of the Recommended Operational Plan to the Board of Supervisors, public hearings are held and Change Letter requests (the "Change Letter") are prepared for any needed adjustments to the Recommended Operational Plan. The Change Letter sets forth amendments to the Recommended Operational Plan (together with the Change Letter, the "Revised CAO Recommended Operational Plan") and is based on updated expenditure and revenue information and actions by the Board of Supervisors subsequent to the presentation of the Recommended Operational Plan.

Summary of Total Appropriations in the Revised CAO Recommended Operational Plan (Change Letter)

The Revised CAO Recommended Operational Plan includes total appropriations of $5.08 billion for Fiscal Year 2014-15 and $4.87 billion for Fiscal Year 2015-16. This is an increase of $26.2 million or 0.52% from the Fiscal Year 2014-15 Recommended Operational Plan for a net increase of $106.7 million or 2.14% from the Fiscal Year 2013-14 Adopted Budget. Appropriations for the General Fund are $3.86 billion, a $22.7 million or 0.59% increase from the Fiscal Year 2014-15 Recommended Operational Plan for a total increase of $9.6 million or 0.25% from the Fiscal Year 2013-14 Adopted Budget. The General Fund constitutes 76.0% of the County's total appropriations. Further, the Fiscal Year 2014-15 Revised CAO Recommended Operational Plan reflects a staffing increase of 7.00 staff years from the Fiscal Year 2014-15 Recommended Operational Plan for a total staffing increase of 417.00 staff years, 405.00 of which are in the General Fund.

General Purpose Revenues total $1.03 billion in the revised CAO Recommended Operational Plan in Fiscal Year 2014–15 and $1.06 billion in Fiscal Year 2015–16. For Fiscal Year 2014–15, this is an increase of $8.2 million or 0.8% from the CAO Recommended Operational Plan for an increase of $55.5 million or 5.7% from the Fiscal Year 2013–14 Adopted Operational Plan. The increase is driven by two factors, the most significant being a revision to anticipated growth in Locally Assessed Secured Property Values. The CAO Recommended Operational Plan assumed a growth rate of 3%. However, revised estimates received subsequent to the development of the CAO Recommended Operational Plan indicate a growth rate of approximately 4%. The secondary factor influencing the increase in General Purpose revenue is an increase in Transient Occupancy Tax (TOT) revenue. This increase reflects information received subsequent to the development of the CAO Recommended Operational Plan indicating that collections through the third quarter of Fiscal Year 2013–14 will exceed the Fiscal Year 2013–14 budget.

See Table 8 entitled "GENERAL FUND ADOPTED AND AMENDED BUDGET FOR FISCAL YEAR 2012-13, ADOPTED AND AMENDED BUDGET AND PROJECTED RESULTS FOR FISCAL YEAR AND REVISED CAO RECOMMENDED OPERATIONAL PLAN 2013-14 AND RECOMMENDED AND REVISED CAO RECOMMENDED OPERATIONAL PLAN BUDGET FOR FISCAL YEAR 2014-15" herein for a summary of the County's 2014-15 Revised CAO Recommended Operational Plan budget. The Revised CAO Recommended Operational Plan budget is available on the County's website at http://www.sdcounty.ca.gov/auditor/opplan/chngltrlist.html. The information on such website is not incorporated herein by reference.

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

Public Safety Group – Changes include an increase from the CAO Recommended Operational Plan of $7.4 million and by 3.00 staff years in Fiscal Year 2014-15. The total revised CAO Recommended Operational Plan for PSG for Fiscal Year 2014-15 is $1.63 billion and 7,459.00 staff years. A significant proposed change for Fiscal Year 2014-15 from the CAO Recommended Operational Plan is a net increase in the Sheriff's Department for costs associated with the Regional Communications System, the Regional Realignment Response Group, and various capital projects. Proposed staffing changes for Fiscal Year 2014-15 from the CAO Recommended Operational Plan include an increase of 3.00 staff years as follows: 1.00 staff year in the Sheriff's Department Law Enforcement Services Bureau for the High Intensity Drug Trafficking Areas program; 1.00 staff year in the Sheriff's Department Court Services Bureau Field Division to conduct analysis regarding county wanted subjects; and 1.00 staff year in the San Diego County Fire Authority to support fire prevention activities.

Health and Human Services Agency – There was no increase in appropriations from the CAO Recommended Operational Plan and staff years remain unchanged in Fiscal Year 2014-15. The total Revised CAO Recommended Operational Plan for HHSA for Fiscal Year 2014-15 remains at $1.90 billion and 5,973.50 staff years. See "Impact of the Governor's Fiscal Year 2014-15 State Budget on the County's Fiscal Year 2014-15 Revised CAO Recommended Budget" below for impacts of the 2014-15 State Budget Act and the Affordable Care Act.

Land Use and Environment Group – There was no increase in appropriations from the CAO Recommended Operational Plan and staff years remain unchanged in Fiscal Year 2014-15. The total Revised CAO Recommended Operational Plan for LUEG for Fiscal Year 2014-15 remains at $372.6 million and 1,452.00 staff years.

Community Services Group – Changes include an increase from the CAO Recommended Operational Plan of $1.5 million and by 4.00 staff years in Fiscal Year 2014-15. The total revised CAO Recommended Operational Plan for CSG for Fiscal Year 2014-15 is $325.6 million and 976.00 staff years. Significant proposed changes for Fiscal Year 2014-15 from the CAO Recommended Operational Plan include an increase in the Department of General Services, salaries and benefits, and services and supplies for additional materials and equipment to support increased staff, an increase for additional janitorial, security, and trash contracted services provided at the CAC Waterfront Park, and increase in the County Library for library materials. Proposed staffing changes for Fiscal Year 2014-15 from the CAO Recommended Operational Plan include an increase of 4.00 staff years in the Department of General Services for the CAC Waterfront Park operations and maintenance.

Finance and General Government Group – Changes include an increase from the CAO Recommended Operational Plan of $1.2 million and staff years remain unchanged in Fiscal Year 2014-

15. The total revised CAO Recommended Operational Plan for FGG for Fiscal Year 2014-15 is $384.8 million and 1,183.50 staff years. Significant proposed changes for Fiscal Year 2014-15 from the CAO Recommended Operational Plan include an increase to the Facilities Management Internal Service Fund to offset expenditures for the projected increase in maintenance operations in and around the CAC.

Capital Program – Changes include an increase from the CAO Recommended Operational Plan of $2.0 million in Fiscal Year 2014-15. The total Revised CAO Recommended Operational Plan for the Capital Program is $83.7 million. Significant proposed changes for Fiscal Year 2014-15 from the CAO Recommended Operational Plan include an increase for the Waterfront Park project water fountain enhancements and electronic surveillance system, for the Jess Martin Ballfield improvements, for the Lamar Fitness Path project, and for the Felecita Park Americans with Disabilities Act Ramp and Sidewalks project.

Finance Other – Changes include an increase from the CAO Recommended Operational Plan of $14.1 million in Fiscal Year 2014-15. The total Revised CAO Recommended Operational Plan for Finance Other is $336.3 million. Significant proposed changes for Fiscal Year 2014-15 from the CAO Recommended Operational Plan include an increase for the Neighborhood Reinvestment Program grant awards for one-time community, social, environmental, cultural or recreational needs as approved by the Board on June 11, 2014, Contributions to Capital Outlay related to the CAC Waterfront Park as explained above, and increases in the Contingency Reserve - General Fund pursuant to Board Policy B-71 and Pension Stabilization fund both due to recommended increases in General Purpose Revenue.

Subsequently the County Board of Supervisors adopted the Operational Plan for Fiscal Year 2014-15 on August 5, 2014 totaling $5.08 billion.

Impact of the Governor's Enacted Fiscal Year 2014-15 State Budget on the County's Fiscal Year 2014-15 Revised CAO Recommended Budget

On June 20, 2014, the Governor signed the 2014-15 State Budget Act (the "Fiscal Year 2014-15 State Budget"), which projects Fiscal Year 2014-15 General Fund revenues and transfers of $105.49 billion, total expenditures of $107.99 billion and a year-end surplus of $1.40 billion (inclusive of the projected $3.90 billion State General Fund balance as of June 30, 2014 which would be available for Fiscal Year 2014-15), of which $955 million would be reserved for the liquidation of encumbrances and $449 million would be deposited in a reserve for economic uncertainties. In addition, in Fiscal Year 2014-15, $1.606 billion would be deposited into the State's Budget Stabilization Account/Rainy Day Fund. See "Fiscal Year 2014-15 State Budget." herein.

The 2014-15 State Budget Act provides for continued funding for the overall 2011 Realignment program from two state sources: a sales tax of 1.0625 percent and Vehicle License Fees. In FY 2014-15, the statewide funding for AB 109 activities is projected to decline and the current county allocations in statute expire. A limited term county-by-county allocation formula will be developed by the Department of Finance in consultation with the California State Association of Counties and a group of county Chief Administrative Officers.

The Governor's Enacted Budget proposes a constitutional amendment that requires paying down liabilities and saving for a rainy day. Upon voter approval in November 2014, this amendment would take effect in Fiscal Year 2015-16. If approved, $1.6 billion of revenues set aside for the Rainy Day Fund will be used to repay debt/reduce liabilities including Economic Recovery Bonds. The timing of the Triple Flip discontinuance is unclear. Once the Triple Flip is discontinued, the local agency Bradley Burns Sales Tax is expected to be restored to 1.0% from the current 0.75%, ending the need to backfill from the Educational Revenue Augmentation Fund (ERAF). The elimination of the Triple Flip is not anticipated to result in a net ongoing budgetary impact to the County. General Purpose Revenues received under the Triple Flip are currently classified as In Lieu of Sales Tax ($5.97 million). Depending upon the actual timing of the discontinuance of the Triple Flip, the County may or may not experience the final one-time Triple Flip true up adjustment sooner than scheduled.

The 2014-15 State Budget Act accelerates the State's reimbursement to counties, cities and special districts of $900 million in mandate costs incurred prior to 2004 that must be repaid by 2020-21. The Budget appropriates $100 million to local governments towards it's repayment of the pre-2004 mandate debt which will be available for core services. Approximately 73 percent of the payment will go to counties, 25 percent to cities and 2 percent to special districts. The Enacted Budget also includes language that could direct up to an additional $800 million if state revenues come in above the Administration's revenue estimates. That determination will be made in next year's May Revision. The State currently owes the County more than $34 million in pre-2004 mandate payments. Based on the County's portion of the total, we expect to receive $4.5 million of that amount in Fiscal Year 2014-15.

In regards to the redevelopment agency dissolution, the Governor's Enacted Budget estimates that cities will receive an additional $593 million in general purpose revenues in Fiscal Year 2013-14 and Fiscal Year 2014-15 combined, with counties receiving $731 million and special districts $227 million. For Fiscal Year 2014-15, the amount of residual distribution redirected to the County General Fund is anticipated to be $20 million. However, these amounts are not reflected in the Fiscal Year 2014-15 Revised CAO Recommended Operational Plan due to outstanding litigation that could significantly reduce the amount of residual distributions directed to the County General Fund.

The 2014-15 State Budget Act assumes an additional Medi-Cal caseload of 2.5 million and costs of $14.2 billion related to implementation of the Affordable Care Act. Approximately 825,000 additional people will receive Medi-Cal benefits under the current 50-50 state-federal cost sharing arrangement, which will result in an increase of $776 million in state funding. The federal government is paying nearly 100 percent of the costs for the remaining 1.6 million new individuals. Total Medi-Cal enrollment is expected to rise from 7.9 million before the Affordable Care Act to 11.5 million in Fiscal Year 2014-15. HHSA has seen an increase in Medi-Cal applications and had an additional 351.00 staff years authorized by the Board of Supervisors on September 24, 2013, which is included in the Fiscal Year 2014-15 Revised CAO Recommended Operational Plan. The majority of the County's low-income and indigent health care clients have shifted to Covered California and Medi-Cal from County programs. The number of enrollees in County programs is less than 500, as compared to the over 40,000 clients served before the implementation of the Affordable Care Act. The County does not operate its own medical center. The County provides health care services through individual contracts with various area hospitals and clinics. Counties with this payor arrangement have less exposure to the redirection of 1991 Health Realignment revenue to the State. The County does not anticipate a material financial impact from the redirection of realignment revenues nor the implementation of the Affordable Care Act.

Fund Balance and Reserves Policy

The County's Fund Balance and Reserves Policy (the "Fund Balance and Reserves Policy") establishes guidelines regarding the maintenance of fund balance and reserve levels 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 Commitment for Unforeseen Catastrophic Events (the "Commitment for Unforeseen Catastrophic Events") with a targeted amount equivalent to 5% of the total budgeted General Purpose Revenue to fund legally declared emergencies; a Contingency Reserve (the "Contingency Reserve") with a targeted amount equivalent to 2% of the total budgeted General Purpose Revenue to fund unanticipated needs of the County or offset revenue shortfalls during the Fiscal Year; and a General Fund Minimum Fund Balance for Economic Uncertainty (the "General

Fund Minimum Fund Balance for Economic Uncertainty") at the targeted level of 10% of the total budgeted General Purpose Revenue. In the event that the Commitment for Unforeseen Catastrophic Events, the Contingency Reserve or the Minimum Fund Balance 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 Commitment for Unforeseen Catastrophic Events, Contingency Reserve and the General Fund Minimum Fund Balance for Economic Uncertainty totals set forth in the Fiscal Year 2014-15 CAO Revised Recommended Budget exceed the County's 17% Fund Balance and Reserves Policy target. The General Purpose Revenue in the Fiscal Year 2014-15 CAO Revised Recommended Budget totals $1,033.5 million. For Fiscal Year 2014-15, the Commitment for Unforeseen Catastrophic Events is budgeted to remain at $55.5 million, exceeding the reserve requirement of $51.7 million; the Contingency Reserve is budgeted at $20.7 million, matching the target level of $20.7 million; and the General Fund Minimum Fund Balance for Economic Uncertainty is budgeted at $103.3 million, matching the target level of $103.3 million. See also "– Budget and Financial Position of the County" and "– County's 2014-15 Recommended Budget and the Operational Plan" herein.

Other Operational Impacts

Bacterial Total Maximum Daily Loads Resolution. The San Diego Regional Water Quality Control Board ("RWQCB") adopted a resolution entitled the Bacterial Total Maximum Daily Load Resolution ("Resolution") that became effective in April 2011. The Resolution impacts eight watersheds within the region, requiring that water quality of highly urbanized watersheds be returned to pre-development levels within eight years for dry weather conditions and 18 years for wet weather conditions. Along with other local agencies, the County shares responsibility for six of these eight watersheds. The RWQCB has indicated its intention to enforce the Resolution by incorporating its requirements into the San Diego Regional Municipal Storm Water Permit ("Permit"). While the County continually works to improve water quality, the Resolution includes requirements that are very expensive to achieve, and may not be attainable. The County is urging the RWQCB to make the goals of the Resolution more reasonable. The County is partnering with other affected agencies, academics and other stakeholders to conduct studies to better characterize the risk to swimmers to challenge the targets in the TMDL. The goal is to use the results of the studies to revise the compliance targets to be realistic and scientifically justified. It is unknown, until the applicable total maximum daily loads ("TMDL") plan is reviewed in 2016, whether the RWQCB will revise the requirements of the Resolution. The County's share of the estimated 20-year compliance costs for the six watersheds are estimated between $286 million to $567 million over the 15 years remaining after the bacteria TMDL reopener in 2016. On average, the estimated annual cost to the County would be an additional $19 million to $37.5 million over the 15-year period. The first compliance milestone for the Resolution is a load reduction plan for each of the watersheds. The County currently is only required to submit load reduction plans for three of the six watersheds within the affected jurisdiction. The County submitted a proposed Comprehensive Load Reduction Plan ("CLRP") for the three impacted watersheds to the RWQCB by the October 4, 2012 deadline. The proposed CLRPs will state that the responsible agencies are only prepared to implement the actions identified in the plans as existing resources allow. The RWQCB adopted Order R9-2013-0001 (NPDES No. CAS0109266) on May 8, 2013, and the new NPDES Municipal Stormwater Permit (the "New Permit") for the Counties of San Diego, Orange and Riverside became effective June 27, 2013. The New Permit requires that the Bacteria TMDL be included in the six watersheds in a new TMDL implementation plan that will replace the CLRPs called a Water Quality Improvement Plan ("WQIP"). The County is collaborating with other stakeholders in addressing the bacteria TMDL requirements in each of the WQIPs for the six watersheds. The complete plan is due to the RWQCB on June 27, 2015. These plans are anticipated to indicate that the responsible agencies are only prepared to implement the actions identified in the plans as existing resources allow.

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. The County has not issued Teeter Notes to fund delinquencies since June 15, 2006 and 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) after the last Monday of April of each Fiscal Year, and in amounts in excess of 85% of the anticipated revenue accruing the Treasury Pool participant. 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 (Edgemoor and RCS Refunding) Series 2014A and the County of San Diego Certificates of Participation (Edgemoor and RCS Refunding) Series 2014B (Taxable) (collectively, the "Series 2014 Certificates") described in the forepart of the Official Statement, 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, 2013, there were 16,891 active members, 15,820 retired members and beneficiaries and 5,000 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 currently has four tiers and provides retirement, disability, death and survivor benefits to its General and Safety members. Tier A (with 10,968 active members as of June 30, 2013) and Tier I (with 30 active members as of June 30, 2013) are closed to new entrants, and Tier II was eliminated for active members. Tier B (with 1,829 active members as of June 30, 2013) became effective on August 28, 2009, and on January 1, 2013, Tier C became the current open plan for all newly hired employees. Tier C (with 643 active members as of June 30, 2013) was implemented by the County pursuant to PEPRA. See "County of San Diego Employees – Negotiated Retirement Amendments" herein for a description of modifications to the benefit tiers effective August 28, 2009 and January 1, 2013.

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's share is approximately 92% of the annual Employer Contributions to the Association and the other participating Employers are obligated to make approximately 8% of the annual Employer Contributions to the Association, based on the estimated relative percentage of payroll of the County and the other participating Employers for Fiscal Year 2012-13. Separate from the Employers, the San Diego County Office of Education (the "Office of Education") has approximately nine retirees who participate in the Association's retirement plan and receive benefits, but no longer make contributions to the Association. Retirement benefits for these nine 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. It is the Association's policy to conduct an actuarial valuation 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, 2013 (the "2013 Valuation"), prepared by Segal Consulting, 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. Prior to the 2013 Valuation the normal cost for the General and Safety membership groups was calculated on an aggregate basis by taking the present value of future normal costs divided by the present value of future salaries to obtain a normal cost for all employees covered in that membership group. Beginning with the 2013 Valuation, the normal cost for each membership group is calculated by summing up the individual normal costs for each member covered in that membership group for the applicable year. This change increased the average Employer contribution rate by 0.13% of payroll as of 2013 Valuation. 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, 2013 apply to contributions to be made by the County and the other Employers for the Fiscal Year beginning July 1, 2014.

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 currently 7.75%, 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. At its May 2, 2013 meeting, the Retirement Board adopted the recommendations presented by the Association's actuary to make a one-time adjustment to the asset smoothing method to combine deferred investment gains and losses as of June 30, 2012 for the June 30, 2013 actuarial valuation. The net deferred investment loss of approximately $170.6 million will be recognized over the next four and a half years. Smoothing such net loss over this same period results in approximately $37.9 million in investment loss being recognized annually.

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 19, 2013 with respect to results as of July 1, 2009 through June 30, 2012. 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. At its May 2, 2013 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 subsequent actuarial valuation reports, beginning with the report for the year ended June 30, 2013. The next experience study is expected to be conducted in 2016 with respect to results as of July 1, 2012 through June 30, 2015.

Economic Assumptions. The Association's actuary prepares a review of economic actuarial assumptions every three years in conjunction with the demographic study. At the April 19, 2013 Retirement Board Retreat, the Association's actuary proposed new economic assumptions. The Association's actuary recommended a reduction of the current annual investment return assumption of 8.00% to 7.75%, a reduction in the assumed inflationary salary rate from 3.50% to 3.25%, no change in the assumed "across the board" salary assumption of 0.75% and a change to the combined inflationary and real "across the board" salary increase assumption from 4.25% to 4.00%. These assumptions were used to prepare subsequent actuarial valuation reports, beginning with the report for the year ended June 30, 2013. 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 2016. 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, 2013, the date of the most recent actuarial valuation report, the valuation value of assets of the Association was approximately $9.186 billion and the actuarial accrued liability was approximately $11.631 billion, resulting in a funded ratio of approximately 79.0% and an UAAL of approximately $2.445 billion on a valuation value of assets basis. By comparison, the funded ratio as of June 30, 2012 was 78.7%, reflecting valuation value of assets of approximately $8.607 billion, actuarial accrued liability of approximately $10.943 billion and the UAAL of approximately $2.336 billion. See Table 9 – Historical Funding Status. This increase in the UAAL is primarily due to changes in actuarial assumptions, a lower than expected return on the valuation value of assets after "smoothing", and greater than expected retirements. The increases are offset by experience gains resulting from lower than expected salary increases and lower than expected cost-of-living increases in the benefits for retirees and beneficiaries. The total unrecognized investment loss as of June 30, 2013 was $177.9 million (compared to an unrecognized loss of $170.6 million as of June 30, 2012), 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. If the deferred losses were recognized immediately in the valuation value of assets, the funded percentage would decrease from 79.0% to 77.4% and the aggregate employer contribution rate would increase from 35.79% of payroll to

36.98% of payroll. 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 7.75% 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 7.75% 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 $9.064 billion as of June 30, 2013, compared to $8.521 billion as of June 30, 2012, a $0.543 billion increase in net assets or a 6.38% 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 2019-20. These projections are based on certain assumptions, including achieving a 7.75% return on investments described herein. As of May 30, 2014, the Association reported a total portfolio market value of net pension assets of $10.1 billion, an increase of approximately 11.2% since June 30, 2013. 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; the impact of the Fiscal Year 2008-09 losses and the current 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, 2013 the amount of the total Employer Contributions and Employer Offsets made by the County and the other Employers. The contribution amounts are based on 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 the second preceding fiscal year, which are set forth in Table 9 below.

TABLE 9
HISTORICAL FUNDING STATUS
Valuation Years Ended June 30, 2004 through 2013 and
Fiscal Years Ended June 30, 2006 through 2015
($ In Millions)

Valuation Date (June 30)	Net Market Value of Assets	Valuation Value of Assets	Actuarial Accrued Liability	UAAL[1]	Funded Ratio	Fiscal Year	Employer Contribution[1]	Employer Offsets[1]
2004	$5,508.6	$5,166.8	$6,369.5	$1,202.7[2]	81.1%[2]	2006	$243.7[3]	$58.8
2005	6,358.5	5,612.3	6,990.7	1,378.4	80.3	2007	258.2[4]	62.3
2006	7,330.9	6,263.0	7,495.3	1,232.3	83.6	2008	236.8	68.7
2007	8,444.5	7,250.4	8,082.5	832.1	89.7	2009	219.6	71.6
2008	8,408.0	8,236.9	8,722.3	485.4	94.4	2010	189.5	68.4
2009	6,192.0	8,413.1	9,198.6	785.6	91.5	2011	235.4[5]	68.4
2010	6,878.2	8,433.3	9,999.2	1,565.9	84.3	2012	274.1	60.7
2011	8,182.9	8,542.3	10,482.7	1,940.4	81.5	2013	312.3[6]	45.6
2012	8,436.9	8,607.5	10,943.2	2,335.7	78.7	2014	360.5[7]	46.2[8]
2013	9,008.1	9,186.0	11,631.2	2,445.2	79.0	2015	382.2[7]	29.7[8]

Source: Segal Consulting and San Diego County Employees Retirement Association Comprehensive Annual Financial Report.

(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 (as set forth in the table). The County share of Employer Contributions and Employer Offsets are estimated to be approximately 91.0% up to Fiscal Year 2013-14 based on the estimated relative percentage of payroll of the County for Fiscal Year 2011-12. Starting in Fiscal Year 2014-15, the County share of Employer Contributions and Employer Offsets are estimated to be approximately 92.0% based on the estimated relative percentage of payroll of the County for Fiscal Year 2012-13. See "County Financial Information – San Diego County Employees' Retirement Association – General" herein.

(2) 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.

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

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

(5) Includes $205.8 million of required contributions plus an additional discretionary contribution of $29.6 million.

(6) Includes $298.1 million of required contributions plus an additional discretionary contribution of $14.2 million.

(7) Beginning with Fiscal Year 2014, Employer Contributions are from the valuation reports dated as of the end of the second preceding year ended June 30 as reflected in the table.

(8) The Employer Offsets (the County's pickup of member contributions) reflect negotiated offset savings in the current bargaining agreements which are reflected in the County's Fiscal Years 2014-16 Revised Recommended Budget plus Employer Offsets from other agencies based on Fiscal Year 2013-14 Actual Offset as of June 2014. For Fiscal Year 2014-15, the actuarial assumption that these costs will increase by 4.0% per year is reflected.

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, 2013. See "The County – County of San Diego Employees – Negotiated Retirement Amendments" herein for a description of negotiated changes to the Employer Offsets.

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 view 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, 2014 through 2022
($ In Millions)

Fiscal Year	Employer Contributions[(1)(2)(3)]	Employer Offsets[(1)(2)(3)]	Valuation Date (June 30)	UAAL[(1)(2)(3)]	Funded Ratio[(1)(3)]
2014	$361	$41	2012	$2,336	78.7%
2015	382	24	2013	2,445	79.0
2016	415	25	2014	2,487	79.7
2017	431	26	2015	2,485	80.7
2018	447	10	2016	2,466	81.8
2019	463	6	2017	2,408	83.1
2020	478	6	2018	2,335	84.4
2021	491	6	2019	2,212	85.9
2022	506	6	2020	2,067	87.4

Source: Segal Consulting; County of San Diego.

(1) Employer Contributions and Employer Offsets for Fiscal Year 2014 and Fiscal Year 2015 are from the valuation reports dated as of the end of the second preceding year ended June 30 as reflected in the table.

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

(a) Reflects the economic and non-economic assumptions adopted by the Association Board for the June 30, 2013 valuation and all future valuations.

(b) Under the Board's asset smoothing method, if the actual return on market value of assets is above/below the assumed 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 $177.9 million in unrecognized investment loss as of June 30, 2013. The June 30, 2013 valuation reflects the Association Board's adoption of an adjustment to the asset smoothing method that combines the net deferred losses of $170.6 million from the June 30, 2012 valuation and recognizes one-ninth of the amount (approximately $19.0 million) in each of the six-month periods following June 30, 2012.

(c) All of the actuarial assumptions that were approved for use with the June 30, 2012, the June 30, 2013 and subsequent valuations would be met in the future.

(d) In projecting the payroll, the Actuary assumed that the estimated Fiscal Year 2013-14 payroll of $1,067.8 million used in the June 30, 2013 actuarial valuation will increase by 4.0% per annum (3.25% inflation plus 0.75% across-the-board salary increase) based on the recently adopted economic assumptions for the June 30, 2013 valuation.

(e) The Employer Offsets (the County's pickup of member contributions) reflect negotiated offset savings in the current bargaining agreements which are reflected in the County's Fiscal Years 2014-16 Revised Recommended Budget and include elimination of offset for the SEIU, Local 221 and The Association of San Diego County Employees effective June 2017, and elimination of offset for the Deputy Sheriff's Association effective June 2018. The actuarial assumption that these costs will increase by 4.0% per year is reflected. This is a simplifying assumption as the actual Employer Offsets amount is governed by bargaining agreements with employee groups and actual membership demographics.

(f) The County adopted General Tier B and Safety Tier B plan for members hired on or after August 28, 2009. The County has implemented General Tier C and Safety Tier C as required under the California Public Employees' Pension Reform Act of 2013 (CalPEPRA) for employees who become New Members on or after January 1, 2013. Because Tier C is a lower benefit, 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 plans. The cost reductions are reflected in the projections.

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

(3) The County is obligated to make approximately 92% of the annual Employer Contributions to the Association and the other participating employers are obligated to make approximately 8% of the annual Employer Contributions to the Association, based on the estimated relative percentage of payroll of the County and the other participating employers for Fiscal Year 2012-13.

(4) 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 as reflected in the table.

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.

The Board has considered different investment management service models, 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 and Asset Allocation Policy. The Retirement Board has adopted an Investment Policy Statement, last revised in July 2010 (as revised from time to time, the "Investment Policy Statement"), and related policies that establish investment return and risk objectives and provide comprehensive guidelines with respect to the diversification of assets, the appropriate securities for investment, lending of securities, commission recapture, use of leverage, value-added strategies, proxy voting and corporate governance issues. Proposed revisions to the Investment Policy Statement, including the revised Asset Allocation Policy described below and previously adopted by the Board, are expected to be presented to the Association Board in September 2014. The total investment portfolio was $6.192 billion as of June 30, 2009, $6.878 billion as of June 30, 2010, $8.255 billion as of June 30, 2011, $8.518 billion as of June 30, 2012, $9.062 billion as of June 30, 2013 and $10.1 billion as of May 30, 2014.

Separate from the Investment Policy Statement, the Association maintains an asset allocation policy (the "Asset Allocation Policy") pursuant to which the Association's assets are diversified across asset classes, including equity, credit, diversifying assets, real assets, and dynamic strategies, and within asset classes. Table 11 below sets forth the Association's current Asset Allocation Policy, effective as of July 1, 2014. The Asset Allocation Policy, which is managed and monitored by the Association's general investment consultant with oversight by the Association's staff, was approved on April 17, 2014 to allocate investments across asset classes so that no single asset class has any disproportionate influence on the portfolio's return within a wide range of economic scenarios. The revised Asset Allocation Policy incorporates a new risk-based component that recognizes the impact of outside forces on asset class volatility and correlations and provides the Association with the ability to adapt to changing economic environments where the relative impact of unexpected growth, inflation or changing investment sentiment can dominate other factors, thereby reducing the risk of large investment losses during market shocks. The revised Asset Allocation Policy is a minor adjustment to the previous asset allocation policy, Specific changes in the revised Asset Allocation Policy include the elimination of the allocation to US Treasury Inflation-Protected Securities, a five percent reduction in the allocation to equities, a thirty-five percent reduction in the allocation to United States Treasuries, a fifteen percent reduction in the allocation to Alternatives – Hedge Funds, a five percent increase in the allocation to Managed Futures Strategies – Trend, the creation of an allocation to Private Credit with a 5% target; and the creation of an allocation to Dynamic Strategies with a 20% target. The Association expects that, under most economic conditions, the revised Asset Allocation Policy will produce investment returns similar to those previously earned by the Association.

TABLE 11
SAN DIEGO COUNTY EMPLOYEES RETIREMENT ASSOCIATION
ASSET CLASS BENCHMARKS AND POLICY TARGETS

Asset Class	Benchmarks	Target Allocation
Public Equity[1,2,3]	MSCI All Country World Net Index	20%
Private Equity[1,3]	Russell 3000 + 3% (Annualized)	10
Total Equity		30
High Yield Credit[3]	ML High Yield Master II	5
Private Credit[1,3]	ML High Yield Master II + 2% (Annualized)	5
Total Credit		10
US Treasuries	Barclay's U.S. Treasury: 7-10 Year Index	5
Local Emerging Market Debt	JP Morgan GBI--EM Global Diversified (Unhedged)	5
Managed Futures	Barclays CTA Index	5
Hedge Funds and Relative Value	Risk Benchmark: HFRI Macro Index Performance Benchmark: 30-day T-bills + 4% (Annualized)	5
Total Diversifying Assets		20
Private Real Estate	NCREIF ODCE	10
Public REITS	Dow Jones Equity REIT Index	0
Other Private Real Assets	3-Month Treasury Bills +5% (Annualized)	10
Other Public Real Assets	1/3 MLP + 1/3 SPGSCI + 1/3 S&P Materials	0
Total Real Assets		20
Risk Parity (15% Target Volatility)	Risk Benchmark: Salient v.15+ Risk Parity Index[4] Performance Benchmark: Risk-Adjusted 60/40 (60% S&P 500, 40% Barclays Aggregate levered to 15% vol.)	20
Total Fund Composite	**Weighted Average of Targeted Subcomponents**	**100%**

(Table continued on subsequent page.)

(Table continued from prior page.)

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Source: San Diego County Employees Retirement Association.

(1) Returns for the privately invested portions of the real estate, private equity, private credit and real asset portfolios will be lagged by one quarter and compared to their respective benchmark returns for the same period.

(2) The target weight for the private equity benchmark will be calculated using the following weights for each fiscal year to reflect the anticipated funding schedule of the actual portfolio. The difference between the annual target and the long-term policy benchmark will be reflected in an additional allocation to the target range for the public equity benchmark: 2015, 5%; 2016, 7%; 2017, 10%.

(3) The total of private assets and the related liquid proxies must adhere to the total asset class limits (e.g. Total Real Estate is calculated by taking the sum of Public Real Estate Investment Trusts and Private Real Estate). The public asset classes may be net short to offset higher allocations to private investments (e.g. a 15% allocation to private real estate coupled with a 5% short position in publicly traded Real Estate Investment Trusts through a total return swap would constitute a 10% allocation to real estate as an asset class).

(4) The Risk Parity Benchmark will be customized with a specific adjustment for transaction costs.

The 7.75% 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 in February 2014. The passive rate of return is the rate that would be earned if invested in passive index funds for a selected asset allocation, e.g. funds allocated to US Equities would be invested in a S&P 500 Index fund as a passive equivalent. The investment return assumption of 7.75% 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. From 2010 through 2012, the Retirement Board used an assumed rate of return of 8.0%. 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 7.73% for the year ended June 30, 2013, 11.25% for the three years then ended, 3.27% for the five years then ended and 7.95% for the ten years then ended. This compares to the 7.75% 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).

Hedge Funds. As of May 30, 2014, the fund was invested in 10 hedge funds with an approximate market value of $1.1 billion or 10.7% 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"). 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. At that time, the Association had $78 million (including retained earnings) invested with WG TC, as reported by WG TC. 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; however that appeal is unlikely to be pursued, given the Association's subsequent appeal discussed below. In July 2009, the Chief Compliance Officer of WG TC pleaded guilty to certain charges. In July 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. The Receiver 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. The Association and six other WG TC limited partners filed joint objections to the Receiver's proposal. However, 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. The Association and six other WG TC limited partners appealed the District Court's ruling to the United States Court of Appeals for the Second Circuit seeking a greater share of distributions on equitable grounds. The Second Circuit affirmed the District Court's distribution plan. Under that plan, the Receiver made an initial distribution to the Association of approximately $35 million. Subsequently, the Receiver made a second distribution, resulting in an additional payment to the Association of approximately $1.7 million. A third distribution has been approved, which provides for an additional payment to the Association of approximately $2.1 million; this payment has not yet been received. In April 2014, WG TC's other principal, Stephen Walsh, pleaded guilty to charges arising from his involvement in the fraud. The amount of future distributions to the Association, if any, from the receivership cannot be assessed at this time.

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 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 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 since Fiscal Year 2003.

TABLE 12
TRANSFERS OF INVESTMENT EARNINGS
TO NON-VALUATION RESERVES
Since Fiscal Year Ended June 30, 2003
(In Millions)

Fiscal Year	Post-Retirement Healthcare[(1)]	STAR COLA[(2)]	Contingency Reserve[(3)]	Total
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)
2010-2013	0.0	0.0	0.0	0.0
Total[(6)]	$31.4	$65.3	$46.5	$143.2

Source: The Association.

(1) Reflects amounts that the Association transferred to the Health Reserve from Excess Earnings for Fiscal Years 2002-03 through 2011-12. 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, 2013, no funds were on deposit in the Association Contingency Reserve, $45.2 million was on deposit in the Supplemental Benefits Allowance Reserve (restructured from the Health Reserve during Fiscal Year 2007-08), \$6.9 million was on deposit in the Disability Supplemental Benefits Allowance Reserve, \$4.0 million was on deposit in the 401(h) Reserve (see "Post-Retirement Healthcare Benefits – Funding Source for Post-Retirement Healthcare Benefits" below) 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.

Financial Reporting Standard

In 2012, the Governmental Accounting Standards Board ("GASB") issued Statement No. 67, Financial Reporting for Pension Plans ("GASB 67"), which revises existing guidance for the financial reports of most pension plans, including the Association. GASB 67 generally expands the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position, and requires additional note disclosures and required supplementary information. The provisions in GASB 67 are effective for financial statements for fiscal years beginning after June 5, 2013. The Association anticipates complying with the provisions of GASB 67 by its effective date.

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, 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, 2012 (the "2012 OPEB Valuation") with respect to the eligible retirees and the benefit levels set by the Association. The 2012 OPEB Valuation reflected a decrease in the actuarial accrued liability of $21.1 million from June 30, 2010. The 2012 OPEB Valuation also reflected an annual required contribution of 1.94% of payroll, which is an increase from the annual required contribution of 1.91% of payroll as of June 30, 2010, the date of the prior OPEB valuation. The change in the actuarial accrued liability and the annual required contribution are attributable to a decrease in liabilities due to updated discount and mortality rate assumptions. The annual required contribution in the 2012 OPEB valuation will be used to determine the contribution requirement for Fiscal Years 2013-14 and 2014-15. 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, 2014 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. The next OPEB valuation is be as of June 30, 2014.

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 2012
($ in thousands)

Funding Progress

Valuation Date	Valuation Assets	AAL	UAAL	Funded Ratio	Annual Covered Payroll	UAAL as % of Covered Payroll
June 30, 2007	$ --[1]	$235,755	$235,755	0.0%	$1,020,991	21.2%
June 30, 2008	18,206	217,559	199,353	8.4	1,135,432	17.6
June 30, 2010	9,221	206,447	197,226	4.5	1,095,582	18.0
June 30, 2012	5,064	185,302	180,238	2.7	1,052,366	17.1

(1) Excludes $18.2 million available for benefits.

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
June 30, 2011	18,028	18,028	100.0
June 30, 2012	19,198	19,198	100.0
June 30, 2013	19,024	19,024	100.0

Source: The Association's Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2011 – Required Supplemental Information, citing the Segal Group, Inc. Biannual Actuarial Valuation; June 30, 2012 data from the County.

Payment of the Annual Required Contribution for Post-Retirement Healthcare Benefits. The County and other employers have determined to pay the ARC for OPEB as calculated by the Association's actuary. The payment of the ARC for OPEB 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, 2012, the employers collectively paid $19.2 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, 2013 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, 2004 through 2013

Fiscal Year Ended June 30	Payments for Retiree Healthcare Benefits (in millions)
2004	26.4[(1)]
2005	32.6
2006	32.9
2007	35.3
2008	24.4[(2)]
2009	23.6
2010	23.3
2011	21.5
2012	20.2
2013	20.4

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 2012-13, a total of $23.8 million was paid from this reserve to Tier A retirees, leaving a balance in the reserve of $45.2 million on June 30, 2013 that is expected to provide for payments to eligible members through approximately 2017. 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 2012-13, a total of $2.6 million was paid to these disability retirees, leaving a balance in the Disability Supplemental Benefit Allowance Reserve on June 30, 2013 of $6.9 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
Since Fiscal Year Ended June 30, 2001

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 finance 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 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, 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 June 30, 2014, the County had POBs outstanding in the aggregate principal amount of $732.3 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 estimated Employer Contributions, Employer Offsets and POB debt service for Fiscal Years 2014 through 2022. 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, 2014 through 2022
(In Millions)

Fiscal Year	Employer Contributions(1)	Employer Offsets(2)	County Pension Obligation Bonds Debt Service(3)	Total
2014(4)	$361	$41	$81.4	483.4
2015(4)	382	24	81.4	487.4
2016(4)	415	25	81.4	521.4
2017(4)	431	26	81.3	538.3
2018(4)	447	10	81.4	538.4
2019(4)	463	6	81.4	550.4
2020(4)	478	6	81.4	565.4
2021(4)	491	6	81.4	578.4
2022(4)	506	6	81.4	593.4

Source: Segal Consulting; 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 92% based on the estimated relative percentage of payroll of the County for Fiscal Year 2012-13. See "County Financial Information – San Diego County Employees' Retirement Association – General" herein.

(2) Employer Offsets reflect negotiated offset savings in the current bargaining agreements, which are reflected in the County's Fiscal Year 2014-16 Revised Recommended Budget.

(3) Consists of regular principal and interest payments.

(4) 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-Related Obligations. Table 17 below sets forth the 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, 2014 through 2022
(In Millions)

Fiscal Year	UAAL(1)	Outstanding Pension Obligation Bonds(2)	Total Outstanding Obligations
2014	$2,336	$732.3	$3,068.3
2015	2,445	692.3	3,137.3
2016	2,487	649.9	3,136.9
2017	2,485	605.5	3,090.5
2018	2,466	558.5	3,024.5
2019	2,408	508.8	2,916.8
2020	2,335	456.0	2,791.0
2021	2,212	400.1	2,612.1
2022	2,067	340.8	2,407.8

Source: Segal Consulting; County of San Diego.

(1) Estimated. The UAAL information is based on the UAAL as reported in the actuarial valuation dated as of the end of the second preceding year ended June 30, which is the amount that impacts the Employer Required Contribution and Employer Offsets in any given fiscal year. 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.

(2) 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.

