

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

RATINGS:
(MBIA Insured)
Moody's : Aaa
Standard & Poor's: AAA
Fitch : AAA

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, under existing law, interest on the Series 2002 Bonds is exempt from present State of California personal income taxes. Interest on the Series 2002 Bonds is not excludable from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2002 Bonds. See "Tax Matters" herein.

\$737,340,000
COUNTY OF SAN DIEGO
TAXABLE PENSION OBLIGATION BONDS

\$132,215,000
Series 2002A
(Current Interest Bonds)

\$505,125,000
Series 2002B
(Auction Rate Securities)

\$100,000,000
Series 2002C
(Public Income NotES (PINES®))

Dated: Date of Delivery

Due: August 15, as shown on inside cover page

The County of San Diego (the "County") is issuing its Taxable Pension Obligation Bonds, Series 2002A, Series 2002B and Series 2002C (collectively, the "Series 2002 Bonds") pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3, Division 2, Title 5 of the Government Code of the State of California, a Trust Agreement (the "Original Trust Agreement") dated as of January 1, 1994, by and between the County and U.S. Trust Company of California, N.A., as trustee (the "Prior Trustee") and a First Supplemental Trust Agreement (the "Supplemental Trust Agreement," and together with the Original Trust Agreement, the "Trust Agreement") dated as of September 1, 2002 by and between the County and BNY Western Trust Company, as trustee (the "Trustee"), to fund a portion of the increased statutory obligation of the County to make payments to the County's Employees' Retirement Association (the "Association") by refunding the Debenture (defined below), to defease to maturity, a portion of the County's outstanding Taxable Pension Obligation Bonds, Series A (the "Prior Bonds," and together with the Series 2002 Bonds and any additional bonds which may be issued under the Trust Agreement, the "Bonds"), and to pay the initial costs of financing.

The Prior Bonds were issued to finance the County's statutory obligation pursuant to Section 31584 of the County Employees Retirement Law of 1937, as amended (the "Retirement Law") to appropriate and make payments to the San Diego County Employees' Retirement Association (the "Association") for certain amounts arising as a result of retirement benefits accruing to members of the Association. In respect of an increased statutory obligation since the issuance of the Prior Bonds, the County will execute a debenture (the "Debenture") in favor of the Association. See "Plan of Financing" and "Security and Sources of Payment for the Series 2002 Bonds."

Interest on the Series 2002A Bonds will be payable on February 15 and August 15, commencing on August 15, 2003. Interest on the Series 2002B Bonds and Series 2002C Bonds is payable semiannually on February 15 and August 15 of each year, commencing February 15, 2003. The Series 2002A Bonds (the "Current Interest Bonds") and the Series 2002C Bonds (the "PINES") will bear interest at the respective rates per annum set forth on the inside front cover page. Interest on the Series 2002B Bonds (the "Auction Rate Securities") will accrue at the Applicable Auction Rates until the Fixed Rate Conversion Date for such Series 2002B Bonds as described under the caption "The Bonds – Series 2002B Bonds" herein and in Appendix F - "Auction and Settlement Procedures" attached hereto.

The Series 2002 Bonds are being issued in fully registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC") in the United States. DTC will act as securities depository of the Series 2002 Bonds. Individual purchases will be made in book-entry form only in denominations of (i) with respect to Current Interest Bonds, \$5,000 principal amount or any integral multiple thereof, (ii) with respect to Auction Rate Securities, \$25,000 principal amount or any integral multiple thereof, and (iii) with respect to PINES, \$25 principal amount or integral multiples thereof. Purchasers will not receive certificates representing their beneficial ownership interest in the Series 2002 Bonds purchased. See Appendix E attached hereto.

Certain of the Series 2002 Bonds are subject to optional and mandatory sinking fund redemption prior to maturity, as described herein under the caption "The Series 2002 Bonds."

Payment of principal and interest on the Series 2002 Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation ("MBIA"), simultaneously with the delivery of the Series 2002 Bonds. See "Financial Guaranty Insurance Policy."



THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS ARE OBLIGATIONS IMPOSED BY LAW PAYABLE FROM FUNDS TO BE APPROPRIATED BY THE COUNTY PURSUANT TO THE RETIREMENT LAW. PURSUANT TO SECTION 31584 OF THE RETIREMENT LAW, THE BOARD OF SUPERVISORS OF THE COUNTY IS OBLIGATED TO MAKE APPROPRIATIONS TO PAY THE UNFUNDED ACCRUED ACTUARIAL LIABILITY OF THE ASSOCIATION AND PURSUANT TO SUCH SECTION THE COUNTY AUDITOR-CONTROLLER SHALL TRANSFER FROM ANY MONEY AVAILABLE IN ANY FUND IN THE COUNTY TREASURY THE SUMS SPECIFIED IF THE BOARD OF SUPERVISORS FAILS TO MAKE SUCH APPROPRIATIONS. IN ADDITION, THE SERIES 2002 BONDS AND THE PRIOR BONDS ARE SECURED ON A PARITY TOGETHER WITH ANY ADDITIONAL BONDS WHICH HEREAFTER MAY BE ISSUED UNDER THE TRUST AGREEMENT, AND ARE NOT SECURED OR LIMITED AS TO PAYMENT BY ANY SPECIAL SOURCE OF FUNDS OF THE COUNTY.

THE SERIES 2002 BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. THE SERIES 2002 BONDS DO NOT CONSTITUTE AN INDEBTEDNESS OF THE COUNTY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The County intends to apply to list the Series 2002C Bonds on the New York Stock Exchange ("NYSE"). If such application is approved, trading of the Series 2002C Bonds on the NYSE is expected to commence approximately 30 days after the issuance of the Series 2002C Bonds.

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

The Series 2002 Bonds will be offered when, as and if executed, delivered, and received by the Underwriters, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Bond Counsel and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins, Delafield & Wood, Los Angeles, California, for the County by the County Counsel, and for MBIA by its counsel, Kutak Rock LLP, Irvine, California. It is anticipated that the Series 2002 Bonds in definitive form will be available for delivery to DTC in New York, New York, and through the Euroclear System and Clearstream, Luxembourg in Europe on or about October 3, 2002.

Salomon Smith Barney
Banc of America Securities LLC
Lehman Brothers

Morgan Stanley & Co. Incorporated
Bear, Stearns & Co. Inc.
Ramirez & Co., Inc.

Dated: September 17, 2002

PINES is a registered service mark of Salomon Smith Barney Inc.

Maturity Schedule

\$132,215,000 Series 2002A Bonds
(Current Interest Bonds)

<u>Maturity (August 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price</u>
2008	\$14,675,000	3.88%	100%
2009	15,325,000	4.12	100
2010	15,990,000	4.34	100
2011	16,720,000	4.60	100
2012	17,515,000	4.65	100
2013	18,355,000	4.72	100
2014	16,405,000	4.86	100
2015	17,230,000	4.95	100

\$505,125,000 Series 2002B Bonds
(Auction Rate Securities)

<u>Subseries</u>	<u>Principal Amount</u>	<u>Maturity (August 15)</u>	<u>Initial Auction Date</u>	<u>Auction Date Generally</u>	<u>Initial Interest Payment Date</u>	<u>Initial Auction Interest Period (Days)</u>
B-1	\$100,000,000	2032	October 23, 2002	Each fourth Wednesday thereafter	February 15, 2003	21
B-2	135,025,000	2030	October 30, 2002	Each fourth Wednesday thereafter	February 15, 2003	28
B-3	135,050,000	2030	November 6, 2002	Each fourth Wednesday thereafter	February 15, 2003	35
B-4	135,050,000	2030	November 13, 2002	Each fourth Wednesday thereafter	February 15, 2003	42

\$100,000,000 6.125% Series 2002C PINES due August 15, 2032: Price 100%
(Public Income NotES (PINES®))

COUNTY OF SAN DIEGO, STATE OF CALIFORNIA

BOARD OF SUPERVISORS

Ron Roberts, Chairman
Greg Cox, Vice-Chairman
Dianne Jacob
Pam Slater
Bill Horn

Fourth District
First District
Second District
Third District
Fifth District

COUNTY OFFICIALS

Walter F. Ekard, *Chief Administrative Officer*
Bart J. Hartman, *Treasurer - Tax Collector*
William J. Kelly, *Chief Financial Officer*
John J. Sansone, *County Counsel*

SPECIAL SERVICES

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

Trustee
BNY Western Trust Company
Los Angeles, California

Financial Advisor
JP Morgan
San Francisco, California

No dealer, broker, salesperson or other person has been authorized by the County or the Underwriters to give any information or to make any representations in connection with the offer or sale of the Series 2002 Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the County or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2002 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or owners of the Series 2002 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

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

In connection with the offering of the Series 2002 Bonds, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of such Series 2002 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Series 2002 Bonds to certain dealers and dealer banks and banks acting as agents at prices lower than the public offering price stated on the cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

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\$737,340,000
COUNTY OF SAN DIEGO
TAXABLE PENSION OBLIGATION BONDS
\$132,215,000 Series 2002A (Current Interest Bonds)
\$505,125,000 Series 2002B (Auction Rate Securities)
\$100,000,000 Series 2002C (Public Income NotES (PINES[®]))

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2002 Bonds being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given such terms under the Trust Agreement. See Appendix C – "Summary of the Trust Agreement - Definitions."

General

This Official Statement, including the cover and the appendices attached hereto (the "Official Statement"), provides certain information concerning the Taxable Pension Obligation Bonds, Series 2002A (the "Series 2002A Bonds"), Series 2002B (the "Series 2002B Bonds") and Series 2002C (the "Series 2002C Bonds," together with the Series 2002A Bonds and Series 2002B Bonds, the "Series 2002 Bonds") issued by the County of San Diego (the "County"), in an aggregate principal amount of \$737,340,000. The Series 2002 Bonds will be issued pursuant to a Trust Agreement (the "Original Trust Agreement") dated as of January 1, 1994, by and between the County and U.S. Trust Company of California, N.A., as trustee (the "Prior Trustee") and a First Supplemental Trust Agreement (the "Supplemental Trust Agreement," and together with the Original Trust Agreement, the "Trust Agreement") dated as of September 1, 2002 by and between the County and BNY Western Trust Company, as trustee (the "Trustee").

The Series 2002 Bonds are being issued to fund a portion of the increased statutory obligation of the County to make payments to the County's Employees' Retirement Association (the "Association") by refunding the Debenture (defined below), to defease to maturity a portion of the County's outstanding Taxable Pension Obligation Bonds, Series A (the "Prior Bonds," and together with the Series 2002 Bonds and any additional bonds which may be issued pursuant to the Trust Agreement, the "Bonds"), and to pay the initial costs of financing. The Prior Bonds were issued to finance the County's statutory obligation pursuant to Section 31584 of the County Employees Retirement Law of 1937, as amended (the "Retirement Law") to appropriate and make payments to the San Diego County Employees' Retirement Association (the "Association") for certain amounts arising as a result of retirement benefits accruing to members of the Association. In respect of an increased statutory obligation since the issuance of the Prior Bonds, the County will execute a debenture (the "Debenture") in favor of the Association. The Bonds are absolute and unconditional obligations imposed upon the County by law and enforceable against the County pursuant to the Retirement Law, are payable on a parity together with any additional bonds which hereafter may be issued under the Trust Agreement, and are not secured or limited as to payment by any special source of funds of the County.

The County

The County, incorporated in 1850, is the southernmost major metropolitan area in the State of California and covers 4,255 square miles. The County population in 2001 was estimated to be 2,883,600, making it the third largest county in California. The County's Fiscal Year 2002-03 General Fund budget totals \$2.6 billion. The County possesses a diverse economic base consisting of manufacturing, world trade, financial services, tourism, agriculture, defense and aerospace technology industries. For financial, economic and demographic information about the County, see Appendix A.

The San Diego Employees' Retirement Association

The Association, established July 1, 1939 under provisions of the County Employees' Retirement Law of 1937, is a contributory type plan covering substantially all salaried employees. The plan is integrated with the federal Social Security System. For Fiscal Year 2001-2002, contributions to the retirement fund amounted to approximately \$50.5 million by the County and \$17.3 million by employee members. There were 18,524 active members, 9,632 retired members and 3,315 deferred members as of June 30, 2002.

In 2002, the Board of Supervisors of the County adopted a number of enhanced benefits for members of the Association. As a result of the adoption of these benefits, the County incurred an increased obligation pursuant to the Retirement Law as an unfunded accrued actuarial liability to the Association. As of January 31, 2002, the total estimated accrued unfunded liability from these additional benefits was approximately \$870.8 million. The Series 2002 Bonds are being issued in part to fund a portion of such liability. See "Plan of Financing" and Appendix A – "Retirement Program" herein.

Security and Sources of Payment for the Series 2002 Bonds

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

The Bonds are payable on a parity together with any additional bonds which hereafter may be issued under the Trust Agreement, and are not secured or limited as to payment by any special source of funds of the County.

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

The Association's assets will not secure or be available to pay principal of or interest on the Bonds.

The Series 2002 Bonds

Purchases of the Series 2002 Bonds will be made in denominations ("Authorized Denominations") of (i) with respect to the Series 2002A Bonds (the "Current Interest Bonds"), \$5,000 principal amount or any integral multiple thereof, (ii) with respect to the Series 2002B Bonds (the "Auction Rate Securities"), \$25,000 principal amount or any integral multiple thereof, and (iii) with respect to the Series 2002C Bonds (the "PINES"), \$25 principal amount or any integral multiple thereof, and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2002 Bonds. Ownership interests in the Series 2002 Bonds may be purchased in book-entry form only. Principal of, premium, if any, and interest on the Series 2002 Bonds will be paid by the Trustee to DTC or its nominee, which will in turn remit such payment to its Participants for subsequent disbursement to the beneficial owners of interests in the Series 2002 Bonds. Interest on the Series 2002 Bonds other than the Current Interest Bonds is payable semiannually on February 15 and August 15 of each year, commencing on February 15, 2003. Interest on the Current Interest Bonds is payable semiannually on February 15 and August 15 of each year, commencing on August 15, 2003. See "The Series 2002 Bonds" herein. See Appendix E – "Book-Entry Only System and Global Clearance Procedures" herein.

Financial Guaranty Insurance Policy

Payment of principal and interest on the Series 2002 Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation ("MBIA") simultaneously with the delivery of the Series 2002 Bonds. See "Financial Guaranty Insurance Policy" herein.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon existing laws, regulations, rulings and court decisions, interest on the Series 2002 Bonds is exempt from State of California personal income taxes, although interest on the Series 2002 Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the Series 2002 Bonds. See "Tax Matters" herein and Appendix D hereto.

Continuing Disclosure

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

Forward-Looking Statements

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

Miscellaneous

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

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

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

PLAN OF FINANCING

General

In respect of an increased unfunded accrued actuarial liability to the Association since the issuance of the Prior Bonds, the County will execute the Debenture in favor of the Association. A portion of the Series 2002 Bonds are being issued for the purpose of refunding the Debenture and the obligations of the County with respect to the retirement benefits represented thereby. The Debenture is an absolute and unconditional obligation imposed upon the County by law and enforceable against the County pursuant to the Retirement Law, and is not limited as to payment as to any source of funds of the County. Upon the refunding of the Debenture with the proceeds of the Series 2002 Bonds, the County's obligation with respect to the Series 2002 Bonds will be an absolute and unconditional obligation imposed upon the County by law and enforceable against the County pursuant to the Retirement Law, and will not be limited as to payment to any special source of funds of the County.

Pursuant to Section 31584 of the Retirement Law, the Board is required to appropriate and pay amounts determined to be owing to the Association. The Series 2002 Bonds are issued in respect of the County's statutory obligation to amortize the unfunded actuarial accrued liability imposed by the Retirement Law.

The authorization by the County of the issuance of the Series 2002 Bonds as obligations of the County imposed by law and that the Series 2002 Bonds are valid and in conformity with all applicable provisions of law were validated by judgement of the Superior Court of the State of California rendered on December 14, 1993.

A portion of the Series 2002 Bonds is being issued to defease to maturity a portion of the outstanding Prior Bonds on their respective maturity dates. A portion of the proceeds of the sale of the Series 2002 Bonds will be deposited into the Escrow Fund established under the Escrow Agreement, dated as of September 1, 2002 (the "Escrow Agreement") by and between the County and BNY Western Trust Company, as Escrow Agent. Such amounts will be invested in cash, direct obligations of the United States of America, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (the "Defeasance Securities"). The Defeasance Securities will be scheduled to mature in such amounts and at such times and bear interest at such rates as to provide amounts sufficient for the payment when due of interest on all or a portion of the following maturities of the Prior Bonds and to provide for the payment of such Prior Bonds on their respective maturity dates:

<u>Maturity Date</u>	<u>Refunded Principal</u>	<u>Interest Rate</u>	<u>CUSIP</u>
08/15/2003	\$ 35,275,000	6.38%	797398AH7
08/15/2004	34,310,000	6.44	797398AJ3
08/15/2005	36,605,000	6.49	797398AK0
08/15/2006	39,075,000	6.56	797398AL8
08/15/2007	11,160,000	6.59	797398AM6

Swap Agreement

The County at any time may enter into a swap agreement to convert a portion of the interest expense on the Series 2002 Bonds from a variable interest rate to a fixed interest rate, or from a fixed interest rate to a variable interest rate. Initially, and concurrently with the issuance of the Series 2002 Bonds, the County expects to enter into Swap Agreements to convert variable rate interest expense on the Series 2002 Bonds to a fixed interest rate effective February 15, 2003, which expires February 15, 2031. The initial swap counter parties will be Citibank N.A., New York and Morgan Stanley Capital Services, Inc.