Accounting and Financial Reporting Standard. In 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions ("GASB 68"), along with GASB 67 (see "San Diego County Employees Retirement Association – Financial Standard Reporting" herein). GASB 68 revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits, including the County. GASB 68, among other things, requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability and provides greater guidance on measuring the annual costs of pension benefits, including specific guidelines on projecting benefit payments, use of discount rates and use of the "entry age" actuarial cost method. GASB 68 also addresses accountability and transparency through revised and new note disclosures and required supplementary information. The provisions in GASB 68 are effective for fiscal years beginning after June 15, 2014. The County anticipates complying with the provisions of GASB 68 by its effective date.

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, automobile liability, and workers' compensation. 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. 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 allocates the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll, claim history and other factors as outlined in the California State Controllers' Cost Plan Procedures Manual. 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 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. 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, 2013, these liabilities discounted for anticipated investment return (public liability of 1% and workers' compensation of 2.5%), totaled $157 million, including $24 million in public liability and $133 million in workers' compensation. The June 30, 2013 available cash balances for the Internal Service Funds were $148 million.

The County will continue to purchase excess workers' compensation insurance for Fiscal Year 2013-14. The County does not carry excess liability insurance at this time.

Litigation

There is no pending litigation that would materially impact the ability for the County to pay its obligations.

Short-Term Borrowing

In July 2013, the County issued its Tax and Revenue Anticipation Note Program Note Participations, Series 2013 (the "2013 TRANs") on behalf of itself and certain school districts within the County in an aggregate principal amount of $115,210,000, of which $60,000,000 represent notes issued by the County. The school districts' portion of the 2013 TRANs have matured. The County's portion of the 2013 TRANs matured on June 30, 2014. The 2013 TRANs were issued for the purpose of financing seasonal cash flow requirements for general fund expenditures. The County does not anticipate any short-term borrowings for Fiscal Year 2014-15.

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

The County has no outstanding general obligation bonds. As of June 30, 2014, the County had POBs outstanding in the aggregate principal amount of $732.3 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 June 30, 2014, the County had LRBs and COPs outstanding in the aggregate principal amount of $379.8 million. As of June 30, 2014, there were approximately $1.1 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 $118.5 million for Fiscal Year 2014-15. 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 June 30, 2014
($ 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"):				
2005 RCS Refunding, issued February 2005	3.00-5.00%	2019	$ 28,885	6,180
2005 Edgemoor, issued February 2005	3.00-5.00%	2030	83,510	66,530
2005 North and East County Justice Facility Refunding, issued September 2005	3.25-5.00%	2019	28,210	14,130
2006 Edgemoor Completion Project, issued December 2006	4.00-5.00%	2030	42,390	35,495
2009 Justice Facilities Refunding, issued October 2009	2.00-5.00%	2025	80,940	56,950
2011 CAC Waterfront Park, issued August 2011	3.00-5.13%	2042	32,665	31,500
2012 Cedar and Kettner Development Project, issued October 2012	2.00-5.00%	2042	29,335	28,750
Total SANCAL			$ 325,935	239,535
San Diego Regional Building Authority (SDRBA):				
2009 COC Phase 1A, issued February 2009	3.00-5.375%	2036	136,885	127,210
2011 MTS Tower Refunding, issued May 2011	1.00-5.00%	2019	19,260	13,090
Total SDRBA			$ 156,145	140,300
Total Certificates of Participation and Lease Revenue Bonds			$ 482,080	$ 379,835
Taxable Pension Obligation Bonds:				
County of San Diego Pension Obligation Bonds, issued October 2002				
Series A	3.88-4.95%	2015	$ 132,215	$ 33,635
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[(1)]	4.66-5.76%	2015	64,928	27,940
Less Unaccreted Value			-	*(1,350)*
County of San Diego Pension Obligation Bonds, issued August 2008				
Series A	3.33-6.03%	2027	343,515	311,410
Total Pension Obligation Bonds			$ 929,843	$ 732,330
Total General Fund Long-Term Bonded Obligations			$ 1,411,923	$ 1,112,165

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

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. 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
(as of June 30, 2014)

	Certificates of Participation and Lease Revenue Bonds										Pension Obligation Bonds				
Fiscal Year	2005 RCS Refunding	2005 Edgemoor	2005 North & East	2006 Edgemoor	2009 COC Phase 1A	2009 Justice Facilities Refunding	2011 MTS Tower Refunding	2011 CAC Waterfront Park	2012 CAC Develop-ment	Subtotal	2002 Pension Obligation Bonds	2004 Pension Obligation Bonds	2008 Pension Obligation Bonds	Subtotal	Total General Fund Obligation
2014	2,962,350	6,136,150	2,724,563	3,134,783	9,874,844	7,377,475	2,668,250	2,092,000	1,664,625	38,635,039	20,438,346	38,210,701	22,763,875	81,412,922	120,047,961
2015	1,433,400	6,139,600	2,719,113	3,135,183	9,876,944	7,343,450	2,718,400	2,094,300	1,662,925	37,123,314	17,656,527	39,741,424	24,013,656	81,411,606	118,534,920
2016	1,427,750	6,140,750	2,722,300	3,132,683	9,874,744	7,341,375	2,650,000	2,091,000	1,665,075	37,045,676	17,656,443	41,337,148	22,420,907	81,414,497	118,460,173
2017	1,429,000	6,138,000	2,721,125	3,131,433	9,877,144	7,333,238	2,678,800	2,092,250	1,661,625	37,062,614	0	42,965,099	38,373,607	81,338,705	118,401,319
2018	1,427,250	6,138,000	2,719,000	3,136,183	9,878,744	7,329,625	2,693,000	2,092,900	1,661,425	37,076,126	0	44,717,296	36,694,015	81,411,311	118,487,437
2019	1,417,500	6,140,250	2,720,875	3,136,433	9,877,644	6,474,375	2,694,875	2,091,300	1,665,225	36,218,476	0	46,507,149	34,906,405	81,413,555	117,632,031
2020	0	6,139,250	2,721,375	3,132,183	9,875,044	6,474,000	1,347,875	2,092,200	1,662,825	33,444,751	0	48,369,669	33,038,654	81,408,323	114,853,074
2021	0	6,139,750	0	3,133,183	9,878,444	6,472,125	0	2,093,400	1,662,325	29,379,226	0	50,283,425	31,128,216	81,411,642	110,790,868
2022	0	6,136,250	0	3,135,983	9,876,569	6,467,500	0	2,093,400	1,662,525	29,372,226	0	52,322,691	29,085,382	81,408,073	110,780,299
2023	0	6,138,500	0	3,135,033	9,874,869	6,147,125	0	2,092,550	1,661,525	29,049,601	0	54,439,051	26,892,208	81,331,260	110,380,861
2024	0	6,135,750	0	3,135,258	9,876,394	4,171,625	0	2,091,800	1,661,275	27,072,101	0	56,663,519	24,750,780	81,414,299	108,486,400
2025	0	6,137,750	0	3,136,445	9,874,644	4,160,250	0	2,092,600	1,662,475	27,064,164	0	58,942,024	22,478,030	81,420,054	108,484,218
2026	0	6,138,750	0	3,133,383	9,874,813	2,916,125	0	2,092,000	1,662,275	25,817,345	0	0	81,415,400	81,415,400	107,232,745
2027	0	6,138,250	0	3,136,070	9,878,438	0	0	2,092,688	1,660,675	22,906,120	0	0	67,113,947	67,113,947	90,020,067
2028	0	6,135,750	0	3,133,813	9,877,625	0	0	2,091,675	1,662,675	22,901,535	0	0	0	0	22,901,535
2029	0	6,140,750	0	3,136,438	9,875,106	0	0	2,091,450	1,662,975	22,906,719	0	0	0	0	22,906,719
2030	0	6,137,250	0	3,133,500	9,878,706	0	0	2,094,200	1,661,100	22,904,756	0	0	0	0	22,904,756
2031	0	0	0	0	9,877,506	0	0	2,089,200	1,663,288	13,629,994	0	0	0	0	13,629,994
2032	0	0	0	0	9,874,700	0	0	2,089,575	1,663,025	13,627,300	0	0	0	0	13,627,300
2033	0	0	0	0	9,876,200	0	0	2,092,819	1,660,225	13,629,244	0	0	0	0	13,629,244
2034	0	0	0	0	9,875,663	0	0	2,092,731	1,663,356	13,631,750	0	0	0	0	13,631,750
2035	0	0	0	0	9,877,013	0	0	2,089,313	1,664,856	13,631,181	0	0	0	0	13,631,181
2036	0	0	0	0	9,878,906	0	0	2,092,563	1,659,725	13,631,194	0	0	0	0	13,631,194
2037	0	0	0	0	0	0	0	2,091,969	1,663,144	3,755,113	0	0	0	0	3,755,113
2038	0	0	0	0	0	0	0	2,092,531	1,659,750	3,752,281	0	0	0	0	3,752,281
2039	0	0	0	0	0	0	0	2,093,994	1,663,000	3,756,994	0	0	0	0	3,756,994
2040	0	0	0	0	0	0	0	2,091,100	1,664,188	3,755,288	0	0	0	0	3,755,288
2041	0	0	0	0	0	0	0	2,088,850	1,668,313	3,757,163	0	0	0	0	3,757,163
2042	0	0	0	0	0	0	0	2,091,988	1,665,188	3,757,176	0	0	0	0	3,757,176
Total	$10,097,250	$104,350,750	$19,048,351	$53,287,987	$227,160,704	$80,008,288	$17,451,200	$60,668,346	$48,221,608	$620,294,467	$55,751,316	$574,499,196	$495,075,082	$1,125,325,594	$1,745,620,061

Source: County of San Diego.

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 emergent needs or to benefit from unusual developments or purchase opportunities. The Fiscal Year 2014-2019 CINA was approved on April 15, 2014. It includes $548.6 million in currently approved and active projects, $136.9 million in recently completed projects and $633.3 million in partially funded and unfunded priority major and minor capital projects over the five-year time-frame of the CINA, including the Project described in the forepart of this Official Statement. All of the other projects included in the current CINA will be funded with alternative sources of revenue; debt financing is not anticipated for any of the anticipated projects.

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 Operating Officer, the Auditor and 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. Additionally, the Long-Term Financial Obligation Management Policy states that annual debt service requirements shall not exceed 5% of General Fund revenue. Exceptions to the provisions of the Long-Term Financial Obligation Management Policy are permitted in extraordinary conditions.

Swap Policy

In 2004, the 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 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 the 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 Transactions.

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 August 1, 2014. 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 Series 2014 Certificates described in the forepart of this Official Statement.

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

TABLE 20
COUNTY OF SAN DIEGO
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(As of August 1, 2014)

2013-14 Assessed Valuation: $405,983,622,003 (includes unitary utility valuation)

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 8/1/14
Metropolitan Water District	17.471%	$ 23,109,765
Grossmont-Cuyamaca Community College District	100.	245,912,686
Palomar Community College District	100.	312,768,901
San Diego Community College District	100.	1,283,588,742
Southwestern Community College District	100.	224,474,345
Carlsbad Unified School District	100.	187,568,489
Oceanside Unified School District	100.	224,012,194
Poway Unified School District SFID Nos. 2002-1 and 2007-1	100.	340,578,406
San Diego Unified School District	100.	2,271,623,481
San Marcos Unified School District and School Facilities Improvement District	100.	284,681,755
Vista Unified School District	100.	110,409,882
Other Unified School Districts	100.	13,825,669
Grossmont Union High School District	100.	431,795,095
San Dieguito Union High School District	100.	149,755,000
Sweetwater Union High School District	100.	336,119,415
Other Union High School Districts	100.	107,815,280
Cajon Valley Union School District	100.	149,524,986
Chula Vista City School District and School Facilities Improvement District	100.	85,830,000
San Ysidro School District	100.	120,227,611
Other School Districts	100.	334,317,722
Otay Municipal Water District	100.	5,700,000

(Continued on next page.)

(Continued from prior page.)

Cities	100.	101,445,000
Grossmont Healthcare District	100.	219,577,076
Palomar Pomerado Hospital District	100.	471,441,406
Community Facilities Districts	100.	1,570,419,729
1915 Act Bonds (Estimated)	100.	110,160,649
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$9,716,683,284

DIRECT AND OVERLAPPING GENERAL FUND DEBT:	% Applicable	Debt 8/1/14
San Diego County General Fund Obligations	**100. %**	**$ 379,835,000**
San Diego County Pension Obligations	**100.**	**720,855,256**[1]
San Diego County Superintendent of School Obligations	100.	16,125,000
Community College District Certificates of Participation	100.	9,345,000
Poway Unified School District Certificates of Participation	100.	62,498,869
San Marcos Unified School District Certificates of Participation	100.	55,093,327
Other Unified School District Certificates of Participation	100.	86,882,360
High School District Certificates of Participation	100.	115,815,000
Chula Vista City School District Certificates of Participation	100.	141,895,000
Other School District Certificates of Participation	100.	112,553,604
Otay Municipal Water District Certificates of Participation	100.	46,690,000
City of Chula Vista General Fund Obligations	100.	121,650,000
City of Encinitas General Fund Obligations	100.	44,225,000
City of San Diego General Fund Obligations	100.	546,930,000
City of Vista General Fund Obligations	100.	111,655,000
Other City General Fund Obligations	100.	106,796,600
Special District Certificates of Participation	100.	10,840,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$2,689,685,016
Less: Otay Municipal Water District Certificates of Participation (100% supported)		46,690,000
City of El Cajon General Fund Obligations supported by sales tax revenues		7,710,000
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$2,635,285,016
OVERLAPPING TAX INCREMENT DEBT:		$1,668,877,977
GROSS COMBINED TOTAL DEBT		$14,075,246,277[2]
NET COMBINED TOTAL DEBT		$14,020,846,277

Ratios to 2013-14 Assessed Valuation:

Total Overlapping Tax and Assessment Debt 2.39%
Combined Direct Debt ($1,100,690,256) 0.27%
Gross Combined Total Debt 3.47%
Net Combined Total Debt... 3.45%

Ratios to Redevelopment Incremental Valuation ($40,301,201,855):

Total Overlapping Tax Increment Debt................................ 4.14%

Source: California Municipal Statistics, Inc.

(1) Excludes issue to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

SAN DIEGO COUNTY INVESTMENT POOL

General

The following information concerning the Treasury Pool of San Diego County (the "Treasury Pool") has been provided by the Treasurer. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

The County is required to invest funds in accordance with California Government Code Sections 53635 et seq. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code. All investments in the Treasurer's investment portfolio conform to the statutory requirements of Government Code Section 53635 et seq., authorities delegated by the County Board of Supervisors and the Treasurer's investment policy. 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 pursuant to State law. The 11 members of the Oversight Committee include the County Treasurer, the Auditor and Controller, 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 June 30, 2014, the securities in the Treasury Pool had a market value of $7,262,364,905 and a book value of $7,261,566,614 for a net unrealized gain of $798,291.

The effective duration for the Treasury Pool was 0.78 years as of June 30, 2014. 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. Duration of 0.78 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.78%.

As of June 30, 2014, approximately 8.36% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 11.11% by community colleges, 36.74% by the County, 3.38% by the Non-County and 40.42% by K-12 school districts.

Standard & Poor's Rating Group maintains ratings of "AAAf" (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 Ratings Services, a Standard & Poor's Financial Services LLC business, 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. Monies in the Pool will be invested in compliance 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.

All investments in the Treasurer's investment portfolio conform to the statutory requirements of Government Code Section 53635 et seq., authorities delegated by the Board of Supervisors and the Treasurer's investment policy.

Certain Information Relating to Pool

Table 21 below reflects information with respect to the Pool as of the close of business June 30, 2014. As described above, a wide range of investments is authorized by state law. Investments mature and trading activity is constant. 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 June 30, 2014, the Pool necessarily would have received the values specified.

TABLE 21
TREASURER-TAX COLLECTOR
SAN DIEGO COUNTY PORTFOLIO STATISTICS(1)
(As of June 30, 2014)

	Percent of Portfolio	Weighted Average Maturity	Weighted Average Coupon	Yield to Maturity(2)	Current Par/Share	Book Value	Market Price	Market Value	Accrued Interest	Yield to Worst(3)	Unrealized Gain/Loss
Certificates of Deposit	0.89%	180	180	0.24%	$ 64,363,000	$ 64,363,000	1.000	$ 64,363,000	$ 2,135	0.24%	$ 0
Commercial Paper	18.90	80	80	0.18	1,373,000,000	1,372,412,301	0.999	1,371,989,930	0	0.18	(422,371)
Fannie Mae	13.98	1,002	794	0.86	1,014,613,000	1,014,976,535	0.999	1,013,301,522	2,326,700	0.84	(1,675,013)
Federal Farm Credit Bank Notes	1.86	1,191	203	1.25	135,000,000	135,002,383	1.003	135,367,900	252,789	1.25	365,517
Federal Home Loan Bank Notes	14.86	402	208	0.52	1,078,550,000	1,079,879,120	1.002	1,081,195,628	1,946,467	0.48	1,316,508
Federal Home Loan Mortgage Corp Notes	8.93	679	464	0.80	644,093,000	648,664,084	1.008	649,292,708	2,848,887	0.80	628,624
Money Market Funds	7.60	1	1	0.04	551,600,000	551,600,000	1.000	551,740,140	12,244	0.04	140,140
Negotiable CD	27.05	70	70	0.18	1,964,000,000	1,964,006,917	1.000	1,964,006,860	899,319	0.18	(57)
Repurchase Agreements	0.01	1		0.02	807,527	807,527	1.000	807,527	0	0.02	0
U.S. Treasury Notes	5.92	815	815	0.87	427,000,000	429,854,747	1.008	430,299,690	1,222,193	0.87	444,943
Totals for June 2014	100.00%	366	264	0.43%	$7,253,026,527	$7,261,566,614	1.001	$7,262,364,905	$ 9,510,734	0.42%	$ 798,291
Totals for May 2014	100.00%	352	256	0.42%	$7,838,426,183	$7,848,345,119	1.002	$7,850,976,406	$10,859,836	0.42%	$ 2,631,287
Change From Prior Month		14	8	0.01	$(585,399,656)	$(586,778,506)	(0.001)	$(588,611,501)	$(1,349,102)	0.00	$(1,832,995)
Portfolio Effective Duration	0.78 years										

	June Return	Annualized	Fiscal Year to Date Return	Annualized	Calendar Year to Date Return	Annualized
Book Value	0.039%	0.473%	0.039%	0.473%	0.216%	0.435%
Market Value	0.039%	0.473%	0.039%	0.473%	0.216%	0.435%

Source: The County.

(1) Yield to maturity (YTM) is the estimated rate of return on a bond given its purchase price, assuming all coupon payments are made on a timely basis and reinvested at this same rate of return to the maturity date.

(2) Yield to call (YTC) is the estimated rate of return on a bond given its purchase price, assuming all coupon payments are made on a timely basis and reinvested at this same rate of return to the call date.

(3) Yield to worst (YTW) is the lesser of yield to maturity or yield to call, reflecting the optionality of the bond issuer.

(4) Yields for the portfolio are aggregated based on the book value of each security.

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 for the area under taxing jurisdiction, or reduced in the event of declining property value caused by substantial damage, destruction or other factors including a general economic downturn. Any reduction in assessed value is temporary and may be adjusted for any given year by the Assessor. The assessed value increases to its pre-reduction level (escalated to the annual inflation rate of no more than two percent) following the year(s) for which the reduction is applied. 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 (i) debt service on indebtedness approved by the voters prior to July 1, 1978, (ii) 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; and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the school district or community college district, but only if certain accountability measures are included in the proposition.

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.

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 June 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, special district, authority or other political subdivision of the State (e.g. local governments) 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 accordingly 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 or for the State, exclusive of certain State subventions for the use and operation of local government, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation of an entity of local government include any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity and the proceeds of certain State subventions to that entity and refunds of taxes. 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 pursuant to which fifty percent (50%) of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount which may be appropriated by the State in compliance with Article XIII B during that fiscal year and the fiscal year immediately following it shall be transferred and allocated, from a fund established for that purpose, pursuant to Article XVI of the State Constitution. In addition, fifty percent (50%) of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount which may be appropriated by the State in compliance with Article XIII B during that fiscal year and the fiscal year immediately following it shall be returned by revising tax rates or fee schedules within the next two subsequent fiscal years. Further, Article XIII B includes a requirement that all revenues received by an entity of government, other than the State, in a fiscal year and in the fiscal year immediately following it that exceed the amount which may be appropriated by that entity in compliance with Article XIII B during that fiscal year and the fiscal year immediately following it shall be returned by revising tax rates or fee schedules within the next two subsequent fiscal years.

As amended in June 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 from the preceding fiscal year, or (ii) the percentage change in the local assessment roll from the preceding fiscal year for the jurisdiction due to the addition of local nonresidential new construction. Pursuant to the Revenue and Taxation Code, the State's Department of Finance annually transmits to each city and each county an estimate of the percentage change in the population of the city or the county.

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 2013-14 of approximately $4.5 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 2013-14 Adopted Budget, the funds subject to limitation total approximately $1.7 billion (total General Operating Budget minus non-proceeds of taxes and debt service) and are approximately $2.8 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 California 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 imposed for specific 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) required 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, was invalid without the required two-thirds voter approval. The decision did not address the question of whether or not it should be applied retroactively.

Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers*

Association v. City of La Habra, et al. ("La Habra"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Proposition 218

On November 5, 1996, the California voters approved Proposition 218, a constitutional initiative entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 adds Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions limiting the ability of local governments, including the County, to impose 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. Further, as described below, Proposition 218 provides for broad initiative powers to reduce or repeal local taxes, assessments, fees and charges. However, other than any impact resulting from the exercise of this initiative power, the County does not presently believe that the potential impact on the financial condition of the County as a result of the provisions of Proposition 218 will adversely affect the County's ability to pay principal of and interest on the Series 2014 Certificates and perform its other obligations as and when due.

Article XIII C requires that all new, extended, or increased local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the County require a majority vote of the electorate and taxes for specific purposes, even if deposited in the County's General Fund, require a two-thirds vote of the electorate. 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 the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power is not limited by the terms of Proposition 218 to local taxes, assessments, fees or charges imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges.

The repeal of local taxes, assessments, fees or charges could be challenged as a violation of the prohibition against impairing contracts under the contract clause of the United States Constitution. Subsequent to the amendment of Article XIII C, the State Legislature approved SB 919 (the "Proposition 218 Omnibus Implementation Act"), which directed 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 are or will be deposited into the County's General Fund. Further, "fees" and "charges" are not defined in Article XIII C or Proposition 218 Omnibus Implementation Act, 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, as described below.

Accordingly, the scope of the initiative power under Article XIII C could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIII C, by its terms, applies to all local taxes, assessments, fees and charges and is not limited to local taxes, assessments, fees and charges that are property related. The County is unable to predict whether the courts will interpret the initiative provision to be limited to property related fees and charges. No assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the County's General Fund. The County believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the County, including its General Fund, would be materially adversely affected. As a result, there can be no assurances that the County would be able to pay the principal of and interest on the Series 2014 Certificates as and when due or any of its other obligations payable from the County General Fund.

Article XIII D added several requirements that generally made it more difficult for local agencies, such as the County, to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined in Proposition 218 and the Proposition 218 Omnibus Implementation Act (as enacted in Government Code Section 53750) to mean any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in County service areas and in special districts. In most instances, in the event that the County is unable to collect assessment revenues relating to specific programs as a consequence of Proposition 218, the County will curtail such services rather than use amounts in the General Fund to finance such programs. Accordingly, the County anticipates that any impact Article XIII D may have on existing or future taxes, fees, and assessments will not adversely affect the ability of the County to pay the principal of and interest on the Series 2014 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 to avoid new costs for the County General Fund in the event the assessments that presently finance them are reduced or repealed.

Article XIII D also adds several provisions affecting "fees" and "charges" which are defined as "any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by an agency [subdivision (a) of Section 2 of Article XIII D defines an agency as any local government as defined in subdivision (b) of Section 1 of Article XIIIC] upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new fees and charges and, after June 30, 1997, all existing property related fees and charges that are extended, imposed or increased must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire, ambulance or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase of such property-related fee or charge, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the County, two-thirds voter approval by the electorate residing in the affected area. The annual amount of revenues that are received by the County and deposited into its General Fund which may be considered to be property related fees and charges under Article XIII D of Proposition 218 is not substantial. Accordingly, the County does not presently anticipate that any impact Article XIII D may have on future fees and charges will adversely affect the ability of the County to pay the principal of and interest on the Series 2014 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 to avoid new costs for the County General Fund 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 amend and 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 ("Proposition 1A"), proposed by the Legislature as a Senate Constitutional Amendment in connection with the 2004-05 Budget Act and approved by California 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 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 Legislature. Proposition 1A provides that 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 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 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. The State's ability to initiate future exchanges and shifts of funds will be limited by Proposition 22. See " – Proposition 22" below.

Proposition 22

Proposition 22 ("Proposition 22"), which was approved by California voters in November 2010, prohibits the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services and prohibits fuel tax revenues from being loaned for cash-flow or budget balancing purposes to the State General Fund or any other State fund. Due to the prohibition with respect to State's ability to take, reallocate, and borrow money raised by local governments for local purposes, Proposition 22 supersedes certain provisions of Proposition 1A of 2004. See " – Proposition 1A" herein. In addition, Proposition 22 generally eliminates the State's authority to temporarily shift property taxes from cities, counties, and special districts to schools, temporarily increase school and community college district's share of property tax revenues, prohibits the State from borrowing or redirecting redevelopment property tax revenues or requiring increased pass-through payments thereof, and prohibits the State from reallocating vehicle license fee revenues to pay for State-imposed mandates. In addition, Proposition 22 requires a two-thirds vote of each house of the State Legislature and a public hearing process to be conducted in order to change the amount of fuel excise tax revenues shared with cities and counties.

Proposition 22 prohibits the State from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local government except pursuant to specified procedures involving public notices and hearings. In addition, Proposition 22 requires that the State apply the formula setting forth the allocation of State fuel tax revenues to local agencies revert to the formula in effect on June 30, 2009. The LAO anticipates that Proposition 22 will require the State to adopt alternative actions to address its fiscal and policy objectives, particularly with respect to short-term cash flow need. The County does not believe that the adoption of Proposition 22 will have a significant impact on its revenues and expenditures during Fiscal Year 2014-15.

Proposition 26

Proposition 26 ("Proposition 26"), which was approved by California voters on November 2, 2010, revises the California Constitution to expand the definition of "taxes." Proposition 26 re-categorizes many State and local fees as taxes and specifies a requirement of two-thirds voter approval for taxes levied by local governments.

Proposition 26 requires the State obtain the approval of two-thirds of both houses of the State Legislature for any proposed change in State statutes, which would result in any taxpayer paying a higher tax. Proposition 26 eliminates the previous practice whereby a tax increase coupled with a tax reduction that resulted in an overall neutral fiscal effect was subject only to a majority vote in the State Legislature. Furthermore, pursuant to Proposition 26, any increase in a fee above the amount needed to provide the specific service or benefit is deemed to be a tax and the approval thereof will require such two-thirds vote of approval to be effective. In addition, for State imposed fees and charges, any fee or charge adopted after January 1, 2010 with a majority vote of approval of the State Legislature which would have required a two-thirds vote of approval of the State Legislature if Proposition 26 were effective at the time of such adoption is repealed as of November 2011 absent the re-adoption by the requisite two-thirds vote.

Proposition 26 amends Article XIII C of the State Constitution to state that a "tax" means a levy, charge or exaction of any kind imposed by a local government, except (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property or the purchase rental or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government as a result of a violation of law; (6) a charge imposed as a condition of property development; or (7) assessments and property related fees imposed in accordance with the provisions of Proposition 218. See " – Proposition 218") herein.

Proposition 26 applies to any levy, charge or exaction imposed, increased, or extended by local government on or after November 3, 2010, unless exempted, as stated above. Accordingly, fees adopted prior to that date are not subject to the measure until they are increased or extended or if it is determined that an exemption applies. As of the date hereof, none of the County's fees or charges has been challenged in a court of law in connection with the requirements of Proposition 26.

If the local government specifies how the funds from a proposed local tax are to be used, the approval will be subject to a two-thirds voter requirement. If the local government does not specify how the funds from a proposed local tax are to be used, the approval will be subject to a fifty percent voter requirement. Proposed local government fees that are not subject to Proposition 26 generally are subject to the approval of a majority of the governing body. In general, proposed property charges will be subject to a majority vote of approval by the governing body although certain proposed property charges will also require approval by a majority of the affected property owners.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, Proposition 111, Proposition 1A, Proposition 62, Proposition 22, 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 State budget may be found at the Department of Finance website, www.dof ca.gov, under the heading "California Budget." An impartial analysis of the State's budget is posted by the Legislative Analyst's Office (the "LAO") at www.lao.ca.gov. In addition, certain 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 and the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System, emma.msrb.org. The information referred to on the website of the State Treasurer is prepared by the State and not by the County or the Underwriters, and the County and the Underwriters take no responsibility for the continued accuracy of the internet address of the State Treasurer or for the accuracy, if any, or timeliness of information posted there, and such information is not incorporated herein by these references.

State Budget for Fiscal Year 2013-14

On June 28, 2013, the Governor approved the State Budget Act for Fiscal Year 2013-14 (the "2013-14 State Budget Act"), which projected Fiscal Year 2012-13 general fund revenues and transfers of $98.20 billion, total expenditures of $95.67 billion and a year-end surplus of $872 million (net of the $1.66 billion deficit from Fiscal Year 2011-12), of which $618 million would be reserved for the liquidation of encumbrances and $254 million would be deposited in a reserve for economic uncertainties. The 2013-14 State Budget Act projected Fiscal Year 2013-14 general fund revenues and transfers of $97.10 billion, total expenditures of $96.28 billion and a year-end surplus of $1.69 billion (inclusive of the projected $872 million State General Fund balance as of June 30, 2013 which would be available for Fiscal Year 2013-14), of which $618 million would be reserved for the liquidation of encumbrances and $1.07 billion would be deposited in a reserve for economic uncertainties. The 2013-14 State Budget Act stated that the State's budget was projected to remain balanced for the foreseeable futures, but cautions that substantial risks, uncertainties and liabilities remain. The 2013-14 State Budget Act dedicated several billion dollars to the repayment of previous budgetary borrowing and projected that outstanding budgetary borrowing would be reduced to approximately $4.7 billion as of June 30, 2017 from $26.9 billion as of June 30, 2013.

Features of the 2013-14 State Budget Act affecting counties in general include, but are not limited to, the following:

1. The 2013-14 State Budget Act reflected the State's participation in the federal reform of health care pursuant to the ACA and implementation of the State's health benefit exchange known as Covered California. The 2013-14 State Budget Act adopted the federally required rules for Medi-Cal eligibility, enrollment and retention. In addition, the State extended Medi-Cal coverage to include a new coverage group consisting of adults and parent/caretaker relatives with incomes of up to 138% of the federal poverty level. Pursuant to the 2013-14 State Budget Act, certain health care programs such as substance abuse disorder services will be administered by the counties.

2. The 2013-14 State Budget Act provided county welfare departments up to $120 million in additional General Funds to accommodate new workload associated with implementing the ACA. The Governor projected that in Fiscal Year 2015-16, the State will implement a new budgeting methodology developed in consultation with counties and based on a zero-base review of all Medi-Cal related county administrative activities.

3. The 2013-14 State Budget Act projected that county costs and responsibilities for indigent health care would decrease in connection with the health care reform as uninsured individuals obtain health care coverage. Pursuant to the 2013-14 State Budget Act the twelve public hospital counties and the twelve non-public health/non-County medical service program counties would have the option to select one of two mechanisms by December 2013 with respect to county health care costs and revenues for Medi-Cal beneficiaries and the uninsured.

4. Under the current law, counties received funds to provide healthcare services to low-income, uninsured residents as part of a realignment of services that was implemented in 1991. Pursuant to the 2013-14 State Budget Act, the State shifted up to $300 million from counties to the State during fiscal year 2013-14. Counties would have the option to select one of two formulas to determine the amount of healthcare savings to be shared with the State. However, the 2013-14 State Budget Act projected that the State will receive the majority of the healthcare savings.

5. The 2013-14 State Budget Act approved proposals to reform the CalWORKs program including, among other things, a prospective 24-month time limit on cash assistance and employment services for adults. The 2013-14 State Budget Act included an increase of $142.8 million in the State's General Fund in fiscal year 2013-14 to improve employment services. Pursuant to the 2013-14 State Budget Act, counties would enhance and expand their array of employment services and job development activities for program participants, and intensify case management efforts for individuals not currently participating in activities that would eventually lead to self-sufficiency.

6. The 2013-14 State Budget Act estimated that counties would receive the aggregate amount of approximately $1.4 billion in new general purpose revenues during Fiscal Years 2012-13 and 2013-14 in connection with the dissolution of redevelopment agencies in the State. Further, the 2013-14 State Budget Act projected that counties, cities and special districts would receive approximately $675 million annually in unrestricted funds which can be allocated to public services.

State Budget for Fiscal Year 2014-15

On June 20, 2014, the Governor approved the State Budget Act for Fiscal Year 2014-15 (the "2014-15 State Budget Act"), which projects Fiscal Year 2013-14 general fund revenues and transfers of $102.2 billion, total expenditures of $100.7 billion and a year-end surplus of $3.90 billion (inclusive of the $2.4 billion fund balance in the General Fund from fiscal year 2012-13), of which $955 million would be reserved for the liquidation of encumbrances and $2.95 billion would be deposited in a reserve for economic uncertainties. The 2014-15 State Budget Act projects Fiscal Year 2014-15 General Fund revenues and transfers of $105.5 billion, total expenditures of $108.0 billion and a year-end surplus of $1.40 billion (inclusive of the projected $3.90 million State General Fund balance as of June 30, 2014 which would be available for Fiscal Year 2014-15), of which $955 million would be reserved for the liquidation of encumbrances and $449 million would be deposited in a reserve for economic uncertainties. The 2014-15 State Budget Act projects that the State's multi-year budget will be balanced for the foreseeable future, but cautions that the unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade contribute to the State's fiscal challenges.

The Fiscal Year 2014-15 State Budget includes the constitutional amendment placed by the State Legislature on the November 2014 ballot proposing to change the formula by which the Rainy Day Fund is funded and to establish certain accounts therein. See "State Funding of Education – State Budget – Fiscal Year 2014-15 Proposed State Budget" and " – May Revision to the Proposed State Budget" herein. The Governor expects that the amendment, if approved by voters, will help the State minimize the volatility of future budgetary surplus and deficit cycles.

Features of the 2014-15 State Budget Act affecting counties in general include, but are not limited to, the following:

1. The 2014-15 State Budget Act continues to suspend all mandates suspended in the current year. The State estimates that it owes to counties, cities, and special districts approximately $900 million relating to mandate costs which were incurred prior to 2004. In accordance with State law, the State must repay such amounts by Fiscal Year 2020-21. The 2014-15 State Budget Act appropriates $100 million to local governments in Fiscal Year 2014-15. The State expects to allocate approximately 73% of this amount to counties, 25% to cities and 2% to special districts. The State expects that these amounts will be applied to fund local government services such as public safety and the implementation of the 2011 Public Safety Realignment. In addition, the 2014-15 State Budget Act provides that additional funds, in an amount not to exceed $800 million, will be provided if the State's estimated General Fund revenues for Fiscal Years 2013-14 and 2014-15 exceed the estimate set forth in the 2014-15 State Budget Act and sufficient moneys remain after payment of the Proposition 98 minimum guarantee for schools. The Fiscal Year

2. The 2014-15 State Budget Act includes an appropriation of approximately $351 million for loan repayments from the State's General Fund. The appropriation includes approximately $100 million for cities and counties for local streets and roads. The State expects that the majority of the remaining repayments will be allocated to pavement rehabilitation, maintenance projects on the State highway system and traffic management projects.

3. The 2014-15 State Budget Act estimates that in Fiscal Years 2011-12 and 2012-13 combined, cities received $620 million, counties receives $875 million, and special districts received $310 million in connection with the dissolution of redevelopment agencies in the State. The 2014-15 State Budget Act estimates that cities will receive approximately $593 million, counties will receive approximately $731 million and special districts will receive approximately $227 million in general purpose revenues in Fiscal Year 2013-14 and 2014-15 combined.

4. In connection with the State's water shortage, the 2014-15 State Budget Act notes that the State Legislature enacted emergency legislation in February 2014 to assist communities impact by the drought and improve management of water supplies. The State's legislation included, among other things, an allocation of approximately $549 million of bond proceeds for infrastructure grants for local and regional projects. In addition, the State has approved approximately $21 million of special funds and federal funds for the Department of Housing and Community Development and $25 million for the Department of Social Services for housing assistance and food assistance, respectively, to individuals impacted by the drought.

5. In connection with the 2014-15 State Budget Act, the Governor approved a trailer bill which authorizes approximately $500 million of lease revenue bond financing authority for the acquisition, design, and construction of local criminal justice facilities. Such authority will supplement the existing lease revenue bond authority provided by Assembly Bill 900 (2007) and Senate Bill 1022 (2012). The Governor expects these bond proceeds to be used for prove housing and to expand program and treatment space for the adult offender population. Recipients of the bond proceeds may use such amounts to replace existing housing capacity subject to certain conditions.

6. In connection with the 2014-15 State Budget Act, the Governor approved legislation which makes a "split-sentence" the default sentence for realigned offenders unless a court finds, in the interest of justice, that it is not appropriate in a particular case. Under a split-sentence, offenders serve a portion of their terms outside of jail. By increasing the number of offenders who receive split sentences, the State expects that probation departments will have a greater number of offenders under their supervision.

7. The State expects that there will be a temporary increase in the average daily population of offenders on post-release community supervision due to, among other things, additional credits earned by certain offenders. Accordingly, the 2014-15 State Budget Act allocates approximately $11.3 million for county probation departments to supervise such offenders. Pursuant to the 2011 Public Safety Realignment, the Governor expects that many of these offenders will be released to post-release community supervision which is a responsibility of county probation departments.

8. The 2014-15 State Budget Act provides funding for the Community Corrections Performance Incentive Grant Program in the amount of $124.8 million. The grant program will provide funds for county probation departments that have reduced the number of adult felony probationers going to county jail or State prison. In addition, the 2014-15 State Budget Act includes $8 million in one-time funding for each county relating to recidivism reduction (the "Community Recidivism Reduction Grants"). The State will require counties that receive such funds to provide Community Recidivism Reduction Grants to nongovernmental entities engaged in these areas less administrative costs.

9. The 2014-15 State Budget Act allocates $20 million for community reentry programs for mentally ill offenders who are within six to twelve months of release. These programs provide services to assist such offenders as the reintegrate into the community. Programs include, among other things, work training, education, living skills and substance use disorder and mental health treatment. In addition, the

2014-15 State Budget Act allocates $18 million for a competitive grant program seeking to reduce crimes committed by mentally ill individuals.

10. In connection with the State's 2011 Public Safety Realignment program, the State shifted the responsibility for trial court security costs to counties and allocated funding based on historical court security expenditures. The 2014-15 State Budget Act appropriates approximately $1 million of General Fund moneys for increased trial security costs, if any, relating to certain new court facilities if such facility requires an increased level of security compared to the former facility.

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 2013-14 Adopted Budget and the Operational Plan" herein.

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 expansion plans reportedly include an additional 80,000 square-feet ballroom, 101,000 square-feet of meeting room space and an additional 225,000 square-feet of exhibit space. The Convention Center generated approximately $1.3 billion in fiscal year 2012-13 in total economic impact (direct and indirect spending) and $19.2 million in total tax revenues.

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 2004 through 2014.

TABLE 22
POPULATION ESTIMATES
(In Thousands)
(Calendar Years 2004-2014)

Year	San Diego County(1)	Percent Change	State of California(1)	Percent Change	United States(1)	Percent Change
2004	2,963	0.66%	35,753	1.03%	293,655	1.0%
2005	2,970	0.23	35,986	0.65	296,410	0.9
2006	2,983	0.43	36,247	0.73	299,398	1.0
2007	3,014	1.05	36,553	0.84	301,621	1.0
2008	3,051	1.23	36,856	0.83	304,060	0.9
2009	3,078	0.86	37,077	0.60	307,007	0.9
2010	3,105	0.88	37,318	0.65	309,330	0.8
2011	3,125	0.73	37,570	0.70	311,592	0.7
2012	3,147	0.70	37,826	0.68	313,914	0.7
2013	3,150	0.70	37,966	0.80	316,129	0.7
2014	3,194	0.70	38,340	0.90	317,961	0.5

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

(1) As of July 1 of the year shown, except for 2014 data, which is as of January 1.

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 2009 through 2013.