APPLICATION OF SERIES 2002 BOND PROCEEDS

The proceeds of the Series 2002 Bonds are expected to be applied approximately as set forth below:

Escrow Fund	\$176,890,583.96
Refunding of Debenture.....	550,000,000.00
Costs of Issuance ⁽¹⁾	<u>10,449,416.04</u>
Total	<u>\$737,340,000.00</u>

⁽¹⁾ Includes fees of Bond Counsel, Underwriters' Counsel, the Financial Advisor, the Trustee, Underwriters' discount, rating agency fees, NYSE listing fees, Verification Agent fees, printing cost, premium for Financial Guaranty Insurance Policy and certain miscellaneous expenses.

THE SERIES 2002 BONDS

General

The Series 2002 Bonds will be issued in fully registered form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2002 Bonds. Ownership interests in the Series 2002 Bonds may be purchased in book-entry form only. Principal of, premium, if any, and interest on the Series 2002 Bonds will be paid by the Trustee to DTC or its nominee, which will in turn remit such payment to its Participants for subsequent disbursement to the beneficial owners of interests in the Series 2002 Bonds. See "Book-Entry Only System" herein.

Series 2002A Bonds

General. The Series 2002A Bonds will be issued as fully registered bonds, without coupons, in book-entry only form, in denominations of \$5,000 principal amount or any integral multiple thereof. The Series 2002A Bonds shall be dated their date of delivery and shall bear interest at the respective rates and mature on the dates set forth therefor on the inside cover page of this Official Statement. Interest on the Series 2002A Bonds shall be payable semiannually on February 15 and August 15 of each year (each an "Interest Payment Date"), commencing on August 15, 2003. Each Series 2002A Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof to which interest has been duly paid or provided for, unless a Series 2002A Bond is authenticated before the close of business on the first Record Date, in which case interest will accrue from their date of delivery, or unless authenticated during the period from the close of business on a Record Date to and including the next Interest Payment Date, in which case it shall bear interest from such Interest Payment Date. Interest on the Series 2002A Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

Series 2002B Bonds

General. The Series 2002B Bonds shall be issued in four subseries (each a "Subseries"), designated Subseries 2002B-1, Subseries 2002B-2, Subseries 2002B-3 and Subseries 2002B-4. The Series 2002B Bonds will be issued in denominations \$25,000 or any integral multiple thereof. The Series 2002B Bonds shall be dated their date of delivery and shall mature on the dates set forth on the inside cover page of this Official Statement. Each of the four Subseries of the Series 2002B Bonds, prior to the Fixed Rate Conversion Date for any one or more Subseries shall be "Auction Rate Securities." While Series 2002B Bonds are Auction Rate Securities, Series 2002B Bonds will bear interest as set forth under this caption and in Appendix F to this Official Statement. Interest on Series 2002B Bonds shall be payable semiannually on each Interest Payment Date, commencing February 15, 2003. Each Series 2002B Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof to which interest has been duly paid or provided for, unless a Series 2002B Bond is authenticated before the close of business on the first Record Date, in which case interest will accrue from their date of delivery, or unless authenticated during the period from the close of business on a Record Date to and including the next Interest Payment Date, in which case it shall bear interest from such Interest Payment Date. Interest on the Series 2002B Bonds will be calculated on the basis of a 360-day year for the actual number of days elapsed.

Optional Redemption. Series 2002B Bonds shall be subject to redemption at the option of the County, at a redemption price of 100% of the principal amount thereof plus accrued and unpaid interest with respect thereto, on any Interest Payment Date, prior to their respective maturities in any order of maturity from any moneys available therefor, in whole or in part in any Authorized Denomination.

Mandatory Redemption. The Series 2002B Bonds, Subseries B-1 (the "Series 2002B-1 Bonds") shall be subject to mandatory sinking fund redemption prior to maturity at a prepayment price equal to the principal amount of the Series 2002B-1 Bonds to be redeemed, plus accrued interest with respect thereto to the redemption date, on August 15 of each year, commencing on August 15, 2014 in the principal amounts and on the redemption dates as follows:

Redemption Date (August 15)	<u>Principal Amount</u>
2014	\$2,875,000
2015	3,050,000
2016	3,250,000
2017	3,450,000
2018	3,675,000
2019	3,900,000
2020	4,150,000
2021	4,400,000
2022	4,675,000
2023	4,975,000
2024	5,300,000
2025	5,625,000
2026	5,975,000
2027	6,350,000
2028	6,750,000
2029	7,200,000
2030	7,650,000
2031	8,125,000
2032*	8,625,000

*Stated Maturity.

The Series 2002B Bonds, Subseries B-2 (the "Series 2002B-2 Bonds") shall be subject to mandatory sinking fund redemption prior to maturity at a prepayment price equal to the principal amount of the Series 2002B-2 Bonds to be redeemed, plus accrued interest with respect thereto to the redemption date, on August 15 of each year, commencing on August 15, 2016 in the principal amounts and on the redemption dates as follows:

Redemption Date <u>(August 15)</u>	<u>Principal Amount</u>
2016	\$ 6,075,000
2017	6,450,000
2018	6,800,000
2019	7,200,000
2020	7,600,000
2021	8,050,000
2022	8,525,000
2023	9,000,000
2024	9,525,000
2025	10,075,000
2026	10,650,000
2027	11,250,000
2028	11,925,000
2029	12,600,000
2030*	9,300,000

*Stated Maturity.

The Series 2002B Bonds, Subseries B-3 (the "Series 2002B-3 Bonds") shall be subject to mandatory sinking fund redemption prior to maturity at a prepayment price equal to the principal amount of the Series 2002B-3 Bonds to be redeemed, plus accrued interest with respect thereto to the redemption date, on August 15 of each year, commencing on August 15, 2016 in the principal amounts and on the redemption dates as follows:

Redemption Date <u>(August 15)</u>	<u>Principal Amount</u>
2016	\$ 6,100,000
2017	6,450,000
2018	6,800,000
2019	7,200,000
2020	7,600,000
2021	8,050,000
2022	8,525,000
2023	9,000,000
2024	9,525,000
2025	10,075,000
2026	10,650,000
2027	11,275,000
2028	11,900,000
2029	12,600,000
2030*	9,300,000

*Stated Maturity.

The Series 2002B Bonds, Subseries B-4 (the "Series 2002B-4 Bonds") shall be subject to mandatory sinking fund redemption prior to maturity at a prepayment price equal to the principal amount of the Series 2002B-4 Bonds to be redeemed, plus accrued interest with respect thereto to the redemption date, on August 15 of each year, commencing on August 15, 2016 in the principal amounts and on the redemption dates as follows:

Redemption Date (August 15)	Principal Amount
2016	\$ 6,100,000
2017	6,425,000
2018	6,825,000
2019	7,200,000
2020	7,625,000
2021	8,050,000
2022	8,500,000
2023	9,000,000
2024	9,525,000
2025	10,050,000
2026	10,650,000
2027	11,275,000
2028	11,925,000
2029	12,600,000
2030*	9,300,000

*Stated Maturity.

Auction Rate Provisions. While any Series 2002B Bonds are Auction Rate Securities, except as otherwise specifically provided in the Trust Agreement, the provisions of the Trust Agreement summarized in Appendix C and the auction and settlement procedures summarized in Appendix F shall govern the interest rates per annum and the payment terms of the Series 2002B Bonds. See "Interest Rates" and "Applicable Auction Rates," below. For a further description of the Auction Rate Securities, see also Appendix C – "Summary of the Trust Agreement" and Appendix F – "Auction and Settlement Procedures" herein.

It is anticipated that Salomon Smith Barney Inc., Morgan Stanley & Co. Incorporated, Banc of America Securities LLC, Bear, Stearns & Co. Inc., and Lehman Brothers Inc. will act as initial Broker-Dealers with respect to the Series 2002B Bonds. Deutsche Bank Trust Company Americas will act as initial Auction Agent with respect to the Series 2002B Bonds.

Interest Rates. The Series 2002B Bonds will initially bear interest at the Applicable Auction Rate established pursuant to the Auction Procedures described in Appendix F hereto. Interest on Auction Rate Securities will accrue for each Auction Interest Period or portion thereof and will be payable in arrears on each succeeding Interest Payment Date. "Auction Interest Period" means, as to the applicable Auction Rate Securities of a Subseries, each period during which a specific Auction Rate is in effect, as a result of an Auction, for such Subseries of Auction Rate Securities, which Auction Interest Period may be a twenty-eight (28) day period, or such other period as may be designated from time to time as an Auction Interest Period by the County and the Market Agent pursuant to an Auction Interest Period Adjustment for a Subseries of Auction Rate Securities, each Auction Interest Period running from, and including, the day following the last day of the prior Auction Interest Period for such Subseries of Auction Rate Securities to the day of the next Auction for such Subseries of Auction Rate Securities; provided that the initial Auction Interest Period shall commence on the date of delivery of the Series 2002B Bonds and shall end on the initial Auction date for the applicable Subseries set forth on the inside from cover page of this Official Statement. The length of an Auction Interest Period may be adjusted pursuant to the Supplemental Trust Agreement. See Appendix C – "Summary of the Trust Agreement." The initial Interest Payment Date will be February 15, 2003.