TABLE 23
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
ANNUAL AVERAGES 2009-2013[(1)]
By Place of Residence
(In Thousands)

	2009	2010	2011	2012	2013
San Diego County					
Labor Force	1,555	1,574	1,582	1,594	1,590
Employment	1,406	1,408	1,424	1,453	1,470
Unemployment	149	166	159	142	120
Unemployment Rate	10%	11%	10%	9%	8%
State of California					
Labor Force	18,220	18,336	18,418	18,519	18,596
Employment	16,155	16,068	16,250	16,560	16,933
Unemployment	2,065	2,268	2,168	1,929	1,664
Unemployment Rate	11%	12%	12%	10%	9%
United States					
Labor Force	154,142	153,889	153,617	154,975	155,389
Employment	139,878	139,064	139,869	142,469	143,930
Unemployment	14,265	14,825	13,748	12,506	11,460
Unemployment Rate	9%	10%	9%	8%	7%

Sources: County and State Data – California Employment Development Department; National Data – U.S. Department of Labor, Bureau of Labor Statistics.
(1) Data is 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 June 2014 was 1,590,800, of which approximately 96,500 persons were unemployed. Based on preliminary estimates of the EDD as of July 18, 2014, the County's unemployment rate in June 2014 of 6.1%, on a non-seasonally unadjusted basis, was below that of the State at 7.3%.

Table 24 below sets forth the annual average employment within San Diego County by employment sector, other than farm industries, for 2009 through 2013.

TABLE 24
SAN DIEGO COUNTY
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES 2009-2013
(In Thousands)

	2009	2010	2011	2012	2013
Employment Sector					
Mining and Logging	0.4	0.4	0.4	0.4	0.4
Construction	61.1	55.3	55.2	56.9	61.2
Manufacturing	95.3	92.9	93.1	94.3	94.6
Trade, Transportation and Utilities	199.5	197.3	200.8	207.7	212.3
Information	28.2	25.1	24.2	24.5	24.1
Financial Activities	69.8	67.2	67.5	70.1	71.4
Professional and Business Services	206.8	207.7	209.8	216.2	222.6
Educational and Health Services	158.2	159.5	162.8	170.4	179.3
Leisure and Hospitality	154.8	154.5	155.6	161.7	167.5
Other Services	46.8	46.1	47.6	49.1	49.2
Government	224.5	230.4	229.0	227.8	229.5
Total(1)	1,255.6	1,246.9	1,255.7	1,289.0	1,321.8

Source: California Employment Development Department, March 2013 Benchmark.
(1) Reflects independent rounding.

Largest Employers

Table 25 below sets forth the ten largest employers in the County as of July 1, 2013.

TABLE 25
SAN DIEGO COUNTY
Ten Largest Employers
(As of July 1, 2013)

Employer	Description	Number of local employees
State of California	Administration of state functions, services, agencies	40,800
UC San Diego	Higher education, research, health care	27,832
Sharp HealthCare	Health care, hospitals, medical groups, health services and health plans	15,960
County of San Diego	Municipal, regional government services	15,667
Scripps Health	Hospitals, medical offices, clinics, home health services and ambulatory services	14,381
Qualcomm Inc.	Develops and delivers digital wireless communications products and services	13,400
City of San Diego	Municipal government, public agency	10,306
Kaiser Permanente	Nonprofit health maintenance hospital, outpatient medical, urgent care and medical offices	7,800
General Atomics (and affiliated companies)	Defense and energy systems services	7,668
UC San Diego Health System	Academic health system	6,132

Source: San Diego Business Journal Book of Lists (2014).

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 2008 through 2012.

TABLE 26
SAN DIEGO COUNTY
GROSS DOMESTIC PRODUCT
2008-2012

Year	Gross Domestic Product (In Billions)	Annual Percent Change Current Dollars San Diego
2008	$167.7	1.03%
2009	163.6	(2.44)
2010	163.9	0.14
2011	169.9	3.67
2012	177.4	4.43

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; reflects data as of September 2013.

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. It is estimated that the military and defense industries contributed approximately $24.6 billion to the regional economy during Fiscal Year 2013. There is some uncertainty related to the impacts of sequestration and the across-the-board federal spending cuts that might affect the regional economy. 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 2013 increased relative to 2012 levels. Table 27 below sets forth the annual total building permit valuation and the annual new housing permit total from 2008 through 2013.

TABLE 27
COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
2008-2013
(In Thousands)

	2008	2009	2010	2011	2012	2013
Valuation:						
Residential	$1,339,245	$ 878,700	$ 973,856	$ 1,399,587	$ 1,609,782	$ 2,065,396
Non-Residential	1,061,802	583,969	659,150	1,006,211	1,235,808	1,387,917
Total	$2,401,047	$ 1,462,669	$ 1,633,006	$ 2,405,798	$ 2,845,590	$ 3,453,313
New Housing Units:						
Single Family	2,352	1,786	2,221	2,242	2,100	2,613
Multiple Family	2,802	1,204	1,121	3,038	4,319	5,835
Total	5,154	2,990	3,342	5,280	6,419	8,448

Source: Construction Industry Research Board (2008-10); California Homebuilding Foundation (2011-13).

Commercial Activity

Table 28 below sets forth information regarding taxable sales in San Diego County for calendar years 2007 and 2008. Table 29 below sets forth the taxable sales in the County for calendar years 2009 through 2012. Due to a revision in the business categories used by the Board of Equalization, the data for calendar years 2007 and 2008 are not directly comparable to the data for subsequent years, with calendar years 2009 through 2012 requiring a substantial change in presentation.

TABLE 28
SAN DIEGO COUNTY
TAXABLE SALES
2007 and 2008
(In Thousands)

Type of Business	2007[1]	2008[1]
Apparel Stores	$ 2,034,512	$ 2,205,568
General Merchandise	5,673,538	5,305,252
Specialty Stores[2]	--	--
Food Stores	1,994,237	1,868,466
Eating and Drinking Establishments	4,784,500	4,869,497
Home Furnishings/Appliances	1,420,933	1,590,329
Building Materials	2,768,385	2,183,006
Automotive[3]	6,321,987	5,010,084
Service Stations[3]	3,755,121	4,154,465
Other Retail Stores[2]	5,285,332	4,529,006
Business and Personal Services	2,298,265	2,255,309
All Other Outlets	11,149,178	11,358,155
TOTAL ALL OUTLETS:	$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 Years 2009 - 2012

Type of Business	2009	2010	2011	2012
Retail and Food Services:				
Motor Vehicle and Parts Dealers	$ 4,196,256	$ 4,486,375	$ 5,059,516	$ 5,851,723
Furniture & Home Furnishings Stores	823,551	835,433	894,741	962,420
Electronics & Appliance Stores	1,200,897	1,266,563	1,315,328	1,262,183
Building Materials and Garden Equipment				2,204,608
and Supplies	1,841,740	1,945,310	2,072,358	
Food and Beverage Stores	1,934,812	1,943,969	2,010,404	2,087,821
Health & Personal Care Stores	732,221	789,760	869,965	876,663
Gasoline Stations	3,153,090	3,663,149	4,437,173	4,595,421
Clothing and Clothing Accessories Stores	2,560,683	2,769,897	2,988,756	3,208,810
Sporting Goods, Hobby, Book & Music Stores	989,236	995,179	1,009,226	1,003,947
General Merchandise Stores	4,254,037	4,381,526	4,528,053	4,695,436
Miscellaneous Store Retailers	1,405,774	1,384,312	1,433,298	1,473,767
Food Services and Drinking Places	4,717,292	4,873,578	5,214,419	5,665,929
Nonstore Retailers	148,931	140,437	152,055	265,508
Total Retail and Food Services	$27,958,518	$29,475,489	$ 31,985,292	$ 34,153,236
All Other Outlets	11,770,139	$12,148,147	$ 13,105,090	$ 13,793,799
Totals All Outlets	$39,728,657	$41,623,636	$ 45,090,382	$ 47,947,035

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 2008 and 2012.

TABLE 30
MEDIAN HOUSEHOLD INCOME(1)
2008 through 2012

Year	San Diego County	California	United States
2008	63,026	61,021	52,029
2009	60,231	58,931	50,221
2010	59,923	57,708	50,046
2011	59,477	57,287	50,502
2012	60,330	58,328	51,371

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

Foreclosures; Notices of Loan Default

As of the end of calendar year 2013, the number of foreclosures and notice of loan defaults issued in San Diego County have declined since 2008 and 2009 by 83% and 80%, respectively. For the three calendar years from 2011 through 2013, an average 51% of notices of loan default resulted in foreclosures and an average of 6% of all deeds recorded were foreclosures. The number of defaults and foreclosures in recent history 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 2004 through May 30, 2014.

TABLE 31
NOTICES OF DEFAULT AND FORECLOSURES
Calendar Years 2004 through 2014

Calendar Year	Notices of Default	Foreclosures
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
2011	22,101	12,216
2012	16,597	7,195
2013	7,614	3,236
2014(1)	2,467	1,007

Source: County of San Diego Assessor/Recorder/County Clerk.
(1) Year-to-date figure as of May 30, 2014.

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 convention and visitor industry generated an estimated economic impact of $17.1 billion in 2011 according to an estimate by the San Diego Convention and Visitors Bureau (the "Visitors Bureau"). The Visitors Bureau also reported that the San Diego Convention Center events attracted more than 566,000 people and 74 out-of-town conventions and trade shows in 2011.

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, 2013

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MGO Certified Public Accountants.

San Diego
225 Broadway, Suite 1750
San Diego, CA 92101
619.573.1112

Sacramento

Walnut Creek

Oakland

LA/Century City

Newport Beach

Seattle

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of San Diego, California

Report on the Financial Statements

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 fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the First 5 Commission of San Diego (Commission), the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Commission, is based solely 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying introductory section, the combining and individual fund information and other supplementary information, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund information and other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Diego, California
November 15, 2013

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, 2013.

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 2013 by $4.24 billion (net position). Of this amount, $3.03 billion represents net investment in capital assets (capital assets net of related debt); $620 million is restricted for specific purposes (restricted net position); and the remaining portion represents unrestricted net position of $595 million.
- Total net assets increased by $214.9 million. For governmental activities, capital assets and current and other assets increased by $82.4 million and $59.4 million, respectively, while long-term liabilities and other liabilities decreased by $24.5 million, and $50.2 million, respectively. For business-type activities, capital assets increased by $4.3 million, offset by a decrease in current and other assets of $4.5 million, while long-term liabilities decreased by approximately $300 thousand, offset by an increase of other liabilities of about $1.7 million.
- General revenues for governmental activities were $1.03 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for $891 million or 86%; while other taxes, sales and uses taxes, investment earnings and other general revenues accounted for $141 million or 14%.
- Program revenues for governmental activities were $3.0 billion. Of this amount, $2.47 billion or 82% was attributable to operating grants and contributions while charges for services accounted for $497 million or 17%.
- The total expenses for governmental activities were $3.81 billion. Public assistance accounted for $1.18 billion or 31%, while public protection accounted for $1.24 billion or 32% of this amount. Additionally, health and sanitation accounted for $851 million or 22%.

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

The *Statement of Activities* presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position 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 and individual fund information and other 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 and individual fund information and other 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 and individual fund information and other 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 Position

June 30, 2013 and 2012
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
ASSETS						
Current and other assets	$ 3,281,461	3,222,021	84,566	89,070	3,366,027	3,311,091
Capital assets	3,213,097	3,130,675	168,476	164,187	3,381,573	3,294,862
Total assets	6,494,558	6,352,696	253,042	253,257	6,747,600	6,605,953
LIABILITIES						
Long-term liabilities	2,024,442	2,048,905	1,470	1,734	2,025,912	2,050,639
Other liabilities	475,185	525,421	2,957	1,301	478,142	526,722
Total liabilities	2,499,627	2,574,326	4,427	3,035	2,504,054	2,577,361
NET POSITION						
Net investment in capital assets	2,861,061	2,770,556	167,430	162,874	3,028,491	2,933,430
Restricted	619,855	553,422			619,855	553,422
Unrestricted	514,015	454,392	81,185	87,348	595,200	541,740
Total net position	$ 3,994,931	3,778,370	248,615	250,222	4,243,546	4,028,592

Analysis of Net Position

Net position may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by $4.24 billion at the close of fiscal year 2013, an increase of $214.9 million or 5.1% over fiscal year 2012. This included an increase of approximately $120 million in the County's restricted and unrestricted net position (an 11% increase over fiscal year 2012) and an increase of $95 million in net investment in capital assets (a 3% increase over fiscal year 2012).

The aforementioned increase of $214.9 million in net position was composed of the following changes in total assets and liabilities:

- Total assets increased by $141.6 million. This included an increase of $54.9 million in current and other assets and an $86.7 million increase in capital assets. The net increase of $54.9 million 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 $81.7 million, a decrease of $2 million in receivables, net (excluding property taxes), a $22.4 million decrease in property taxes receivables, net, and a $2.4 million decrease in other assets. The $81.7 million net increase in cash is principally due to a $2 million decrease in receivables, net (excluding property taxes), a $22.4 million decrease in property taxes receivables, net, a $1.6 decrease in lease receivable, a $2.3 million decrease in accounts payable, a $1.5 million increase in accrued payroll, a $47.41 million decrease in unearned revenue, all of which have the net effect of decreasing cash; offset by increases to cash mainly attributable to $29.91 million in proceeds of the San Diego County Capital Asset leasing Corporation 2012 Cedar and Kettner Development Project Certificate of Participation debt issuance, and a $74 million increase in realignment monies. The $2 million decrease in receivables, net is principally due to a decrease of $6.3 million in amounts due from other governments, coupled with an $800 thousand increase in loans receivable, and a $3.5 million increase in other accounts receivables. The $22.4 million decrease in property taxes receivables, net was principally attributable to a decrease in delinquent secured taxes. The increase in capital assets was due in part to $49.9 million of the Women's Detention Facility in Santee; $28.1 million towards acquisition of equipment; $7 million towards acquisition of land, and $1.7 in various other capital asset increases.
- Total liabilities decreased by $73.3 million. This included a decrease in long-term liabilities of $24.7 million coupled with a decrease in other liabilities of $48.6 million. The decrease of $24.7 million in long-term liabilities was mainly due to a $44.6 million decrease in long-term debt (see Long-Term Liabilities discussion), offset by a net $19.9 million increase in other long-term liabilities (including a $17.7 million increase in claims and judgments, a $406 thousand increase in pollution remediation liabilities, and a $1.79 million increase in other long-term liabilities). The decrease in other liabilities of $48.6 million was primarily due to a $47.41 million decrease in unearned revenue, a $2.3 million decrease in accounts payable ($4.3 million increase vendors payable, offset by a $6.6 million decrease in due to other government agencies and other payables), and an approximately $390 thousand decrease in accrued interest; offset by a $1.5 million increase in accrued payroll.

The largest portion of the County's net position (71%) reflects its investment of $3.03 billion in capital assets, net of related debt (which includes: land, easements, buildings and improvements, equipment, software and infrastructure; 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 position, i.e. restricted net position equaled $620 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 $595 million in unrestricted net assets.

Table 2

Changes in Net Position

For the years ended June 30, 2013 and 2012
(In Thousands)

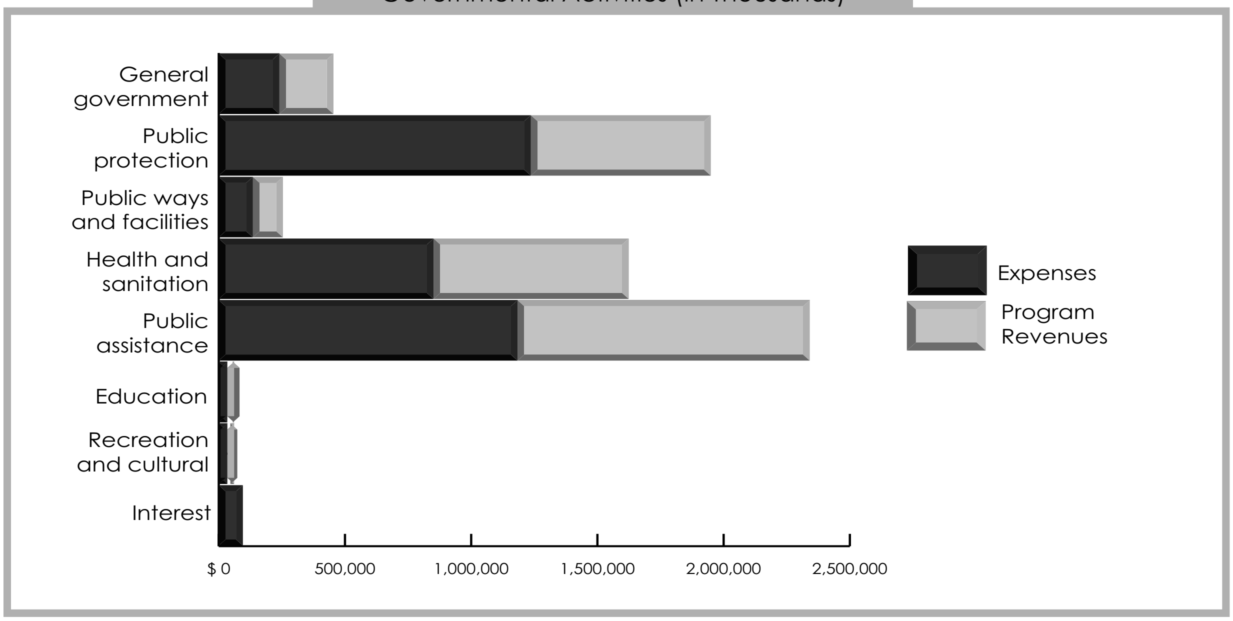
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues						
Charges for services	$ 496,775	506,355	36,202	36,476	532,977	542,831
Operating grants and contributions	2,467,966	2,317,522	4,933	539	2,472,899	2,318,061
Capital grants and contributions	32,728	11,005			32,728	11,005
General Revenues						
Property taxes	587,145	616,183			587,145	616,183
Other taxes	20,912	17,200			20,912	17,200
Property taxes in lieu of vehicle license fees	303,646	304,614			303,646	304,614
Sales and use taxes	24,809	18,222			24,809	18,222
Investment earnings	3,504	12,338	46	1,151	3,550	13,489
Other	90,789	117,509	123	209	90,912	117,718
Total revenues	4,028,274	3,920,948	41,304	38,375	4,069,578	3,959,323
Expenses:						
Governmental Activities:						
General government	240,409	271,485			240,409	271,485
Public protection	1,236,708	1,179,815			1,236,708	1,179,815
Public ways and facilities	135,432	132,166			135,432	132,166
Health and sanitation	851,246	790,907			851,246	790,907
Public assistance	1,183,923	1,175,678			1,183,923	1,175,678
Education	34,104	34,669			34,104	34,669
Recreation and cultural	34,204	36,128			34,204	36,128
Interest	95,801	102,338			95,801	102,338
Business-type Activities:						
Airport			14,107	12,736	14,107	12,736
Sanitation district			22,936	22,335	22,936	22,335
Wastewater management			5,754	5,980	5,754	5,980
Total expenses	3,811,827	3,723,186	42,797	41,051	3,854,624	3,764,237
Changes in net position before extraordinary gain and transfers	216,447	197,762	(1,493)	(2,676)	214,954	195,086
Extraordinary gain		10,423				10,423
Transfers	114	(28)	(114)	28		
Change in net position	216,561	208,157	(1,607)	(2,648)	214,954	205,509
Net position at beginning of year	3,778,370	3,570,213	250,222	252,870	4,028,592	3,823,083
Net position at end of year	$ 3,994,931	3,778,370	248,615	250,222	4,243,546	4,028,592

Analysis of Changes in Net Position

At June 30, 2013, changes in net position before transfers equaled $215 million, a $19.9 million or 10% increase from the previous year. Principal revenue sources contributing to the change in net position were operating grants and contributions of $2.47 billion and taxes of $891 million (including: property taxes and property taxes in lieu of vehicle license fees.) These revenue categories accounted for 83% of total revenues. Principal expenses were in the following areas: public assistance, $1.18 billion; public protection, $1.24 billion; and health and sanitation, $851 million. These expense categories accounted for 85% of total expenses.

Chart 1

Expenses and Program Revenues – Governmental Activities (In Thousands)



Governmental activities

At the end of fiscal year 2013, total revenues for the governmental activities were $4.03 billion, while total expenses were $3.81 billion. Governmental activities increased the County's net position by $216.6 million, while the business-type activities change in net position equaled $(1.6 million).

Expenses:

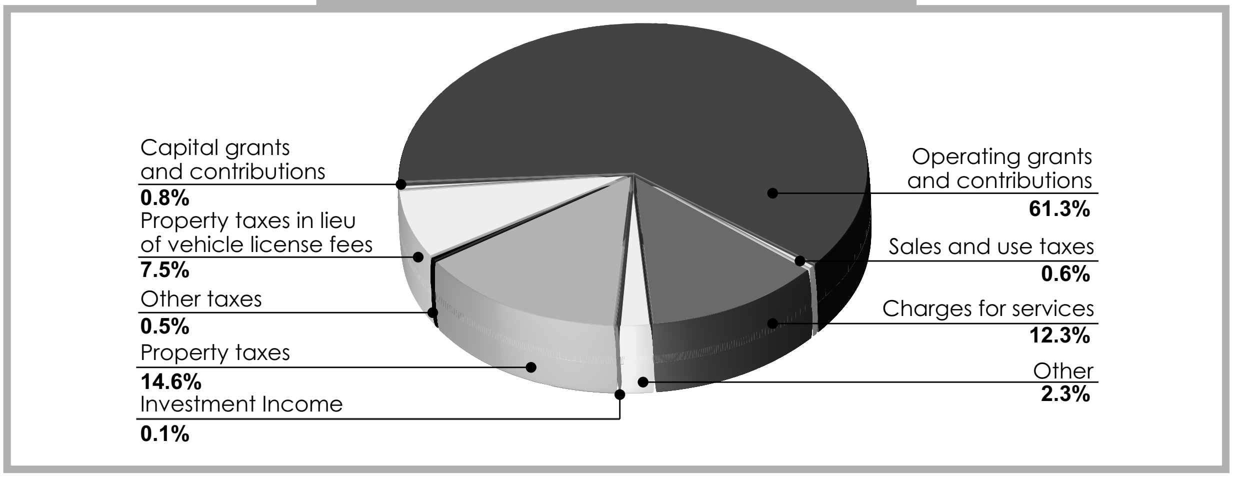
Total expenses for governmental activities were $3.81 billion, an increase of $89 million or 2% ($95 million increase in functional expenses and $6 million decrease in interest expense). Public protection (32%), and public assistance (31%) were the largest functional expenses, followed by health and sanitation (22%).

The $95 million increase in functional expenses consisted of the following:

- $32 million in overall salaries and benefit costs principally due to a net $21 million increase in retirement costs, and $7 million in increased overtime incurred in various departments;
- $51 million net increase in contracted services including: a $39 million net increase in the Low Income Health Program consisting of a $49 million increase attributable to caseload growth, a $9 million increase in various Behavioral Health Services contracts, offset by an $8 million decrease in various Public Health Services contracts, a $7 million decrease in Aging and Independent Services contracts primarily due to reduced hours in the In-Home Supportive Services program, and a $4 million decrease in various health and human services eligibility program contracts; a $7 million increase in medical support and care costs for services provided to the increased number of inmates under California Assembly Bill AB109 realignment; a $4 million increase in Public Safety realignment services including increased contractual costs in several programs; and, a $1 million increase in foster care due to a 2.98 percent increase in foster care rates and the implementation of the Extended Foster Care Program created by California Assembly Bill 12.
- $6 million in mental health related inpatient and outpatient rehabilitation institutional services managed care costs;
- $5 million in depreciation/amortization; and,
- $1 million in Sheriff food services costs.

Chart 2

Revenues By Source - Governmental Activities
(As a Percent)



Revenues:

Total revenues for governmental activities were $4.03 billion, an increase of 2.7% or $107 million from the previous year. This increase consisted of an increase in program revenue of $162 million and a decrease in general revenues of $55 million as follows:

The $162 million increase in program revenue was chiefly due to increases of $188.4 million and decreases of $26.4 million noted below:

Increases in program revenues of $188.4 million were principally composed of the following:

- $74 million in realignment revenues;
- $43 million in aid from Redevelopment Agencies (pre-dissolution)/Successor Agencies (post dissolution);
- $33.4 million due to the growth of the Low Income Health Program;
- $18 million in donated assets;
- $14 million in Proposition 172 revenues;
- $3 million in air quality revenues;
- $2 million in road and street services; and,
- $1 million in contract city law enforcement.

Decreases in program revenue of $26.4 million were principally attributable to:

- $19 million in TransNet 1/2 percent sales and use taxes;
- $2 million in penalty assessments;
- $2 million decrease in services to property owners;
- $1.2 million decrease in foster care assistance;
- $1.2 million in child support enforcement incentives revenue; and
- $1 million in plan check and field inspections.

General revenues decreased overall by approximately $55 million. This increase was the result of increases of approximately $18.1 million and decreases of $73.1 million noted below.

Increases in general revenues of approximately $18.1 million were mainly due to the following:

- $13 million in current and prior secured property taxes;
- $3.6 million in real property transfer taxes; and,
- $1.5 million in recovered expenses.

Decreases in general revenues of $73.1 million were primarily due to the following:

- $37 million in California Assembly Bill 1484 true-up property taxes received from Successor Agencies as one-time revenues in fiscal year 2012;
- $25 million in one-time court settlement related to the 2007 wildfires received in fiscal year 2012;
- $6 million in the fair value of pooled cash and investments;
- $3.1 million in investment earnings attributable to a 23% decrease in annualized interest rates earned by the County Treasury Pool;
- $1 million in property tax in lieu of vehicle license fees; and,

- $1 million decrease in donations from private parties.

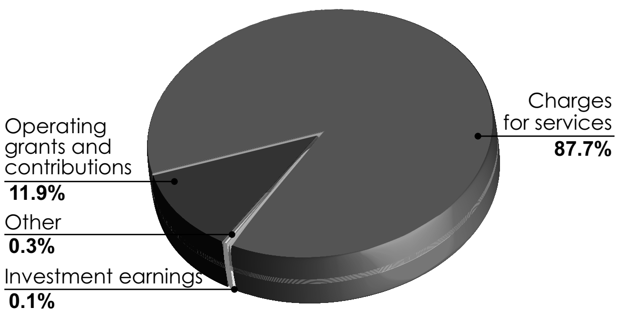
The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown in **Chart 2**, operating grants and contributions of $2.47 billion accounted for 61.3%, the largest share of this revenue. These monies are received from parties outside the County and are 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 $891 million and accounted for 22.1% of governmental activities. Additionally, charges for services were $497 million and accounted for 12.3% 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 County's Funds."

Chart 3

Revenues 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 87.7%, while operating grants and contributions ($4.9 million) represent 11.9% of total revenues.

Net position of business-type activities decreased by $1.6 million, less than 1%. This net decrease primarily included the following:

- $4.4 million increase in grants, primarily from the Federal Department of Transportation;
- $1 million decrease in investment earnings;
- $1 million increase in contract services attributable to road and consulting services;
- $1 million decrease in rents and concessions;
- $900 thousand increase in repairs and maintenance;
- $500 thousand increase in loss on disposal in the Sanitation District Fund;
- $100 thousand decrease in depreciation and amortization; and,
- $1.7 million increase in other liabilities due to: a $1.7 million increase in accounts payable, of which $1.5 million and $122 thousand are attributable to the Airport Fund and Sanitation District Fund, respectively.

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, unassigned 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 projects funds.

At June 30, 2013, the County's governmental funds had combined ending fund balances of $2.45 billion, an increase of $96 million in comparison to the prior fiscal year. Of the total June 30, 2013 amount, $644.45 million constituted unassigned fund balance, which is available for spending at the County's discretion. $184.5 million of fund balance is assigned, $878.6 million is committed, $729.2 is restricted, and $17.9 million is nonspendable. (Please refer to Note 1 in the notes to the financial statements for more details regarding fund balance classifications.)

Governmental revenues overall totaled $3.97 billion representing a 1.7% increase. Governmental expenditures totaled $3.90 billion, a 2.3% increase from the fiscal year ended June 30, 2012.

General Fund:

The General Fund is the chief operating fund of the County. At the end of fiscal year 2013, its unassigned fund balance was $644.45 million, while total fund balance was $1.60 billion, an increase of $113.6 million from fiscal year 2012.

This $113.6 million increase in fund balance was composed of $244.9 million in increases and $131.3 million in decreases as follows:

Increases to fund balance of $244.9 million were composed of:

- $74 million in realignment revenues;
- $40 million in aid from Redevelopment Agencies (pre-dissolution)/Successor Agencies (post dissolution);
- $33.4 million due to the growth of the Low Income Health Program; both in enrollment and claims paid. Enrollment increased from 29,805 in fiscal year 2012 to 39,107 in fiscal year 2013;
- $22 million increases in transfers in from the Public Safety Fund for Proposition 172 sales taxes;
- $19 million in State Aid CalWORKS assistance payments principally attributable to an increase in the State's sharing ratio;
- $15.6 million decrease in capital outlay expenditures;
- $13 million in current and prior secured property taxes mainly due to the improved economy; resulting in increased sales of real property coupled with a decrease in refunds attributable to fewer assessment appeals;
- $6 million in MediCal revenues;
- $4 million in third party reimbursements;
- $3.6 million in real property transfer taxes;
- $3.5 million increase in recording fees;
- $3.2 million in law enforcement services;
- $2 million in election services;
- $2 million decrease in equipment rental expenditures;
- $1.3 million in planning and engineering services;
- $1 million in construction permits; and
- $1 million decrease in safety clothing expenditures.

Decreases to fund balance of $131.3 million were composed of:

- $51 million net increase in contracted services including: a $39 million net increase in the Low Income Health Program consisting of a $49 million increase attributable to caseload growth, a $9 million increase in various Behavioral Health Services contracts, offset by an $8 million decrease in various Public Health Services contracts, a $7 million decrease in Aging and Independent Services contracts primarily due to reduced hours in the In-Home Supportive Services program, and a $4 million decrease in various health and human services eligibility program contracts; a $7 million increase in medical support and care costs for services provided to the increased number of inmates under California Assembly Bill AB109 realignment; a $4 million increase in Public Safety realignment services including increased contractual costs in several programs; and, a $1 million increase in foster care due to a 2.98 percent increase in foster care rates and the implementation of the Extended Foster Care Program created by California Assembly Bill 12.
- $32 million increase in salaries and benefit costs;
- $29 million due to a reduction in the CalWORKS caseload; and a change in the sharing ratio between the County, State and Federal governments;
- $11 million in various federal American Recovery and Reinvestment Act grants;
- $6 million in the Southwest Border Prosecution Initiative grant; and,
- $2 million in institution hospital care revenues.

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, 2013, the total (restricted) fund balance in the Public Safety Special Revenue Fund was $55.4 million, a $13.1 million increase from the previous fiscal year. This increase was mainly due to a $14 million increase in Prop 172 revenues due to improvements in the local economy in fiscal year 2013.

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 the 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 2013, fund balance was $347 million, a decrease of $23.5 million from fiscal year 2012, principally due to investment income of $820 thousand offset by $24.2 million in transfers out to the General Fund for the support of health related program expenditures.

Other Governmental Funds:

Other governmental funds consist of nonmajor funds, which include special revenue funds, debt service funds, and capital project funds. Individual fund data for each of these nonmajor governmental funds is provided in the combining and individual fund information and other supplementary information section in this report.

As of the end of fiscal year 2013, the fund balances of the other governmental funds totaled $451 million, a net decrease of $7 million from the prior year. This $7 million net decrease consisted of $13 million in increases, offset by decreases of $20 million as follows:

$13 million increase to Other Governmental Funds' fund balance:

- $12 million increase in the San Diego County Capital Asset Leasing Corporation Capital Projects Fund's fund balance as a result of the receipt of $28 million in proceeds from the issuance of the County's fixed rate certificates of participation for the construction of the Cedar and Kettner Development Project; offset by $16 million in capital outlay expenditures for the County Administration Center Waterfront construction project; and,
- $1 million increase in the Inmate Welfare Special Revenue Fund's fund balance resulting from a $1.2 million decrease in transfers out to the General Fund to reimburse it for costs incurred related to services provided to the Inmate Welfare Special Revenue Fund coupled with a $200 thousand increase in transfers in from the Jail Stores internal service fund for the benefit, education and welfare of confined inmates; offset by a $300 thousand increase in contracted services and $100 thousand increases in other expenditures.

$20 million decrease to Other Governmental Funds' fund balance:

- $12 million decrease to the Road Special Revenue Fund's fund balance due to a decrease of $19 million in TransNet ½ percent sales and use tax revenues, coupled with a $2 million increase in transfers out to the Road and Communication Equipment Internal Service Fund for the reimbursement of equipment acquisition costs incurred for fleet replacement and upgrade; offset by $9 million decrease in capital outlay expenditures for the Jamacha Boulevard and Jamacha Road Helix Traffic Signal construction projects; and the Bear Valley Parkway Land acquisition;
- $3.5 million decrease to the Housing Authority Fund's fund balance principally attributable to a $500 thousand decrease in Section 8 fraud recovery revenues, a $200 thousand decrease in investment income, a $200 thousand decrease in federal rental assistance payments, and a $100 thousand decrease in aid from other governmental agencies; coupled with a $2.3 million increase in tenant assistance expenditures, $100 thousand increase in repairs and maintenance expenditures, and a $100 thousand increase in various contracted services.
- $2.6 million decrease to the Flood Control Special Revenue Fund's fund balance resulting from a $200 thousand decrease in federal aid other grants, a $200 thousand decrease in planning and engineering services, and a $100 thousand

decrease in federal aid rain damage; coupled with a $1.2 million increase in capital outlay for flood control expenditures, a $800 thousand increase in contracted road services, and a $100 thousand increase in equipment rental expenditures;

- $1 million decrease to the Asset Forfeiture Special Revenue Fund's fund balance mainly due to a $2 million increase in asset forfeiture revenues, offset by a $3 million increase in transfers out to fund the construction of the Rancho San Diego Sheriff station; and,
- $900 thousand decrease to the County Service Districts Special Revenue Fund due to a $200 thousand increase in institutional care transportation revenues; offset by a $600 thousand increase in repairs and maintenance expenditures, and a $500 thousand increase in various contract services expenditures.

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 Positions of the internal services funds (ISF) totaled $103 million, a net increase of $5 million from the prior year. This $5 million net increase consisted of $25 million of increases, offset by decreases of $20 million as follows:

$25 million increases to internal service funds' net assets were comprised of:

- $8 million increase in the Facilities Management Fund primarily due to a $1.5 million increase in other operating revenues, an increase of $5.3 million in capital contributions, an increase of $100 thousand in non-operating revenues and a $100 thousand increase transfers in; coupled with a decrease in other operating expenses of $1 million;
- $6 million increase in the Public Liability Insurance Fund primarily due to a $6 million decrease in settlement expenses;
- $5 million increase in the Road and Communication Equipment Fund primarily due to $4 million increase in cash and investments resulting from transfers in from other nonmajor funds and an increase of $1 million in equipment;
- $2 million increase in the Fleet Services Fund chiefly due to a $1 million of transfers in from the General Fund for purchases of vehicles and a $1 million decrease in fuel costs;
- $2 million increase in the Purchasing Fund consisting of a decrease in equipment rental, contracted services, and depreciation/amortization expenses totaling $1 million and a $1 million increase in charges for services; and,
- $2 million increase in the Information Technology Fund primarily due to an $8 million increase in equipment, a $4 million decrease in software and a $2 million decrease in accumulated depreciation/amortization.

$20 million of decreases to internal service funds' net assets were comprised of:

- $20 million decrease in Employee Benefits Fund's net position primarily due to an increase in claims and judgments expense of $18 million.

Fiduciary Funds

The County maintains fiduciary funds for the assets of the *Pooled Investments-Investment Trust Funds, Private Purpose Trust Fund* and the *Agency Funds*.

Pooled Investments - Investment Trust Funds:

These funds were established for the purpose of reporting pooled investments. The Pooled Investments - Investment Trust Funds' net position totaled $4.04 billion, an increase of $435 million, from the previous year. This increase was substantially due to contributions to investments of $6.854 billion offset by net investment earnings of $(1) million and distributions from investments of $6.418 billion.

Private Purpose Trust Fund:

The private purpose trust fund reports the assets, liabilities, and activities of the County of San Diego Successor Agency formed pursuant to California Assembly Bill x1 26 on February 1, 2012 upon dissolution of the San Diego County Redevelopment Agency (SDCRA). The County of San Diego Successor Agency

Private Purpose Trust Fund's net position had a deficit balance of approximately $15 million at June 30, 2013, a decrease of $2 million. This decrease was mainly due to $2 million of Successor Agency Redevelopment Property Tax Fund distributions; offset by contributions to other agencies and interest charges of approximately $4 million.

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, 2013 net expenditure appropriations increased by $35.5 million and appropriations for transfers-out decreased by $4.8 million for a net increase of $30.7 million.

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

- $4.9 million appropriation increase in the Health and Human Services Agency's Aging & Independence Services division to support the implementation of the Community-based Care Transitions Program.
- $8.3 million appropriation increase in the Health and Human Services Agency, Strategic Planning and Operation Support for the reimbursement for previously uncompensated costs in the Low Income Health Program based on unanticipated revenue from the California Department of Health Care Services.
- $8.2 million appropriation increase in the Sheriff's Department due to a grant award from the federal Department of Homeland Security.
- $3.1 million appropriation increase in the Health and Human Services Agency for the State's transfer of the Healthy Families Program to Medi-Cal funded by available State and Federal Medi-Cal and CalFresh revenue.
- $1.5 million appropriation increase in the Public Safety Group to fund the purchase of new fire apparatus funded by CDBG funds.

Actual revenues fell short of the final budgeted amounts by $46.4 million, while actual expenditures were less than the budgeted amount by $402.3 million. The combination of the revenue and expenditure shortfalls resulted in a revenue/expenditure operating variance of $355.9 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of $277.8 million. These combined amounts resulted in a variance in the net change in fund balance of $633.7 million.

Highlights of actual expenditures compared to final budgeted amounts are as follows:

Salaries and Benefits:

The final budget over expenditure variance across all functions in this category was $59.7 million. A significant portion of these savings were in the Public Safety Group and the Health and Human Services Agency but also in the Land Use and Environment Group, Community Services Group and Finance and General Government Group from lower than budgeted salaries and employee benefit costs due to staff turnover and department management of vacancies.

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 final budget over expenditure variances of $49.0 million and $100.7 million, respectively. Overall, these expenditure variances primarily resulted from a lower demand for services than budgeted levels in the following areas:

- Un-awarded Mental Health Services Act and Alcohol and Drug Services contracts;
- Lower than anticipated growth trends in In-Home Supportive Services Individual Provider costs;
- Delayed start of contracts related to the Community Transformation Grant; and

- Lower than anticipated caseload levels, growth trends and unit cost per case for Foster Care and Aid to Adopted Parents programs.

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, a positive expenditure variance of approximately $3.7 million for the Vector Habitat Remediation Program and $4.6 million associated with the project delay of a tree removal grant.

Management and Contingency Appropriations:

The County annually sets up management and contingency appropriations based on both ongoing general purpose revenues and prior years' fund balance for a variety of one-time capital and operating expenditures as well as potential emergencies. Unexpended Management and Contingency Reserve appropriations resulted in budget over actual variances of $26.8 million and $20.0 million, respectively. Note that the Management Reserves are included within various functional activities.

Capital Assets and Commitments

Capital Assets

At June 30, 2013, the County's capital assets for both governmental and business-type activities were $3.21 billion and $168 million, respectively, net of accumulated depreciation/amortization. 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 2013 included:

Governmental Activities:

- $49.9 million towards construction of the Women's Detention Facility in Santee. Total project costs are estimated at $203.6 million.
- $29.9 million towards the construction and improvement of County maintained roads, bridges and other road related infrastructure.
- $28.1 million towards acquisition of equipment.
- $23.4 million towards the construction of the Registrar of Voters Building. Total project costs are estimated at $74.1 million.
- $23.1 million in infrastructure donated by developers.
- $15.6 million towards development of various software applications.
- $14.6 million towards construction of the County Administration Center Waterfront Park. Total project costs are estimated at $47.4 million.
- $7 million towards various land acquisitions.
- $6 million towards the construction of the Rancho San Diego Sheriff Station. Total project costs are estimated at $15.4 million.
- $4.8 million towards the construction of the East Mesa Detention Facility. Total project costs are estimated at $38.1 million.
- $3.1 million in land donations.
- $2.3 million towards improvements at the Sweetwater Lane Park. Total project costs are estimated at $3.7 million.
- $2.2 million towards improvements at the Agua Caliente Park. Total project costs are estimated at $3.3 million.
- $1.5 million towards improvements at the 4S Ranch Sports Park. Total project costs are estimated at $1.6 million.
- $1.3 million towards improvements at the Lincoln Acres Library and Community Center. Total project costs are estimated at $3.6 million.
- $1.3 million towards construction of the parking garage at Cedar and Kettner. Total project costs are estimated at $36.1 million.

Business-type Activities:

- $5.5 million towards sewer improvements at various locations.
- $2.4 million towards improvements at Palomar Airport Taxiways.
- $2 million towards improvements of various Airports

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, 2013, capital commitments included the following:

Governmental Activities:

- $239 million for the construction of: Women's Detention Facility, East Mesa Detention Facility, Registrar of Voters Building, Waterfront Park, County Operations Center, Wing Avenue, County Roads, Rancho San Diego Sheriff Station, Pine Valley Sheriff Station, South Santa Fe Avenue, and development of the Integrated Property Tax System.