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

Applicable Auction Rate. The rate per annum at which interest is payable on Auction Rate Securities for each Auction Interest Period is referred to as the "Applicable Auction Rate." Interest on Auction Rate Securities shall be computed on the basis of a 360-day year for the actual number of days elapsed. The rates of interest on each subseries of the Series 2002B Bonds for the first Auction Interest Period will be determined by the Broker-Dealers on or prior to the day preceding the date of original delivery of the Series 2002B Bonds. The rate of interest on each Subseries for each subsequent Auction Interest Period shall be equal to the annual rate of interest that results from implementation of the Auction Procedures described in Appendix F – "Auction Procedures," subject to the limitations described below.

- (A) If a notice of an adjustment in the percentages used to determine the Maximum Auction Rate, the All-Hold Rate and the Non-Payment Rate (in each case, defined in Appendix C hereto) shall have been given by the Market Agent for a Subseries and such adjustment shall not have taken effect because of a failure to satisfy either of the conditions set forth in clause (i) under "Description of Auctions for Auction Rate Securities – Adjustment of Percentages Used to Determine Maximum, All-Hold and Non-Payment Rates" in Appendix F, then an Auction shall not be held with respect to such Subseries for the succeeding Auction Interest Period; and the rate of interest for such subseries of Series 2002B Bonds for such Auction Interest Period shall equal the Maximum Auction Rate.
- (B) If, on any Auction Date, an Auction is not held for any other reason, the rate of interest for the next succeeding Auction Interest Period shall equal the Maximum Auction Rate on such Auction Date.

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

Conversion of Auction Rate Securities to Fixed Interest Rates. On any Interest Payment Date, at the option of the County, all but not less than all of the Auction Rate Securities of a Subseries may be converted from Auction Rate Securities to Series 2002B Bonds bearing interest at fixed interest rates and on such date (the "Fixed Rate Conversion Date") the Auction Rate Securities of such Subseries will be subject to mandatory tender for purchase at a price of par, plus accrued but unpaid interest. Not less than 40 days prior to the Fixed Rate Conversion Date, the Trustee is required to mail written notice of the conversion and mandatory tender to the Owners of the Auction Rate Securities of such Subseries to be converted setting forth the information required in the Trust Agreement. Upon satisfaction of certain conditions set forth in the Trust Agreement, the Series 2002B Bonds of such Subseries shall be purchased or deemed purchased at the

Tender Price. See Appendix C – "Summary of the Trust Agreement – Conversion of Auction Rate Securities to Fixed Interest Rates" and "– Purchase of Auction Rate Securities" herein.

Series 2002C Bonds

General. The Series 2002C Bonds (the "PINES") will be issued in denominations of \$25 principal amount or any integral multiple thereof. The Series 2002C Bonds shall be dated their date of delivery and shall mature on the date set forth on the inside cover page of this Official Statement. Interest on the Series 2002C Bonds shall be payable semiannually on each Interest Payment Date, commencing on February 15, 2003. Each 2002C Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof to which interest has been duly paid or provided for, unless a Series 2002C Bond is authenticated before the close of business on the first Record Date, in which case interest will accrue from their date of delivery, or unless authenticated during the period from the close of business on a Record Date to and including the next Interest Payment Date, in which case it shall bear interest from such Interest Payment Date. On an Interest Payment Date, interest will be paid to the persons in whose names the Series 2002C Bonds were registered as of the Record Date. With respect to any Interest Payment Date, the Record Date will be the date fifteen calendar days prior to such Interest Payment Date. Interest on the Series 2002C Bonds will be calculated on the basis of a 360-day year comprised of twelve 30-day months.

If any Interest Payment Date falls on a Saturday, Sunday, legal holiday or a day on which the corporate trust office of the Trustee is authorized by law to close (a "Business Day"), then payment of interest may be made on the next succeeding Business Day and no additional interest will accrue because of such delayed payment, except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date.

The County expects the Series 2002C Bonds to trade at a price that takes into account the value, if any, of accrued and unpaid interest. This means that purchasers will not pay, and sellers will not receive, accrued and unpaid interest on the Series 2002C Bonds that is not included in their trading price. Any portion of the trading price of a note that is attributable to accrued and unpaid interest will be treated as ordinary interest income for U.S federal income tax purposes and will not be treated as part of the amount realized for purposes of determining gain or loss on the disposition of the Series 2002C Bonds. See generally "Tax Matters."

Prior to this offering, there has been no public market for the Series 2002C Bonds. The County intends to apply to list the Series 2002C Bonds on the New York Stock Exchange, and, if such application is accepted, the County expects trading in the Series 2002C Bonds on the New York Stock Exchange to begin within 30 days after the original issue date. In order to meet one of the requirements for listing the Series 2002C Bonds, the underwriters will undertake to sell the PINES to a minimum of 400 beneficial holders.

The Series 2002C Bonds are a new issue of securities with no established trading market. The underwriters have advised the County that they intend to make a market in the Series 2002C Bonds but are not obligated to do so and may discontinue market making at any time without notice. Neither the County nor the underwriters can give any assurances that the trading market for the Series 2002C Bonds will be liquid.

Optional Redemption. The Series 2002C Bonds are subject to optional redemption prior to maturity, at the option of the County, in whole or in part in Authorized Denominations, on any date on or after August 15, 2007, at a redemption price equal to the principal amount of the Series 2002C Bonds to be redeemed plus interest accrued thereon to the date fixed for redemption.

Redemption Procedures

Sinking Fund Redemption of Term Bonds. The Trustee will effect each mandatory sinking fund redemption of the Series 2002B Bonds (the "Term Bonds") by redeeming from each person who is the registered owner of a Term Bond to be redeemed on the Record Date immediately preceding a redemption date, an amount of such Term Bonds determined by (1) multiplying the principal amount of the Term Bonds to be redeemed on the applicable redemption date by a fraction the numerator of which is the principal amount of the Term Bonds owned by such registered owner and the denominator of which is the principal amount of the Term Bonds outstanding immediately prior to such date of redemption, and (2) then rounding the product down to the next lower integral multiple of \$25,000. The Trustee will apply, to the extent possible, any remaining amount of a sinking fund installment to redeem \$25,000 units of such Series 2002B Bonds and will select by lot the units to be redeemed from all such Term Bond registered owners.

Notice of Redemption. Notice of the intended redemption of each Bond shall be given by the Trustee by first class mail, postage prepaid, to the registered owner at the address of such owner. All such redemption notices shall be given not less than thirty (30) days nor more than sixty (60) days prior to the date fixed for redemption.

Each notice of redemption shall state the date of such notice, the redemption price, if any, the name and appropriate address of the Trustee, the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Series 2002 Bonds of such maturity, to be redeemed and, in the case of Series 2002 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Series 2002 Bonds the redemption price, if any, thereof and in the case of a Series 2002 Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Series 2002 Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such redemption.

Notice of such redemption shall also be sent to the Insurer, to each Broker-Dealer (if applicable), to the Rating Agencies, to all municipal registered Securities Depositories and to at least two of the NRMSIRs, no later than simultaneously with the mailing of notices required by the first paragraph above; provided, that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Series 2002 Bonds.

Failure to give notice by mailing to the registered owner of any Bond designated for redemption or tender or to any depository or information service shall not affect the validity of the proceedings for the redemption of any other Bond if notice of such redemption shall have been mailed as herein provided.

Effect of Notice of Redemption. Notice of redemption having been given in the manner provided in this Article and if either there were no conditions to such redemption or the conditions have been satisfied, and money for the redemption being held by the Trustee for that purpose, thereupon the Series 2002 Bonds so called for redemption shall become due and payable on the redemption date and such Series 2002 Bonds shall thereafter no longer be entitled to any security or benefit under this Trust Agreement except to receive payment of the redemption price thereof.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

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

THE PAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS ARE OBLIGATIONS IMPOSED BY LAW PAYABLE FROM FUNDS TO BE APPROPRIATED BY THE COUNTY PURSUANT TO THE RETIREMENT LAW. PURSUANT TO SECTION 31584 OF THE RETIREMENT LAW, THE BOARD OF SUPERVISORS OF THE COUNTY IS OBLIGATED TO MAKE APPROPRIATIONS TO PAY THE UNFUNDED ACCRUED ACTUARIAL LIABILITY OF THE ASSOCIATION AND PURSUANT TO SUCH SECTION THE COUNTY AUDITOR-CONTROLLER SHALL TRANSFER FROM ANY MONEY AVAILABLE IN ANY FUND IN THE COUNTY TREASURY THE SUMS SPECIFIED IF THE BOARD OF SUPERVISORS FAILS TO MAKE SUCH APPROPRIATIONS.

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

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

A portion of the proceeds of the Series 2002 Bonds will be used to fund a portion of the unfunded accrued actuarial liability of the County to the Association. However, the Association's assets will not secure or be available to pay principal of or interest on the Bonds.

VALIDATION

On November 10, 1993, the County, acting pursuant to the provisions of Sections 860 *et seq.* of the California Code of Civil Procedure and Government Code Sections 53511 and 53589.5, filed a complaint in the Superior Court of the State of California for the County of San Diego seeking judicial validation of the proceedings and transactions relating to the issuance of the Debentures, the Prior Bonds and any future series of bonds to be issued by the County in connection therewith (collectively, the "Pension Obligations Bonds") and certain other matters. On December 16, 1993, the court entered a default judgment to the effect, among other things, that the Pension Obligations Bonds are valid, legal and binding obligations of the County and in conformity with all applicable provisions of law. In issuing the opinion as to the validity of the Series 2002 Bonds, Bond Counsel will rely upon the entry of the foregoing default judgment.

FINANCIAL GUARANTY INSURANCE POLICY

The MBIA Insurance Corporation Insurance Policy

The following information has been furnished by MBIA for use in this Official Statement. Reference is made to Appendix G for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the County to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2002 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2002 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2002 Bonds. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2002 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the Series 2002 Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Series 2002 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Trustee or any owner of a Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2002 Bonds or presentment of such other proof of ownership of the Series 2002 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2002 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the Series 2002 Bonds in any legal proceeding related to payment of insured amounts on the Series 2002 Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Trustee payment of the insured amounts due on such Series 2002 Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

MBIA

MBIA Insurance Corporation ("MBIA") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "Financial Guaranty Insurance Policy." Additionally, MBIA makes no representation regarding the Series 2002 Bonds or the advisability of investing in the Series 2002 Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

MBIA Information

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2001; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Series 2002 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002), are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2002, MBIA had admitted assets of \$8.7 billion (unaudited), total liabilities of \$5.7 billion (unaudited), and total capital and surplus of \$3.0 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2002 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2002 Bonds. MBIA does not guaranty the market price of the Series 2002 Bonds nor does it guaranty that the ratings on the Series 2002 Bonds will not be revised or withdrawn.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

TAX MATTERS

General

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon existing laws, regulations, rulings and court decisions, interest on the Series 2002 Bonds is exempt from State of California personal income taxes, although interest on the Series 2002 Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel expresses no opinion regarding any other tax consequences caused by the ownership or disposition of, or the accrual or receipt of interest on, the Series 2002 Bonds. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix D hereto.

Certain requirements and procedures contained or referred to in the Trust Agreement and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Series 2002 Bonds or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Bond Counsel has rendered an opinion that interest on the Series 2002 Bonds is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2002 Bonds may otherwise affect a Bondowner's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the Bondholder or the Bondowner's other items of income or deduction, and Bond Counsel expresses no opinion regarding any such other tax consequences.

Certain United States Federal Income Tax Consequences

The following is a summary of certain United States federal income tax consequences of the ownership of the Series 2002 Bonds as of the date hereof. This summary is based on the Internal Revenue Code of 1986 (the "Code") as well as final, temporary and proposed Treasury regulations and administrative and judicial decisions. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could affect the accuracy of the statements set forth herein. This summary does not purport to address all federal income tax matters that may be relevant to particular purchasers of the Series 2002 Bonds. For example, it generally is addressed only to original purchasers of the Series 2002 Bonds, deals only with Series 2002 Bonds held as capital assets within the meaning of Section 1221 of the Code, and does not address tax consequences of holding Series 2002 Bonds that may be relevant to investors in special tax situations, such as banks, insurance companies, electing large partnerships, tax-exempt organizations, dealers in securities or currencies, Series 2002 Bonds held as a hedge or as part of a hedging, straddle, integrated or conversion transaction, or Bondowners whose "functional currency" (as defined in Code section 985) is not the United States dollar. Persons considering the purchase of Series 2002 Bonds should consult their own tax advisors concerning the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to their particular situations.

Payment of Interest. Except as set forth below, interest on a Series 2002 Bond will be taxable to a Bondowner as ordinary interest income at the time it accrues or is received, in accordance with the Bondowner's method of accounting for tax purposes. Special rules governing the treatment of Current Interest Bonds issued at an original issue discount are described under "Original Issue Discount" below.

Original Issue Discount. A Series 2002 Bond which has an "issue price" of less than its "stated redemption price at maturity" generally will be issued at an original issue discount for federal income tax purposes. The issue price of a Series 2002 Bond generally is the first price at which a substantial amount of all of the Series 2002 Bonds of the same maturity are sold to the public (excluding bond houses, brokers, or similar persons acting in the capacity of Underwriter or wholesalers). The "stated redemption price at maturity" is the total amount of all payments provided by the Series 2002 Bond other than "qualified stated interest" payments; qualified stated interest generally is stated interest that is unconditionally payable at least annually. Qualified stated interest will be taxable to a Bondowner when accrued or received in accordance with such Bondowner's method of tax accounting. A Series 2002 Bond generally will be considered to have de minimis original issue discount if the excess of its stated redemption price at maturity over its issue price is less than the product of 0.25 percent of the stated redemption price at maturity and the number of complete years to maturity (or the "weighted average maturity" in the case of a Series 2002 Bond that provides for payment of an amount other than qualified stated interest before maturity). Bondowners of Series 2002 Bonds having de minimis original issue discount generally must include a proportionate amount of the de minimis original issue discount in income as each payment of stated principal is made as a payment received in retirement of the Series 2002 Bond.

Bondowners of Series 2002 Bonds issued at an original issue discount that is not de minimis original issue discount and that mature more than one year from the date of issuance will be required to include such original issue discount in gross income for federal income tax purposes as it accrues, in advance of receipt of the cash attributable to such income. Original issue discount accrues based on a compounded, constant yield to maturity; accordingly, Bondowners of Series 2002 Bonds issued at an original issue discount generally will be required to include in income increasingly greater amounts of original issue discount in successive accrual periods. The annual amount of original issue discount includable in income by the initial Bondowner of a Series 2002 Bond issued at an original issue discount will equal the sum of the daily portions of the original issue discount with respect to the Series 2002 Bond for each day on which such Bondowner held the Series 2002 Bond during the taxable year. Generally, the daily portions of the original issue discount are determined by allocating to each day in an accrual period the ratable portion of the original issue discount allocable to such accrual period. The term "accrual period" means any interval of time with respect to which the accrual of original issue discount is measured, and which may vary in length over the term of the Series 2002 Bond provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs at the beginning or end of an accrual period. The amount of original issue discount allocable to an accrual period will be the excess of (a) the product of the "adjusted issue price" of the Series 2002 Bond at the commencement of such accrual period and its "yield to maturity" over (b) the amount of any qualified stated interest payments allocable to the accrual period. The "adjusted issue price" of the Series 2002 Bond at the beginning of the first accrual period is its issue price, and, on any day thereafter, it is the sum of the issue price and the amount of the original issue discount previously includable in the gross income of any Bondowner (without regard to any acquisition premium), reduced by the amount of any payment other than a payment of qualified stated interest previously made with respect to the Series 2002 Bond. The "yield to maturity" of the Series 2002 Bond is computed on the basis of a constant interest rate, compounding at the end of each accrual period, taking into account the length of the particular accrual period. If all accrual periods are of equal length except for an initial or an initial and final shorter accrual period(s), the amount of original issue discount allocable to the initial period may be computed using any reasonable method; the original issue discount allocable to the final accrual period is in any event the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period.

Premium and Market Discount. If a Bondowner purchases a Series 2002 Bond for an amount that is less than the Series 2002 Bond's stated redemption price at maturity, or, in the case of a Series 2002 Bond issued at an original issue discount, less than its adjusted issue price (as defined above) as of the date of purchase, the amount of the difference generally will be treated as "market discount" for federal income tax purposes. A Series 2002 Bond acquired at its original issue will not have market discount unless the Series 2002 Bond is purchased at less than its issue price. Market discount generally will be de minimis and hence disregarded, however, if it is less than the product of 0.25 percent of the stated redemption price at maturity of the Series 2002 Bond and the number of remaining complete years to maturity. Under the market discount rules, a Bondowner is required to treat any principal payment on, or any gain on the sale, exchange, retirement or other disposition of, a Series 2002 Bond as ordinary income to the extent of any accrued market discount which has not previously been included in income. If such Series 2002 Bond is disposed of in a nontaxable transaction (other than certain specified nonrecognition transactions), accrued market discount will be includable as ordinary income to the Bondowner as if such Bondowner had sold the Series 2002 Bond at its then fair market value. In addition, the Bondowner may be required to defer, until the maturity of the Series 2002 Bond or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such Series 2002 Bond.