Business-type Activities:

- $8.2 million for the construction of: Jamacha Pump Station, Borrego Valley Airport, Gillespie Field Airport, and Spring Valley Sewer.

(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, 2013, the County's governmental activities had outstanding long-term liabilities of $2.02 billion.

Of this amount, approximately $1.74 billion pertained to long-term debt outstanding. Principal debt issuances included: $771 million in taxable pension obligation bonds; $564 million in Tobacco Settlement Asset-Backed Bonds; and $405 million in certificates of participation (COPs) and lease revenue bonds (LRBs).

Other long-term liabilities included $157 million in claims and judgments; $100 million in compensated absences; $19 million for landfill postclosure costs; $8 million in pollution remediation and $152 thousand in capital leases.

During fiscal year 2013, the County's total principal amount of COPs and lease revenue bonds, other bonds, and loans for governmental activities decreased by $44.377 million.

The $44.377 million decrease was due to the following increases and decreases:

Increases to debt were $37.689 million and included:

- $29.335 million of fixed interest rate San Diego County Capital Asset Leasing Corporation Certificates of Participation, issued to fund the 2012 Cedar and Kettner Development Project;
- $4.925 million of principal was accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal;
- $2.385 million of principal was accreted (added) to the outstanding Taxable Pension Obligation Bonds' principal balances outstanding;
- $1.006 million due to the effects of unamortized issuance premiums, unamortized issuance discounts, and unamortized deferred amounts on refundings; and,
- $38 thousand of San Diego Gas and Electric On-bill Financing loans.

Decreases to debt were due to $82.066 million in debt service payments.

Business-type Activities:

Long-term liabilities for business-type activities totaled $1.470 million and consisted of $1.046 million for capital loans and $424 thousand for compensated absences.

Long-term liabilities for business-type activities decreased by $264 thousand. This was due to a combination of $267 thousand in debt service payments on capital loans and a net increase of $3 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 County 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	AA+	not rated
Pension Obligation Bonds	Aa3	AA+	AA+
Tobacco Settlement Asset-Backed Bonds - Series 2006A1 (Senior)	B1	BBB	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006A2 (Senior)	B3	BB+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006A3 (Senior)	B2	B+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006B (First Subordinate)	not rated	CCC+	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006C (Second Subordinate)	not rated	CCC	not rated
Tobacco Settlement Asset-Backed Bonds - Series 2006D (Third Subordinate)	not rated	CCC	not rated
San Diego County Redevelopment Agency Bonds	not rated	not rated	not rated

The County's issuer and lease financing ratings were affirmed in 2013 by Moody's Investors Service (Moody's), Standard and Poor's, and Fitch Ratings. Ratings on the County's pension obligation bonds were reaffirmed by Standard and Poor's and Fitch Ratings, but were lowered by Moody's in February 2013 (Aa2 to Aa3). This change in ratings was a part of a categorical action representing changed view of the distinction between the pledge supporting pension obligation bonds, and other unsecured general fund obligations, and general obligation bonds; Moody's view of the County's overall credit strength has not changed as demonstrated in its affirmation of the County's issuer and lease financing ratings. In the 2013 analyses of the County's credit, all three rating agencies referenced the County's strong financial management, broad and diverse economy, and low to moderate debt burden in their rationale for the assigned ratings.

Economic Factors and Next Year's Budget and Rates

- The fiscal year 2014 General Fund adopted budget utilizes as funding sources for one-time expenditures, $132.5 million out of $644.454 million in unassigned fund balance, and $0.8 million out of $464.831 million committed fund balance.
- The fiscal year 2014 General Fund adopted budget contains total appropriations of $3.85 billion. This is an increase of $134.1 million or 3.61% from the fiscal year 2013 General Fund adopted budget. A number of risk factors continue to be tracked closely: the state of the economy, which is improving at a slow rate, employment growth, continued recovery in the housing market, and the effect of the Affordable Care Act implementation.
- The U.S. economy's revised Gross Domestic Product (GDP) for 2012 increased by 2.8% compared to 1.8% increase for 2011. The Federal Open Market Committee met on July 30-31, 2013. According to the minutes of the July 30-31 meeting economic activity expanded at a modest pace during the first half of the year. Tighter federal fiscal policy, including cuts in government purchases and grants, restrained economic activity. While the revised GDP numbers in the first half of 2013 are lower than expected and lower than the 2012 annual rate, the Committee expects that real GDP will accelerate in the second half of the year and continue to strengthen in 2014 and 2015. However, state and local government purchases and construction expenditures continued to decrease and uncertainty remains about the effects of the federal spending sequestration. According to Moody's Analytics, economic data show the U.S. economy moving in the right direction, with employment reports pointing to a recovering labor market, housing prices heading higher and GDP surprises to the upside. Increased housing demand and high sales are expected in the coming months, with incomes rising and homebuyer confidence on the upswing (Source: Moody's Analytics: U.S. Chartbook: Upward momentum, August 5, 2013). However, the UCLA Anderson Forecast warns that the current recovery is not the high-growth recovery period that typically follows a recession, or at the levels needed to regain a normal longer term 3% growth trend. To get back to the previous growth trend, GDP would need to

exceed 3% for an extended period of time. GDP is growing, but not growing rapidly enough to produce the additional jobs and governmental revenues needed for a high-growth recovery (Source: UCLA Anderson Forecast, June 2013).

- California's economy continues to recover from the impact of the recession. California's Gross State Product (GSP) fell more steeply than U.S. GDP during the recession, but outpaced the nation as a whole over each of the last two years. Since mid-2012, California has also outpaced the nation in year-over-year job growth (Source: Los Angeles County Economic Development Corporation, The Kyser Center for Economic Research: 2013-2014 Economic Forecast and Industry Outlook, February 2013 and Mid-Year Forecast, July 2013). In 2009 real personal income declined 5.9%, but since that time real personal income grew by 1.6% in 2010, 3.1% in 2011 and 1.9% in 2012. Taxable sales declined 14.3% in 2009, grew by 2.9% in 2010, by 6.9% in 2011 and are estimated to grow by 4.9% in 2012 (final taxable sales figures will not be available until early 2014). California's economy continues to recover from the steep recession. Nonfarm employment grew by 1.2% in 2011, by 2.1% in 2012 and is projected to grow by 2.0% in 2013 and 2.0% in 2014. In 2013, real personal income is expected to grow by 2.3% and improve further in 2014 by 3.5%. Taxable sales are predicted to increase by 0.3% in 2013 and 1.9% in 2014 (Source: UCLA Anderson Forecast, June 2013).
- San Diego certainly shared the pain of the recession along with the rest of Southern California. However, San Diego's economy is moving in the right direction. Job creation in San Diego will occur in 2013 across all private industry sectors (Source: Los Angeles County Economic Development Corporation, The Kyser Center for Economic Research: 2013-2014 Economic Forecast and Industry Outlook, July 2013). Another indicator of economic health is county taxable sales. Taxable sales began to decline overall in the county in 2007 and that trend continued to 2009. In 2010, taxable sales showed moderate growth which continued in 2011. Sales tax revenues for the region have shown continued improvement in 2012 and are expected to continue in 2013 and 2014. San Diego's median household income has experienced strong annual growth in recent years, but median household income actually declined from 2009 to 2011 due to high unemployment and constrained consumer spending. Median household income for 2012 is estimated to be 1.4% higher than 2011. Median home prices show significant improvement in June 2013 compared to June 2012 current indicators show that the economy continued to gradually improve during 2012. Stock prices, building permits, help wanted advertising, consumer confidence, and the national economy as measured by the Conference Board Index of Leading Economic Indicators were positive in July 2012.
- The state of the economy plays a significant role in the County's ability to fund and provide many of the services that county residents have come to expect. The real estate market, which impacts the County's general purpose revenue (GPR), is expected to show marginal improvement in June 2013 compared to June 2012. 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.

As discussed below, the County's GPR is projected to increase by 1.1% (with budgeted revenue of $978.0 million in fiscal year 2014 compared to $967.1 million budgeted in fiscal year 2013).

- The largest source of general purpose revenue is property taxes ($523.6 million budgeted in fiscal year 2014), representing 53.5% of the total. For the past ten years, property tax growth has been high (5.7% average annual growth) due to the County's overall stable economy and healthy real estate market. In 2014, property taxes are budgeted to increase by $13.1 million, or 0.2.6%, from the 2013 budget. The budgeted property tax revenue factors in the current commercial and residential real estate conditions as evidenced by the improving level of building permits; marginally improving median price of homes; the relatively low level of foreclosures; and the gradual improvement in total deeds recorded. Current property tax revenue consists of four components: current secured property taxes, current supplemental property taxes, current unsecured property taxes and current unsecured supplemental property taxes.
- The budgeted amount of current secured property tax revenue ($503.6 million) assumes a net local assessed secured property value increase of 1.0%

from the actual local assessed secured property value figure for 2013, 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. In fiscal year 2015, the projected amount of revenues from current secured property taxes also assumes a 1.0 increase in local assessed secured property values.

- Current supplemental property tax revenue ($3.5 million budgeted in fiscal year 2014) is 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 have been 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, supplemental 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 dropped to $15.3 million in 2011. In fiscal year 2012, supplemental refunds actually increased to $18.3 million. However, they are anticipated to decline gradually over time. 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, to $2.4 million in 2009, to $1.9 million in 2010. In fiscal year 2011, current supplemental property tax revenues were $3.9 million and they were $3.5 million in 2012. The Adopted Operational Plan assumes that this weakness will continue through the next two fiscal years.
- Current unsecured property tax revenue ($16.5 million budgeted in fiscal year 2014), remain unchanged from fiscal year 2013. It is forecasted based on trends and available information at the time the budget is developed. A marginally more conservative projection is used for Fiscal Year 2014-15.
- Current unsecured supplemental property tax revenue ($0.1 million budgeted in fiscal year 2013) remains unchanged from fiscal year 2013. It is derived from supplemental bills that are transferred to the unsecured roll when a change of ownership occurs and a tax payment is due from the prior owner. Or, there may be a subsequent change in ownership following the initial change in ownership which occurs prior to the mailing of the initial supplemental tax bill. Historically, this revenue category has not been budgeted because the actual amount of revenue received has been low.
- Property tax in lieu of vehicle license fees (VLF) comprises 31.3% (an estimated $306.6 million) of budgeted general purpose revenue in fiscal year 2014. This revenue source was established by the State in fiscal year 2005 to replace the previous distribution of vehicle license fees to local governments. The annual change in this revenue source is based on the growth or decline in the net taxable unsecured and local secured assessed value. A 1% increase is projected in the combined taxable unsecured and unsecured assessed value in fiscal year 2014 which is $4.9 million higher than budgeted for fiscal year 2013.
- Teeter revenue represents 2.4% (an estimated $23.9 million) of budgeted general purpose revenue. In fiscal year 1994, 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 participating 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 2014, collections from previous years' receivables are budgeted to decrease by $2.7 million based on the size of the outstanding annual receivables and based on anticipated collection trends and market conditions. In fiscal year 2014, excess amounts from the Teeter Tax Loss Reserve Fund decreased from the $21.0 million that was budgeted in fiscal year 2013 to $15.1 million budgeted in fiscal year 2013. These revenues are projected to remain unchanged in fiscal year 2015.

- Sales and use tax revenue and in lieu local sales and use tax ($23.9 million in fiscal year 2014) represents about 2.4% 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."
- Sales and Use Tax revenue had been growing moderately from fiscal year 2007 through fiscal year 2008 in concert with population growth and new retail business formation in the unincorporated area. However, the recession, housing market declines, and unemployment trends impacted retail sales at the statewide, southern California and San Diego regional levels. Sales tax revenues started to improve during calendar year 2010 with year-over-year quarterly increases in all four quarters. This trend continued throughout 2011. However, during the last two quarters of 2012, Sales and Use Tax revenue in the unincorporated areas of the County declined compared to same quarters of the previous year. This was attributed to payment anomalies, business closures and the closure of San Onofre nuclear power plant. The amount of budgeted revenue in fiscal year 2014 is approximately $0.5 million (2.0%) below the fiscal year 2013 budgeted revenue. Growth of $0.7 million or 3.0% is projected for fiscal year 2015.
- Intergovernmental revenue ($41.2 million budgeted in fiscal year 2014) is approximately 4.2% of the total GPR in fiscal year 2014 and represents funding the County receives from various intergovernmental sources including Redevelopment Successor 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 successor agencies. Redevelopment agencies were dissolved by the California legislature in ABx1 26 on June 28, 2011. The California Supreme Court upheld the constitutionality of the dissolution on December 29, 2011. The Court extended the date of dissolution to February 1, 2012. Based on Section 34183 of the Health and Safety Code, the county auditor-controller shall remit from the Redevelopment Property Tax Trust Fund to each local agency and school entity an amount of property tax revenues in an amount equal to that which would have been received under Section 33401, 33492.14, 33607, 33607.6, 33607.7 or 33676. Residual funds not allocated for specific purposes will be distributed to local taxing agencies under Section 34183 of the Health and Safety Code. The County General Fund and Library Fund, as affected taxing entities, receive a share of this tax distribution but this has not been included in the

projection for fiscal year 2014. No growth in intergovernmental revenue is projected for fiscal year 2015.

The County's Operational Plan for fiscal year 2014 and for fiscal year 2015 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

Powerhouse Park in Del Mar

STATEMENT OF NET POSITION

June 30, 2013
(In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	First 5 Commission of San Diego
ASSETS				
Pooled cash and investments	$ 2,110,849	74,014	2,184,863	125,254
Cash with fiscal agents	26		26	
Investments with fiscal agents	336,533		336,533	10,100
Receivables, net	619,358	10,471	629,829	6,746
Property taxes receivables, net	113,287		113,287	
Internal balances	(80)	80		
Inventories	13,935	1	13,936	
Deposits with others	435		435	
Prepaid items	513		513	2
Deferred charges	11,565		11,565	
Restricted assets:				
Cash with fiscal agents	703		703	
Investments with fiscal agents	63,292		63,292	
Lease receivable	11,045		11,045	
Capital assets:				
Land, easements and construction in progress	563,053	27,373	590,426	
Other capital assets, net of accumulated depreciation/ amortization	2,650,044	141,103	2,791,147	
Total assets	6,494,558	253,042	6,747,600	142,102
LIABILITIES				
Accounts payable	185,686	2,645	188,331	14,613
Accrued payroll	50,280	246	50,526	
Accrued interest	24,983		24,983	
Unearned revenue	214,236	66	214,302	
Noncurrent liabilities:				
Due within one year	155,178	452	155,630	85
Due in more than one year	1,869,264	1,018	1,870,282	27
Total liabilities	2,499,627	4,427	2,504,054	14,725
NET POSITION				
Net investment in capital assets	2,861,061	167,430	3,028,491	
Restricted for:				
Creditors - Capital projects	2,637		2,637	
Grantors - Housing assistance	82,720		82,720	
Donations	3,265		3,265	
Laws or regulations of other governments:				
Future road improvements	123,020		123,020	
Construction, maintenance and other costs for justice, health, and social facilities and programs	55,556		55,556	
Defray administrative costs, other general restrictions	18,312		18,312	
Teeter tax loss	11,868		11,868	
Mental health	6,412		6,412	
Vector control	14,295		14,295	
Improvement and maintenance of recorded document systems	21,424		21,424	
Flood Control future drainage improvements	23,442		23,442	
Public safety activities	55,368		55,368	
Other purposes	201,536		201,536	
First 5 Commission of San Diego				127,377
Unrestricted	514,015	81,185	595,200	
Total net position	$ 3,994,931	248,615	4,243,546	127,377

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

STATEMENT OF ACTIVITIES

For the year ended June 30, 2013
(In Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					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 of San Diego
Governmental Activities:								
General government	$ 240,409	98,205	106,589	9,404	(26,211)		(26,211)	
Public protection	1,236,708	244,612	468,108	161	(523,827)		(523,827)	
Public ways and facilities	135,432	16,744	79,144	23,163	(16,381)		(16,381)	
Health and sanitation	851,246	112,518	660,757		(77,971)		(77,971)	
Public assistance	1,183,923	16,515	1,141,098		(26,310)		(26,310)	
Education	34,104	874	4,546		(28,684)		(28,684)	
Recreation and cultural	34,204	7,307	7,724		(19,173)		(19,173)	
Interest	95,801				(95,801)		(95,801)	
Total governmental activities	3,811,827	496,775	2,467,966	32,728	(814,358)		(814,358)	
Business-type activities:								
Airport	14,107	11,077	4,933			1,903	1,903	
Sanitation district	22,936	18,564				(4,372)	(4,372)	
Wastewater management	5,754	6,561				807	807	
Total business-type activities	42,797	36,202	4,933			(1,662)	(1,662)	
Total primary government	3,854,624	532,977	2,472,899	32,728	(814,358)	(1,662)	(816,020)	
Component Unit:								
First 5 Commission of San Diego	$ 53,495		36,338					(17,157)

Continued on next page

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

STATEMENT OF ACTIVITIES

For the year ended June 30, 2013
(In Thousands)

(Continued)	Net (Expense) Revenue and Changes in Net Position — Primary Government: Governmental Activities	Business-type Activities	Total	Component Unit: First 5 Commission of San Diego
Changes in net position:				
Net (expense) revenue	$ (814,358)	(1,662)	(816,020)	(17,157)
General Revenues				
Taxes:				
Property taxes	587,145		587,145	
Other taxes	20,912		20,912	
Property taxes in lieu of vehicle license fees	303,646		303,646	
Sales and use taxes	24,809		24,809	
Total general tax revenues	936,512		936,512	
Investment earnings	3,504	46	3,550	429
Other	90,789	123	90,912	
Total general revenues	1,030,805	169	1,030,974	429
Transfers	114	(114)		
Total general revenues and transfers	1,030,919	55	1,030,974	429
Change in net position	216,561	(1,607)	214,954	(16,728)
Net position at beginning of year	3,778,370	250,222	4,028,592	144,105
Net position at end of year	$ 3,994,931	248,615	4,243,546	127,377

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

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2013
(In Thousands)

	General Fund	Public Safety Fund	Tobacco Endowment Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Pooled cash and investments	$ 1,441,132	41,570	8,622	381,554	1,872,878
Cash with fiscal agents	26				26
Investments with fiscal agents	2		336,531		336,533
Receivables, net	507,780	42,564	4,576	62,210	617,130
Property taxes receivables, net	112,833			454	113,287
Due from other funds	41,603			28,323	69,926
Inventories	11,219			1,323	12,542
Deposits with others				435	435
Prepaid items	88			425	513
Restricted assets:					
Cash with fiscal agents	158			545	703
Investments with fiscal agents				63,292	63,292
Lease receivable	4,818			6,227	11,045
Total assets	2,119,659	84,134	349,729	544,788	3,098,310
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	108,434			25,281	133,715
Accrued payroll	46,597			2,465	49,062
Due to other funds	41,568	28,757	2,359	15,162	87,846
Deferred revenues	114,826			44,603	159,429
Unearned revenue	206,812			6,676	213,488
Total liabilities	518,237	28,757	2,359	94,187	643,540
FUND BALANCES					
Nonspendable:					
Not in spendable form:					
Loans, due from other funds and prepaids	1,128			3,842	4,970
Inventories and deposits with others	11,219			1,758	12,977
Restricted for:					
Creditors - Debt service				76,368	76,368
Creditors - Capital projects				42,462	42,462
Grantors - Housing assistance	54,902			27,818	82,720
Donations	3,265				3,265
Laws or regulations of other governments:					
Future road improvements				113,762	113,762
Construction, maintenance and other costs for justice, health, and social facilities and programs	55,556				55,556
Fund purpose		55,377		94,525	149,902
Other purposes	181,541			23,640	205,181
Committed to:					
Realignment health, mental health and social services	65,297				65,297
Unforeseen catastrophic events	55,500				55,500
Capital projects' funding	285,038			6,617	291,655
Health			347,370		347,370
Other purposes	58,996			59,809	118,805
Assigned to:					
Subsequent one-time expenditures	132,541				132,541
Other purposes	51,985				51,985
Unassigned	644,454				644,454
Total fund balances	1,601,422	55,377	347,370	450,601	2,454,770
Total liabilities and fund balances	$ 2,119,659	84,134	349,729	544,788	3,098,310

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
June 30, 2013
(In Thousands)

Total fund balances - governmental funds	$	2,454,770
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.		3,153,885
Unamortized issuance costs - bonds, notes and loans payable deferred charges (to be amortized over the life of the debt).		11,565
Accrued interest on long-term debt.		(24,980)
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.		159,429
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. (See Note 2 to the financial statements; **Table 3**.)		(1,862,561)
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; to make loans for start-up services for new and existing county service districts; and for 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. (See Note 2 to the financial statements; **Table 3**.)		102,823
Net position of governmental activities	$	3,994,931

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, 2013
(In Thousands)

	General Fund	Public Safety Fund	Tobacco Endowment Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 904,358			37,286	941,644
Licenses, permits and franchise fees	43,255			9,491	52,746
Fines, forfeitures and penalties	45,523			4,547	50,070
Revenue from use of money and property	12,785		820	8,313	21,918
Aid from other governmental agencies:					
State	1,057,850	237,733		78,683	1,374,266
Federal	816,640			129,716	946,356
Other	116,303			22,272	138,575
Charges for current services	336,888			29,554	366,442
Other	27,122			51,333	78,455
Total revenues	3,360,724	237,733	820	371,195	3,970,472
Expenditures:					
Current:					
General government	213,340		139	13,169	226,648
Public protection	1,178,229			9,619	1,187,848
Public ways and facilities	1,441			65,073	66,514
Health and sanitation	789,704			51,031	840,735
Public assistance	1,039,540			138,572	1,178,112
Education	948			31,086	32,034
Recreation and cultural	28,732			2,360	31,092
Capital outlay	17,599			148,138	165,737
Debt service:					
Principal	24,670			51,017	75,687
Interest	19,203			74,475	93,678
Bond issuance costs				393	393
Total expenditures	3,313,406		139	584,933	3,898,478
Excess (deficiency) of revenues over (under) expenditures	47,318	237,733	681	(213,738)	71,994
Other financing sources (uses):					
Sale of capital assets	71			5,926	5,997
Issuance of bonds and loans:					
Face value of bonds issued				29,335	29,335
Premium on issuance of bonds				574	574
Transfers in	263,203			197,728	460,931
Transfers out	(196,867)	(224,667)	(24,189)	(26,460)	(472,183)
Total other financing sources (uses)	66,407	(224,667)	(24,189)	207,103	24,654
Net change in fund balances	113,725	13,066	(23,508)	(6,635)	96,648
Fund balances at beginning of year	1,487,847	42,311	370,878	457,371	2,358,407
Increase (decrease) in nonspendable inventories	(150)			(135)	(285)
Fund balances at end of year	$ 1,601,422	55,377	347,370	450,601	2,454,770

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 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013
(In Thousands)

Net change in fund balances - total governmental funds	$	96,648
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.		(5,132)
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.		5,986
Adjustment to nonspendable inventories.		(285)
Change in accounting estimate for postclosure costs - (public protection function) - San Marcos landfill.		107
Accounting estimate for pollution remediation		(406)
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/amortization expense. (See Note 2 to the financial statements; **Table 4**.)		48,777
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position. (See Note 2 to the financial statements; **Table 4**.)		24,543
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 position. 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. (See Note 2 to the financial statements; **Table 4**.)		51,656
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. (See Note 2 to the financial statements; **Table 4**.)		(10,463)
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. (See Note 2 to the financial statements; **Table 4**.)		5,130
Change in net position - governmental activities	$	216,561

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

STATEMENT OF NET POSITION
PROPRIETARY FUNDS

June 30, 2013
(In Thousands)

	Business-type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
ASSETS		
Current assets:		
Pooled cash and investments	$ 74,014	237,971
Receivables, net	6,621	1,187
Due from other funds	325	24,266
Inventories	1	1,393
Total current assets	80,961	264,817
Noncurrent assets:		
Due from other funds	3,850	30
Capital assets:		
Land	11,565	
Construction in progress	15,808	303
Buildings and improvements	113,942	
Equipment	890	137,332
Software		13,352
Road infrastructure	6,449	
Sewer infrastructure	96,165	
Accumulated depreciation/amortization	(76,343)	(91,775)
Total noncurrent assets	172,326	59,242
Total assets	253,287	324,059
LIABILITIES		
Current liabilities:		
Accounts payable	2,645	51,971
Accrued payroll	246	1,218
Accrued interest		3
Due to other funds	687	4,973
Unearned revenue	66	748
Loans payable	279	940
Capital lease payable		33
Compensated absences	173	925
Claims and judgments		36,421
Total current liabilities	4,096	97,232
Noncurrent liabilities:		
Loans payable	767	1,969
Capital lease payable		119
Compensated absences	251	1,343
Claims and judgments		120,131
Total noncurrent liabilities	1,018	123,562
Total liabilities	5,114	220,794
NET POSITION		
Net investment in capital assets	167,430	59,060
Unrestricted net position	80,743	44,205
Total net position	$ 248,173	103,265

Reconciliation between net position - enterprise funds and net position of business-type activities as reported in the government-wide statement of net position	
Total net position	$ 248,173
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	442
Net position of business-type activities	$ 248,615

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

For the Year Ended June 30, 2013
(In Thousands)

	Business-type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
Operating revenues:		
Charges for current services	$ 36,202	332,789
Other	126	6,084
Total operating revenues	36,328	338,873
Operating expenses:		
Salaries and employee benefits	7,310	36,823
Repairs and maintenance	6,064	30,621
Equipment rental	1,177	345
Sewage processing	14,462	
Contracted services	5,328	178,643
Depreciation/amortization	5,327	13,626
Utilities	291	22,268
Cost of material		6,615
Claims and judgments		45,875
Fuel		14,007
Other	2,371	5,835
Total operating expenses	42,330	354,658
Operating income (loss)	(6,002)	(15,785)
Nonoperating revenues (expenses):		
Grants	4,933	4,068
Investment earnings	46	139
Interest expense	(74)	(229)
Gain (loss) on disposal of assets	(487)	238
Total nonoperating revenues (expenses)	4,418	4,216
Income (loss) before capital contributions and transfers	(1,584)	(11,569)
Capital contributions		5,424
Transfers in	358	15,485
Transfers out	(472)	(4,119)
Change in net position	(1,698)	5,221
Net position at beginning of year	249,871	98,044
Net position at end of year	$ 248,173	103,265

Reconciliation between change in net position - enterprise funds and change in net position of business-type activities as reported in the government-wide statement of activities	
Change in net position	$ (1,698)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	91
Change in net position of business-type activities	$ (1,607)

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, 2013
(In Thousands)

	Business-type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
Cash flows from operating activities:		
Cash received from customers	$ 30,318	14,380
Cash received from other funds	6,433	324,333
Cash payments to suppliers	(27,507)	(218,250)
Cash payments to employees	(7,294)	(36,842)
Cash payments to other funds	(2,449)	(31,234)
Cash paid for claims and judgments		(24,043)
Other payments		(6)
Net cash provided (used) by operating activities	(499)	28,338
Cash flows from noncapital financing activities:		
Operating grants	1,822	4,298
Transfers from other funds	358	15,485
Transfers to other funds	(472)	(4,119)
Payments received on advances to other funds		15
Principal paid on long-term debt		(895)
Interest paid on long-term debt		(151)
Proceeds from loans		38
Net cash provided (used) by noncapital financing activities	1,708	14,671
Cash flows from capital and related financing activities:		
Capital contributions		106
Acquisition of capital assets	(8,341)	(16,587)
Proceeds from sale of assets		1,077
Principal paid on long-term debt	(267)	
Principal paid on capital lease		(33)
Interest paid on long-term debt	(74)	(82)
Net cash provided (used) by capital and related financing activities	(8,682)	(15,519)
Cash flows from investing activities:		
Investment earnings	205	156
Net increase (decrease) in cash and cash equivalents	(7,268)	27,646
Cash and cash equivalents - beginning of year	81,282	210,325
Cash and cash equivalents - end of year	74,014	237,971
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	(6,002)	(15,785)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Decrease (increase) in accounts receivables	463	79
Decrease (increase) in due from other funds	(30)	(829)
Decrease (increase) in inventory	1	166
Increase (decrease) in accounts payable	(115)	15,489
Increase (decrease) in accrued payroll	13	31
Increase (decrease) in due to other funds	(150)	(2,311)
Increase (decrease) in unearned revenue	(9)	165
Increase (decrease) in compensated absences	3	(6)
Increase (decrease) in claims and judgments		17,713
Depreciation/amortization	5,327	13,626
Total adjustments	5,503	44,123
Net cash provided (used) by operating activities	(499)	28,338
Non-cash investing and capital financing activities:		
Capital acquisitions included in accounts payable	1,767	1,662
Disposal of capital assets	(487)	
Governmental contributions of capital assets	$	5,318

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

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2013
(In Thousands)

		Pooled Investments - Investment Trust Funds	County of San Diego Successor Agency Private Purpose Trust Fund	Agency Funds
ASSETS				
Pooled cash and investments	$	4,033,418	1,962	347,479
Cash with fiscal agents				752
Investments with fiscal agents			1,155	
Receivables:				
Accounts receivable			2	406
Investment earnings receivable		2,969	1	6,035
Due from other government agencies			42	
Other receivables		417		
Deferred charges			300	
Total assets		4,036,804	3,462	354,672
LIABILITIES				
Accounts payable		300		18,295
Warrants outstanding				178,657
Accrued payroll				6
Accrued interest			62	
Noncurrent liabilities:				
Due within one year			413	
Due in more than one year			13,064	
Due to other funds			4,891	
Due to other governments				157,714
Total liabilities		300	18,430	354,672
NET POSITION				
Held in trust for pool participants		4,036,504		
Held in trust for private purpose			(14,968)	
Total held in trust (deficit)	$	4,036,504	(14,968)	

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

For the Year Ended June 30, 2013
(In Thousands)

	Pooled Investments - Investment Trust Funds	County of San Diego Successor Agency Private Purpose Trust Fund
ADDITIONS		
Contributions:		
Contributions to investments	$ 6,853,750	
Total contributions	6,853,750	
Investment earnings:		
Net increase (decrease) in fair value of investments	(14,024)	(19)
Investment earnings	12,960	12
Total investment earnings	(1,064)	(7)
Property taxes - Successor Agency Redevelopment Property Tax Trust Fund distribution		2,271
Total additions	6,852,686	2,264
DEDUCTIONS		
Administrative expenses		73
Distributions from investments	6,418,117	
Contributions to other agencies		3,762
Interest		618
Total deductions	6,418,117	4,453
Change in net position	434,569	(2,189)
Net position at beginning of year	3,601,935	(12,779)
Net position (deficit) at end of year	$ 4,036,504	(14,968)

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

Contents - Notes to the Financial Statements

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.

These are entities for which the County is considered to be financially responsible and has a potential financial benefit/burden relationship.

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. The County Board of Supervisors therefore has the ability to impose its will. These component units have a direct financial benefit/burden relationship with the County, 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 *APCD* 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*.

Sanitation District (SD) - The *SD* was established to construct, operate and maintain reliable and sustainable sanitary sewer systems. Revenue sources include charges to property owners and grants. The *SD* is reported as an *enterprise fund*.

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 and a capital projects 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 *Corporation* 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* 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. The Commission 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 position 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 position, 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 position 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 primary government total column. The statement of activities presents functional 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 are 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 and reports all financial resources of the County not accounted for and reported 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 and are restricted for funding 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, these 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. According to Board of Supervisors Policy E-14, tobacco settlement monies are to be used for healthcare-based programs.

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.

Pooled Investments - Investment Trust Funds account for investment activities on behalf of external entities and include the portion of the County Treasurer's investment pool applicable to external entities. In general, external entities include school districts, independent special districts and various other governments.

County of San Diego Successor Agency Private Purpose Trust Fund is a fiduciary fund type used by the County to report trust arrangements under which principal and income benefit other governments. This fund reports the assets, liabilities, and activities of the County of San Diego Successor Agency; formed pursuant to California Assembly Bill ABx1 26.

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.

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 earnings, 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 principal payments on general long-term debt 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 nonoperating 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 nonoperating revenues and expenses.

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 Position 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 Investment Pool (the “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 position/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 based on amortized cost. $820 thousand of interest earned by certain funds has been assigned to and reported as revenue of another fund. For fiscal year 2013, the General Fund was assigned $651 thousand and the Other Governmental Funds were assigned $151 thousand.

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 ($11.162 million and $1.852 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 nonspendable fund balance account in applicable governmental funds.

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.

(Amounts expressed in thousands unless otherwise noted)

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.

County Leased Property

The County and its blended component units lease real property to the private sector and other governmental agencies. Direct financing lease receivables are shown as restricted assets on the government-wide statement of net position - governmental activities and governmental funds balance sheets. Revenue from direct financing and non-cancelable 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 net position, 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 nonspendable amount. 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, with expenditures recorded when consumed. Inventories and prepaid items recorded in the governmental funds are not in spendable form and thus, an equivalent portion of fund balance is reported as nonspendable.

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, easements, buildings and improvements, construction in progress, equipment, software and infrastructure.

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 activities* or *business-type activities* columns in the government-wide financial statements.

Table 1
Capitalization Thresholds

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

Depreciation and amortization are charged over the capital assets' estimated useful lives using the straight-line method for proprietary and governmental fund types. Governmental fund type depreciation and amortization are only shown in the statement of activities. Proprietary fund type depreciation and amortization are shown both in the fund statements and the government-wide statement of activities. Estimated useful lives are shown in **Table 2**.

Table 2
Estimated Useful Lives

Buildings and improvements	10-50 years
Equipment	5-20 years
Software	3-10 years
Infrastructure	10-50 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 the governmental, proprietary, and fiduciary funds' 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 position.

Long-Term Obligations

Long-term liabilities reported in the statement of net position 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 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 position. 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 Standands 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 position. 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 position.

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.

Fund Balance

In the fund financial statements, governmental funds report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. These classifications include: nonspendable; restricted; and the unrestricted classifications of committed, assigned and unassigned. When both restricted and unrestricted resources are available for use, fund balance is generally depleted by restricted resources first, followed by unrestricted resources in the following order: committed, assigned and unassigned. The fund balance classifications are defined as follows:

Nonspendable fund balance - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts.

Restricted fund balance - amounts with constraints placed on their use that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Supervisors. The Board of Supervisors may establish fund balance commitments by adoption of an ordinance, resolution, or formal board action memorialized by minute orders as may be required by law. All are equally binding. Those committed amounts cannot be used for any other purpose unless the County removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned fund balance - amounts that are constrained by the County's *intent* to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the highest level of decision making authority (the Board of Supervisors), or by a body or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. In the County, the intent is generally expressed by the Board of Supervisors.

Unassigned fund balance - the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

Net Position

Net investment in capital assets, 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 position. Capital assets cannot readily be sold and converted to cash.

Restricted net position consists of restricted assets reduced by liabilities related to those assets. Constraints placed on net position 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 position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

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.

(Amounts expressed in thousands unless otherwise noted)

NOTE 2
Reconciliation of Government-Wide and Fund Financial Statements

Balance Sheet/Statement of Net Position

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

Table 3
Governmental Funds Balance Sheet / Government-Wide Statement of Net Position Reconciliation
At June 30, 2013

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 $(1,862,561) difference are as follows:		
Bonds, notes and loans payable		
Certificates of participation and lease revenue bonds	$	(405,010)
Taxable pension obligation bonds		(770,530)
Tobacco settlement asset-backed bonds		(564,230)
Loans - non-internal service funds		(2,260)
Unamortized issuance premiums (to be amortized as interest expense)		(13,079)
Unamortized issuance discounts (to be amortized as interest expense)		13,050
Unamortized deferred amounts on refundings (to be amortized as interest expense)		5,389
Compensated absences (excluding Internal Service Funds)		(98,223)
Landfill postclosure - San Marcos landfill		(19,358)
Pollution remediation		(8,310)
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	$	(1,862,561)
Internal Service Funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position. The details of this $102,823 difference are as follows:		
Net position of the internal service funds	$	103,265
Less: Internal payable representing charges in excess of cost to business-type activities - prior years		(351)
Less: Internal payable representing charges in excess of cost to business-type activities - current year		(91)
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	$	102,823

(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 Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities Reconciliation
For the Year Ended June 30, 2013

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/amortization expense. The details of this $48,777 difference are as follows:		
Capital outlay	$	165,737
Depreciation/amortization expense		(116,960)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	$	48,777
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position. The details of this $24,543 difference are as follows:		
The proceeds from the sale of capital assets provide current financial resources but have no effect on net position	$	(5,997)
The loss on the disposal of capital assets does not affect current financial resources but decreases net position		(1,361)
The gain on the disposal of capital assets does not affect current financial resources but increases net position		5,459
Donations of assets to the County do not provide current financial resources but resources increase net position		26,442
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	$	24,543
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 position. 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 $51,656 difference are as follows:		
Debt issued or incurred:		
Bonds issued	$	(29,335)
Plus: Premium		(574)
Less: Issuance costs		393
Principal repayments		75,687
Accreted interest paid		5,485
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	$	51,656
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 $(10,463) difference are as follows:		
Compensated absences	$	(1,942)
Accrued interest		359
Accretion of capital appreciation bonds		(7,310)
Amortization of premiums		1,150
Amortization of discounts		(1,075)
Amortization of deferred amounts on refundings		(507)
Amortization of issuance costs		(1,138)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	$	(10,463)
Internal Service Funds. The net revenue (or expense) of certain activities of internal service funds is reported with governmental activities. The details of this $5,130 difference are as follows:		
Change in net position of the internal service funds	$	5,221
Less: Loss from charges to business activities		(91)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position - governmental activities	$	5,130

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 Treasury 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 152, San Diego, California, 92101 and can also be accessed at http://www.sdtreastax.com.

Total pooled cash and investments totaled $6,692,976 consisting of: $6,598,663 investments in the County pool; $77.935 million in demand deposits; $15.856 million of collections in transit; and, $522 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 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, 2013, 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 $77.935 million, and the bank balance at June 30, 2013 was $77.883 million, 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, $250 thousand was covered by federal deposit insurance and $77.633 million 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 $1.481 million and the bank balance per various financial institutions was $1.820 million. Of the total bank balance, $844 thousand was covered by federal deposit insurance and $976 thousand 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; registered treasury notes or bonds of all 50 states; 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; mortgage collateralized obligations; and shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7.

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, and at least 50 percent of securities to mature within one year, and no more than 50% 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, 2013, 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**.

California Government Code Section 53601 indicates where the Code does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security, other than a security underlying a repurchase or reverse repurchase agreement or securities lending agreement authorized by this section, that at the time of the investment has a term remaining to maturity in excess of five years, unless the legislative body has granted express authority to make that investment either specifically or as a part of an investment program approved by the legislative body no less than three months prior to the investment.

(Amounts expressed in thousands unless otherwise noted)

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 Investment Pool's Investment Policy, which is more restrictive than the Government Code, places a minimum standard on the ratings of investments held in the Investment Pool. Investments in securities other than those guaranteed by the U.S. Treasury or Government Sponsored Enterprises must have a credit rating of no less than "A" for long -term or "A1" for short term. Non-rated securities include sweep accounts, collateralized certificates of deposit and repurchase agreements. Sweep accounts and collateralized certificates of deposit must be FDIC insured and collateralized with securities held by a named agent of the depository. Repurchase agreements are collateralized by securities, authorized by California Government Code section 53601, having a fair market value of at least 102% of the amount of the repurchase agreement. Credit quality based on Standard and Poor's Fund Credit Quality Rating is noted below and on **Table 7**.

Table 5
S & P Investment Rating

	Investment Pool	Investments with Fiscal Agents
Overall credit rating	AAAf/S1	
Short-term	A-1	A-1
Long-term	A	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 Investment Pool's Investment Policy is more restrictive, in most cases, than the California Government Code. As of June 30, 2013, all Pool investments were in compliance with State law and with the Investment Policy.

The Investment Pool's holdings of the securities of the Federal National Mortgage Association (FNMA) and Federal Home Loan Mortgage Corporation (FHLMC) are issued by agencies that remain under conservatorship by the Director of the Federal Housing Agency. The U.S. government does not guarantee, directly or indirectly, the securities of the Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), FNMA, or FHLMC. The Investment Pool's investments in FHLB, FFCB, FNMA and FHLMC securities as of June 30, 2013 comprised 23.5%, 7.0%, 20.5%, and 12.6% 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, 2013 are shown in **Table 6**.

Table 6
Concentration of Credit Risk - Investments With Fiscal Agents

Issuer	Tobacco Endowment Fund	Percent	Nonmajor Governmental Funds	Percent
BlackRock MuniFund	$ 27,000	8		
Federal home loan mortgage corporation			$ 34,152	54
Federal national mortgage association			14,458	23
Federated treasury obligation			13,665	22

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 another party.

The investment policy requires securities, not insured by FDIC insurance, including appropriate collateral, placed with an independent third party for custodial safekeeping. 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.