Market discount is considered to accrue ratably during the period from the date of acquisition to the maturity of a Series 2002 Bond, unless the Bondowner elects to accrue on a constant yield basis. A Bondowner of a Series 2002 Bond may elect to include market discount in income currently as it accrues (on either a ratable or constant yield basis), in which case the rule described above regarding deferral of interest deductions will not apply. This election to include market discount currently applies to all market discount obligations acquired during or after the first taxable year to which the election applies, and may not be revoked without the consent of the Internal Revenue Service (the "IRS").

A Bondowner who purchases a Series 2002 Bond issued at an original issue discount for an amount exceeding (the "excess amount") its adjusted issue price (as defined above) and less than or equal to the sum of all amounts payable on the Series 2002 Bond after the purchase date other than payments of qualified stated interest will be considered to have purchased such Series 2002 Bond with "acquisition premium." The amount of original issue discount which such Bondowner must include in gross income with respect to such Series 2002 Bond will be reduced in the proportion that such excess amount bears to the original issue discount remaining to be accrued as of the Series 2002 Bond's acquisition.

A Bondowner who acquires a Series 2002 Bond for an amount that is greater than the sum of all amounts payable on the Series 2002 Bond after the purchase date other than payments of qualified stated interest will be considered to have purchased such Series 2002 Bond at a premium, and will not be required to include any original issue discount in income. A Bondowner generally may elect to amortize such premium using a constant yield method over the remaining term of the Series 2002 Bond. Any such election shall apply to all debt instruments (other than debt instruments the interest on which is excludable from gross income) held at the beginning of the first taxable year to which the election applies or thereafter acquired, and is irrevocable without the consent of the IRS. Special rules may apply if a Series 2002 Bond is callable.

Constant Yield Election. A Bondowner of a Series 2002 Bond may elect to include in income all interest, discount and premium with respect to such Series 2002 Bond based on a constant yield method, as described above. The election is made for the taxable year in which the Bondowner acquires the Series 2002 Bond, and it may not be revoked without the consent of the IRS. If such election is made with respect to a Series 2002 Bond having market discount, such Bondowner will be deemed to have elected to include market discount in gross income currently on a constant yield basis with respect to all debt instruments having market discount acquired during the year of election or thereafter. If made with respect to a Series 2002 Bond having amortizable bond premium, such Bondowner will be deemed to have made an election to amortize premium generally with respect to all debt instruments having amortizable bond premium held by the taxpayer during the year of election or thereafter.

Sale and Retirement of the Series 2002 Bonds. Upon the sale, exchange or retirement of a Series 2002 Bond, a Bondowner will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the Bondowner's adjusted tax basis in the Series 2002 Bond. (Defeasance by the County of any Series 2002 Bond may result in a reissuance thereof, in which event a Beneficial Owner will also recognize taxable gain or loss as described in the preceding sentence.) Such gain or loss generally will be capital gain or loss, except to the extent of any accrued market discount (see "Premium and Market Discount" above), and such capital gain or loss will generally be long term capital gain or loss if the Series 2002 Bond has been held for more than one year. A Bondowner's adjusted tax basis in a Series 2002 Bond will equal the cost of the Series 2002 Bond, increased by any original issue discount or market discount previously includable in taxable income by the Bondowner with respect to such Series 2002 Bond, and reduced by any amortizable bond premium applied to reduce interest on a Series 2002 Bond, any principal payments received by the Bondowner, and any other payments not constituting qualified stated interest (as defined above).

The Code provides preferential treatment under certain circumstances for net long-term capital gains realized by individual investors. The ability of United States Bondowners to offset capital losses against ordinary income is limited. Bondowners should consult their own tax advisors regarding the treatment of such gain or loss.

Backup Withholding and Information Reporting. A 31 percent "backup" withholding tax and certain information reporting requirements may apply to payments of principal, premium and interest (including any original issue discount) made to, and the proceeds of disposition of a Series 2002 Bond by, certain Bondowners. Backup withholding will apply only if (i) the Bondowner fails to furnish its Taxpayer Identification Number ("TIN") to the payer, (ii) the IRS notifies the payor that the Bondowner has furnished an incorrect TIN, (iii) the IRS notifies the payor that the Bondowner has failed to report properly payments of interest and dividends or (iv) under certain circumstances, the Bondowner fails to certify, under penalty of perjury, that it has both furnished a correct TIN and has not been notified by the IRS that it is subject to backup withholding for failure to report interest and dividend payments. Backup withholding will not apply with respect to payments made to certain exempt recipients, such as corporations and financial institutions. Bondowners should consult their tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption.

The amount of any backup withholding from a payment to a Bondowner will be allowed as a credit against such Bondowner's federal income tax liability and may entitle such Bondowner to a refund, provided that the required information is furnished to the IRS.

Non-United States Bondowners. A "non-United States Bondowner" is any person other than (i) a citizen or resident of the United States, (ii) a corporation or partnership organized in or under the laws of the United States, any state thereof or the District of Columbia (except, in the case of a partnership, to the extent applicable regulations provide otherwise), or (iii) an estate or trust the income of which is includable in gross income for United States federal income tax purposes regardless of its source. A non-United States Bondowner generally will not be subject to United States federal withholding tax with respect to payments of interest on Series 2002 Bonds, provided that the beneficial owner of the Series 2002 Bond certifies under penalties of perjury as to its status as a non-United States Bondowner and complies with applicable identification procedures. In certain circumstances, the above-described certification can be provided by a bank or other financial institution.

In addition, a non-United States Bondowner generally will not be subject to United States federal income tax on any gain realized upon the sale, retirement, defeasance or other disposition of a Series 2002 Bond, unless such Bondowner is an individual who is present in the United States for 183 days or more during the taxable year of such sale, retirement or other disposition and certain other conditions are met. If a non-United States Bondowner is engaged in a trade or business in the United States and income or gain from the Series 2002 Bond is effectively connected with the conduct of such trade or business, the non-United States Bondowner will be exempt from withholding tax if appropriate certification has been provided, but will generally be subject to regular United States income tax on such income and gain in the same manner as if it were a United States Bondowner. In addition, if such non-United States Bondowner is a foreign corporation, it may be subject to a branch profits tax equal to 30 percent of its effectively connected earnings and profits for the taxable year, subject to adjustments.

Backup withholding will not apply to payments of principal, premium, if any, and interest made to a non-United States Bondowner by the City on a Series 2002 Bond with respect to which the Bondowner has provided the required certification under penalties of perjury of its non-United States Bondowner status or has otherwise established an exemption, provided in each case that the City or its paying agent, as the case may be, does not have actual knowledge that the payee is a United States person. Payments on the sale, exchange or other disposition of a Series 2002 Bond by a non-United States Bondowner to or through a foreign office a broker will not be subject to backup withholding. However, if such broker is a United States person, a controlled foreign corporation for United States tax purposes or a foreign person 50 percent or more of whose gross income is effectively connected with the conduct of a United States trade or business for a specified three-year period (or, in addition, for payments made after December 31, 2000, (i) a foreign partnership in which United States persons hold more than 50 percent of the income or capital interests, (ii) a foreign partnership which, at any time during its tax year, is engaged in the conduct of a trade or business in the United States, or (iii) certain United States branches of foreign banks or insurance companies), information reporting will be required unless the beneficial owner has provided certain required information or documentation to the broker or to establish its non-United States status or otherwise establishes an exemption. Payments to or through the United States office of a broker will be subject to backup withholding and information reporting unless the Bondowner certifies under penalties of perjury to its non-United States Bondowner status or otherwise establishes an exemption.

Non-United States Bondowners should consult their tax advisors regarding the application of United States federal income tax laws, including information reporting and backup withholding, to their particular situations.

ERISA CONSIDERATIONS

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

The Underwriters, as a result of their own activities or because of the activities of an affiliate, may be considered "disqualified persons" within the meaning of ERISA or "parties in interest" within the meaning of the Code, with respect to certain employee benefit plans. Prohibited transactions within the meaning of Section 406 of ERISA and Section 4975 of the Code may arise if Series 2002 Bonds are acquired by a Plan with respect to which the Underwriters, or any of their respective affiliates, are "disqualified persons" or "parties in interest." Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan fiduciary making the decision to acquire a Bond and the circumstances under which such decision is made. Included among these exemptions are those regarding securities purchased during the existence of an underwriting, investments by insurance company separate accounts, investments by insurance company general accounts, investments by bank collective investment funds, transactions effected by a "qualified professional asset manager," and transactions affected by an "in-house asset manager." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. In order to ensure that no prohibited transaction under ERISA and the Code will take

place in connection with the acquisition of a Bond by or on behalf of a Plan, each prospective purchaser of a Bond who is a Plan or is acquiring on behalf of a Plan will be required to represent that either (i) no prohibited transactions under ERISA and the Code will occur in connection with the acquisition of such Bond or (ii) the acquisition of such Bond is subject to a statutory or administrative exemption.