(Amounts expressed in thousands unless otherwise noted)

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, 2013

	Fair Value	Book Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
US government agencies:							
Federal home loan mortgage corporation notes	$ 833,227	832,150	0.16% - 5.00%	9/13 - 8/17	773	A-1+/AA+	12.63%
Federal home loan bank notes	1,549,588	1,548,182	0.13% - 5.50%	7/13 - 6/18	300	A-1+/AA+	23.48%
Federal national mortgage association notes	1,353,335	1,362,208	0.10% - 5.00%	7/13 - 4/18	818	A-1+/AA+	20.51%
Federal farm credit bank notes	462,371	462,531	0.15% - 0.30%	7/13 - 6/14	143	A-1+/AA+	7.01%
US treasury notes	245,818	245,565	0.50% - 4.50%	8/13 - 5/18	1068	AA+	3.73%
Repurchase agreement	22,159	22,159	0.02%	07/13	1	AA+	0.34%
Commercial paper	1,024,733	1,024,881	0.12% - 0.17%	7/13 - 9/13	31	A-1/A-1+	15.53%
Money market mutual funds	127,325	127,325	0.01% - 0.05%	07/13	40	AAA	1.93%
Negotiable certificates of deposit	945,002	945,002	0.10% - 0.19%	7/13 - 10/13	33	A-1/A-1+	14.32%
Bond funds	35,105	35,000	0.34%	07/13	445	AA	0.52%
Total investments	$ 6,598,663	6,605,003			398		100.00%

(Amounts expressed in thousands unless otherwise noted)

Table 8

Investments with Fiscal Agents
At June 30, 2013

	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
County investments with fiscal agents						
Unrestricted:						
Fixed income tax exempt bonds	$ 18,054	5% - 5.13%	8/22 - 2/28	4366	A	4.52%
Fixed income tax exempt bonds	12,920	5.00%	6/18 - 7/23	2637	A+	3.23%
Fixed income tax exempt bonds	41,253	5% - 7%	2/15 - 12/28	3288	AA	10.32%
Fixed income tax exempt bonds	27,432	0% - 5.75%	4/20 - 1/34	4344	AA-	6.86%
Fixed income tax exempt bonds	114,700	0% - 5.25%	12/14 - 11/36	3133	AA+	28.69%
Fixed income tax exempt bonds	50,856	5% - 5.25%	7/13 - 2/28	2769	AAA	12.72%
Fixed income tax exempt bonds	2,338	5.25%	11/29	5982	BBB+	0.58%
Fixed income tax exempt bonds	41,980	5% - 6.38%	7/16 - 2/33	4160	NR	10.50%
MuniFunds	27,000	0.02%	8/13	39	AAA	6.75%
Subtotal	336,533					
Restricted:						
Federal national mortgage association notes	14,458	2.75% - 4.63%	2/14 - 10/14	299	AA+	3.62%
Federal home loan mortgage corporation discount notes	34,152	0.00%	11/13	148	NA	8.54%
Money market mutual funds	14,682	0% - 0.01%	8/13	52-57	AAA	3.67%
Subtotal	63,292					
Total County investments with fiscal agents	399,825					100.00%
Private Purpose investments:						
Money market mutual funds	1,155	0.01%	8/13	52	AAA	100.00%
Total Private Purpose investments	1,155					100.00%
Total investments with fiscal agents	$ 400,980					

(Amounts expressed in thousands unless otherwise noted)

Table 9

Investment Pool Policy Restrictions versus California Government (Gov) Code Section 53601 Requirements

Investment Type	Maximum Maturity		Maximum% of Portfolio		Maximum % with One Issuer		Minimum Rating	
	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	35%	None	None
Local agency obligat ions	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
Negotiable certificates of deposit	5 years	5 years	30%	30%	None	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%	AAAm	AAAm
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. The maximum exposure to a single broker/ dealer of Repurchase Agreements shall be 10% of the portfolio value for maturities greater than 5 days, and 15% of the portfolio value for maturities of 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 2013 restricted assets were as follows:

Table 10

Restricted Assets

Fund	Legal or Contractual Requirements	Debt Covenants
General Fund	$ 158	$ 4,818
Nonmajor Governmental Funds		
Housing Authority Special Revenue Fund	545	
Tobacco Securitization Joint Special Revenue Fund		47,817
Pension Obligation Bonds Debt Service Fund		7
San Diego Regional Building Authority Debt Service Fund		17,157
SANCAL Debt Service Fund		4,538

NOTE 5
Receivables

Details of receivables reported in the government-wide Statement of Net Position 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 - $61.421 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- $69.245 million

This amount includes: $35.128 million in housing rehabilitation loan programs for low-income or special need residents, and loans for low income housing down payments; $27.307 million in community development block grant loans; $3.417 million in low income housing developers loans; a $1.120 million loan related to the sale of land to fund the future replacement or the County's Health and Human Services Agency public health clinic; $1.232 in other loans; and $1.041 million owed to the General Fund from the County of San Diego Successor Agency Private Purpose Trust Fund as a result of a loan to provide funding for project improvements for the Upper San Diego River Project. At the fund level, in the General Fund, this loan is presented as "Due From Other Funds". See Note 8 to the financial statements, "Interfund Balances".

(Amounts expressed in thousands unless otherwise noted)

Loans- Business-type activities- $6.828 million

This amount includes $2.978 million in 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; and $3.850 million owed to the AEF from the County of San Diego Successor Agency Private Purpose Trust Fund as a result of a loan to fund airport projects. In the Airport Enterprise Fund, this loan is presented as "Due From Other Funds". See Note 8 to the financial statements, "Interfund Balances".

Table 11

Receivables
Primary Government and Discretely Presented Component Unit
At June 30, 2013

		Accounts	Investment Earnings	Due From Other Government Agencies	Loans	Other	Total Receivables	Allowance For Doubtful Accounts		Receivables Net
Governmental activities:										
General Fund	$	8,331	1,158	441,728	56,022	541	507,780		$	507,780
Public Safety Special Revenue Fund				42,564			42,564			42,564
Tobacco Endowment Fund			4,576				4,576			4,576
Other Governmental Funds		24,529	970	26,467	12,096		64,062	(1,852)		62,210
Internal Service Funds		335	148	603	86	15	1,187			1,187
Total governmental activities - fund level	$	33,195	6,852	511,362	68,204	556	620,169	(1,852)	$	618,317
Add: loan receivable from the County of San Diego Successor Agency Private Purpose Trust Fund					1,041		1,041			1,041
Total governmental activities - Statement of Net Position	$	33,195	6,852	511,362	69,245	556	621,210	(1,852)	$	619,358
Business-type activities:										
Enterprise Funds	$	54	59	3,530	2,978		6,621		$	6,621
Add: loan receivable from the County of San Diego Successor Agency Private Purpose Trust Fund					3,850		3,850			3,850
Total business-type activities - Statement of Net Position	$	54	59	3,530	6,828		10,471		$	10,471
Component Unit:										
First 5 Commission of San Diego	$			6,746			6,746		$	6,746

NOTE 6
County Property on Lease to Others

The County's blended component unit - SDRBA has a direct financing 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 $6.2 million at June 30, 2013. The lease revenue received by the SDRBA and the County for the year ended June 30, 2013 was approximately $750 thousand and $891 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 $2.48 million in land at June 30, 2013.

(Amounts expressed in thousands unless otherwise noted)

Lease revenue from noncancelable operating leases for the year ended June 30, 2013 was approximately $17.24 million. Future minimum lease payments to be received under the direct financing and noncancelable operating leases are noted in **Table 12**.

Table 12

Lease Revenue
County Property Leased To Others

Fiscal Year	Direct Financing Leases	Operating Leases
2014	$ 1,626	$ 17,632
2015	1,637	13,014
2016	1,624	11,797
2017	1,627	10,671
2018	1,632	10,384
2019 - 2023	2,899	45,811
2024 - 2028		40,959
2029 - 2033		37,979
2034 - 2038		25,969
2039 - 2043		16,094
2044 - 2048		12,398
2049 - 2053		10,023
2054 - 2058		5,844
2059 - 2063		3,722
2064 - 2068		1,631
Total	$ 11,045	$ 263,928

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, 2012	Increases	Decreases	Ending Balance at June 30, 2013
Capital assets, not being depreciated/amortized:				
Land	$ 380,608	11,587	(128)	$ 392,067
Easements	6,852	597		7,449
Construction in progress	208,126	120,733	(165,322)	163,537
Total capital assets, not being depreciated/ amortized	595,586	132,917	(165,450)	563,053
Capital assets, being depreciated/amortized:				
Buildings and improvements	1,330,943	155,470	(607)	1,485,806
Equipment	259,187	28,108	(21,892)	265,403
Software	50,340	11,514	(3,061)	58,793
Road infrastructure	2,489,011	49,849	(1,432)	2,537,428
Bridge infrastructure	68,861	3,210		72,071
Total capital assets, being depreciated/ amortized	4,198,342	248,151	(26,992)	4,419,501
Less accumulated depreciation/amortization for:				
Buildings and improvements	(336,677)	(29,162)	579	(365,260)
Equipment	(153,610)	(21,753)	20,519	(154,844)
Software	(21,153)	(10,447)	2,998	(28,602)
Road infrastructure	(1,132,751)	(67,891)	286	(1,200,356)
Bridge infrastructure	(19,062)	(1,333)		(20,395)
Total accumulated depreciation/ amortization	(1,663,253)	(130,586)	24,382	(1,769,457)
Total capital assets, being depreciated/ amortized, net	2,535,089	117,565	(2,610)	2,650,044
Governmental activities capital assets, net	$ 3,130,675	250,482	(168,060)	$ 3,213,097

(Amounts expressed in thousands unless otherwise noted)

Table 14

Capital Assets - Business-type Activities

	Beginning Balance at July 1, 2012	Increases	Decreases	Ending Balance at June 30, 2013
Capital assets, not being depreciated:				
Land	$ 11,565			$ 11,565
Construction in progress	11,640	10,025	(5,857)	15,808
Total capital assets, not being depreciated	23,205	10,025	(5,857)	27,373
Capital assets, being depreciated:				
Buildings and improvements	113,990	21	(69)	113,942
Equipment	1,110	81	(301)	890
Road infrastructure	6,449			6,449
Sewer infrastructure	91,038	5,836	(709)	96,165
Total capital assets, being depreciated	212,587	5,938	(1,079)	217,446
Less accumulated depreciation for:				
Buildings and improvements	(33,187)	(3,274)	25	(36,436)
Equipment	(926)	(31)	296	(661)
Road infrastructure	(361)	(167)		(528)
Sewer infrastructure	(37,131)	(1,855)	268	(38,718)
Total accumulated depreciation	(71,605)	(5,327)	589	(76,343)
Total capital assets, being depreciated, net	140,982	611	(490)	141,103
Business-type activities capital assets, net	$ 164,187	10,636	(6,347)	$ 168,476

Depreciation/Amortization

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

Table 15

Depreciation/Amortization Expense - Governmental Activities

General government	$ 9,757
Public protection	24,353
Public ways and facilities	68,806
Health and sanitation	7,422
Public assistance	1,844
Education	1,743
Recreation and cultural	3,035
Internal Service Funds	13,626
Total	$ 130,586

Table 16

Depreciation Expense - Business-type Activities

Airport Fund	$ 3,368
Sanitation District Fund	1,941
Wastewater Management Fund	18
Total	$ 5,327

(Amounts expressed in thousands unless otherwise noted)

Capital and Other Commitments

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is used in the governmental funds. Encumbrances outstanding at year end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed, or assigned are included within committed or assigned fund balance, as appropriate. At June 30, 2013, the County General Fund's outstanding encumbrances totaled $337.023 million while the Public Safety Fund's outstanding encumbrances totaled $3.606 million. Nonmajor governmental funds' outstanding encumbrances totaled $27.247 million.

At June 30, 2013, major contracts entered into for structures and improvements and other commitments within governmental and business-type activities are noted in **Table 17**.

Table 17

Capital Commitments
At June 30, 2013

	Remaining Commitments
Governmental Activities	
General Fund:	
Construction of Women's Detention Facility	$ 109,230
Construction of East Mesa Detention Facility	29,748
Construction of Registrar of Voters Building	25,074
Construction of Waterfront Park	24,701
Development of Integrated Property Tax System	24,051
Construction of County Operations Center Phase 1B	7,841
Construction of Rancho San Diego Sheriff's Station	4,069
Construction of Pine Valley Sheriff's Station	2,531
Subtotal	227,245
Nonmajor Governmental Funds:	
Flood Control Improvement to Wing Avenue	5,519
Improvement to County Roads	4,855
Construction of South Santa Fe Ave.	1,454
Subtotal	11,828
Governmental Activities Subtotal	239,073
Business-type Activities	
Enterprise Funds:	
Construction of Jamacha Pump Station	2,738
Improvement to Borrego Valley Airport Runway	2,062
Improvement to Gillespie Field Airport Access Road	1,549
Sanitation District Sewer Improvement in Spring Valley	1,869
Business-Type Activities Subtotal	8,218
Total	$ 247,291

NOTE 8
Interfund Balances

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

Table 18

Interfund Balances
At June 30, 2013

		DUE FROM							
		General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Private Purpose Trust Fund	Total
DUE TO	General Fund	$	28,757	2,359	5,789	110	3,547	1,041	$ 41,603
	Nonmajor Governmental	19,548			8,079	197	499		28,323
	Nonmajor Enterprise	42			1	282		3,850	4,175
	Internal Service	21,978			1,293	98	927		24,296
	Total	$ 41,568	28,757	2,359	15,162	687	4,973	4,891	$ 98,397

(Amounts expressed in thousands unless otherwise noted)

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

a) $45 thousand is due to the Special District Loans Internal Service Fund from the County Service District Special Revenue Funds as a result of a loan to improve and maintain County roads. Loan repayments are made from property tax collections. $30 thousand of the balance is not scheduled to be collected in the subsequent year.

b) $1.041 million is due to the General Fund from the County of San Diego Successor Agency Private Purpose Trust Fund (Upper San Diego River Project) as a result of a loan to provide funding for Project improvements.

c) $3.850 million is due from the County of San Diego Successor Agency Private Purpose Trust Fund to the Airport Enterprise Fund as a result of a loan to fund airport projects.

For further discussion of the loans to the County of San Diego Successor Agency Private Purpose Trust Fund, refer to Note 31 to the financial statements, "County of San Diego Successor Agency Private Purpose Trust Fund for Assets of Former San Diego County Redevelopment Agency". Note that on the Statement of Net Position, the "Due from other funds" for the General Fund's $1.041 million Upper San Diego River Project loan and the "Due from other funds" for the $3.850 million Airport Enterprise Fund's airport projects loan, are included in the governmental activities' and business-type activities' "Receivables, net", respectively. See Note 5 to the financial statements, "Receivables."

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, 2013

		TRANSFERS OUT						
		General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
TRANSFERS IN	General Fund	$	224,667	24,189	13,623		724	$ 263,203
	Nonmajor Governmental	185,414			8,577	342	3,395	197,728
	Nonmajor Enterprise	308			50			358
	Internal Service	11,145			4,210	130		15,485
	Total	$ 196,867	224,667	24,189	26,460	472	4,119	$ 476,774

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

(Amounts expressed in thousands unless otherwise noted)

NOTE 10
Payables

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

Table 20
Payables
At June 30, 2013

	Vendors	Due to Other Government Agencies	Other	Total Payables
Governmental Activities:				
General Fund	$ 89,018	15,166	4,250	$108,434
Other Governmental Funds	23,752	1,234	295	25,281
Internal Service Funds	51,036	927	8	51,971
Total governmental activities	$163,806	17,327	4,553	$185,686
Business-type activities:				
Enterprise Funds	$ 2,640	5		$ 2,645
Component Unit:				
First 5 Commission of San Diego	$ 4,928	9,116	569	$ 14,613

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, 2012	Issued	Redeemed	Ending Balance at June 30, 2013
Tax and revenue anticipation notes	$	50,000	50,000	$

NOTE 12
Lease Obligations

Operating Leases

Real Property

The County has obligations under long-term operating lease agreements through fiscal year 2024 (**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, 2013 was approximately $28.8 million, including $20.9 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
2014	$ 19,044
2015	16,031
2016	12,966
2017	11,042
2018	7,205
2019-2023	23,387
2024	840
Total	$ 90,515

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, 2013, was approximately $3.3 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 position; 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 the capital lease are shown **Table 23**.

(Amounts expressed in thousands unless otherwise noted)

Table 23
Capital Lease - Future Minimum Lease Payments

Fiscal Year		Amount
2014	$	40
2015		40
2016		40
2017		40
2018		11
Total minimum lease payments		171
Less: Amount representing interest		(19)
Net lease payments	$	152

Book Value

The book value of the equipment capital lease is as follows:

Table 24
Capital Lease - Book Value
At June 30, 2013

Capital Lease Property		Original Cost	Accumulated Amortization	Net Book Value
Equipment	$	310	173	137

The accumulated amortization of this equipment capital lease was $173 thousand as of June 30, 2013. The current year's portion is included in the Internal Service Funds' depreciation/amortization of $13.626 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.

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 2012, the San Diego County Capital Asset Leasing Corporation issued $29.335 million of fixed rate Certificates of Participation titled, 2012 Cedar and Kettner Development Project (the "Series 2012 Certificates"). The Series 2012 Certificates were issued at fixed interest rates ranging from 2.00% to 5.00% with maturity dates ranging from February 1, 2014 to February 1, 2042.

These Certificates were issued with a premium of $574 thousand. Certificate proceeds of $29.909 million along with the County's contribution of $8.26 million were distributed as follows: 1) $27.84 million was transferred to the construction fund used to pay construction costs on the Cedar and Kettner Development project; 2) $8.26 million is to be used for design and construction costs; 3) $1.663 million of proceeds were used to fund the Series 2012 Certificates' debt service reserve fund; 4) $142 thousand was used to pay the underwriter's discount; and 5) $264 thousand was set aside to pay certain costs of issuance. The interest on these Certificates is excludable from gross income for federal income tax purposes and is exempt from State of California income taxes.

(Amounts expressed in thousands unless otherwise noted)

Details of the COPs and LRBs outstanding at June 30, 2013 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, 2013
2003 San Miguel Consolidated Fire Protection District Refunding LRB	$ 10,005	2.00 - 5.00%	2020	$ 5,230
2005 Edgemoor Project COP	83,510	3.00 - 5.00%	2030	69,215
2005 Regional Communications System Refunding COP	28,885	3.00 - 5.00%	2019	8,710
2005 North & East Justice Facilities Refunding COP	28,210	3.25 - 5.00%	2020	16,140
2006 Edgemoor Completion Project COP	42,390	4.00 - 5.00%	2030	36,985
2009 Series A COC and Annex Project LRB	136,885	3.00 - 5.50%	2036	130,530
2009 Justice Facilities Refunding of 1998 Courthouse COP	32,640	2.00 - 5.00%	2023	21,765
2009 Justice Facilities Refunding of 1997 Central Jail COP	48,300	2.00 - 5.00%	2026	39,835
2011 Metropolitan Transit System Towers Refunding COP	19,260	1.00-5.00%	2020	15,175
2011 CAC Waterfront Park Project COP	32,665	3.00-5.00%	2042	32,090
2012 Cedar-Kettner Development Project COP	29,335	2.00-5.00%	2042	29,335
Total	$ 492,085			$ 405,010

Annual debt service requirements to maturity for COPs and Lease Revenue Bonds are as follows:

Table 26
Certificates of Participation and Lease Revenue Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2014	$ 20,600	18,664	$ 39,264
2015	19,880	17,861	37,741
2016	20,645	17,009	37,654
2017	21,565	16,073	37,638
2018	22,565	15,069	37,634
2019-2023	96,750	60,908	157,658
2024-2028	84,345	39,799	124,144
2029-2033	64,640	20,702	85,342
2034-2038	40,545	7,002	47,547
2039-2042	13,475	1,299	14,774
Subtotal	$ 405,010	214,386	$ 619,396
Add:			
Unamortized issuance premium	13,079		
Less:			
Unamortized deferred amounts on refundings	(3,927)		
Unamortized discount	(170)		
Total	$ 413,992		

(Amounts expressed in thousands unless otherwise noted)

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.

Details of POBs outstanding at June 30, 2013 are as follows:

Table 27
Taxable Pension Obligation Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2013
2002 Series A	$ 132,215	3.88 - 4.95%	2016	$ 51,990
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	45,225
2004 Series C Unaccreted Interest CABs				(2,925)
2008 Series A	343,515	3.33 - 6.03%	2027	315,545
Total	$ 929,843			$ 770,530

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
2014	$ 39,775	1,575	41,233	$ 82,583
2015	38,240	1,202	39,556	78,998
2016	32,755	148	38,380	71,283
2017	44,340		36,065	80,405
2018	46,995		33,413	80,408
2019-2023	280,535		120,270	400,805
2024-2027	277,990		27,137	305,127
Subtotal	$ 760,630	2,925	336,054	$1,099,609
Add:				
Accreted appreciation through June 30, 2013	32,317			
Less:				
Accreted appreciation paid through fiscal year 2013	(15,685)			
Less:				
Accreted appreciation to be paid in fiscal year 2014 (already included in the 2014 principal shown above)	(6,732)			
Subtotal	770,530			
Less:				
Unamortized deferred amounts on refundings	(1,462)			
Total	$ 769,068			

As shown in **Table 28**, the unpaid Taxable Pension Obligation Bonds' accreted appreciation as of June 30, 2013 was $16,632 (accreted appreciation through June 30 of $32,317 less $15,685 accretion paid through fiscal year 2013). Of this amount, $6,732 will be paid in fiscal year 2014; $2,955 will be paid in fiscal year 2015; and, $6,945 will be paid in fiscal year 2016.

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, and do not secure the repayment of the TSAB.

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 proceeds were placed into the endowment fund for the aforementioned purposes. The Series 2006 Bonds are limited obligations of the Authority, anticipated to reach final maturity in fiscal year 2036 based on receipts of future TSRs as projected in the May 2006 Global Insight Base Case analysis (the "Base Case") performed in conjunction with the issuance of the Series 2006 TSAB.

Under the terms of the 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 TSRs and earnings on such funds (collections).

The minimum payments under the TSAB are based on the indenture and the Series 2006 Supplement, both dated as of May 1, 2006. However, actual payments on the TSAB depend on the amount of TSRs received by the County. The amount of these TSRs is affected by cigarette consumption and the financial capability of the participating manufacturers. There are a number of risks associated with the amount of actual TSRs the County receives each year, including litigation affecting the participating manufacturers and possible bankruptcy as a result thereof, increased growth of non-participating manufacturer's market share, disputed payments set-aside by the participating manufacturers into an escrow account, a decline in cigarette consumption materially beyond forecasted levels, reduction in investment earnings due to unforeseen market conditions, and other future adjustments to the calculation of the TSRs.

No assurance can be given that actual cigarette consumption in the United States during the term of the TSAB will be as assumed in the Base Case, or that the other assumptions underlying these Base Case assumptions, including that certain adjustments and offsets will not apply to payments due under the MSA, will be consistent with future events. If actual events deviate from one or more of the assumptions underlying the Base Case, the amount of TSRs available to make payments, including Turbo Redemption Payments will be affected. No assurance can be given that these structuring assumptions, upon which the projections of the TSAB payments and Turbo Redemptions are based, will be realized.

(Amounts expressed in thousands unless otherwise noted)

Details of TSAB outstanding at June 30, 2013 are as follows:

Table 29
Tobacco Settlement Asset-Backed Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2013
Series 2006A Senior Current Interest Bonds	$ 534,610	4.75 - 5.125%	2018-2030	$ 486,360
Series 2006B CABs	19,770	6.25%	2032	94,284
2006B unaccreted appreciation CABs				(63,706)
Series 2006C CABs	8,686	6.40%	2033	47,097
2006C unaccreted appreciation CABs				(33,524)
Series 2006D CABs	20,565	7.10%	2036	153,091
2006D unaccreted appreciation CABs				(119,372)
Total	$ 583,631			$ 564,230

In the following schedule, the principal and interest payments are presented as if turbo redemptions will be made beginning June 1, 2014 through June 1, 2036 based upon the May 2006 Base Case analysis of the TSR collections to fund the Turbo Redemptions. Turbo Redemptions occur when all excess revenues after the payment of operating expenses, interest, and rated principal are used to retire term bonds early in order of maturity. The principal or accreted value of the TSAB must be paid by its stated maturity date to avoid an Event of Default under the Indenture. Under the Indenture, collections which are in excess of the requirements for, among other things, the periodic funding of operating expenses, sinking fund installments, turbo term bond maturities and replenishment of the Senior Liquidity Reserve Account are applied to the mandatory redemption of the TSAB at the principal amount or accreted value thereof on each distribution date in accordance with the payment priorities.

The April 2013 TSR receipts included one-time revenues in the amount of $13.966 million, resulting from a settlement related to the non-participating manufacturer (NPM) adjustment dispute for the years 2003 through 2012 ("Settlement Payment"). This one-time Settlement Payment supported the Turbo Redemption payment of $17.035 million on June 1, 2013, which is $4.5 million greater than the projected Turbo Redemption payment of $12.535 million as presented in the related Official Statement dated May 26, 2006 ("Official Statement").

With the exception of the June 1, 2013 Turbo Redemption, the overall turbo redemption of the Authority's Series 2006 Bonds has been and continues to be at a pace slower than what was projected when the Series 2006 Bonds were issued. The $48.25 million of bonds that have been turbo redeemed to date is $24.89 million less than the $73.14 million projected in the Official Statement to be redeemed through June 1, 2013.

Additionally, as a result of the Settlement Payment, the final maturity of the Series 2006 Bonds has shortened by one year to June 1, 2036. This final maturity is based on the TSR projections based on assumptions made at the time of issuance of the Series 2006 Bonds. As stated above, no assurance can be given that these structuring assumptions, upon which the projections of the Series 2006 Bonds Turbo Redemptions are based, will be realized.

Based on the Base Case assumptions, 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
2014	$ 14,200	5,258	24,398	$ 43,856
2015	13,400	5,617	23,727	42,744
2016	14,440	5,998	23,086	43,524
2017	15,585	6,402	22,396	44,383
2018	19,355	6,842	21,638	47,835
2019-2023	120,710	41,820	92,185	254,715
2024-2028	171,875	58,098	56,680	286,653
2029-2033	146,842	69,511	9,333	225,686
2034-2036	18,974	17,058		36,032
Subtotal	$ 535,381	216,604	273,443	$ 1,025,428
Add:				
Accreted appreciation through June 30, 2013	28,849			
Subtotal	564,230			
Less:				
Unamortized issuance discount	(12,880)			
Total	$ 551,350			

(Amounts expressed in thousands unless otherwise noted)

As shown in **Table 30**, the unpaid Tobacco Settlement Asset-Backed Bonds' accreted appreciation as of June 30, 2013 was $28,849. Of this amount, $24,343 will be paid in fiscal years 2030 through 2033; and $4,506 will be paid in fiscal year 2034.

TSAB pledged revenue for the year ended June 30, 2013 was as follows:

Table 31
Tobacco Settlement Asset-Backed Bonds - Pledged Revenues

Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Fiscal Year 2013 Debt Principal & Interest Paid	Fiscal Year 2013 Pledged Revenue Received
Series 2006 Tobacco Settlement Asset-Backed Bonds	2036	$ 1,054,275	$ 42,298	$ 41,349

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.

In November 2011, the County Board of Supervisors authorized the use of San Diego Gas & Electric (SDG&E) On Bill Financing (OBF) program to fund energy efficiency and demand response projects. This program will finance installations, modifications and upgrades at County-owned facilities such as lighting retrofits and controls and mechanical system upgrades with the goal of reducing utility costs. The financing is a zero percent interest loan which will be repaid from energy savings generated by each San Diego Gas and Electric meter.

In February 2013, the County of San Diego received its first On Bill Financing loan from SDG&E for lighting improvements in its El Cajon Library facility.

Details of loans outstanding at June 30, 2013 for governmental activities are as follows:

Table 32
Loans - Governmental Activities

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2013
Loans - non internal service funds (ISF)				
Firebird Manor	$ 4,486	1.00%	2028	$ 2,260
Total loans - non-ISF	4,486			2,260
Loans - ISF				
California Energy Comm Loan 1 (Facilities ISF)	1,977	4.00%	2015	343
California Energy Comm Loan 2 (Facilities ISF)	3,001	3.95%	2016	785
California Energy Comm Loan 3 (Facilities ISF)	2,565	4.50%	2018	1,745
San Diego Gas and Electric On Bill Financing (Facilities ISF)	38	0.00%	2017	36
Total loans - ISF	7,581			2,909
Total	$ 12,067			$ 5,169

(Amounts expressed in thousands unless otherwise noted)

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

Table 33
Loans - Governmental Activities
Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2014	$ 1,082	135	$ 1,217
2015	1,003	95	1,098
2016	503	65	568
2017	516	48	564
2018	528	29	557
2019-2023	761	62	823
2024-2028	776	23	799
Total	$ 5,169	457	$ 5,626

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, 2013 for business-type activities are as follows:

Table 34
Loans - Business-type Activities

Loan	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2013
2001 Airport Development Loan - Ramona Sewer Line	$ 2,388	5.63%	2017	$ 697
2001 Airport Development Loan - Ramona Control Tower	1,196	5.63%	2017	349
Total	$ 3,584			$ 1,046

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

Table 35
Loans - Business-type Activities
Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2014	$ 279	59	$ 338
2015	291	43	334
2016	304	27	331
2017	172	10	182
Total	$ 1,046	139	$ 1,185

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, 2013, the probable arbitrage rebate was zero.

(Amounts expressed in thousands unless otherwise noted)

NOTE 14
Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2013 were as follows:

Table 36

Changes in Long-Term Liabilities

	Beginning Balance at July 1, 2012	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2013	Amounts Due Within One Year
Governmental Activities:						
COPs, bonds & loans						
Certificates of participation and lease revenue bonds	$ 400,970	29,335	(25,295)		405,010	$ 20,600
Taxable pension obligation bonds	806,845		(38,700)	2,385	770,530	39,775
Tobacco settlement asset-backed bonds	576,340		(17,035)	4,925	564,230	14,200
Loans - non-internal service funds	2,401		(141)		2,260	142
Loans - internal service funds (ISF)	3,766	38	(895)		2,909	940
Unamortized issuance premiums	13,655	574	(1,150)		13,079	1,152
Unamortized issuance discounts	(14,125)		1,075		(13,050)	(1,076)
Unamortized deferred amounts on refundings	(5,896)		507		(5,389)	(506)
Total COPs, bonds & loans	$ 1,783,956	29,947	(81,634)	7,310	1,739,579	$ 75,227
Other long-term liabilities:						
Capital Leases - ISF	$ 185		(33)		152	$ 33
Claims and judgments - ISF	138,839	45,875	(28,162)		156,552	36,421
Compensated absences - non-ISF	96,281	67,355	(65,413)		98,223	37,626
Compensated absences - ISF	2,275	1,689	(1,696)		2,268	925
Landfill postclosure	19,465		(107)		19,358	791
Pollution remediation	7,904	518	(112)		8,310	4,155
Total Other long-term liabilities	264,949	115,437	(95,523)		284,863	79,951
Total Governmental Activities	$ 2,048,905	145,384	(177,157)	7,310	2,024,442	$ 155,178
Business-type activities:						
Loans	$ 1,313		(267)		1,046	$ 279
Compensated absences	421	309	(306)		424	173
Total Business-type Activities	$ 1,734	309	(573)		1,470	$ 452

(Amounts expressed in thousands unless otherwise noted)

NOTE 15
Funds Used to Liquidate Liabilities

The following funds presented in **Table 37** below have typically been used to liquidate other long-term obligations in prior years:

Table 37
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, Inactive Wastesites and Air Pollution; Internal Service Funds - Facilities Management, Fleet Services and Purchasing; and, Enterprise Funds - Airport and Wastewater Management
Landfill Postclosure	Special Revenue Fund: Inactive Wastesites
Pollution Remediation	General Fund, Special Revenue Fund: Inactive Wastesites

NOTE 16
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) twelve certificates of participation (COPs) for the acquisition, construction, capital improvement and equipping of various facilities and b) three mortgage revenue bonds for the construction and permanent financing of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate 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, 2013, the aggregate conduit debt principal amount outstanding was $257.26 million.

NOTE 17
Landfill Site 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 postclosure care liability at June 30, 2013 for the San Marcos Landfill was $19.358 million. This estimated amount is based on what it would cost to perform all postclosure care in calendar year 2013 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.

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.

NOTE 18
Pollution Remediation

Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishes accounting and reporting guidelines for the recognition and measurement of pollution remediation obligations (liabilities).

The County is involved in several remediation actions to clean up pollution sites within its boundaries. These matters generally coincide with the County's ownership of land, buildings and infrastructure assets. In some cases, regulatory agencies (e.g., California Regional Water Quality Control Board) notified the County of the need for remedial action. In addition, the County conducts its own environmental monitoring and this activity identifies pollution sites and matters requiring further investigation and possible remediation. Once the County is aware of these conditions, it commences monitoring, assessment, testing, and/or cleanup activities, and recognizes pollution remediation obligations when estimates can reasonably be determined.

The types of pollution that have been identified include leaking underground storage tanks, water, groundwater and soil contamination, and excessive levels of other contaminants. Remediation efforts include developing remediation and feasibility studies, source identification studies, site testing, sampling and analysis, ground water cleanup, removal of storage tanks and other hazardous materials.

As of June 30, 2013, the County's estimated pollution remediation obligations totaled $8.310 million. These obligations were all associated with the County's government-wide governmental activities. The estimated liabilities were determined by project managers and/or consultants, based on historical cost information for projects of the same type, size and complexity and measured at their current value or current quotes from outside service providers. In subsequent periods, the County will adjust estimated obligations when new information indicates that such changes are required. At this time, the County has determined there are no estimated recoveries reducing the obligations.

NOTE 19
Fund Balance Policy - General Fund

In 2011 the Board of Supervisors adopted the updated Policy B-71 “Fund Balance and Reserves” to establish guidelines regarding the maintenance of General Fund fund balance levels that will help to protect the fiscal health and stability of the County. This policy includes:

Fund Balance Committed To Unforeseen Catastrophic Events: The amount of fund balance committed to unforeseen catastrophic events shall be targeted at the equivalent of 5% of the total amount of budgeted general purpose revenue. The establishment of this fund balance commitment is governed by Government Code §29085-29086, which allows the amount to be increased or decreased at the time the budget is adopted, but once the budget is adopted, it may only be used for legally declared emergencies as defined in Government Code §29127. The Board may waive the requirement to maintain the fund balance at the targeted level specified if it finds that it is in the best interest of the residents of the County to so do. This commitment is reported on the General Fund's Balance Sheet.

General Fund Minimum Fund Balance: In order to be prepared for broader levels of economic uncertainty, the minimum level of Unassigned fund balance in the General Fund shall be targeted at the equivalent of 10% of the total amount of budgeted general purpose revenue. The Board may waive the requirement to maintain the fund balance at the targeted level specified if it finds that it is in the best interest of the residents of the County to so do. To the extent that fund balance is available in excess of that amount, the Chief Administrative Officer (CAO) may recommend the appropriation or commitment of the available balance for one time purposes. The recommendations may appear in the CAO Proposed Operational Plan or as an agenda item for a regularly scheduled meeting of the Board. In fiscal year 2010 the County Board of Supervisors took action to set aside $100 million of the General Fund's fund balance for future economic uncertainty. This amount is included in the Unassigned fund balance classification on the General Fund's Balance Sheet.

(Amounts expressed in thousands unless otherwise noted)

Restoration of Fund Balances: In the event that the fund balance commitment for unforeseen catastrophic events or the General Fund Minimum Unassigned fund balance falls below targeted levels, the CAO will present a plan to the Board of Supervisors for restoration of those targeted levels.

NOTE 20
Fund Balances Restricted for Laws or Regulations of Other Governments: Fund Purpose

At June 30, 2013, the fund balances restricted for laws or regulations of other governments: fund purpose are presented in **Table 38** as follows:

Table 38
Fund Balances Restricted for Laws or Regulations of Other Governments: Fund Purpose
At June 30, 2013

Fund Type:	Purpose		Amount
Major Fund			
Public Safety Fund	Public safety activities	$	55,377
Nonmajor Funds			
Special Revenue Funds			
Air Pollution Fund	Air pollution activities	$	20,524
Asset Forfeiture Program Fund	Law enforcement		7,931
County Library Fund	Library services		9,650
County Service District Funds	Road, park lighting maintenance, fire protection and ambulance services		17,703
Edgemoor Development Fund	Edgemoor development		14,326
In Home Supportive Services Public Authority Fund	In home supportive services		83
Inmate Welfare Fund	Benefit, education, and welfare of jail inmates		10,588
Lighting Maintenance District Fund	Street and road lighting maintenance		1,369
Other Special District Funds	Retracement or remonument surveys, improvements for grazing lands, wildlife propagation and aviation purposes capital improvements and repairs		667
Park Land Dedication Fund	Developing new or rehabilitating existing neighborhood or community park or recreational facilities		11,684
Total Nonmajor Funds (Special Revenue Funds)		$	94,525
Total Fund Balances Restricted for Laws or Regulations of Other Governments: Fund Purpose		$	149,902

(Amounts expressed in thousands unless otherwise noted)

NOTE 21
Fund Balances Restricted for Laws or Regulations of Other Governments: Other Purposes

At June 30, 2013, the fund balances restricted for laws or regulations of other governments: other purposes are presented in **Table 39** as follows:

Table 39
Fund Balances Restricted for Laws or Regulations of Other Governments: Other Purposes
At June 30, 2013

Major Fund		
General Fund		
Custody of non-violent, non-serious, non-sex offenders and supervision of post release offenders	$	55,163
Improvement and maintenance of recorded document systems		21,424
Defray administrative costs, other general restrictions		18,303
Vector control		14,295
Teeter tax loss		11,868
Mental health		8,838
Fire safety projects and equipment		8,796
Fingerprinting equipment purchase and operation		7,910
Parks and Rec rea ton land acquisition, improvements, stewardship and other activities		4,925
Sheriff automated warrant system		4,729
Probation Department activities		4,019
Public Defender defense of indigent cases		3,902
Emergency medical services, various construction costs		3,531
Real estate fraud prosecution		3,017
Domestic violence and child abuse prevention		2,499
Sheriff law enforcement		2,211
Sheriff vehicle maintenance and replacement		1,947
Parole revocation hearings		1,138
Equipment replacement/system enhancement Caller ID Remote Access Network		1,072
Projects, programs and services that benefit Crest -Dehesa - Harbison Canyon - Granite Hills sub-region		884
Administration, operation and conservation of trails, paths or other facilities for off-highway motor vehicles		535
Acquisition, rehabilitation, construction and financing of courtrooms, courtroom building or court facilities		242
Social services child safety education		88
Probation community transition unit activities		205
Total General Fund	$	181,541
Nonmajor Funds		
Special Revenue Funds		
Flood Control District Fund		
Flood control future drainage improvements	$	23,442
Housing Authority Fund		
Housing repairs and improvements		154
Disaster related administration		44
Total Nonmajor Funds (Special Revenue Funds)	$	23,640
Total Fund Balances Restricted for Laws or Regulations of Other Governments: Other Purposes	$	205,181

(Amounts expressed in thousands unless otherwise noted)

NOTE 22
Fund Balances Committed to Other Purposes

At June 30, 2013, the fund balances committed to other purposes are presented in **Table 40** as follows:

Table 40
Fund Balances Committed To Other Purposes At June 30, 2013

Major Fund		
General Fund		
Regional communication system infrastructure enhancements	$	16,549
Replacement and upgrade of Public Safety Communication System		16,300
Health based programs reducing adult/youth smoking		8,119
Sheriff's Department future capital expenditures		6,000
Department of Environmental Health services		3,273
Sheriff's Department helicopter replacement		2,664
San Diego Fire Authority equipment replacement		1,883
Parks and Recreation land acquisition		1,446
Department of Planning and Land Use services		659
Management of conduit financing programs		574
Future lease payments		454
Registrar of Voters equipment acquisition		445
Future replacement of Health and Human Services Agency public health clinic		431
Assessor/Recorder/County Clerk services		111
South County Shelter capital improvements		58
Capital Improvement		12
Senior Volunteer Patrols Program in the unincorporated communities		9
Clerk of the Board services		5
Parks and Recreation turf replacement Sweetwater Valley		4
Total General Fund	$	58,996
Nonmajor Funds		
Special Revenue Funds		
Inactive Wastesites Fund		
Landfill postclosure and landfill maintenance	$	59,809
Total Nonmajor Funds (Special Revenue Funds)		59,809
Total Fund Balances Committed to Other Purposes	$	118,805

NOTE 23
Fund Balances Assigned to Other Purposes

At June 30, 2013, the fund balances assigned to other purposes are presented in **Table 41** as follows:

Table 41
Fund Balances Assigned to Other Purposes At June 30, 2013

Major Fund		
General Fund		
Legislative and administrative services	$	16,188
Health, mental health and social services		14,095
Law enforcement, detention, legal and other protection services		10,267
Park and recreation services		3,527
Planning, land use, agriculture, watershed and other public services		3,323
Assessor/Recorder/County Clerk services		2,218
Maintenance		843
Treasurer-Tax Collector services		709
Fire protection		396
Animal Services		316
Registrar of Voters services		103
Total General Fund	$	51,985

(Amounts expressed in thousands unless otherwise noted)

NOTE 24
Net Position Restricted for Laws or Regulations of Other Governments: Other Purposes

At June 30, 2013, the net position restricted for laws or regulations of other governments: other purposes are presented in **Table 42** as follows:

Table 42
Net Position Restricted for Laws or Regulations of Other Governments: Other Purposes
At June 30, 2013

Custody of non-violent, non-serious, non-sex offenders and supervision of post release offenders	$	55,163
Air pollution activities		20,524
Road, park lighting maintenance, fire protection and ambulance services		17,703
Edgemoor development		14,326
Developing new or rehabilitating existing neighborhood or community park or recreational facilities		11,684
Benefit, education, and welfare of jail inmates		10,588
Library services		9,650
Fire safety projects and equipment		8,796
Law enforcement		7,931
Fingerprinting equipment purchase and operation		7,910
Parks and Recreation land acquisition, improvements, stewardship and other activities		4,925
Sheriff automated warrant system		4,729
Probation Department activities		4,019
Public Defender defense of indigent cases		3,902
Emergency medical services, various construction costs		3,531
Real estate fraud prosecution		3,017
Domestic violence and child abuse prevention		2,499
Sheriff law enforcement		2,211
Sheriff vehicle maintenance and replacement		1,947
Street and road lighting maintenance		1,369
Parole revocation proceedings		1,138
Equipment replacement/system enhancement Caller ID Remote Access Network		1,072
Projects, programs and services that benefit Crest - Dehesa - Harbison Canyon - Granite Hills sub-region		884
Retracement or remonument surveys, improvements for grazing lands, wildlife propagation and aviation purpose capital improvements and repairs		667
Administration, operation and conservation of trails, paths or other facilities for off-highway motor vehicles		535
Acquisition, rehabilitation, construction and financing of courtrooms, courtroom building or court facilities		242
Probation community transition unit activities		205
Housing repairs and improvements		154
Social services child safety education		88
In home supportive services		83
Disaster related administration		44
Total Net Position Restricted for Laws or Regulations of Other Governments: Other Purposes	$	201,536

NOTE 25
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.