Any Plan fiduciary which proposes to cause a Plan to purchase Series 2002 Bonds should consult with its counsel with respect to the potential applicability of ERISA and the Code to such investments and whether any exemption would be applicable and determine on its own whether all conditions have been satisfied. Moreover, each Plan fiduciary should determine whether, under the general fiduciary standards of investment prudence and diversification, an investment in the Series 2002 Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Upon delivery of the Series 2002 Bonds, The Arbitrage Group, Inc., 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 Defeasance Securities scheduled to mature in such amounts and at such times and bear interest at such rates as to provide amounts sufficient for the payment when due of interest on the Prior Bonds and to provide for the payment of the Prior Bonds on their respective maturity dates.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance, sale and delivery by the County of the Series 2002 Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins, Delafield & Wood, Los Angeles, California, for the County by the County Counsel, and for MBIA by their counsel, Kutak Rock LLP, Irvine, California.

FINANCIAL STATEMENTS

The general purpose financial statements of the County, pertinent sections of which are included in Appendix B to this Official Statement, have been audited by KPMG LLP, independent certified public accountants, as stated in their report appearing in Appendix B. KPMG LLP has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by KPMG LLP with respect to any event subsequent to its report dated December 28, 2001.

LITIGATION

Two employee organizations and several individual members of the Association have sued the County and the Association alleging generally that the Association incorrectly treated certain earnings of the Association as unrestricted assets for purposes of ascertaining the amounts needed to fund Association benefits. The plaintiffs are requesting that the Association revise its actuarial valuations of assets and that the County be mandated to pay to the System all arrears emanating from the revised valuations. For further discussion of this litigation, see Appendix A – "Economic, Financial and Demographic Information Regarding the County of San Diego – County Financial Information – Retirement System."

No litigation is pending or threatened concerning the validity of the Series 2002 Bonds. The County is not aware of any litigation pending or threatened questioning the political existence of the County or contesting the County's ability to issue and pay the Series 2002 Bonds.

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

RATINGS

Standard & Poor's ("S&P") has assigned the Series 2002 Bonds a rating of "AAA," Moody's Investors Service, Inc. ("Moody's") has assigned the Series 2002 Bonds a rating of "Aaa," and Fitch Ratings ("Fitch") has assigned the Series 2002 Bonds a rating of "AAA" with the understanding that, upon delivery of the Series 2002 Bonds, the financial guaranty insurance policy will be delivered by the Insurer. In addition, S&P has assigned the Series 2002 Bonds an underlying rating of "AA-," Moody's has assigned the Series 2002 Bonds an underlying rating of "Aa3," and Fitch has assigned the Series 2002 Bonds an underlying rating of "AA-." Such ratings reflect only the views of such organizations and explanations of the significance of such ratings may be obtained only from the organizations at: Moody's Investors Service, Inc. 99 Church Street, New York, New York 10007-2796, telephone number (212) 553-0317; Standard and Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone number (212) 438-2000. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2002 Bonds.

UNDERWRITING

The Series 2002 Bonds are being purchased by the Underwriters. The Underwriters have agreed, subject to certain conditions, to purchase the Series 2002 Bonds at a price of \$731,011,770.03 (representing the principal amount of the Series 2002 Bonds less an Underwriter's discount of \$6,328,229.97). The Purchase Contract relating to the Series 2002A Bonds (the "Series 2002A Purchase Contract"), the Purchase Contract relating to the Series 2002B Bonds (the "Series 2002B Purchase Contract") and the Purchase Contract relating to the Series 2002C Bonds (the "Series 2002C Purchase Contract") provide that the Underwriters will purchase all of the Series 2002 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the respective Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. It is anticipated that the Series 2002B Purchase Contract will be executed on October 1, 2002.

The Underwriters may offer and sell the Series 2002 Bonds to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriters. During and after the offering of the Series 2002 Bonds, the Underwriters may purchase and sell the offered Series 2002 Bonds in the open market. These transactions may include overallotment and stabilizing transactions and purchases to cover short positions created in connection with such offering. The Underwriters also may impose penalty bids, whereby selling concessions allowed to other broker-dealers in respect of the Series 2002 Bonds sold in such offerings for their account may be reclaimed by the Underwriters if such securities are repurchased by the Underwriters in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market prices of the Series 2002 Bonds, which may be higher than the prices that might otherwise prevail in the open market. These transactions may be effected in the over-the-counter market or otherwise, and these activities, if commenced, may be discontinued at any time.

FINANCIAL ADVISOR

JPMorgan Securities, Inc. served as the Financial Advisor to the County in connection with the execution and delivery of the Series 2002 Bonds. The defeasance of a portion of the outstanding Prior Bonds may result in the partial termination of a debt service forward sale agreement, dated as of June 12, 1997, among the County, the trustee named therein and JPMorgan Chase Bank (formerly Morgan Guaranty Trust Company of New York) (the "Forward Agreement"). JPMorgan Chase Bank, an affiliate of JPMorgan Securities, Inc., will seek under the Forward Agreement, a termination payment in connection with such partial termination.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement with the Trustee (the "Disclosure Agreement"), the County has agreed to provide, or cause to be provided with respect to each fiscal year of the County, commencing with fiscal year 2001-02, by no later than eight months after the end of the respective fiscal year, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") the audited financial statements, if available, or unaudited financial statements, and the annual financial information and operating data with respect to the County, for each fiscal year of the County, as described under the section of this Official Statement entitled "County Financial Information." In addition, the County has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the County to be material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on the debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the security; (7) modifications to rights of security holders; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the securities; and (11) rating changes. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5). The County has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

The County and the Trustee may amend the Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, without the consent of the owners of the Series 2002 Bonds (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the County or the type of business conducted thereby; (2) the Disclosure Agreement as so amended would, in the opinion of nationally recognized bond counsel, have complied with the requirements of Rule 15c2-12 as of the date of the Disclosure Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the County shall have delivered to the Trustee an opinion of Bond Counsel, or other nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the County and the Trustee, to the same effect as set for in clause (2) above; and (4) either (i) the County shall have delivered to the Trustee an opinion of Bond Counsel, or other nationally recognized bond counsel or counsel expert in federal securities laws, or a determination by a person, in each case unaffiliated with the County (such as Bond Counsel or the Trustee) and acceptable to the County, addressed to the County and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Series 2002 Bonds or (ii) the holders of the Series 2002 Bonds consent to the amendment to the Disclosure Agreement pursuant to the same procedures as are required for amendments to the Trust Agreement with consent of holders of the Series 2002 Bonds pursuant to the terms of the Trust Agreement as in effect on the date of the Disclosure Agreement. The County shall describe such amendment and the reason therefore in its next annual report filed with the Repositories.

In addition, the County's obligations under the Disclosure Agreement shall terminate upon a legal defeasance or payment in full of all of the Series 2002 Bonds. The provisions of the Disclosure Agreement are intended to be for the benefit of the owners of the Series 2002 Bonds and beneficial owners of the Series 2002 Bonds and shall be enforceable by the Trustee on behalf of such owners and any owners of Series 2002 Bonds, provided that any enforcement action by any such person shall be limited to a right to obtain specific enforcement of the County's obligations under the Disclosure Agreement and any failure by the County to comply with the provisions thereof shall not be an event of default under the Trust Agreement.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or owners of any of the Series 2002 Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the County since the date hereof.

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

COUNTY OF SAN DIEGO

By: /s/ William J. Kelly
Chief Financial Officer

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APPENDIX A

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

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THE COUNTY

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the geographic size of the State of Connecticut. The County's Fiscal Year 2001-2002 budget is approximately \$3.8 billion.

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

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

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

COUNTY FINANCIAL INFORMATION

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

Ad Valorem Property Taxation

The following tables describe the assessed valuation of property within the County subject to taxation for fiscal year 1992-1993 through fiscal year 2001-2002, and the tax collections in such years:

**ASSESSED VALUATION OF PROPERTY
SUBJECT TO AD VALOREM TAXATION
Fiscal Years 1992-1993 through 2001-2002
(in Thousands)**

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Valuation	Exemption⁽¹⁾	Net Assessed Valuation for Tax Purposes⁽²⁾
1992-93	56,942,666	83,395,166	7,050,615	147,388,447	3,011,676	144,376,771
1993-94	57,882,778	84,631,884	7,028,170	149,542,832	3,521,396	146,021,436
1994-95	58,065,632	85,628,280	7,175,750	150,869,662	3,683,231	147,186,431
1995-96	58,469,323	86,585,240	7,536,344	152,590,907	3,826,612	148,764,295
1996-97	58,743,000	86,763,943	7,404,271	152,911,214	3,799,409	149,111,805
1997-98	59,965,573	87,226,802	10,222,561	157,414,936	4,512,558	152,902,378
1998-99	63,633,576	94,172,901	10,557,494	168,363,971	4,655,382	163,708,589
1999-00	70,120,054	105,048,079	10,221,397	185,389,530	4,840,800	180,548,730
2000-01	76,745,341	112,696,090	11,598,967	201,040,398	5,322,920	195,717,478
2001-02	84,852,228	122,629,978	12,675,786	220,157,994	5,674,325	214,483,668

Source: County of San Diego Auditor and Controller.