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.

(Amounts expressed in thousands unless otherwise noted)

At June 30, 2013, these liabilities discounted for anticipated investment return (public liability of 1% and workers' compensation of 2.5%), totaled $157 million, including $24 million in public liability and $133 million in workers' compensation. Changes in the balances of claim liabilities for fiscal year 2013 and 2012 are shown below:

Table 43
Risk Management - Changes in Claim Liabilities

	2013	2012
Employee Benefits Fund		
Unpaid claims, July 1	$ 112,960	$ 106,563
Incurred claims	46,323	28,057
Claim payments	(26,779)	(21,660)
Unpaid claims, June 30	$ 132,504	$ 112,960
Public Liability Insurance Fund		
Unpaid claims, July 1	$ 25,879	$ 29,036
Incurred claims	(448)	4,245
Claim payments	(1,383)	(7,402)
Unpaid claims, June 30	$ 24,048	$ 25,879

NOTE 26
Contingencies

Litigation

The County has a potential liability of $26.7 million that could result if unfavorable final decisions are 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 $175.73 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 liabilities in the appropriate proprietary funds and the statement of net position.

Federal and State Programs

Amounts received or receivable from grantor 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 27
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 $1.3 million shared equally by the City and the County to supplement its operating revenues. In its latest report, SanGIS reported an increase in net assets of $80 thousand and ending net assets of $320 thousand for the fiscal year ended June 30, 2012. The financial report may be obtained by writing to SanGIS at 5510 Overland Ave., Suite 230, San Diego CA 92123 or by calling (858) 874-7000 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 a decrease in net assets of $53 thousand and ending net assets of $305 thousand for the fiscal year ended June 30, 2012. 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, 2012, the Partnership reported a decrease in net assets of $201 thousand and ending net assets of $435 thousand. Complete financial reports may be obtained by writing to the San Diego Workforce Partnership, 3910 University Ave., Suite 400, San Diego CA 92105 or by calling (619) 228-2900.

In November 2011, the County of San Diego, which oversees the San Diego County Regional Fire Authority, agreed to be a participant in the Heartland Fire Training Authority, to be effective July 1, 2012. The Authority includes eight other member agencies and was formed for the purposes of jointly equipping, maintaining, operating, and staffing to provide training of fire-fighting and emergency response personnel to member agencies. It is governed by a Commission that consists of elected officials from each agency and also a Board of Chiefs from each respective agency. The District 2 County Supervisor serves as the County appointee on the Heartland Fire Training Authority Commission and the County's Fire Warden serves as the County appointee on the Heartland Fire Training Authority Board of Fire Chiefs. The training facility will be funded and operated by the joint powers agreement to supply shared resources of equipment, maintenance, operations, and training. In its latest report, Heartland Fire Training Authority reported a decrease in net assets of $228 thousand and ending net assets of $78 thousand for the fiscal year ended June 30, 2012. The financial report may be obtained by writing to Heartland Fire Training Authority at 1301 North Marshall Ave., El Cajon CA 92020 or by calling (619) 441-1693.

NOTE 28
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 five Tiers and provides retirement, disability, death and survivor benefits to its General and Safety members. Tier C is the current open system for most new members. Tiers I, A, and B are generally 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. California Government Code Section 31454 requires the Board of Supervisors to adjust the rates of the San Diego County employer and employee retirement contributions in accordance with the recommendations of the Board of Retirement of SDCERA.

(Amounts expressed in thousands unless otherwise noted)

The actuarially determined rates adopted by SDCERA established the average member contribution rate at 10.80% for General Tiers I, A, and B; and Safety Tiers A and B members, combined, and set the employer contribution rate for the above categories combined at 29.96%. The General Tier C average member and employer contribution rates were established at 7.05% and 20.97%, respectively. The Safety Tier C average member and employer contribution rates were established at 12.58% and 32.76%, respectively. The Board of Supervisors chose to adopt non-Tier C employer contribution rates at a level higher than the levels recommended by the actuary in order to pay down the unfunded actuarial accrued liability (UAAL) of the retirement fund and to help position the County and other member employers for an expected further increase in rates in Fiscal Year 2013-14. The average employer contribution rate for all non-Tier C categories combined adopted by the Board of Supervisors was 31.24%.

CoSD employer contributions to SDCERA-PP for the three years ended June 30, 2013, which equaled or exceeded the required contributions are noted in **Table 44**.

Table 44

CoSD Employer Contributions - SDCERA - PP

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2013	$ 273,852	$ 281,548	102.8%
2012	249,891	255,233	102.1%
2011	186,979	214,978	115.0%

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, 2013, 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
2013	$ 17,236	$ 17,272	100.2%
2012	17,429	17,600	101.0%
2011	16,239	16,239	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.

NOTE 29
Fund Deficit

Table 46

Fund Deficit
At June 30, 2013

Internal Service Fund:	
Employee Benefits Fund	$ (28,648)

The Employee Benefits Fund deficit of $28.6 million resulted primarily from the accrual of the estimated liability and costs associated with the reported and unreported workers' compensation claims as prepared by an actuary for the reporting period ending June 30, 2013. The liability increased to $132.5 million from the prior year's estimate of $113.0 million. The County intends to reduce the deficit through increased premium rate charges to County departments by $3.0 million per year in excess of projected operating expenses beginning in fiscal year 2014.

NOTE 30

Subsequent Events

Tax and Revenue Anticipation Notes

In July 2013, the County issued tax and revenue anticipation notes (TRANS) totaling $60 million due June 30, 2014 at a coupon rate of 2.00% and a yield of 0.17%. Proceeds from the notes will be used to meet fiscal year 2014 cash flow requirements. Fiscal year 2014 unrestricted revenues collateralize the notes.

NOTE 31

County of San Diego Successor Agency Private Purpose Trust Fund for Assets of Former San Diego County Redevelopment Agency

On December 29, 2011, the California Supreme Court upheld Assembly Bill x1 26 (“the Bill”) that provided for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the County that previously had reported the San Diego County Redevelopment Agency (SDCRA) as a blended component unit.

The Bill provided that upon dissolution of a redevelopment agency, either the County or another unit of local government would agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. On January 24, 2012, via Minute Order 14, the County Board of Supervisors designated the County as the successor agency to the SDCRA; in accordance with the Bill.

Subject to the control of an established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will continue to only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

After the date of dissolution, as allowed in the Bill, the County elected to retain the housing assets and functions previously performed by the former SDCRA. These assets and activities are accounted for in the County Housing Fund and are reported in the County's governmental fund financial statements. The remaining assets, liabilities, and activities of the dissolved SDCRA are reported in the County of San Diego Successor Agency Private Purpose Trust Fund (fiduciary fund) financial statements of the County.

Due To Other Funds

The County of San Diego Successor Agency Private Purpose Trust Fund’s “Due To Other Funds” consists of the $1.041 million Upper San Diego River Project and $3.850 million Airport Projects loans made from the County's General Fund and Airport Enterprise Fund, respectively, to the former San Diego County Redevelopment Agency (SDCRA). Upon dissolution of the SDCRA on February 1, 2012, these loans were transferred to the County of San Diego Successor Agency Private Purpose Trust Fund. Interest accrues on the average quarterly outstanding balance, at a rate equal to the average County earned investment rate as determined by the County Treasurer. Under California Assembly Bills ABx1 26 and AB 1484, it is expected that the County Successor Agency will pay principal and interest on the loans outstanding when funds are available for this purpose. The timing and total amount of any repayment is subject to applicable law.

(Amounts expressed in thousands unless otherwise noted)

NOTE 32

San Diego County Redevelopment Agency (SDCRA) Revenue Refunding Bonds

In December 2005, the San Diego County Redevelopment Agency (SDCRA) issued $16 million Revenue Refunding Bonds Series 2005A that mature in fiscal year 2033. The SDCRA 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. Pursuant to California Assembly Bill ABx1 26, the responsibility for the payment of this debt was transferred to the County of San Diego Successor Agency Private Purpose Trust Fund.

SDCRA revenue refunding bonds outstanding at June 30, 2013 were the following:

Table 47
SDCRA Revenue Refunding Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2013
Revenue Refunding Bonds Series 2005A	$ 16,000	3.65 - 5.75%	2033	$ 13,510
Total	$ 16,000			$ 13,510

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

Table 48
SDCRA Revenue Refunding Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2014	$ 415	728	$ 1,143
2015	430	708	1,138
2016	455	686	1,141
2017	475	662	1,137
2018	500	637	1,137
2019-2023	2,915	2,755	5,670
2024-2028	3,790	1,847	5,637
2029-2033	4,530	620	5,150
Total	$ 13,510	8,643	$ 22,153
Less:			
Unamortized issuance discount	(33)		
Total	$ 13,477		

SDCRA pledged revenue for the year ended June 30, 2013 was as follows:

Table 49
SDCRA Revenue Refunding Bonds -Pledged Revenues

			Fiscal Year 2013	
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2005A Revenue Refunding Bonds	2033	$ 22,153	$ 1,144	$ 1,144

Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2013 were as follows:

Table 50
SDCRA Changes in Long-Term Liabilities

	Beginning Balance at July 1, 2012	Additions	Reductions	Ending Balance at June 30, 2013	Amounts Due Within One Year
SDCRA revenue refunding bonds Series 2005A	$ 13,905		(395)	13,510	$ 415
Unamortized issuance discounts	(35)		2	(33)	(2)
Total Private Purpose Trust Fund Debt	$ 13,870		(393)	13,477	$ 413

NOTE 33
New Governmental Accounting Standards
Implementation Status

In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. A transferor reports the facility subject to an SCA as its capital asset, generally following existing measurement, recognition, and disclosure guidance for capital assets. New facilities constructed or acquired by the operator or improvements to existing facilities made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred inflow of resources. Revenue is recognized by the transferor in a systematic and rational manner over the term of the arrangement.

This Statement also provides guidance for governments that are operators in an SCA. The governmental operator reports an intangible asset at cost for its right to access the facility and collect third-party fees; it amortizes the intangible asset over the term of the arrangement in a systematic and rational manner. For existing facilities, a governmental operator's cost may be the amount of an up-front payment or the present value of installment payments. For new or improved facilities, a governmental operator's cost may be its cost of improving an existing facility or constructing or acquiring a new facility.

For revenue sharing arrangements, this Statement requires governmental operators to report all revenues and expenses. A transferor reports its portion of the shared revenues.

This Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments.

This Statement is effective for periods beginning after December 15, 2011.

The application of the guidance for financial reporting and disclosures of service concession arrangements did not have a material impact on the County's basic financial statements.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012.

The County has implemented this Statement for the current fiscal year.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.*

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

Financial Accounting Standards Board (FASB) Statements and Interpretations

Accounting Principles Board Opinions

Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011.

The County has implemented this Statement for the current fiscal year.

In June 2011, GASB issued Statement No. 63: *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011.

The County has implemented the portions of this statement pertaining to the standards for reporting net position. The remaining standards are not currently 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 2012, GASB issued Statement No. 65: *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.

This Statement is effective for periods beginning after December 15, 2012.

In March 2012, GASB issued Statement No. 66: *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to resolve conflicting accounting and financial reporting guidance that resulted from the issuance of two recent standards-Statement No. 54, *Fund Balance Reporting and Governmental Fund Type* Definitions, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement provides guidance on how to address conflicts in those pronouncements with Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, and Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases.*

The provisions of this Statement are effective for periods beginning after December 15, 2012.

In June 2012, GASB issued Statement No. 67: *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

This Statement is effective for fiscal years beginning after June 15, 2013.

This Statement does not apply to the basic financial statements of the County. The County contributes to a cost-sharing multiple-employer defined benefit pension plan.

In June 2012, GASB issued Statement No. 68: *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

This Statement establishes a definition of a pension plan that reflects the primary activities associated with the pension arrangement-determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans - pension plans in which pensions are provided to the employees of only one employer.

Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans - pension plans in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans - pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. Some governments extend financial guarantees for the obligations of another government, a not-for-profit entity, or a private entity without directly receiving equal or approximately equal value in exchange (a nonexchange transaction). As a part of this nonexchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a nonexchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The amount of the liability to be recognized should be the discounted present value of the best estimate of the future outflows related to the guarantee expected to be incurred. When there is no best estimate but a range of the estimated future outflows can be established, the amount of the liability to be recognized should be the discounted present value of the minimum amount within the range.

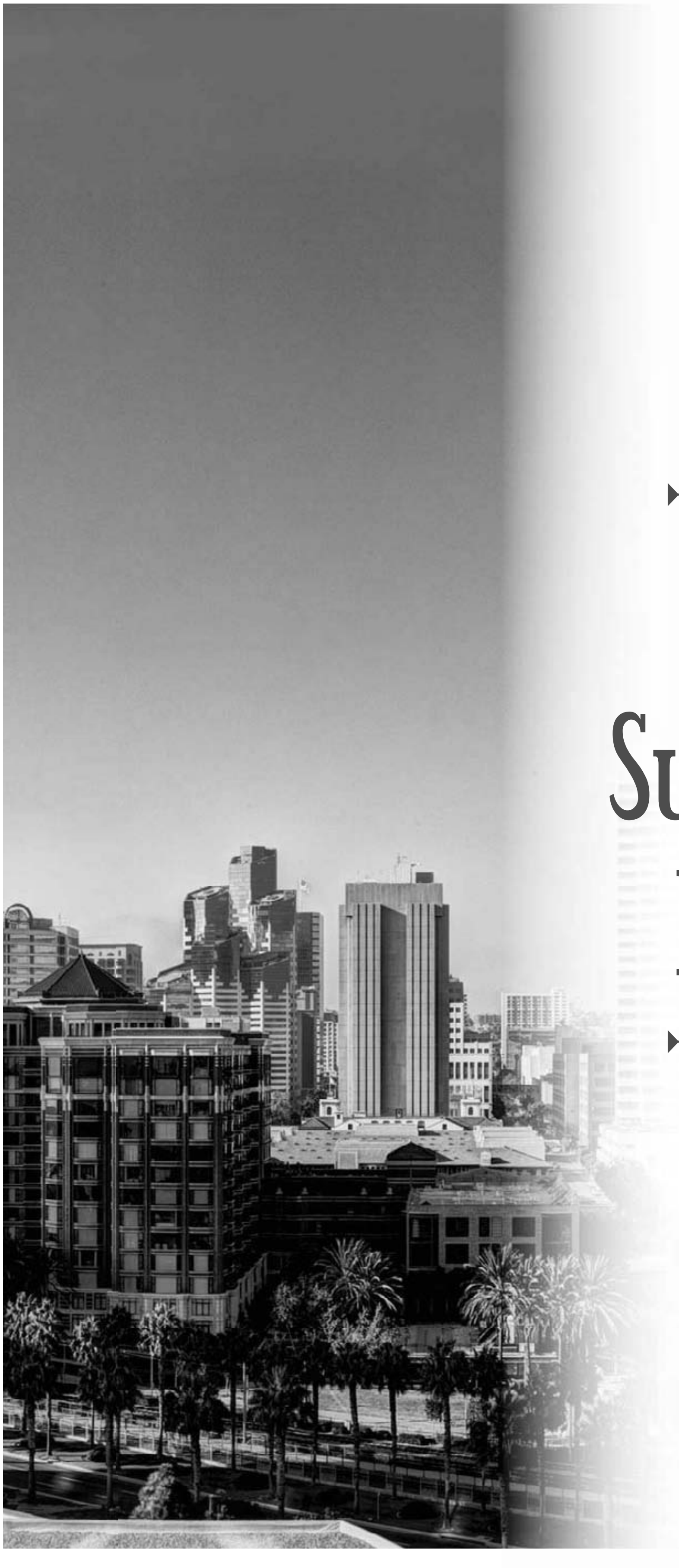
This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

This Statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

Except for disclosures related to cumulative amounts paid or received in relation to a financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a financial guarantee may be applied prospectively.

The provisions of this Statement are effective for reporting periods beginning after June 15, 2013.

Downtown San Diego



Required Supplementary Information

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

General Fund

For the Year Ended June 30, 2013
(In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Taxes	$ 894,262	894,262	904,358
Licenses, permits and franchise fees	41,563	41,563	43,255
Fines, forfeitures and penalties	55,793	55,943	45,523
Revenue from use of money and property	14,153	14,153	12,785
Aid from other governmental agencies:			
State	1,047,150	1,032,621	1,057,850
Federal	899,855	950,518	816,640
Other	65,097	59,072	116,303
Charges for current services	324,100	326,559	336,888
Other	31,861	32,396	27,122
Total revenues	3,373,834	3,407,087	3,360,724
Expenditures:			
Current:			
General government:			
Assessor/recorder/county clerk - finance	37,462	37,462	35,653
Auditor and controller	28,831	27,539	25,212
Auditor and controller - information technology management services	8,215	9,508	7,974
Board of supervisors district #1	1,300	1,500	1,248
Board of supervisors district #2	1,283	1,358	1,237
Board of supervisors district #3	1,259	1,418	1,142
Board of supervisors district #4	1,259	1,459	1,086
Board of supervisors district #5	1,374	1,526	1,345
Board of supervisors general office	1,073	1,073	1,023
Chief administrative office - legislative and administrative	4,299	4,299	4,135
Civil service commission	564	564	555
Clerk of the board of supervisors - legislative and administrative	3,263	3,274	3,010
Community enhancement	2,506	2,506	2,501
Community projects	6,763	6,429	5,827
Community services	7,684	7,564	1,843
Contributions to capital outlay			
County administration center major maintenance	78	78	72
County communications office	2,815	2,815	2,536
County counsel	22,340	22,340	21,134
County technology office	10,547	15,113	8,009
Countywide general expense	40,083	40,083	5,511
Finance and general government - legislative and administrative	4,080	1,580	1,549
Finance and general government - other general	32,605	34,105	9,899
Finance and general government group	2,330	3,330	2,918
Health and human services - legislative and administrative	712	712	441
Human resources - other general government	4,822	4,821	4,112
Human resources - personnel	19,962	19,961	15,788
Land use and environment - legislative and administrative	6,967	6,967	4,283
Public safety - legislative and administrative	9,298	9,298	6,446
Registrar of voters	19,628	19,628	18,420
Treasurer - tax collector	21,348	21,848	18,431
Total general government	$ 304,750	310,158	213,340

Continued on next page

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, 2013
(In Thousands)
(Continued)

	Original Budget	Final Budget	Actual
Public protection:			
Agriculture, weights and measures	$ 15,097	15,017	14,130
Agriculture, weights and measures - sealer	3,506	3,506	3,444
Assessor/recorder/county clerk - other protection	20,507	20,507	14,302
Child support	49,191	49,190	43,585
Citizens law enforcement review board	587	587	528
Contributions for trial courts	71,658	71,658	69,655
Department of animal services	15,144	15,331	14,424
District attorney-judicial	147,857	147,915	137,013
Grand jury	589	638	571
Local agency formation commission administration	342	342	342
Medical examiner	8,678	8,654	8,207
Office of emergency services	9,971	10,612	7,368
Planning and development services		20,671	14,062
Planning and land use - other protection	29,731	11,067	8,879
Probation - adult detention	3,053	3,053	1,572
Probation - detention and correction	142,512	142,137	128,805
Probation - juvenile detention	45,449	45,449	43,466
Public defender	70,604	70,604	64,738
Public safety - fire protection	25,188	25,738	17,638
Public works, flood control, soil and water, general	12,657	12,658	10,259
Public works, general - other protection	918	918	7
Sheriff - adult detention	205,413	204,630	203,747
Sheriff - other protection	2,487	2,584	2,199
Sheriff - police protection	402,510	409,745	369,288
Total public protection	1,283,649	1,293,211	1,178,229
Public ways and facilities:			
Public works, dept of gen	1,285	645	176
Public works, general - public ways	910	1,583	1,265
Total public ways and facilities	2,195	2,228	1,441
Health and sanitation:			
Environmental health	45,741	45,800	37,292
Health and human services agency - drug and alcohol abuse services	60,150	56,200	52,517
Health and human services agency - health	157,037	153,905	128,624
Health and human services agency - health administration	1,302	1,302	829
Health and human services agency - medical care	208,654	263,199	268,533
Health and human services agency - mental health	334,172	318,322	301,909
Total health and sanitation	807,056	838,728	789,704
Public assistance:			
Health and human services agency - other assistance	383,494	368,366	339,284
Health and human services agency - social administration	729,434	727,647	670,887
Health and human services agency - veterans' services	916	916	917
Housing authority	33,125	32,544	17,361
Probation - care of court wards	10,200	10,800	11,091
Total public assistance	1,157,169	1,140,273	1,039,540

Continued on next page

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, 2013
(In Thousands)
(Continued)

		Original Budget	Final Budget	Actual
Education:				
Agriculture, weights and measures		952	1,032	948
Total education		952	1,032	948
Recreation and cultural:				
Parks and recreation		32,989	33,516	28,732
Total recreation and cultural	$	32,989	33,516	28,732
Contingency reserve	$	20,000	20,000	
Capital outlay		20,405	25,222	17,599
Debt service:				
Principal		28,198	28,386	24,670
Interest		22,840	22,942	19,203
Total expenditures		3,680,203	3,715,696	3,313,406
Excess (deficiency) of revenues over (under) expenditures		(306,369)	(308,609)	47,318
Other financing sources (uses):				
Sale of capital assets				71
Transfers in		275,332	267,244	263,203
Transfers out		(483,468)	(478,629)	(196,867)
Total other financing sources (uses)		(208,136)	(211,385)	66,407
Net change in fund balances		(514,505)	(519,994)	113,725
Fund balances at beginning of year		1,487,847	1,487,847	1,487,847
Increase (decrease) in nonspendable inventories			(150)	(150)
Fund balances at end of year	$	973,342	967,703	1,601,422

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, 2013
(In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Aid from other governmental agencies:			
State	$ 220,537	219,818	237,733
Total revenues	220,537	219,818	237,733
Expenditures:			
Current:			
Public protection:			
Public safety (Prop 172)	1,500	1,500	
Total public protection	1,500	1,500	
Total expenditures	1,500	1,500	
Excess (deficiency) of revenues over (under) expenditures	219,037	218,318	237,733
Other financing sources (uses):			
Transfers out	(228,992)	(228,273)	(224,667)
Total other financing sources (uses)	(228,992)	(228,273)	(224,667)
Net change in fund balances	(9,955)	(9,955)	13,066
Fund balances at beginning of year	42,311	42,311	42,311
Fund balances at end of year	$ 32,356	32,356	55,377

See notes to required supplementary information.

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

Tobacco Endowment Fund

For the Year Ended June 30, 2013
(In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Revenue from use of money and property	$ 10,500	10,500	820
Total revenues	10,500	10,500	820
Expenditures:			
Current:			
General government:			
Tobacco settlement	3,300	3,300	139
Total general government	3,300	3,300	139
Total expenditures	3,300	3,300	139
Excess (deficiency) of revenues over (under) expenditures	7,200	7,200	681
Other financing sources (uses):			
Transfers out	(24,200)	(24,200)	(24,189)
Total other financing sources (uses)	(24,200)	(24,200)	(24,189)
Net change in fund balances	(17,000)	(17,000)	(23,508)
Fund balances at beginning of year	370,878	370,878	370,878
Fund balances at end of year	$ 353,878	353,878	347,370

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 Deputy Chief Administrative Officer/ Auditor and Controller 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 provisions of the Site Lease, the Facility Lease, the Assignment Agreement and the Trust Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Series 2014 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 those amounts payable by the County under and pursuant to the Facility Lease as summarized herein under the caption "FACILITY LEASE - Rental Payments - Additional Payments."

"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 September 1, 2014, by and between the Corporation and the Trustee, as it may from time to time be amended.

"Authorized Denominations" means $5,000 or any integral multiple thereof.

"Average Annual Debt Service" means an amount equal to the average of the Annual Debt Service for all Lease Years, including the Lease Year in which the calculation is made.

"Base Rental Payment Fund" means the fund by that name established in accordance with the Trust Agreement.

"Base Rental Payments" means the aggregate base rental payments with interest components and principal components payable by the County under and pursuant to the Facility Lease, as summarized herein under the caption "FACILITY LEASE - Rental Payments - Base Rental Payments."

"Beneficial Owner" shall have the meaning set forth in the Continuing Disclosure Agreement.

"Business Day" means a day other than (i) Saturday or Sunday or (ii) a day on which banking institutions in Los Angeles, California, New York, New York, or the city or cities in which the principal corporate trust office of the Trustee are closed or (iii) a day on which the New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Trust Agreement, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Trust Agreement, and, unless otherwise specifically provided in the Trust Agreement, no interest shall accrue for the period from and after such nominal date.

“Certificate, Statement, Written Request or Requisition of the Corporation or the County” means, respectively, a written certificate, statement, request or requisition signed in the name of the Corporation by its Chair, Vice Chair, Secretary or Assistant Secretary, or any other person designated and authorized to sign for the Corporation in writing to the Trustee, and with respect to the County means the Deputy Chief Administrative Officer/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 Series 2014A Certificates and the Series 2014B Certificates.

“Closing Date” means September 3, 2014.

“Code” means the Internal Revenue Code of 1986, as amended, and the regulations of the United States Department of the Treasury issued thereunder, and in this regard reference to any particular section of the Code shall include reference to all successors to such section of the Code.

“Construction Costs” means all costs of constructing the Project, including, but not limited to:

(1) all costs which the Corporation or the County shall be required to pay to a manufacturer, vendor or contractor or any other person under the terms of any contract or contracts for the construction, installation or improvement of the Project;

(2) obligations of the Corporation, the County or others incurred for labor and materials (including obligations payable to the Corporation, the County or others for actual out-of-pocket expenses of the Corporation, the County or others) in connection with the construction, installation or improvements of the Project, including reimbursement to the Corporation, the County or others for all advances and payments made in connection with the Project prior to or after delivery of the Certificates.

(3) the costs of performance or other bonds and any and all types of insurance that may be necessary or appropriate to have in effect during the course of construction, installation or improvement of the Project;

(4) all costs of engineering and architectural services, including the actual out-of-pocket costs of the Corporation or the County for test borings, surveys, estimates, plans and specifications and preliminary investigations therefor, development fees and sales commissions, and for supervising construction, installation and improvement, as well as for the performance of all other duties required by or consequent to the proper construction, installation or improvement of the Project; and

(5) any sums required to reimburse the Corporation or the County for advances made by the Corporation or the County for any of the above items or for any other costs incurred and for work done by the Corporation or the County which are properly chargeable to the construction, installation or improvement of the Project.

“Construction Fund” means the fund by that name established in accordance with the Trust Agreement.

“Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement between the County and the Dissemination Agent dated the date of execution and delivery of the

Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Corporation" means the San Diego County Capital Asset Leasing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

"Cost of Issuance Fund" means the fund by that name established in accordance with the Trust Agreement.

"Costs of Issuance" means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Site Lease, the Facility Lease, the Assignment Agreement, the Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees; financial advisor fees; title insurance fees; market study fees; legal fees and expenses of counsel with respect to the lease of the Leased Property; any computer and other expenses incurred in connection with the Certificates; the fees and expenses of the Trustee, including fees and expenses of its counsel; and other fees and expenses incurred in connection with the execution of the Certificates, to the extent such fees and expenses are approved by the County.

"County" means the County of San Diego, a political subdivision duly organized and existing under the Constitution and laws of the State of California.

"Defeasance Securities" means any of the following:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation),

(2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

- U.S. treasury obligations;
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA); and
- State and Local Government Series

"DTC" means The Depository Trust Company, New York, New York, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for the Certificates including any such successor appointed pursuant to the Trust Agreement.

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

"Event of Default" means (1) with respect to any Event of Default under the Trust Agreement, any occurrence or event specified in and defined by the provisions of the Trust Agreement under the caption "TRUST AGREEMENT—Default and Limitations of Liability—Events of Default" below, and (2) with respect to any Event of Default under the Facility Lease, any occurrence or event specified in and defined by the provisions of the Facility Lease under the caption "FACILITY LEASE—Default" below.

"Expiry Date" means October 15, 2029.

"Facility Lease" means the Facility Lease, dated as of September 1, 2014, by and between the Corporation and the County, as originally executed and entered into and as it may from time to time be amended.

"Financial Newspaper" means *The Wall Street Journal* or *The Bond Buyer* or, if neither such newspaper is being regularly published, any other newspaper or journal publishing financial news and selected by the County that is printed in the English language, is customarily published on each Business Day and is circulated in Los Angeles, California and New York, New York.

"Fiscal Year" means the fiscal year of the County which, as of the Closing Date, is the period from July 1 to and including the following June 30.

"Fitch" means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the County by notice in writing to the Corporation and the Trustee.

"Hazardous Substances" means any substances, pollutants, wastes and contaminants now or hereafter included in such (or similar term) term under any federal state or local statute, ordinance, code or regulation now existing or hereafter enacted or amended.

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

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

"Insurance Policy" means a financial guaranty insurance policy issued by an Insurer insuring the payment when due of the principal and interest with respect to a Series of Certificates issued under the Trust Agreement. There is no Insurance Policy issued with respect to the Certificates.

"Insurer" means the issuer or issuers of a policy or policies of municipal bond insurance obtained by the County to insure the payment of principal of and interest on a Series of Certificates issued under the Trust Agreement, when due otherwise than by acceleration, and which, in fact, are at any time insuring such Series of Certificates. All consents, approvals or actions required by the Insurer shall mean the unanimous action of all Insurers if there is more than a single Insurer. There is no Insurer with respect to the Certificates.

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

"Interest Payment Date" means April 15, 2015 and each April 15, and October 15, thereafter.

"Lease Year" means the period from each October 15 to and including the following October 14 during the term of the Facility Lease; provided that the initial Lease Year shall commence on the Closing Date and the final Lease Year shall terminate on the Expiry Date.

"Leased Property" means the real property more particularly described in the Facility Lease (as the same may be changed from time to time by Removal or Substitution), together with the improvements thereon or to be located thereon.

"Mandatory Sinking Account Payment" means the principal amount of any Certificates or Additional Certificates required to be paid on each Mandatory Sinking Account Payment Date pursuant to the terms of the Trust Agreement or any Supplemental Trust Agreement.

"Mandatory Sinking Account Payment Date," if applicable, means October 15 of each year set forth in the Trust Agreement, if any, and in any Supplemental Trust Agreement, established for the prepayment of Term Certificates.

"Maximum Annual Debt Service" means an amount equal to the largest Annual Debt Service for all future Lease Years beginning in the Lease Year in which the calculation is made.

"Moody's" means Moody's Investors Service, Inc. a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the County by notice in writing to the Corporation and the Trustee.

"**Opinion of Counsel**" means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the County.

"**Outstanding**" when used as of any particular time with reference to Certificates and Additional Certificates, means all Certificates and Additional Certificates, including, but not limited to, the Certificates as described in the Trust Agreement, except:

(1) Certificates and Additional Certificates previously canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Certificates and Additional Certificates which pursuant to the Trust Agreement are not deemed outstanding;

(3) Certificates and Additional Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and

(4) Certificates and Additional Certificates in lieu of or in substitution for which other Certificates or Additional Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"**Owner**" means any person who shall be the registered owner of any Outstanding Certificate or Additional Certificate as indicated in the registration books of the Trustee.

"Permitted Encumbrances" means 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 Facility Lease permit to remain unpaid; (ii) the Assignment Agreement, as it may be amended from time to time; (iii) the Facility Lease as it may be amended from time to time; (iv) the Site Lease as it may be amended from time to time; (v) the Trust Agreement, as it may be amended from time to time; (vi) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of recordation of the Facility Lease in the office of the County Recorder of the County of San Diego; (viii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, established following the date of recordation of the Facility Lease and to which the Corporation and the County consent in writing and certify to the Trustee will not materially impair the interests of the Corporation or use of the Leased 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.

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase.

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(7) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of

any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in clause (2) of the definition of "Defeasance Securities" contained in the Trust Agreement, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal Obligations rated in the top two rating categories or higher by both Moody's and S&P;

(9) Investment Agreements rated in the top two rating categories or higher by Moody's or S&P (supported, as may be required, by appropriate opinions of counsel);

(10) Any investment authorized by California Government Code Section 53061;

(11) The Local Agency Investment Fund or similar pooled fund operated by or on behalf of the State of California and which is authorized to accept investments of moneys held in any of the funds or accounts established pursuant to the Trust Agreement;

(12) The San Diego County Investment Pool, managed by the Treasurer-Tax Collector of the County of San Diego, California; and

(13) Other forms of investments rated in the top two rating categories or higher by Moody's or S&P (supported, as may be required, by appropriate opinions of counsel).

Any references to long-term rating categories in the definition of "Permitted Investments" shall not take into account any plus or minus sign or numerical modifiers.

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

"**Principal Corporate Trust Office**" means the corporate trust office of the Trustee at the address set forth in the Trust Agreement, except for purposes of payment, registration, transfer, exchange and surrender of Certificates, means the corporate trust office of the Trustee in Los Angeles, California, or such other office specified by the Trustee.

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

"**Principal Payment**" means the principal amount of Certificates required to be paid on each Principal Payment Date.

“**Principal Payment Date**” means October 15 of each year, commencing October 15, 2015.

“**Project**” means, to the extent identified by the County as such, the public facilities to be acquired and constructed with the proceeds of the Additional Certificates.

“Purchase Contract” means that certain Purchase Contract, dated August 19, 2014, by and between the Purchasers and the County relating to the Certificates.

“**Purchasers**” means Merrill Lynch, Pierce, Fenner & Smith Incorporated, as senior manager, and Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Academy Securities, as co-managers, collectively 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 1st day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

“Removal” means the release of all or a portion of the Leased Property from the leasehold of the Facility Lease and the Site Lease as provided in the Facility Lease.

“Rental Payments” means, collectively, the Base Rental Payments and the Additional Payments.

“**Representation Letter**” means the Letter of Representations from the County and the Trustee to DTC, or any successor securities depository for the Certificates, in which the County and the Trustee make certain representations with respect to the Certificates, the payment with respect thereto and delivery of notices with respect thereto.

“Reserve Fund” means the fund by that name established in accordance with the Trust Agreement.

“**Reserve Fund Credit Facility**” shall mean a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in the Reserve Fund in lieu of or in partial substitution for cash or securities on deposit therein, issued by a financial institution or insurance company whose unsecured debt obligations (or for which obligations secured by an insurance company’s insurance policies) are rated, at the time of delivery of such Reserve Fund Credit Facility, in at least the second highest rating category (without respect to any modifier) of each rating agency then rating the Certificates.

“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 (a) or (b) 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.

“**S&P**” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the County by notice in writing to the Corporation and the Trustee.

“Series”, when used with reference to any Certificates or Additional Certificates, means all of the Certificates or Additional Certificates executed and delivered on original issuance and identified pursuant to the Trust Agreement or a Supplemental Trust Agreement authorizing such Certificates or Additional Certificates as a separate Series of Certificates.

“Series 2014A Certificates” means the County of San Diego Certificates of Participation (Edgemoor and RCS Refunding), Series 2014A executed and delivered by the Trustee pursuant to the Trust Agreement.

“Series 2014B Certificates” means the County of San Diego Certificates of Participation (Edgemoor and RCS Refunding), Series 2014B (Taxable) executed and delivered by the Trustee pursuant to the Trust Agreement.

“Site Lease” means that certain Site Lease executed and entered into as of September 1, 2014, by and between the County and the Corporation, as originally executed and entered into and as it may from time to time be amended.

“**Substitution**” means the release of all or a portion of the Leased Property from the leasehold of the Facility Lease and of the Site Lease, and the lease of substituted real property and improvements under the Facility Lease and under the Site Lease as provided in the Facility Lease.

“**Supplemental Trust Agreement**” means an agreement amending or supplementing the terms of the Trust Agreement entered into pursuant to the terms thereof.

“**Tax Certificate**” means that tax certificate executed by the County at the time of execution and delivery of the Certificates relating to the requirements of Section 148 of the Code, as such certificate may be amended or supplemented.

“**Term Certificates**” means any Certificates or Additional Certificates which are subject to prepayment prior to their stated maturity dates from Mandatory Sinking Account Payments.

“**Trust Agreement**” means the Trust Agreement by and among the Trustee, the County and the Corporation, dated as of September 1, 2014, as originally executed and as it may from time to time be amended or supplemented in accordance with the Trust Agreement.

“**Trustee**” means Zions First National Bank, a national banking association duly organized and existing under and by virtue of the laws of the United States of America and having a principal corporate trust office located at Los Angeles, California, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

FACILITY LEASE

The Leased Property

<u>Lease of the Leased Property</u>. The Corporation leases to the County, and the County rents and hires from the Corporation, the Leased Property on the conditions and terms set forth in the Facility Lease. The County agrees and covenants that during the term of the Facility Lease, except as provided in the Facility Lease, it will use the Leased Property for public purposes so as to afford the public the benefits contemplated by the Facility Lease and so as to permit the Corporation to carry out its agreements and covenants contained in the Facility Lease and in the Trust Agreement, and the County

further agrees and covenants that during the term of the Facility Lease that it will not abandon or vacate the Leased Property.

Quiet Enjoyment. The parties to the Facility Lease mutually covenant that the County, so long as it observes and performs the agreements, conditions, covenants and terms required to be observed or performed by it contained in the Facility Lease and is not in default under the Facility Lease, shall at all times during the term of the Facility Lease peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the Corporation.

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

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

Liens. In the event the County shall at any time during the term of the Facility Lease cause any improvements to the Leased Property to be constructed or materials to be supplied in or upon or attached to the Leased Property, the County shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the County in, upon, about or relating to the Leased Property and shall keep the Leased Property free of any and all liens against the Leased Property or the Corporation's interest therein. In the event any such lien attaches to or is filed against the Leased Property or the Corporation's interest therein, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the County shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the County shall forthwith pay and discharge or cause to be paid and discharged such judgment. The County shall, to the maximum extent permitted by law, indemnify and hold the Corporation and its assignee and its directors, officers and employees harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the Leased Property or the Corporation's interest therein.

Substitution or Removal of Leased Property.

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

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

(1) A Certificate of the County containing a description of all or part of the Leased Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place;

(2) A Certificate of the County (A) stating that the annual fair rental value of the Leased Property after a Substitution or Removal, in each year during the remaining term of the Facility Lease, is at least equal to the maximum annual Base Rental Payments payable under the Facility Lease attributable to the Leased Property prior to said Substitution or Removal, as determined by the County on the basis of commercially reasonable evidence of the annual fair rental value of the Leased Property after said Substitution or Removal; and (B) demonstrating that the useful life of the Leased Property after Substitution or Removal equals or exceeds the remaining term of the Facility Lease;

(3) An Opinion of Counsel to the effect that the amendments to the Facility Lease and to the Site Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the County and the Corporation enforceable in accordance with their terms;

(4) (A) In the event of a Substitution, a policy of title insurance in an amount equal to the same proportion of the principal amount as the principal portion of the Base Rental Payments for the Substituted Property bears to the total principal portion of the Base Rental Payments payable under the Facility Lease, insuring the County's leasehold interest in the Substituted Property (except any portion thereof which is not real property) subject only to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the Certificates and any Additional Certificates, and (B) in the event of a partial Removal, evidence that the title insurance in effect immediately prior thereto is not affected;

(5) In the event of a Substitution, an opinion of the County Counsel of the County to the effect that the exceptions, if any, contained in the title insurance policy referred to in (4) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the County for the purposes of leasing or using the Substituted Property;

(6) An Opinion of Counsel that the Substitution or Removal does not cause the interest with respect to the Series 2014A Certificates to be includable in gross income of the Owners thereof for federal income tax purposes and any Additional Certificates, unless the County has made the certification as summarized herein in paragraph (c) under the caption

"FACILITY LEASE - Tax Covenants - Tax Covenants" with respect to such Additional Certificates; and

(7) Evidence that the County has complied with the covenants contained in the Facility Lease regarding insurance requirements with respect to the Substituted Property.

Term of the Facility Lease

Commencement of the Facility Lease. The effective date of the Facility Lease is the Closing Date, and the term of the Facility Lease shall end on the Expiry Date, unless such term is extended or sooner terminated as provided in the Facility Lease. If on the Expiry Date, the rental payable under the Facility Lease shall not be fully paid and all Certificates and Additional Certificates shall not be fully paid and retired, or if the rental payable under the Facility Lease shall have been abated at any time and for any reason, then the term of the Facility Lease shall be extended until ten days after the rental payable under the Facility Lease shall be fully paid and all Certificates and Additional Certificates shall be fully paid, except that the term of the Facility Lease shall in no event be extended beyond October 15, 2039. If prior to the Expiry Date, the rental payable under the Facility Lease shall be fully paid and all Certificates and Additional Certificates shall have been fully paid, or deemed fully paid, in accordance with the Trust Agreement, the term of the Facility Lease shall end ten days thereafter or ten days after written notice by the County to the Corporation to the effect that the rental payable under the Facility Lease shall be fully paid and all Certificates and Additional Certificates have been fully paid, whichever is earlier, and the Facility Lease shall thereupon terminate.

Tax Covenants

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 Series 2014A 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 Series 2014A Certificates and any Additional Certificates or any other funds of the County or take or omit to take any action that would cause the Series 2014A Certificates or any Additional Certificates to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code or "private activity bonds" subject to federal income taxation by reason of Section 141(a) of the Code or obligations subject to federal income taxation because they are "federally guaranteed" as provided in Section 149(b) of the Code; and to that end the County, with respect to the proceeds of the Series 2014A Certificates and any Additional Certificates and such other funds, will comply with all requirements of such sections of the Code to the extent that such requirements are, at the time, applicable and in effect; *provided,* that if the County shall obtain an Opinion of Counsel to the effect that any action required under this section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest evidenced and represented by the Series 2014A 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 Facility Lease. In the event that at any time the County is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Trust Agreement or otherwise the County shall so instruct the Trustee in writing, and the Trustee shall take such action in accordance with such instructions.

(b) To the ends covenanted in this section, the County specifically agrees to ensure that the following requirements are met:

(1) The County will not invest or allow to be invested proceeds of the Series 2014A Certificates or any Additional Certificates at a yield in excess of the yield on the Series 2014A Certificates and such Additional Certificates, except to the extent allowed under the Tax Certificate.

(2) The County will rebate or cause to be rebated any amounts due to the federal government, as provided in the Tax Certificate.

(c) The provision of this section shall not apply to any Series of Certificates which the County shall certify to the Trustee is not intended to comply with the requirements of the Code necessary to make interest on such Certificates excludable from gross income for federal tax purposes.

Rental Payments

Rental Payments. The County agrees to pay to the Corporation, its successors or assigns, without deduction or offset of any kind, as rental for the use and occupancy of the Leased Property, the following amounts at the following times:

(a) *Base Rental Payments*. The County shall pay to the Corporation rental under the Facility Lease, for the use and occupancy of the Leased Property for each Lease Year or portion thereof, the Base Rental Payments, at the times and in the amounts set forth in the Facility Lease. Notwithstanding the dates designated as the Base Rental Payment Dates, all Base Rental Payments due in any Fiscal Year after June 30, 2015 shall be due and payable in one sum on July 5 of each year (the "Prepayment Amount"), commencing on the July 5, 2015. If the term of the Facility Lease shall have been extended pursuant to the Facility Lease, Base Rental Payment installments shall continue to be payable on the Base Rental Payment Dates, continuing to and including the date of termination of the Facility Lease. Upon such extension of the Facility Lease, the County shall deliver to the Trustee a Certificate setting forth the extended rental payment schedule, which schedule shall establish the Base Rental Payments at an amount sufficient to pay all unpaid principal and interest on the Certificates.

(b) *Additional Payments*. The County shall also pay, as rental under the Facility Lease in addition to the Base Rental Payments, to the Corporation or the Trustee, as provided in the Facility Lease, such amounts ("Additional Payments") in each year as shall be required for the payment of all costs and expenses incurred by the Corporation in connection with the execution, performance or enforcement of the Facility Lease or the assignment of the Facility Lease, the Trust Agreement or the respective interests in the Leased Property and the lease of the Leased Property by the Corporation to the County under the Facility Lease, including but not limited to all fees, costs and expenses and all administrative costs of the Corporation relating to the Leased Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Certificates or any Additional Certificates), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs of the Corporation or charges required to be paid by it to comply with the terms of the Certificates, any Additional Certificates or the Trust Agreement.

The foregoing Additional Payments shall be billed to the County by the appropriate party from time to time, together with a statement certifying that the amount billed has been incurred or paid for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed shall be paid by the County not later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the County for such amounts.

The Corporation may enter into leases to finance facilities other than the Leased Property. The administrative costs of the Corporation shall be allocated among said facilities and the Leased Property, as hereinafter in this paragraph provided. Any taxes levied against the Corporation with respect to the Leased Property, the fees of the Trustee, and any other expenses directly attributable to the Leased Property shall be included in the Additional Payments payable under the Facility Lease. Any taxes levied against the Corporation with respect to real property other than the Leased Property, the fees of any trustee or paying agent under any resolution securing bonds of the Corporation or any trust agreement other than the Trust Agreement, and any other expenses directly attributable to any facilities other than the Leased Property shall not be included in the administrative costs of the Leased Property and shall not be paid from the Additional Payments payable under the Facility Lease. Any expenses of the Corporation not directly attributable to any particular project of the Corporation shall be equitably allocated among all such projects, including the Leased Property, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Corporation to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation. The Trustee may conclusively rely upon a Certificate of the Corporation in making any determination that costs are payable as Additional Payments under the Facility Lease, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

(c) *Consideration.*

(i) Such payments of Base Rental Payments for each Lease Year or portion thereof during the term of the Facility Lease shall constitute, together with Additional Payments, the total amount due for such Lease Year or portion thereof and shall be paid or payable by the County for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property. On the Closing Date, the County shall deliver a certificate to the Corporation and the Trustee, which shall set forth the annual fair rental value of the Leased Property. The parties to the Facility Lease have agreed and determined that the annual fair rental value of the Leased Property is not less than the maximum Base Rental Payments payable under the Facility Lease in any year. In making such determinations of annual fair rental value, consideration has been given to a variety of factors including the replacement costs of the existing improvements on the Leased Property, other obligations of the parties under the Facility Lease, the uses and purposes which may be served by the improvements on the Leased Property and the benefits therefrom which will accrue to the County and the general public.

(ii) The parties to the Facility Lease acknowledge that the Facility Lease may be amended from time to time to increase the Base Rental Payments payable under the Facility Lease so that Additional Certificates may be executed and delivered pursuant to the Facility Lease and the Trust Agreement. The proceeds of such Additional Certificates shall be used for any lawful purpose. Notwithstanding anything to the contrary contained in the Facility Lease, the Facility Lease may not be amended in a manner such that the sum of Base Rental Payments, including Base Rental Payments payable pursuant to such amendment, in any year is in excess of the annual fair rental value of the Leased Property and other land and improvements leased to the County under the Facility Lease.

(d) *Payment*; *Credit*. Each installment of Base Rental Payments payable under the Facility Lease shall be paid in lawful money of the United States of America to or upon the order of the Corporation at the principal corporate trust office of the Trustee in Los Angeles, California, or such other place as the Corporation shall designate. Any such installment of rental accruing under the Facility Lease which shall not be paid when due shall remain due and payable until received by the Trustee, except as provided in the Facility Lease, and to the extent permitted by law shall bear interest at the rate of ten percent per annum from the date when the same is due under the Facility Lease until the same shall be paid. Notwithstanding any dispute between the County and the Corporation, the County shall make all rental payments when due, without deduction or offset of any kind, and shall not withhold any rental payments pending the final resolution of any such dispute. In the event of a determination that the County was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, shall, at the option of the County, be credited against subsequent rental payments due under the Facility Lease or be refunded at the time of such determination. Amounts required to be deposited by the County with the Trustee pursuant to this paragraph on any date shall be reduced to the extent of available amounts on deposit on such date in the Base Rental Payment Fund, the Interest Fund or the Principal Fund. Any payment scheduled to be made on a date which is not a Business Day shall be made on the next succeeding Business Day.

(e) *Payment on Business Day*. Any payment under the Facility Lease scheduled to be made on a date which is not a Business Day shall be made on the next succeeding Business Day.

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

Application of Base Rental Payments. All Base Rental Payments received shall be applied first to the interest components of the Base Rental Payments due under the Facility Lease, then to the principal components (including any prepayment premium components) of the Base Rental Payments due under the Facility Lease and thereafter to all Additional Payments due under the Facility Lease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Facility Lease.

Rental Abatement. Except to the extent of (a) amounts held by the Trustee in the Base Rental Payment Fund or in the Reserve Fund, (b) amounts received in respect of rental interruption insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect, condemnation, there is substantial interference with the use and possession by the County of any portion of the Leased Property, rental payments due under the Facility Lease with respect to the Leased Property shall be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments, in which case rental payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or sublease any or all of the Leased Property or other rights under the Facility Lease, as permitted by the Facility Lease, for purposes of determining the annual fair rental value available to pay Base Rental Payments, annual fair rental value of the Leased Property shall first be allocated to the Facility Lease as provided in the Facility Lease. Any abatement of rental payments pursuant to the Facility Lease shall not be considered an Event of Default as defined in the Facility Lease. The County waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Facility Lease by virtue of any such interference and the Facility Lease shall continue in full force and effect. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

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

Prepayment of Base Rental Payments. The County may prepay, from eminent domain proceeds or net insurance proceeds received by it pursuant to on or the Facility Lease, all or any portion of the components of Base Rental Payments payable under the Facility Lease relating to any portion of the Leased Property then unpaid, in whole on any date, or in part on any date in integral multiples of an Authorized Denomination so that the aggregate annual amounts of principal components of Base Rental Payments payable under the Facility Lease represented by the Certificates and any Additional Certificates which shall be payable after such prepayment date shall each be in an integral multiple of an Authorized Denomination and shall be as nearly proportional as practicable to the aggregate annual amounts of principal components of Base Rental Payments payable under the Facility Lease represented by the Certificates and any Additional Certificates.

The County may prepay, from any source of available moneys pursuant to the terms of the Trust Agreement, all or any part (in an integral multiple of an Authorized Denomination) of the principal components of Base Rental Payments payable under the Facility Lease then unpaid so that the aggregate annual amounts of principal components of Base Rental Payments under the Facility Lease which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual amounts of principal components represented by the Certificates and any Additional Certificates unpaid prior to the prepayment date, at a prepayment amount equal to the principal component prepaid plus accrued interest thereon to the date of prepayment plus any applicable premium.

Before making any prepayment pursuant to this section, at least 45 days before the prepayment date the County shall give written notice to the Corporation and the Trustee describing such event, specifying the order of Principal Payment Dates and specifying the date on which the prepayment will be made, which date shall be not less than 30 nor more than 60 days from the date such written notice is given to the Corporation and the Trustee.

Obligation to Make Base Rental Payments. The agreements and covenants on the part of the County contained in the Facility Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the agreements and covenants contained in the Facility Lease agreed to be carried out and performed by the County.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL 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 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.

Additional Certificates. In addition to the Certificates to be executed and delivered under the Trust Agreement the County may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Certificates set forth in the Trust Agreement, enter into a Supplemental Trust Agreement to execute and deliver Additional Certificates on a parity with the Certificates and any previously executed and delivered Additional Certificates (unless otherwise provided in the related Supplemental Trust Agreement), the proceeds of which may be used for any lawful purpose by the County, as provided in the Supplemental Trust Agreement; provided that prior to or concurrently with the execution and delivery of the Additional Certificates, the County and the Corporation shall have entered into an amendment to the Facility Lease, providing for an increase in the Base Rental Payments to be made under the Facility Lease subject to the limitations set forth in the Facility Lease.

Maintenance; Taxes; Insurance and other Charges

Maintenance of the Leased Property by the County. The County agrees that, at all times during the term of the Facility Lease, it will, at its own cost and expense, maintain, preserve and keep, or cause to be maintained, preserve and kept, the Leased Property and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Corporation shall have no responsibility in any of these matters or for the making of additions or improvements to the Leased Property.

Taxes, Other Governmental Charges and Utility Charges. The parties to the Facility Lease contemplate that the Leased Property will be used for public purposes by the County and, therefore, that the Leased Property will be exempt from all taxes presently assessed and levied with respect to real and personal property, respectively. In the event that the use, possession or acquisition by the County or the Corporation of the Leased Property is found to be subject to taxation in any form, the County will pay during the term of the Facility Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property and any other property acquired by the County in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Leased Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Leased Property; *provided,* that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the County shall be obligated to pay only such installments as are accrued during such time as the Facility 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, all coverage on the Leased Property required by the Facility Lease. Such insurance shall consist of :

(1) A policy or policies of insurance against loss or damage to the Leased Property known as "all risk," including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the lesser of (i) the cumulative replacement values of the Leased Property and, in the case of a policy covering more than the Leased Property, as permitted by the next succeeding sentence, any other property which is the subject of

a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the aggregate amount of the principal component of all then-remaining Base Rental Payments payable under the Facility Lease; *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 to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot, flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. Such insurance may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County which may be limited in an amount per occurrence in the aggregate to the amount required by the preceding sentence. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss (except for flood, in which case the deductible may not exceed $250,000 for any one loss). The County may obtain such coverage as a joint insured with one or more other public agencies located within or 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 the first sentence of this paragraph (1) and which may be limited in a cumulative amount of claims during a 12-month period in the aggregate for all insureds in an amount not less than $500,000,000. Otherwise conforming policies satisfying the requirements of this paragraph (1) may provide that amounts payable as coverage under this paragraph (1) may be reduced by amounts payable under paragraph (3) for the same occurrence, and vice versa. The County is, however, under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake.

(2) In the event that such coverage is not included in paragraph (1) above, boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Leased Property in an amount not less than $75,000,000 per accident; *provided, however,* that the amount of coverage required by this sentence may be reduced to a smaller amount if an Insurance Consultant retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of loss or damage by steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Leased Property, a specified smaller amount is believed to be reasonable. Such insurance may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County which may be limited in amount to $75,000,000 per accident. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss. The County may obtain such coverage as a joint insured with one or more public agencies located within or without the County of San Diego which may be limited in amount to $75,000,000 per accident. Otherwise conforming policies satisfying the requirements of this paragraph (2) may provide that amounts payable as coverage under this paragraph (2) may be reduced by amounts payable under paragraph (3) for the same occurrence, and *vice versa*.

(3) Rental interruption insurance to cover loss, total or partial, of the use of any part of the Leased Property as a result of any of the hazards covered by the insurance required pursuant to paragraph (1) or (2) above, as the case may be, in an amount sufficient at all times to pay the total rent payable under the Facility Lease for a period of not less than two years' Base Rental Payments for the Leased Property; provided that such rental interruption insurance may be included in the policy or policies provided pursuant to paragraph (1) or (2) without increasing the aggregate limits for coverage with respect to any hazard covered thereby. Such insurance also may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County. The County also may obtain an

otherwise conforming policy required by this paragraph (3) as a joint insured with one or more other public agencies within or without the County of San Diego which may, with respect to any hazard, be limited in aggregate amount for all insureds to the amount of the policy or policies required pursuant to paragraph (1), (2) and (3) above, as the case may be, which insures against such hazard. Otherwise conforming policies satisfying the requirements of this paragraph (3) may provide that amounts payable as coverage under this paragraph (3) may be reduced by amounts payable under paragraph (1) or (2), as the case may be, for the same occurrence, and *vice versa*.

The County shall collect, adjust and receive all moneys which may become due and payable under any policies contemplated by paragraphs (1) and (2) above, and, may compromise any and all claims thereunder and shall transfer the net proceeds of such insurance as provided in the Facility Lease or in the Trust Agreement. The Trustee shall not be responsible for the sufficiency of any insurance required in the Facility Lease. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County.

Any insurance policy issued pursuant to paragraph (1), (2) and (3) above shall be so written or endorsed as to make losses, if any, payable to the County, the Corporation and the Trustee as their respective interests may appear and the net proceeds of the insurance required by paragraphs (1) or (2) above shall be applied as provided in the Facility Lease. The net proceeds, if any, of the insurance policy described in paragraphs (1) and (2) above shall be payable to the County for deposit in the Insurance Proceeds and Condemnation Awards Fund. The net proceeds, if any, of the insurance policy described in paragraph (3) above shall be payable to the Trustee and deposited in the Base Rental Payment Fund. Each insurance policy provided for in the Facility Lease shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Corporation or the Trustee without first giving written notice thereof to the Corporation and the Trustee at least 30 days in advance of such intended cancellation or modification.

The County shall file a Certificate of the County with the Trustee not later than January 31 of each year certifying that the insurance policies required by the Facility Lease are in full force and effect and that the Corporation and/or the Trustee is named as a loss payee on each insurance policy which the Facility Lease requires to be so endorsed. The Trustee shall have no responsibility whatsoever for determining the adequacy of any insurance required under the Facility Lease.

<u>Advances</u>. In the event the County shall fail to maintain the full insurance coverage required by the Facility Lease or shall fail to keep the Leased Property in good repair and operating condition, the Corporation may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Corporation shall become Additional 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.

<u>Title Insurance</u>. The County covenants and agrees to deliver or cause to be delivered to the Trustee on the Closing Date a CLTA leasehold owner's policy or policies, or a commitment for such policy or policies, with respect to the Leased Property with liability in the aggregate amount equal to the principal component of all Base Rental Payments payable under the Facility Lease. Such policy or policies, when issued, shall name the Trustee as the insured and shall insure the leasehold estate of the County in the Leased Property subject only to such exceptions as do not materially affect the County's right to the use and occupancy of the Leased Property.

Damage, Destruction, Title Defect and Condemnation

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds. If prior to the termination of the term of the Facility Lease (a) the Leased Property or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty; or (b) title to, or the temporary use of, the Leased Property or any portion thereof or the estate of the County or the Corporation in the Leased Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the County and the Corporation will cause the net proceeds of any insurance claim or condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of the damaged, destroyed, defective or condemned portion of the Leased Property, and any balance of the net proceeds remaining after such work has been completed shall be paid to the County; *provided,* that the County, at its option and provided the proceeds of such insurance or condemnation award together with any other moneys then available for the purpose are at least sufficient to prepay the aggregate annual amounts of the principal and interest components of the Base Rental Payments due under the Facility Lease attributable to the portion of the Leased Property so destroyed, damaged, defective or condemned (determined by reference to the proportion which the annual fair rental value of the destroyed, damaged, defective or condemned portion thereof bears to the annual fair rental value of the Leased Property), may elect not to repair, reconstruct or replace the damaged, destroyed, defective or condemned portion of the Leased Property and thereupon shall cause said proceeds to be used for the prepayment of Outstanding Certificates and Additional Certificates pursuant to the provisions of the Trust Agreement. Notwithstanding any other provision in the Facility Lease, the County shall only prepay less than all of the principal component of the then-remaining Base Rental Payments if the annual fair rental value of the Leased Property after such damage, destruction, title defect or condemnation is at least equal to the aggregate annual amount of the principal and interest components of the Base Rental Payments not being prepaid.

In the event that the proceeds, if any, of said insurance or condemnation award are insufficient either to (i) repair, rebuild or replace the Leased Property so that the fair rental value of the Leased Property would be at least equal to the Base Rental Payments or (ii) to prepay all the Outstanding Certificates and Additional Certificates, both as provided in the preceding paragraph, then the County may, in its sole discretion, budget and appropriate an amount necessary, but in no event more than the net proceeds available from any insurance claim or condemnation award described in the Facility Lease, to effect such repair, rebuilding or replacement or prepayment; provided that the failure of the County to so budget and/or appropriate shall not be a breach of or default under the Facility Lease.

Disclaimer of Warranties; Vendor's Warranties; Use of the Leased Property

Disclaimer of Warranties. NEITHER THE TRUSTEE NOR THE CORPORATION MAKES ANY AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE LEASED PROPERTY, OR WARRANTY WITH RESPECT THERETO. THE COUNTY ACKNOWLEDGES THAT NEITHER THE TRUSTEE NOR THE CORPORATION IS A MANUFACTURER OF ANY PORTION OF THE LEASED PROPERTY OR A DEALER THEREIN, THAT THE COUNTY LEASES THE LEASED PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE COUNTY. In no event shall the Corporation or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Facility Lease or the existence, furnishing, functioning or the County's use of the Leased Property as provided by the Facility Lease.

Use of the Leased Property; Improvements. The County will not use, operate or maintain the Leased Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Facility Lease. The County shall provide all permits and licenses, if any, necessary for the use of the Leased Property. In addition, the County agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each portion of the Leased Property) with all laws of the jurisdictions in which its operations involving any portion of the Leased Property may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Leased Property; *provided,* that the County may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the County adversely affect the estate of the Corporation in and to the Leased Property or its interest or rights under the Facility Lease.

Assignment and Indemnification

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

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

Indemnification. The County covenants and agrees to indemnify and save the Corporation and the Trustee and their respective officers, directors, agents and employees, harmless against any loss, expense and liabilities which either the Corporation or the Trustee may incur arising out of or in the exercise and performance of their respective powers and duties under the Facility Lease, including the costs of expenses of defending against any claim of liability including, without limitation, any claim arising out of the use, presence, storage, disposal or release of any Hazardous Substances on or about the Leased Property, but excluding, in the case of the Trustee, any and all losses, expenses and liabilities which are due to the negligence or intentional misconduct of the Trustee, its officers, directors, agents or employees. The indemnification arising under the Facility Lease shall continue in full force and effect notwithstanding the full payment of all obligations under the Facility Lease or the termination of the Facility Lease for any reason. The County, the Trustee and the Corporation mutually agree to promptly give notice to each other of any claim or liability indemnified against by the Facility Lease following the learning thereof by such party.

Default

The following events shall be "Events of Default" under the Facility Lease and the terms "Event of Default" and "Default" shall mean, whenever they are used in the Facility Lease, any one or more of the following events:

(1) The County shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Facility Lease, provided, that the failure to deposit any Base Rental Payments abated pursuant to the Facility Lease shall not constitute an Event of Default;

(2) The County shall fail to pay any item of Additional Payments when the same shall become due and payable pursuant to the Facility Lease; or

(3) The County shall breach any other terms, covenants or conditions contained in the Facility Lease or in the Trust Agreement, and shall fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Corporation to the County; *provided, however,* that if the failure stated in the notice cannot be corrected within such period, then the Corporation shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the County within such period and is diligently pursued until the default is corrected.

Upon the happening of any of the Events of Default specified in the Facility Lease, it shall be lawful for the Corporation or its assignee, subject to the terms of the Facility Lease, to exercise any and all remedies available or granted to it pursuant to law or under the Facility Lease.

Upon the occurrence of an Event of Default, the Corporation or its assignee must thereafter maintain the Facility Lease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the Leased Property, regardless of whether or not the County has abandoned the Leased Property; **THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE FACILITY LEASE OR OTHERWISE**. In such event, the County shall remain liable and agrees to keep or perform all covenants and conditions in the Facility Lease contained to be kept or performed by the County and, to pay the rent to the end of the term of the Facility Lease and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Facility Lease for the payment of rent under the Facility Lease (without acceleration).

The Corporation expressly waives the right to receive any amount from the County pursuant to Section 1951.2(a)(3) of the California Civil Code.

In addition to any Event of Default resulting from breach by the County of any agreement, condition, covenant or term of the Facility Lease, if the County's interest in the Facility Lease or any part thereof assigned, sublet or transferred without the written consent of the Corporation (except as otherwise permitted by the Facility Lease), either voluntarily or by operation of law; or the County or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the County shall make a general or any assignment for the benefit of its creditors; or the County shall abandon or vacate the Leased Property or any portion thereof (except as permitted by the Facility Lease); then in each and every such case the County shall be deemed to be in default under the Facility Lease.

Neither the County nor the Corporation shall be in default in the performance of any of its obligations under the Facility Lease (except for the obligation to make Base Rental Payments pursuant to the Facility Lease) unless and until it shall have failed to perform such obligation within 30 days after notice by the County of the Corporation, as the case may be, to the other party properly specifying wherein it has failed to perform such obligation.

The County and Corporation and its successors and assigns shall honor the exclusive rights of the County to use the Leased Property.

Miscellaneous

Trustee as Third Party Beneficiary. The Trustee is designated a third party beneficiary under the Facility Lease for the purpose of enforcing any of the rights under the Facility Lease assigned to the Trustee under the Assignment Agreement.

Net Lease. It is the purpose and intent of the Corporation and the County that lease payments under the Facility Lease shall be absolutely net to the Corporation so that the Facility Lease shall yield to the Corporation the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Leased Property, and without counterclaim, deduction, defense, deferment or set-off by the County except as specifically otherwise provided in the Facility Lease. The Corporation shall not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability under the Facility Lease except as expressly set forth in the Facility Lease, and all costs, expenses and obligations of any kind relating to the maintenance and operation of the Leased Property which may arise or become due during the term of the Facility Lease shall be paid by the County.

Amendments. The Facility Lease may be amended in writing as may be mutually agreed by the Corporation and the County, subject to the written approval of the Trustee; *provided,* that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by the Owners of more than 50% in principal amount of the Certificates and Additional Certificates Outstanding, and provided further, that no such amendment shall (a) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each Certificate and Additional Certificate so affected, or (b) reduce the percentage of the principal amount of the Certificates and Additional Certificates Outstanding the consent of the Owners of which is required for the execution of any amendment of the Facility Lease.

The Facility Lease and the rights and obligations of the Corporation and the County under the Facility Lease may also be amended or supplemented at any time by an amendment of the Facility Lease or supplement to the Trust Agreement which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required by the Corporation or the County to be observed or performed in the Facility Lease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the County, or to surrender any right or power reserved in the Facility Lease to or conferred in the Facility Lease on the Corporation or the County, and which in either case shall not materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Facility Lease or in regard to questions arising under the Facility Lease which the Corporation or the County may deem desirable or necessary and not inconsistent with the Facility Lease, and which shall not materially adversely affect the interests of the Owners;

(c) to effect a Substitution or Removal in accordance with the Facility Lease;

(d) to facilitate the issuance of Additional Certificates as provided in the Facility Lease; or

(e) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners.

Discharge of County. Upon the payment of all Base Rental Payments and Additional Payments payable under the Facility Lease, all of the obligations of the County under the Facility Lease shall thereupon cease, terminate and become void and shall be discharged and satisfied; *provided, however,* if any Outstanding Certificates and Additional Certificates shall be deemed to have been paid by virtue of a deposit of Base Rental Payments under the Facility Lease pursuant to the Trust Agreement, then the obligation of the County under the Facility Lease to make Rental Payments under the Facility Lease shall continue in full force and effect until the Outstanding Certificates and Additional Certificates so deemed paid have in fact been paid, but such payments shall be made solely and exclusively from moneys and securities deposited with the Trustee as contemplated by the Trust Agreement, and that shall be the sole source of satisfaction of the County's obligation to make Base Rental Payments. The time period for giving notice by the County to the Corporation and the Trustee specified in the Facility Lease shall not apply incident to the payment to the Owners of all Outstanding Certificates and Additional Certificates in accordance with the Trust Agreement.

California Law. The Facility Lease shall be governed by and construed and interpreted in accordance with the laws of the State of California.

SITE LEASE

Leased Property. The County leases to the Corporation and the Corporation rents and hires from the County, on the terms and conditions set forth in the Site Lease, the Leased Property.

Term.

(a) The term of the Site Lease will commence on the Closing Date and shall end on the Expiry Date (as defined in the Facility Lease) unless such term is sooner terminated or is extended as provided in the Site Lease. If prior to the Expiry Date all Base Rental Payments under the Facility Lease shall have been paid, or provision therefor has been made in accordance with the Trust Agreement, the term of the Facility Lease shall end simultaneously therewith.

(b) If the Facility Lease is extended beyond the Expiry Date pursuant to the terms thereof, the Site Lease shall also be extended to the day following the date of termination of the Facility Lease.

Rent. The Corporation shall pay to the County an advance rent of $1.00, which, together with the execution and delivery of the Facility Lease, shall constitute full consideration for the Site Lease over its term. The Corporation waives any right that it may have under the laws of the State of California to receive a rebate of such rent in full or in part in the event there is a substantial interference with the use and right of possession by the Corporation of the Leased Property or portion thereof as a result of material damage, destruction or condemnation.

Purpose. The Corporation shall use the Leased Property solely for the purpose of subleasing the same to the County; *provided,* that in the event of default by the County under the Facility Lease, the Corporation may exercise the remedies provided in the Facility Lease.

Owner in Fee. The County covenants that it is the owner of the Leased Property free and clear of all liens, claims or encumbrances which affect marketability.

Assignment and Facility Lease. Unless the County shall be in default under the Facility Lease, the Corporation may not, without the prior written consent of the County, assign its rights under the Site Lease or sublet the Leased Property except that the County expressly approves and consents to the assignment and transfer of the Corporation's right, title and interest in the Site Lease to the Trustee pursuant to the Assignment Agreement.

Right of Entry. The County reserves the right for any of its duly authorized representatives to enter upon the Leased Property at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof.

Termination. The Corporation agrees, upon the termination of the Site Lease, to quit and surrender the Leased Property in the same good order and condition as the same was in at the time of commencement of the terms under the Site Lease, reasonable wear and tear excepted, and agrees that any permanent improvements to the Leased Property at the time of the termination of the Site Lease shall remain thereon and title thereto shall vest in the County.

Default. In the event the Corporation shall be in default in the performance of any obligation on its part to be performed under the terms of the Site Lease, which default continues for thirty (30) days following notice and demand for correction thereof to the Corporation, the County may exercise any and all remedies granted by law, except that no merger of the Site Lease and of the Facility Lease shall be deemed to occur as a result thereof; *provided,* that so long as the Certificates executed and delivered pursuant to the Trust Agreement are Outstanding, the County shall have no power to terminate the Site Lease by reason of any default on the part of the Corporation, if such termination would affect or impair any assignment of the Facility Lease then in effect between the Corporation and the Trustee that executes and delivers the Certificates.

Eminent Domain. In the event the whole or any portion of the Leased Property is taken by eminent domain proceedings, the interest of the Corporation shall be recognized and is determined to be the amount of the then unpaid Base Rental Payments payable under the Facility Lease, and the amount of the unpaid Additional Payments due under the Facility Lease, and the balance of the award, if any, shall be paid to the County.

Amendments. The Site Lease may be amended for the purposes and in the manner and under the circumstances described in connection with the amendment of the Facility Lease, as further described in the Facility Lease.

Governing Law. The Site Lease is made in the State of California under the Constitution and laws of the State of California and is to be so construed.

ASSIGNMENT AGREEMENT

Assignment. The Corporation, for good and valuable consideration, the receipt of which is acknowledged, does unconditionally grant, transfer and assign to the Trustee without recourse (a) all right, title and interest of the Corporation as lessee under the Site Lease; (b) all rights of the Corporation to receive the portion of Base Rental Payments scheduled to be paid by the County under and pursuant to the Facility Lease for the benefit of the Owners of the Certificates; (c) all rents, profits and products from the Leased Property to which the Corporation has any right or claim whatsoever under the Facility Lease; (d) the right to take all actions and give all consents under the Facility Lease; (e) the right of access more particularly described in the Facility Lease; and (f) any and all other rights and remedies of the Corporation in the Facility Lease as lessor thereunder for the purpose of (i) paying all sums due and owing to the Owners of the Certificates under the terms of the Trust Agreement, and (ii) performing and discharging each agreement, covenant and obligation of the County contained in the Facility 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 payable under the Facility Lease shall be applied and all such rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

Payment of Rentals. Upon payment or provision for payment to the Trustee in full of all Base Rental Payments under the Facility Lease and of all other amounts, including any additional rental or other amounts owed by the County under the Facility Lease or the Trust Agreement, the Assignment Agreement shall become and be void and of no effect with respect to the Facility Lease and the Site Lease with respect to which such payments have been made and the Trustee shall execute any and all documents or certificates reasonably requested by the Corporation to evidence the termination of the Assignment Agreement with respect to the Facility Lease and the Site Lease with respect to which such payments have been made.

Governing Law. The Assignment Agreement is made in the State of California under the Constitution and laws of the State of California and is to be so construed.

TRUST AGREEMENT

Terms and Conditions of Certificates

Dating of Certificates. The Certificates shall be dated their date of delivery. Each Certificate shall represent interest from the Interest Payment Date to which interest has been paid or duly provided for next preceding its date of execution, unless such date of execution shall be (i) prior to the close of business on April 1, 2015, in which case such Certificate shall represent interest from its date of delivery, (ii) subsequent to a Record Date but before the related Interest Payment Date, in which case such Certificate shall represent interest from such Interest Payment Date, or (iii) an Interest Payment Date to which interest has been paid in full or duly provided for, in which case such Certificate shall represent interest from such date of execution; *provided*, *however*, that if, as shown by the records of the Trustee, interest shall be in default, each Certificate shall represent interest from the last Interest Payment Date to which such interest has been paid in full or duly provided for.

Method and Place of Payment. Except as otherwise provided in the Representation Letter, the interest represented by the Certificates shall be payable on each Interest Payment Date by check sent by first class mail by the Trustee to the respective Owners of the Certificates as of the Record Date for such Interest Payment Date at their addresses shown on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement. Payments of defaulted interest with respect to any Certificate shall be paid by check to the Owner as of a special record date to be fixed by the Trustee, notice of which special record date shall be given to the Owner of the Certificate not less than ten days prior thereto. The principal and premium, if any, represented by the Certificates shall be payable upon presentation and surrender thereof on maturity or on prepayment prior thereto at the Principal Corporate Trust Office of the Trustee.

The Owner of $1,000,000 or more in aggregate principal amount represented by the Certificates may request in writing that the Trustee pay the interest represented by such Certificates by wire transfer to an account in the United States of America and the Trustee shall comply with such request for all Interest Payment Dates following the 15th day after receipt of such request. The principal represented by the Certificates shall be payable on their Principal Payment Date in each year and shall 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.

Transfer and Payment of Certificates; Exchange of Certificates. All Certificates may be presented for transfer by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Corporate Trust Office of the Trustee, on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement, upon surrender of such Certificates for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal represented by such Certificate shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability represented by such Certificate to the extent of the sum or sums so paid.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates representing the same principal amount in Authorized Denominations. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Certificates may be presented for exchange at the Principal Corporate Trust Office of the Trustee, for a like aggregate principal amount of Certificates of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be required to transfer or exchange any Certificate during the period in which the Trustee is selecting Certificates for prepayment, nor shall the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

Certificate Registration Books. The Trustee will keep sufficient books for the registration and transfer of the Certificates, which books shall be available for inspection by the Corporation and the County at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Certificates on such books as provided in the Trust Agreement. The Trustee will, upon written request, make copies of the foregoing available to any Owner of at least five percent in aggregate principal amount of Outstanding Certificates or his agent duly authorized in writing.

Temporary Certificates. The Certificates may be initially delivered in temporary form exchangeable for definitive Certificates when ready for delivery, which temporary Certificates shall be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and shall contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Certificate shall be executed and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Certificates. If the Trustee executes and delivers temporary Certificates, it will execute definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered at the Principal Corporate Trust Office of the Trustee, in exchange for such definitive Certificates, and until so exchanged such temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates executed and delivered under the Trust Agreement.

Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate of like tenor, payment date in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate of like tenor, numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee shall require payment of a sum not exceeding the actual cost of preparing each new Certificate executed and delivered by it under the Trust Agreement and of the expenses which may be incurred by it under the Trust Agreement. Any Certificate executed and delivered under the provisions of the Trust Agreement in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement, and the Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of this paragraph, in lieu of executing and delivering a new Certificate for a Certificate which has been lost, destroyed or stolen and which has matured or will mature within 30 days after the Trustee has received all required indemnity and payments on account of a lost, destroyed or stolen Certificate, the Trustee may make payment of such Certificate to the Owner thereof if so instructed by the County.

Execution and Delivery of Additional Certificates. In addition to the County's Series 2014A Certificates and Series 2014B Certificates, the County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners, provide for the execution and delivery of Additional Certificates representing additional Base Rental Payments. The Trustee may execute and deliver to or upon the request of the County such Additional Certificates, in such principal amount as shall reflect the additional principal components and interest components of the Base Rental Payments, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the County or the Corporation, but such Additional Certificates may only be executed and delivered upon compliance by the County with the provisions of the Trust Agreement and subject to the following specific conditions, which are made conditions precedent to the execution and delivery of any such Additional Certificates:

(a) Neither of the County nor the Corporation shall be in default under the Trust Agreement or any Supplemental Trust Agreement or under the Site Lease or the Facility 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 Site Lease and the Facility Lease shall have been amended, to the extent necessary, so as to increase the Base Rental Payments payable by the County thereunder by an aggregate amount equal to the principal and interest represented by such Additional Certificates, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Certificates; *provided, however,* that no such amendment shall be made such that Base Rental Payments, including any such amendment, in any year shall be in excess of the annual fair rental value of the Leased Property, and evidence of the satisfaction of this condition shall be made by a Certificate of the County as required by the Trust Agreement.

Any Additional Certificates shall be on a parity with the Certificates and each Owner thereof shall have the same rights upon an Event of Default as the Owner of any other Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

The County shall cause to be given to each rating agency rating the Certificates, and the Insurer, notice of any execution and delivery of Additional Certificates.

Proceedings for Authorization of Additional Certificates. Whenever the County and the Corporation shall determine to authorize the execution and delivery of any Additional Certificates pursuant to the Trust Agreement, the County, the Corporation and the Trustee shall enter into a Supplemental Trust Agreement without the consent of the Owners of any Certificates, providing for the execution and delivery of such Additional Certificates, specifying the maximum principal amount of such Additional Certificates and prescribing the terms and conditions of such Additional Certificates.

Such Supplemental Trust Agreement shall prescribe the form or forms of such Additional Certificates and, subject to the provisions of the Trust Agreement, shall provide for the distinctive designation, denominations, method of numbering, dates, Principal Payment Dates, interest rates, Interest Payment Dates, provisions for prepayment (if desired) and places of payment of principal and interest.

Before such Additional Certificates shall be executed and delivered, the County and the Corporation shall file or cause to be filed the following documents with the Trustee:

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

(b) A Certificate of the County that the requirements of the Trust Agreement have been met, including a Certificate of the County as to the annual fair rental value of the Leased Property; which Certificate may assume the timely construction and completion of any project to be financed with the proceeds of Additional Certificates so long as the proceeds of Additional Certificates or other funds of the County have been deposited with the Trustee (i) in a construction fund, in an amount reasonably expected to be sufficient to provide for the construction costs of such project, and (ii) in the Interest Fund (including a capitalized interest account therein), in an amount sufficient to pay interest on the Additional Certificates for the period of time from their date of issuance until 6 months following the expected delivery date of a certificate of completion with respect to such project;

(c) Certified copies of the resolutions of the County and the Corporation, authorizing the execution of the amendments to the Site Lease and the Facility Lease, required by the Trust Agreement;

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

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

Funds

Reserve Fund.

(a) There is established in trust a special fund designated as the "Reserve Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. Moneys in the Reserve Fund shall be in the amount of the Reserve Fund Requirement and shall be used and withdrawn by the Trustee solely for the purposes set forth in the Trust Agreement.

(i) If, on any Interest Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Reserve Fund investment), the amount on deposit in the Interest Fund is insufficient to pay the interest due with respect to the Certificates and any Additional Certificates on such Interest Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Interest Fund an amount sufficient to make up such deficiency.

(ii) If, on any Principal Payment Date or any Mandatory Sinking Account Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Reserve Fund investment), the amount on deposit in the Principal Fund is insufficient to pay the principal due with respect to the Certificates and any Additional Certificates on such Principal Payment Date or Mandatory Sinking Account Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Principal Fund an amount sufficient to make up such deficiency.

(iii) Monies on deposit in the Reserve Fund shall be withdrawn and transferred by the Trustee to be applied for the final payment on the Certificates and any Additional Certificates.

In the event of any withdrawal or transfer from the Reserve Fund, the Trustee shall, within five days thereafter, provide written notice to the County of the amount and the date of such transfer. If at any time the balance in the Reserve Fund shall be reduced below the Reserve Fund Requirement, the first of Base Rental Payments thereafter payable by the County under the Facility Lease and not needed to pay the interest and principal components of Base Rental Payments payable by the County under the Facility Lease to the Owners on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be used to increase the balance in the Reserve Fund to the Reserve Fund Requirement. If after the payment of principal and interest on any Interest Payment Date the balance in the Reserve Fund shall be in excess of the Reserve Fund Requirement the Trustee shall, upon Written Request of the County, transfer such excess first to the County for deposit in the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the County for deposit in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County relating to the Certificates and thereafter to the Principal Fund. At the termination of the Facility 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 annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment.

(b) At the option of the County, one or more Reserve Fund Credit Facilities may be substituted for the funds held by the Trustee in the Reserve Fund such that the amount available to be drawn under such Reserve Fund Credit Facilities together with funds remaining in the Reserve Fund satisfies the Reserve Fund Requirement.

If the County exercises its option to substitute a Reserve Fund Credit Facility for all or a portion of the moneys held by the Trustee in the Reserve Fund, then such moneys, on or after the date that the Reserve Fund Credit Facility becomes effective, at the option of the County, shall be transferred (A) to the Base Rental Payment Fund and on each applicable Principal Payment Date a *pro rata* portion thereof shall be transferred to the Principal Fund and used to pay a portion of the principal with respect to the Certificates due on such Principal Payment Date, or (B) to a construction fund to be held by the County and used for capital projects of the County in accordance with the Tax Certificate. Neither the County nor the Trustee may invest such amounts transferred so as to produce a yield greater than the yield permitted under the Tax Certificate. In the event any Reserve Fund Credit Facility is scheduled to terminate prior to the final maturity date of the Certificates and any Additional Certificates and such Reserve Fund Credit Facility is not extended, renewed or replaced with another Reserve Fund Credit Facility or with cash or Permitted Investments in the amount of such Reserve Fund Credit Facility, the Trustee shall draw on or make a claim under such Reserve Fund Credit Facility ten days prior to the date of such expiration in an amount equal to the lesser of (i) the maximum amount available thereunder or (ii) the Reserve Fund Requirement, in either case for deposit into the Reserve Fund.

In the event a Reserve Fund Credit Facility is substituted for all or a portion of the moneys held by the Trustee in the Reserve Fund pursuant to the terms of the Trust Agreement, then, notwithstanding any other provision of the Trust Agreement, (1) the Trustee shall draw upon the Reserve Fund Credit Facility for amounts which the terms of the Trust Agreement require to be transferred from the Reserve Fund; provided that the Trustee shall first draw upon any cash or Permitted Investments on deposit in the Reserve Fund before drawing upon any Reserve Fund Credit Facility, and thereafter shall draw upon all such Reserve Fund Credit Facilities on a *pro rata* basis, and (2) amounts required by the terms of the Trust Agreement to be deposited or transferred to the Reserve Fund (a) in the event the Reserve Fund Credit Facility has been drawn upon, shall be first paid to the provider of such Reserve Fund Credit Facility if the County has an outstanding reimbursement obligation to such provider resulting from such draw, which payment shall result in an increase in the amount then available under the Reserve Fund Credit Facility equal to such payment and (b) to the extent all such draws on Reserve Fund Credit Facilities have been paid, then, second, shall be transferred or deposited to the Reserve Fund in amount such that after giving effect to the deposit the amount on deposit in the Reserve Fund is equal to the Reserve Fund Requirement.

The County shall be permitted to make use of a Reserve Fund Credit Facility pursuant to the Trust Agreement at any time.

The term “substitution” as used above shall include such initial funding of the Reserve Fund Requirement by means of a Reserve Fund Credit Facility instead of by deposit of moneys, and shall not be read to mean that the County must first make an initial cash deposit in the Reserve Fund before invoking the provisions of the Trust Agreement relating to Reserve Fund Credit Facilities and satisfying the Reserve Fund Requirement by securing and implementing a Reserve Fund Credit Facility.

Cost of Issuance Fund. There is established in trust a special fund designated as the “Cost of Issuance Fund” which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. The moneys in the Costs of Issuance Fund shall be applied to the payment of Costs of Issuance of the Certificates, upon a Written Request of the County. All payments from the Costs of Issuance Fund shall be reflected in the Trustee’s regular accounting statements. On or before six months after the execution and delivery of the Certificates or Additional Certificates, the Trustee shall transfer any amounts then remaining in the Cost of Issuance Fund first to the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the Reserve Fund to the extent the amount on deposit therein is less than the Reserve Fund Requirement, then to the Administrative Expense Fund to the extent that the amount on deposit therein is less than $20,000, and thereafter to the Base Rental Payment Fund.

Administrative Expense Fund.

(a) There is established in trust a special fund designated as the “Administrative Expense Fund” which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee.

(b) Amounts in the Administrative Expense Fund shall be paid out from time to time by the Trustee at the direction of the County for Administrative Fees and Expenses.

(c) Amounts in the Administrative Expense Fund in excess of $20,000 shall be transferred by the Trustee to the Base Rental Payment Fund.

Earnings Fund. There is established in trust a special fund designated as the “Earnings Fund,” which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. The Trustee shall administer the Earnings Fund as provided in the Trust Agreement.

The Trustee shall establish and maintain in the Earnings Fund a separate account designated as the "Investment Earnings Account," and a separate account designated as the "Excess Earnings Account." All moneys in the Investment Earnings Account and the Excess Earnings Account shall be held by the Trustee in trust and shall be kept separate and apart from all other funds and money held by the Trustee. All investment earnings on the funds and accounts (other than the Excess Earnings Account) established under the Trust Agreement shall be deposited into the Investment Earnings Account. Amounts on deposit in the Investment Earnings Account shall be transferred to the Excess Earnings Account upon receipt by the Trustee of written instructions from the County given in accordance with the provisions of the Tax Certificate.

Transfers of amounts in the Investment Earnings Account or any amount on deposit in the Excess Earnings Account which the County determines and informs the Trustee in writing exceeds the amount required to be maintained therein pursuant to the provision of the Tax Certificate, shall be transferred on June 1 of each year or any other date or dates the County may direct, first, to the Reserve Fund so that following such deposit there shall be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement, and then, for deposit in the Base Rental Payment Fund. Except as set forth in the proceeding sentence, amounts on deposit in the Excess Earnings Account shall only be applied to payments made to the United States in accordance with written instructions of the County.

Rental Payments

Pledge of Base Rental Payments and Additional Payments; Base Rental Payment Fund.

(a) There is established a special fund designated as the "Base Rental Payment Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds and moneys held by the Trustee. The County irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of its right, title and interest in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement (other than the Excess Earnings Account) subject to provisions of the Trust Agreement permitting the disbursement thereof for the purposes and on the conditions and terms set forth in the Trust Agreement, and in and to the Base Rental Payments, which shall be used for the punctual payment of the interest and principal represented by the Certificates and any Additional Certificates and the Base Rental Payments shall not be used for any other purpose while any of the Certificates or Additional Certificates remain Outstanding. It is the intent of the parties to the Trust Agreement that the Corporation shall not have any right, title, in or to the Base Rental Payments. In the event, however, that it should be determined that the Corporation has any right, title or interest in or to the Base Rental Payments, then the Corporation irrevocably pledge and transfer to the Trustee, for the benefit of the Owners, all of such right, title and interest, which shall be used for the punctual payment of the interest and principal represented by the Certificates and any Additional Certificates. These pledges shall constitute a first and exclusive lien on the funds established under the Trust Agreement and the Base Rental Payments in accordance with the terms of the Trust Agreement subject in all events to the power of the County to cause the execution and delivery of Additional Certificates pursuant to the Trust Agreement which shall be on a parity with the Certificates and any Additional Certificates Outstanding.

(b) All Base Rental Payments shall be paid directly by the County to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation, as the case may be, with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments, the proceeds of rental interruption insurance and liquidated damages, if any, shall be deposited by the Trustee in the Base Rental Payment Fund and all amounts on deposit therein shall be held in trust by the Trustee, which fund the Trustee agrees to establish and maintain for the benefit of the Owners until all required Base Rental Payments are paid in full pursuant to the Facility Lease or until such date as the Certificates and any Additional Certificates are no longer Outstanding; *provided, however,* and notwithstanding the foregoing, if the Trustee receives a Base Rental Payment amount in excess of the amount necessary to pay the amount due and owing on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date, as the case may be, after giving effect to the funds then on deposit in the Base Rental Payment Fund not needed for any other purpose under the Trust Agreement, and if the amount then in the Reserve Fund is at least equal to the Reserve Fund Requirement and there exists no Event of Default under the Trust Agreement, then amounts in the Base Rental Payment Fund not needed to make such payments may be utilized by the Trustee, as directed in writing by the County, to make any regular periodic payment due to provider of a Reserve Fund Credit Facility or a Reserve Fund investment which provides for such payments, if any, or for any other purpose.

Deposit of Base Rental Payments. Except as otherwise provided in the Trust Agreement, the Trustee shall deposit the amounts in the Base Rental Payment Fund at the time and in the priority and manner provided in the Trust Agreement in the following respective funds, each of which the Trustee agrees to establish and maintain until all required Base Rental Payments are paid in full pursuant to the Facility 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 in the Trust Agreement.

(a) *Interest Fund*. The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. Moneys in the Interest Fund shall be used by the Trustee for the purpose of paying the interest 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.

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

Except as provided in the Trust Agreement, in the event of any damage to or destruction of any part of the Leased Property, caused by the perils covered by the policies of insurance required to be maintained by the County pursuant to the Facility Lease, the County and the Corporation shall cause the proceeds of such insurance (other than rental interruption insurance which is to be placed in the Base Rental Payment Fund) to be used in accordance with the Facility 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 Corporation which (i) states with respect to each disbursement to be made: (A) the requisition number, (B) the name and address of the person, firm or authority to whom payment is due, (C) the amount to be disbursed, and (D) that each obligation therein has been properly incurred for the purpose of repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds and is a proper charge against the Insurance Proceeds and Condemnation Awards Fund and has not been the basis of any previous disbursement; (ii) specifies in reasonable detail the nature of the obligation; and (iii) is accompanied by a bill or statement of account for each obligation. Any balance of said proceeds not required for such repair, reconstruction or replacement as evidenced by a Certificate of the County to the effect that such repair, reconstruction or replacement has been completed and all amounts owing therefor have been paid or provision for the payment therefor has been made shall be transferred by the Trustee to Prepayment Fund and applied in the manner provided by the Trust Agreement. Alternatively, the County, at its option, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay all Outstanding Certificates and Additional Certificates, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon shall cause said proceeds to be transferred to the Prepayment Fund and used for the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement; provided, that if the County elects to so prepay the Outstanding Certificates and Additional Certificates, then the County shall make said election within 45 days after the damage to or destruction of the Leased Property. Notwithstanding any other provision in the Trust Agreement, the County shall only prepay less than all of the Outstanding Certificates and Additional Certificates if the annual fair rental value of the Leased Property after such damage, destruction or condemnation is at least equal to the aggregate annual amount of principal and interest represented by the Outstanding Certificates and Additional Certificates not being prepaid.

The proceeds of any award in eminent domain shall be transferred by the County to the Trustee for deposit in the Prepayment Fund and applied to the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement.

Title Insurance. Proceeds of any policy of title insurance received by the County, the Corporation or the Trustee in respect of the Leased Property shall be applied and disbursed by the County, the Corporation or the Trustee as follows:

(a) If the County determines that the title defect giving rise to such proceeds has not materially affected the operation of the Leased Property and will not result in an abatement of Base Rental Payments payable by the County under the Facility 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

(b) If any portion of the Leased Property has been affected by such title defect, and if the County determines that such title defect will result in an abatement of Base Rental Payments payable by the County under the Facility Lease, then the County, the Corporation or the Trustee shall immediately deposit such proceeds in the Prepayment Fund and such proceeds shall be applied to the prepayment of Certificates and Additional Certificates in the manner provided in the Trust Agreement.

Covenants

Compliance with Trust Agreement. The Trustee will not execute or deliver any Certificates or Additional Certificates in any manner other than in accordance with the provisions of the Trust Agreement, and neither of the County nor the Corporation will suffer or permit any default by them to occur under the Trust Agreement, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Trust Agreement required to be complied with, kept, observed and performed by them.

Compliance with Site Lease and Facility Lease. The County and the Corporation will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Site Lease and the Facility Lease required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Site Lease and the Facility Lease against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Trustee, the County and the Corporation will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. The County will keep the Leased Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Leased Property, and the Trustee at its option (after first giving the County ten days' written notice to comply therewith and failure of the County to take any necessary steps to defend against or to so comply within such ten-day period) may defend against any and all actions or proceedings in which the validity of the Trust Agreement is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; *provided, however,* that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its liability under the Trust Agreement to defend the validity of the Trust Agreement and to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Certificates or Additional Certificates are Outstanding, neither the County nor the Corporation will create or suffer to be created any pledge of or lien on the Base Rental Payments other than as provided or permitted under the Trust Agreement.

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 Leased Property or any portion thereof, whether now existing or hereafter developing, and will prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

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 Corporation at reasonable hours, under reasonable conditions and with reasonable notice. The Trustee shall deliver a monthly accounting to the County; provided that the Trustee shall not be obligated to report as to any fund or account that (a) has a balance of zero and (b) has not had any activity since the last reporting date.

Recordation and Filing. The Corporation will file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), as may be required by law in order to maintain the Site Lease, the Facility 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 Corporation will do whatever else may be necessary or be reasonably required in order to perfect and continue the liens of the Site Lease, the Facility 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 Corporation will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Trust Agreement or by the Assignment Agreement, the Facility Lease or the Site Lease.

Excess Earnings Account of the Earnings Fund; Tax Covenants. (a) The County shall establish and maintain with the Trustee an account separate from any other fund or account established and maintained under the Trust Agreement designated as the "Excess Earnings Account." There shall be deposited in the Excess Earnings Account such amounts set forth in a written direction from the County to the Trustee as the County determines are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Excess Earnings Account shall be held by the 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 receipt of written direction from the County. Notwithstanding defeasance of the Certificates and the Additional Certificates pursuant to the Trust Agreement or anything to the contrary contained in the Trust Agreement, all amounts required to be deposited into or on deposit in the Excess Earnings Account shall be governed exclusively by the provisions of the Trust Agreement described under the caption "—Excess Earnings Account of the Earnings Fund; Tax Covenants" and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall have no duty or obligation to monitor the compliance by the County with the requirements of the Tax Certificate and shall be determined to have complied with its obligations with respect to the Excess Earnings Account if it follows the written directions of the County.

(b) Any funds remaining in the Excess Earnings Account after payment in full of all of the Certificates and any Additional Certificates and after payment of any amounts described in the provisions of the Trust Agreement described under the caption "—Excess Earnings Account of the Earnings Fund; Tax Covenants", shall be transferred to the County to be used for any lawful purpose.

Continuing Disclosure. The County covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Trust Agreement, failure of the County to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of the Purchasers or the Owners of at least 25% aggregate principal amount of Outstanding Certificates, shall) or any Owner or Beneficial Owner of Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under this paragraph; *provided*, that the Trustee shall only be required to take an action under this paragraph to the extent funds have been provided to it or it has been otherwise indemnified to its reasonable satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys.

Default and Limitations of Liability

Events of Default. The following events shall be Events of Default:

(a) default in the due and punctual payment of the principal of or premium, if any, on any Certificate or Additional Certificate when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for prepayment, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Certificate or Additional Certificate when and as such interest installment shall become due and payable;

(c) default by the County in the observance of any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the County and the Corporation by the Trustee, or to the County, the Corporation and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Certificates and Additional Certificates at the time Outstanding; *provided, however,* that if such default can be remedied but not within such 30-day period and if the County has taken all action reasonably possible to remedy such default within such 30-day period, such default shall not become an Event of Default for so long as the County shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or

(d) an event of default shall have occurred and be continuing under the Facility 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 the provisions of the Trust Agreement) shall be entitled, upon notice in writing to the County and the Corporation to exercise any of the remedies granted to the County under the Site Lease, to the Corporation under the Facility 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 applicable remedies set forth in the Trust Agreement.

Other Remedies of the Trustee. The Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the County, the Corporation or any director, officer or employee thereof, and to compel the County or the Corporation or any such director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any default under the Trust Agreement to require the County and the Corporation to account as the trustee of an express trust.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Trust Agreement may be enforced and exercised from time to time and as often the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner or Owners, then subject to any adverse determination, the Trustee or such Owner or Owners and the County and the Corporation shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee in the Trust Agreement is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Corporation or the County to the Owners. Except as expressly provided in the Trust Agreement, the Corporation shall have no obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County of the other agreements and covenants required to be performed by it contained in the Facility Lease or in the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the County to the Owners. Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Facility Lease or in the Trust Agreement, the County shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery or transfer of the Certificates or the disbursement of the Base Rental Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County or the Corporation of the other agreements and covenants required to be performed by them, respectively contained in the Site Lease or the Facility Lease or in the Trust Agreement.

Application of Amounts After Default. Notwithstanding anything to the contrary contained in the Trust Agreement, after a default by the County, all funds and accounts held by the Trustee and all payments received by the Trustee with respect to the rental of the Leased Property after a default by the County pursuant to the Facility Lease, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Facility Lease, shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

(a) to the payment of all amounts due the Trustee under the Trust Agreement; and

(b) to the payment of all amounts then due as interest with respect to the Certificates and any Additional Certificates, and thereafter to the payment of all amounts due as principal with respect to the Certificates and any Additional Certificates, in respect of which or for the benefit of which, money has been collected (other than Certificates and any Additional Certificates which have matured or otherwise become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable with respect to such Certificates and Additional Certificates.

Trustee May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates and any Additional Certificates may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or Additional Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Certificates or Additional Certificates in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Certificate or Additional Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless such Owner has previously given written notice to the Trustee of a continuing Event of Default; the Owners of not less than 25% in principal amount of the Outstanding Certificates and Additional Certificates shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Agreement; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in principal amount of the Outstanding Certificates and Additional Certificates; it being understood and intended that no one or more Owners of Certificates and Additional Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates or Additional Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal and ratable benefit of all the Owners of Certificates and Additional Certificates. Nothing in the Trust Agreement contained shall, however, affect or impair the right of any Owner to enforce the payment of the principal component of or the prepayment price of and the interest component of the Base Rental Payments represented by any Certificate or Additional Certificate at and after the maturity or earlier prepayment.

The Trustee

Employment of the Trustee. The County and the Corporation appoint and employ the Trustee to receive, deposit and disburse the Rental Payments, to prepare, execute, deliver and transfer the Certificates and Additional Certificates and to perform the other functions contained in the Trust Agreement; all in the manner provided in the Trust Agreement and subject to the conditions and terms of the Trust Agreement. By executing and delivering the Trust Agreement, the Trustee accepts the appointment and employment referred to in the Trust Agreement and accepts the rights and obligations of the Trustee provided in the Trust Agreement, subject to the conditions and terms of the Trust Agreement. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

Duties, Removal and Resignation of the Trustee. The County and the Corporation may, by an instrument in writing and upon 30 days written notice remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount represented by the Certificates and Additional Certificates at the time Outstanding (or their attorneys duly authorized in writing), but any such successor Trustee shall be a bank with trust powers or trust company doing business and having a principal corporate trust office in California or New York, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars ($75,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Trust Agreement the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the County and the Corporation and by mailing notice, first class, postage prepaid, of such resignation to the Owners at their addresses appearing on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement. Upon receiving such notice of resignation, the County and the Corporation shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the County and the Corporation do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the County, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

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 payments due any provider of a Reserve Fund Credit Facility or Reserve Fund investment which provides for such payments, advances to and fees and expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations under the Trust Agreement; *provided, however,* that the Trustee shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds or accounts established under the Trust Agreement or under the Facility Lease (except that such compensation or reimbursement may be made from the Cost of Issuance Fund to the extent provided in the Trust Agreement or as provided in the Trust Agreement). The Trustee may take whatever legal actions are lawfully available to it directly against the County or the Corporation. The rights of the Trustee under the Trust Agreement are in addition to the rights granted to the Trustee pursuant to the Facility 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.

The County covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise and performance of its powers and duties under the Trust Agreement, including the costs of expenses of defending against any claim of liability including, without limitation, any claim arising out of the use, presence, storage, disposal or release of any Hazardous Substances on or about the Leased Property, but excluding any and all losses, expenses and liabilities which are due to the negligence or intentional misconduct of the Trustee, its officers, directors, agents or employees. Such indemnity shall survive the discharge of the Trust Agreement or the resignation or removal of the Trustee.

Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, opinion, notice, request, requisition, resolution, direction, instruction, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Certificate or Additional Certificate or to take any action at the request of any such person unless such Certificate or Additional Certificate shall be deposited with the Trustee or satisfactory evidence of the ownership of such Certificate or Additional Certificate shall be furnished to the Trustee. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Owners of the Certificates or Additional Certificates pursuant to the Trust Agreement, unless such Owners shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee, against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the County or the Corporation, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Trust Agreement in good faith in accordance therewith. If requested by the County, counsel to the Trustee shall be of recognized national standing in the field of law relating to municipal bonds.

The Trustee shall not be responsible for the sufficiency or adequacy of the Certificates or any Additional Certificates, the Site Lease, the Facility 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 Leased Property.

The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Trust Agreement or an Event of Default under the Trust Agreement, except failure of any of the payments to be made to the Trustee required to be made under the Trust Agreement unless the Trustee shall be specifically notified in writing of such default or Event of Default by the County, the Corporation or by the Owners of not less than 25% in aggregate principal amount represented by the Certificates and Additional Certificates then Outstanding.

Whenever in the administration of its rights and obligations under the Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Agreement) may be deemed to be conclusively proved and established by a Certificate of the County, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Certificates and Additional Certificates and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Trust Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the County or the Corporation, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Corporation or the County as freely as if it were not the Trustee under the Trust Agreement.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Trust Agreement and perform any rights and obligations required of it under the Trust Agreement by or through agents, attorneys or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its rights and obligations under the Trust Agreement, and the Trustee shall not be answerable for the default or misconduct of any such agent, attorney or receiver selected by it with reasonable care. The Trustee shall not be liable for any error of judgment made by it in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be answerable for the exercise of any trusts or powers under the Trust Agreement or for anything whatsoever in connection with the funds established under the Trust Agreement, except only for its own willful misconduct or negligence.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of not less than a majority (or other percentage provided for in the Trust Agreement) in aggregate principal amount of the Certificates at the time Outstanding relating to the exercise of any right or remedy available to the Trustee under the Trust Agreement.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the County of the Leased Property. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Facility Lease, the Site Lease or the Trust Agreement for the existence, furnishing or use of the Leased Property.

Every provision of the Trust Agreement, the Facility Lease, the Site Lease and the Assignment Agreement relating to the conduct or liability of the Trustee shall be subject to the provisions of the Trust Agreement.

In acting as Trustee under the Trust Agreement, the Trustee acts solely in its capacity as Trustee for the Owners and not in its individual or personal capacity, and all persons, including without limitation, the Owners, the County and the Corporation, having any claim against the Trustee shall look only to the funds and accounts held by the Trustee under the Trust Agreement for payment, except as otherwise specifically provided in the Trust Agreement. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

The recitals of facts, covenants and agreements in the Trust Agreement and in the Certificates shall be taken as statements, covenants and agreements of the County or the Corporation, as the case may be, and the Trustee assumes no responsibility for the correctness of the same.

Amendment of or Supplement to Trust Agreement

Amendment or Supplement. The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee under the Trust Agreement may be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates and Additional Certificates then Outstanding, exclusive of Certificates and Additional Certificates disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment or supplement shall (1) extend the Principal Payment Date of any Certificate or Additional Certificate or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby or reduce the amount of any Mandatory Sinking Account Payment without the prior written consent of the Owner of each Certificate and Additional Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement to the Trust Agreement without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) modify any provision of the Trust Agreement expressly recognizing or granting rights in or to any Insurer in any manner which affects the rights of any Insurer under the Trust Agreement without its prior written assent thereto, or (5) amend the provisions of the Trust Agreement described by the provisions of the Trust Agreement described under the caption "—Amendment or Supplement" without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding.

The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee under the Trust Agreement may also be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding upon execution, but without the written consents of any Owners, but only to the extent permitted by law and after receipt of an unqualified approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required to be observed or performed in the Trust Agreement by the County or the Corporation, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the County or the Corporation, and which in either case shall not materially adversely affect the interests of the Owners; or

(b) to provide for additional or substitute Leased Property as may be requested from time to time by the County in accordance with the Facility 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 Corporation may deem desirable or necessary and not inconsistent with the Trust Agreement, and which shall not materially adversely affect the interests of the Owners; or

(d) to provide for the execution and delivery of Additional Certificates in accordance with the Trust Agreement; or

(e) for any other reason, provided such amendment or supplement does not materially adversely affect the interests of the Owners, provided further that the County, the Corporation and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this subsection (e) have been met with respect to such amendment or supplement.

Disqualified Certificates. Certificates and Additional Certificates actually known by the Trustee to be owned or held by or for the account of the County (but excluding Certificates and Additional Certificates held in any pension or retirement fund of the County) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Certificates and Additional Certificates provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in this section, and the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Certificates and Additional Certificates as to which such consent is given are disqualified as provided in this paragraph.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as provided in the Trust Agreement, the Trustee may determine that the Certificates and Additional Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Certificate or Additional Certificate and presentation of such Certificate or Additional Certificate for such purpose at the Principal Corporate Trust Office of the Trustee a suitable notation as to such action shall be made on such Certificate or Additional Certificate. If the Trustee shall receive an Opinion of Counsel advising that new Certificates or Additional Certificates modified to conform to such action are necessary, modified Certificates or Additional Certificates shall be prepared, and in that case upon demand of the Owner of any Outstanding Certificates or Additional Certificates such new Certificates or Additional Certificates shall be exchanged at the Principal Corporate Trust Office of the Trustee, without cost to each Owner for Certificates or Additional Certificates then Outstanding upon surrender of such Outstanding Certificates or Additional Certificates.

Amendment by Mutual Consent. The amendment provisions of the Trust Agreement shall not prevent any Owner from accepting any amendment as to the particular Certificates or Additional Certificates owned by him, provided that due notation thereof is made on such Certificates or Additional Certificates.

Opinion of Counsel. In executing any amendment or supplement to the Trust Agreement, the Trustee may conclusively rely upon an Opinion of Counsel to the effect that all conditions precedent for the execution of an amendment or supplement to the Trust Agreement have been satisfied.

Defeasance

Discharge of Certificates and Trust Agreement. (a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Certificates and Additional Certificates the interest and principal represented thereby at the times and in the manner stipulated therein, then such Owners shall cease to be entitled to the pledge of and lien on the Base Rental Payments as provided in the Trust Agreement, and all agreements and covenants of the County, the Corporation and the Trustee to such Owners under the Trust Agreement shall thereupon cease, terminate and become void and shall be discharged and satisfied.

(b) Any Outstanding Certificates or Additional Certificates shall, prior to the maturity or prepayment date thereof, be deemed to have been paid within the meaning and with the effect expressed in the Trust Agreement if (i) in case said Certificates or Additional Certificates are to be prepaid on any date prior to their maturity, the County shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the provisions of the Trust Agreement, notice of prepayment of such Certificates or Additional Certificates on said prepayment date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities which are not callable or subject to prepayment prior to their respective maturity dates, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient (as verified by a report of an independent certified public accountant or other independent financial consultant), to pay when due the principal or prepayment price (if applicable) of, and interest due and to become due on, said Certificates or Additional Certificates on and prior to the prepayment date or maturity date thereof, as the case may be, and (iii) in the event any of said Certificates or Additional Certificates are not to be prepaid within the next succeeding 60 days, the County shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of prepayment is mailed pursuant to the Trust Agreement, a notice to the Owners of such Certificates or Additional Certificates and to the securities depositories and information services specified in the Trust Agreement that the deposit required by (ii) above has been made with the Trustee and that said Certificates or Additional Certificates are deemed to have been paid in accordance with the Trust Agreement and stating such maturity or prepayment dates upon which moneys are to be available for the payment of the principal or prepayment price (if applicable) of said Certificates or Additional Certificates. Neither the securities nor moneys deposited with the Trustee pursuant to this paragraph nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or prepayment price (if applicable) of, and interest on said Certificates or Additional Certificates; provided that Defeasance Securities deposited with the Trustee pursuant to this paragraph may be sold upon the written request of the County and the proceeds concurrently reinvested in other Defeasance Securities which satisfy the conditions of (ii) above provided that the Trustee receives an Opinion of Counsel to the effect that such sale and reinvestment does not adversely affect the exclusion of interest on the Certificates and Additional Certificates from federal income taxes, and provided further that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the County, be reinvested in Defeasance Securities maturing at times and in amounts, together with the other moneys and payments with respect to securities then held by the Trustee pursuant to this paragraph, sufficient to pay when due the principal or prepayment price (if applicable) of, and interest to become due with respect to said Certificates or Additional Certificates on and prior to such prepayment date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall, upon receipt by the Trustee of a Written Request of the County, be paid over to the County, as received by the Trustee, free and clear of any trust, lien or pledge. Nothing in this paragraph shall preclude prepayments pursuant to the Trust Agreement.

Any release under this subsection (b) shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under the Trust Agreement and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Trust Agreement created and the performance of its powers and duties under the Trust Agreement; provided however, that the Trustee shall have no right, title or interest in, or lien on, any moneys or securities deposited pursuant to the Trust Agreement.

(c) After the payment or deemed payment of all the interest and principal represented by all Outstanding Certificates and Additional Certificates as provided in the Trust Agreement, the Trustee shall execute and deliver to the Corporation and the County all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Trust Agreement, and the Trustee shall pay over or deliver to the County all moneys or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest and principal represented by such Certificates and Additional Certificates. Notwithstanding the discharge and satisfaction of the Trust Agreement, Owners of Certificates and Additional Certificates shall thereafter be entitled to payments due under the Certificates and Additional Certificates pursuant to the Facility 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 and premium, if any, represented by any of the Certificates or Additional Certificates which remain unclaimed for two years after the date when the payments represented by such Certificates or Additional Certificates have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal, and premium, if any, represented by such Certificates or Additional Certificates have become payable, shall be repaid by the Trustee to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the County for the payment of the interest and principal and premium, if any, represented by such Certificates or Additional Certificates; *provided, however,* that before being required to make any such payment to the County, the Trustee shall mail a notice to the Owner that such unclaimed funds shall be returned to the County within 30 days.

Miscellaneous

Benefits of Trust Agreement Limited to Parties. Nothing contained in the Trust Agreement, expressed or implied, is intended or shall be construed to confer upon, or to give or grant to, any person or entity other than the County, the Corporation, the Trustee and the Owners, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation of the Trust Agreement, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the County or the Corporation shall be for the sole and exclusive benefit of the County, the Corporation, the Trustee and the Owners.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Trust Agreement to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Certificate or Additional Certificate and the amount, payment date, number and date of owning the same may be proved by the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement.

Any declaration, consent, request or other instrument in writing of the Owner of any Certificate or Additional Certificate shall bind all future Owners of such Certificate or Additional Certificate with respect to anything done or suffered to be done by the County, the Corporation or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. Notwithstanding anything contained in the Trust Agreement to the contrary, no member, officer, employee or agent of the County, the Corporation or the Trustee shall be individually or personally liable for the payment of any moneys, including without limitation, the interest or principal represented by the Certificates and Additional Certificates, but nothing contained in the Trust Agreement shall relieve any member, officer, employee or agent of the County from the performance of any official duty provided by any applicable provisions of law or by the Site Lease, the Facility Lease or the Trust Agreement.

Acquisition of Certificates by County. All Certificates and Additional Certificates acquired by the County, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Content of Certificates. Every Certificate of the County or Corporation with respect to compliance with any agreement, condition, covenant or term contained in the Trust Agreement shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or term and the definitions in the Trust Agreement relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or term has been complied with.

Any Certificate of the County or the Corporation may be based, insofar as it relates to legal matters, upon an Opinion of Counsel unless the person making or giving such certificate knows that the Opinion of Counsel with respect to the matters upon which his certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters, upon information with respect to which is in the possession of the County upon a representation by an officer or officers of the County, unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which his opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Publication for Successive Weeks. Any publication required to be made under the Trust Agreement for two successive weeks in a Financial Newspaper may be made in each instance upon any Business Day of the first week and need not be made on the same Business Day of any succeeding week or in the same Financial Newspaper for any subsequent publication, but may be made on different Business Days or in different Financial Newspapers, as the case may be.

Funds. Any fund required to be established and maintained in the Trust Agreement by the County or the Trustee may be established and maintained in the accounting records of the County or the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Certificates and the rights of the Owners. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Trust Agreement.

The County and the Trustee may commingle any of the moneys held by it under the Trust Agreement for investment purposes only; *provided, however,* that the County and the Trustee shall account separately for the moneys in each fund or account established pursuant to the Trust Agreement.

Investments. Any moneys held by the County in the funds and accounts established under the Trust Agreement shall be invested only in Permitted Investments. Any moneys held by the Trustee in the funds and accounts established under the Trust Agreement shall be invested by the Trustee upon the written request of the County Treasurer or the Chief Investment Officer of the County only in Permitted Investments. In the absence of such direction, moneys shall be invested by the Trustee solely in Permitted Investments set forth in clause (6) of the definition thereof. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with this paragraph. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. Any interest or profits on such investments in any funds and accounts (other than the Excess Earnings Account) established under the Trust Agreement shall be deposited in the Earnings Fund and are to be transferred as provided in the Trust Agreement. For purposes of determining the amount on deposit in any fund or account under the Trust Agreement, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment. Any Permitted Investments that are registrable securities shall be registered in the name of the Trustee, as trustee under the Trust Agreement.

California Law. The Trust Agreement shall be construed and governed in accordance with the laws of the State of California.

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APPENDIX D

BOOK-ENTRY SYSTEM

THE INFORMATION IN THIS APPENDIX D CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE COUNTY AND THE CORPORATION BELIEVE TO BE RELIABLE, BUT THE COUNTY AND THE CORPORATION TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2014 Certificates (the "Series 2014 Certificates"). The Series 2014 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 Security certificate will be issued for each maturity of the Series 2014 Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. 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 Series 2014 Certificates 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Series 2014 Certificates and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Series 2014 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Certificates on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations 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 2014 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 Series 2014 Certificates, except in the event that use of the book-entry system for the Series 2014 Certificates is discontinued.

4. To facilitate subsequent transfers, all Series 2014 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 2014 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 2014 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014 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.

5. 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. Beneficial Owners of Series 2014 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2014 Certificates, such as redemptions, defaults, and proposed amendments to the financing documents.

6. Redemption notices shall be sent to DTC. If less than all of the Series 2014 Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2014 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 County, the Corporation or 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 Series 2014 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds on the Series 2014 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 County or the Corporation, on payable date 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, the County, the Corporation or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County, the Corporation or 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.

9. DTC may discontinue providing its services as depository with respect to the Series 2014 Certificates at any time by giving reasonable notice to the County. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The County or the Corporation may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificated Series 2014 Certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County and the Corporation believes to be reliable, but the County and the Corporation take no responsibility for the accuracy thereof.

THE COUNTY, THE CORPORATION, THE TRUSTEE AND THE UNDERWRITERS 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 2014 CERTIFICATES (I) PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE SERIES 2014 CERTIFICATES (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SERIES 2014 CERTIFICATES OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2014 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.

NEITHER THE COUNTY, THE CORPORATION, THE TRUSTEE NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON SERIES 2014 CERTIFICATES; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE INDENTURE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SERIES 2014 CERTIFICATES.

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APPENDIX E

FORM OF SPECIAL COUNSEL OPINION

Upon execution and delivery of the Series 2014 Certificates, Orrick, Herrington & Sutcliffe LLP, Special Counsel, proposes to render its final approving opinion with respect to the Series 2014 Certificates in substantially the following form:

[Date of Delivery]

County of San Diego
San Diego, California

County of San Diego
Certificates of Participation
(Edgemoor and RCS Refunding),
<u>Series 2014A and Series 2014B (Taxable)</u>
(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 County of San Diego Certificates of Participation (Edgemoor and RCS Refunding), Series 2014A evidencing principal in the aggregate amount of $91,675,000 (the "Series 2014A Certificates") and County of San Diego Certificates of Participation (Edgemoor and RCS Refunding), Series 2014B (Taxable) evidencing principal in the aggregate amount of $2,075,000 (the "Series 2014B Certificates" and, together with the Series 2014A Certificates, the "Certificates"), each executed and delivered pursuant to a trust agreement, dated as of September 1, 2014 (the "Trust Agreement"), by and among the County, the San Diego County Capital Asset Leasing Corporation (the "Corporation") and Zions First National Bank, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the Site Lease, the Facility Lease, the Tax Certificate and the Assignment Agreement, opinions of counsel to the County, the Corporation and the Trustee, certificates of the County, the Corporation, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used 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 Site Lease, the Facility Lease, the Assignment Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest component of the Base Rental Payments related to the Series 2014A 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 Site Lease, the Facility Lease, the Assignment Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, 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, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, 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 Site Lease, the Facility Lease or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Trust Agreement, the Site Lease and the Facility Lease have been duly executed and delivered by, and constitute valid and binding obligations of the County.

2. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

3. The interest component of the Base Rental Payments paid by the County under the Facility Lease and received by the registered owners of the Series 2014A Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Such interest 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. The interest component of the Base Rental Payments paid by the County under the Facility Lease and received by the registered owners of the Certificates is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest evidenced by, the Certificates.

Faithfully yours,

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of September 1, 2014, is executed and delivered by the County of San Diego, California (the "County") 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 County 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 County or anyone on the County'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 County 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 County 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 Deputy Chief Administrative Officer/Auditor and Controller of the County or his or her designee, or such other person as the County 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 County pursuant to Section 9 hereof.

"Failure to File Event" means the County'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 County, 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 County 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 executed and delivered.

"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 County 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 County, commencing with the fiscal year ending June 30, 2014. 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 County 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 County 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 6:00 p.m. Eastern time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the County 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 County are prepared but not available prior to the Annual Filing Date, the County 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 County 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, Internal Revenue Service 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 County 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 County 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 County 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 County 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 County, 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 BALANCE

GENERAL FUND ADOPTED AND AMENDED BUDGETS

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

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 County 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 County 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 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 County 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 County desires to make, contain the written authorization of the County for the Disclosure Dissemination Agent to disseminate such information, and identify the date the County 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 County 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 County 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 County desires to make, contain the written authorization of the County for the Disclosure Dissemination Agent to disseminate such information, and identify the date the County 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 County 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. <u>CUSIP Numbers</u>. 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 County 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. <u>Additional Disclosure Obligations</u>. The County 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 County, 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 County 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. <u>Voluntary Filing</u>.

(a) The County 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 County desires to make, contain the written authorization of the County for the Disclosure Dissemination Agent to disseminate such information, and identify the date the County desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the County 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 County 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 County desires to make, contain the written authorization of the County for the Disclosure Dissemination Agent to disseminate such information, and identify the date the County desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the County 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.

(c) The parties hereto acknowledge that the County 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.

(d) Nothing in this Disclosure Agreement shall be deemed to prevent the County 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 County 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 County 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 County 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 County 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 County has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The County 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 County or DAC, the County 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 County 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 County.

SECTION 10. <u>Remedies in Event of Default</u>. In the event of a failure of the County 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. <u>Duties, Immunities and Liabilities of Disclosure Dissemination Agent</u>.

(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 County 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 County and shall not be deemed to be acting in any fiduciary capacity for the County, the Holders of the Certificates or any other party. The Disclosure Dissemination Agent shall have no responsibility for the County'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 County has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the County at all times.

The obligations of the County 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 County.

(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. <u>Amendment; Waiver</u>. Notwithstanding any other provision of this Disclosure Agreement, the County 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 County 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 County 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 County. No such amendment shall become effective if the County 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 County, 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 County 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

By: ________________________________

Name: Tracy M. Sandoval
Title: Deputy Chief Administrative Officer/
Auditor and Controller

EXHIBIT A

NAME AND CUSIP NUMBERS OF CERTIFICATES

Name of Issue:	County of San Diego Certificates of Participation (Edgemoor and RCS Refunding) Series 2014A and Series 2014B (Taxable)
Obligated Person(s):	County of San Diego
Date of Issuance:	September 3, 2014
Date of Official Statement:	August 19, 2014

CUSIP Numbers:
797391Y37
797391Y45
797391Y52
797391Y60
797391Y78
797391Y86
797391Y94
797391Z28
797391Z36
797391Z44
797391Z51
797391Z69
797391Z77
797391Z85
797391Z93
7973912A6
7973912B4
7973912C2
7973912D0

EXHIBIT B

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Obligor:	County of San Diego
Name of Certificate Issue:	$93,750,000 County of San Diego Certificates of Participation (Edgemoor and RCS Refunding) Series 2014A and Series 2014B (Taxable)
Date of Issuance:	September 3, 2014

NOTICE IS HEREBY GIVEN that the County has not provided an Annual Report with respect to the above-named Certificates as required by the Disclosure Agreement, dated as of September 1, 2014, between the County and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The County 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 County

____

cc: Deputy Chief Administrative Officer/Auditor and Controller, County of San Diego

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 September 1, 2014 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 September 1, 2014 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:

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COUNTY OF SAN DIEGO • CERTIFICATES OF PARTICIPATION (EDGEMOOR AND RCS REFUNDING) SERIES 2014A AND SERIES 2014B (TAXABLE)

Mixed Sources
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