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

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

The following table shows the approximate tax levied against the ten largest taxpayers in the County for Fiscal Year 2001-2002.

**TEN LARGEST TAXPAYERS
Fiscal Year 2001-2002**

Property Owners	Business Area	Approximate Tax
San Diego Gas & Electric Company	Gas & Electric Utility	\$26,981,581
Southern California Edison Co.	Electric Utility	18,276,830
Pacific Bell	Telephone Company	14,754,410
Qualcomm Inc.	Telecommunications	4,852,868
Irvine Co.	Real Estate	4,527,742
Equitable Life Assurance Society	Real Estate	3,876,720
Kilroy Realty LP	Real Estate	3,687,656
BRE Properties	Real Estate	3,269,348
CalWest Industrial	Real Estate	3,224,427
Cabrillo Power	Electric Utility	3,069,138

Source: County of San Diego Auditor and Controller.

See "– Utility Costs" herein for a discussion of SDG&E and Edison's percentage of property tax payments with respect to the County's total General Fund property tax revenues.

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate assessment rolls. The "secured roll" is that assessment

roll containing locally assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

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

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

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

Secured Tax Rolls Statistics

The following table below sets forth the secured tax roll, the number of tax bills prepared, the total assessed value of property on the secured roll and the total property taxes levied on the secured roll for each of the last eight fiscal years, including an estimate for the fiscal year ending on June 30, 2002. The table also shows the number of bills and the amount of taxes due on them that were unpaid as of the end of each fiscal year shown, and the percentage of the taxes levied for each year that were uncollected as of the fiscal year end.

SECURED TAX ROLL STATISTICS
Fiscal Years 1994-1995 through 2001-2002

<u>Fiscal Year</u>	<u>Total Bills</u>	<u>Total Assessed Value⁽¹⁾</u>	<u>Total Tax Amount⁽²⁾</u>	<u>Delinquent Tax Bills</u>	<u>Delinquent Tax Amount⁽³⁾</u>	<u>Delinquent Tax Amount as Percent of Tax Amount</u>
1994-95	802,687	\$144,207,931,163	\$1,608,693,370	31,450	\$56,947,574	3.54%
1995-96	805,698	145,681,809,785	1,623,328,413	30,053	46,680,249	2.88
1996-97	815,818	146,000,629,437	1,640,179,294	28,924	37,476,117	2.28
1997-98	823,332	149,611,690,276	1,685,104,282	28,715	31,933,378	1.90
1998-99	831,497	160,102,387,349	1,791,871,717	33,484	32,513,581	1.60
1999-00	842,959	176,113,891,329	1,962,926,237	36,820	39,059,369	1.70
2000-01	857,777	191,194,756,333	2,126,737,380	33,817	38,805,254	1.82
2001-02 ⁽⁴⁾	871,191	209,281,264,375	2,335,927,431	36,000	45,000,000	1.93

Source: County of San Diego Auditor and Controller.

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

(2) Amount excludes penalties.

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

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

Liens and Redemption

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

Before the 1990-91 fiscal year, the County bore the full cost of property assessment and revenue collection and distribution. State legislation enacted in 1990 allowed counties to charge cities, school districts, special districts and redevelopment agencies for their share of property tax administrative costs. Subsequent legislation permanently exempted school districts from paying property tax administrative fees. In the 2001-2002 fiscal year, the County collected \$4,773,673 in such fees from cities, special districts and redevelopment agencies.

Assessed Valuations

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

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

In the current fiscal year 2001-2002, the County Assessor has processed approximately 2,600 appeals.

Financial Statements

The following tables set forth the General Fund Combined Balance Sheet for fiscal years ending June 30, 2000 and June 30, 2001 and the General Fund Comparison of Revenues, Expenditures and Fund Balances for fiscal years 1997-1998 through 2000-2001.

GENERAL FUND COMBINED BALANCE SHEET June 30, 2000 and June 30, 2001 (In Thousands)

<u>ASSETS</u>		
Cash ⁽¹⁾	\$ 70,527	\$ 394,358
Cash with Fiscal Agent ⁽²⁾	136,477	186,043
Taxes Receivable	592	102
Accounts Receivable	196,910	158,558
Loans Receivable	689	689
Due from Other Funds ⁽²⁾⁽³⁾	153,651	198,025
Deposits with Others	-	-
Inventories-Materials and Supplies	7,687	8,070
TOTAL ASSETS	<u>\$566,533</u>	<u>\$945,845</u>
 <u>LIABILITIES AND EQUITIES</u>		
Accounts Payable	\$ 32,298	\$ 35,011
Accrued Payroll	29,072	29,874
Amount Due for Tax and Revenue Anticipation Notes ⁽²⁾	131,607	179,147
Due to Other Funds ⁽³⁾	19,046	43,115
Deferred Revenue ⁽¹⁾	1,585	40,414
Fund Balance-Unavailable Encumbrances	91,888	99,848
Fund Balance-Unavailable Reserves ⁽¹⁾	14,889	167,243
Fund Balance-Unreserved ⁽¹⁾	246,148	351,193
TOTAL LIABILITIES AND EQUITIES	<u>\$566,533</u>	<u>\$945,845</u>

Source: County of San Diego Auditor and Controller.

- (1) Pursuant to Governmental Accounting Standards Board Statement No. 33 ("GASB 33"), revenues from all nonexchange transactions are to be recognized when funds are earned. In a nonexchange transaction, a governmental entity gives (or receives) value without directly receiving (or giving) equal value in return. In prior years, those funds were included in the Trust and Agency Fund section of the financial statements. Thus, revenues were not earned when received, but when expenditures were incurred. See "2000-01 Fiscal Year Financial Summary" below.
- (2) Consistent with National Council on Governmental Accounting Interpretation No. 9, the liability for tax and revenue anticipation notes outstanding at June 30 is displayed in the General Fund and offset by a corresponding asset recorded as cash with fiscal agent representing the pledged amounts.
- (3) Represents receivables and payables between General Fund and other County funds based on actual or estimated claims outstanding.

**COUNTY OF SAN DIEGO
GENERAL FUND
COMPARISON OF REVENUES, EXPENDITURES AND FUND BALANCES
For Fiscal Years 1997-98 through 2000-01
(in Thousands)**

<u>SOURCES OF FUNDS</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>
Fund Balances Reserved for Encumbrance	\$ 33,290	\$ 47,916	\$ 56,092	\$ 91,888
Unreserved Fund Balances	64,391	155,853	209,989	246,148
Taxes	284,970	302,044	314,570	340,769
Licenses, Permits and Franchises	21,034	22,087	22,233	24,751
Fines, Forfeitures and Penalties	21,849	19,267	27,406	29,511
Use of Money and Property	26,236	21,478	25,284	39,176
Aid from Other Government Agencies	1,344,981	1,289,314	1,451,260	1,233,794
Charges for Current Services	174,468	191,123	189,365	198,522
Other Revenue	15,966	27,485	25,052	31,905
Sale of Fixed Assets	-	-	900	14
Operating Transfers-in ⁽¹⁾	25,583	2,877	2,989	360,791
Issuance of Lease Purchases ⁽²⁾	4,226	3,856	1,654	-
TOTAL SOURCES	<u>\$2,016,994</u>	<u>\$2,083,300</u>	<u>\$2,326,794</u>	<u>\$2,597,269</u>

USES OF FUNDS

General	\$ 181,031	\$ 182,528	\$ 147,684	\$ 134,357
Public Protection	535,863	564,060	650,705	706,978
Public Ways and Facilities	1,458	1,964	1,742	2,819
Health and Sanitation	281,363	304,631	355,982	432,210
Public Assistance	759,389	645,312	681,751	692,983
Education	270	259	383	501
Recreation and Cultural Services	8,094	8,459	10,836	11,833
Capital Outlay	4,226	3,856	1,654	-
Debt Service	14,249	10,482	7,657	12,581
Operating Transfers-out	<u>85,367</u>	<u>86,384</u>	<u>124,641</u>	<u>135,296</u>
TOTAL USES	<u>\$1,871,310</u>	<u>\$1,807,935</u>	<u>\$1,983,035</u>	<u>\$2,129,558</u>

Source: County of San Diego, Auditor and Controller.

⁽¹⁾ Accounting method change of the Special Revenue funds for the Safety Augmentation Sales Tax (Proposition 172), Health and Social Services' Realignment monies and the ongoing tobacco tax (Proposition 10) receipts. Revenues from these three sources are recognized in the Special Revenue funds and treated as operating transfers when moved to the General Fund to reimburse expenses incurred.

⁽²⁾ Excludes refundings.

General Fund Budget

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

The Board of Supervisors is required by State law to adopt a balanced annual budget no later than August 30 of each year. The Board of Supervisors may, by resolution, extend the date of adoption of a balanced budget to October 2. The Board of Supervisors is further required to set tax rates by

September 1 in accordance with Article XIII A of the California Constitution. See "County Financial Information - Ad Valorem Property Taxation" herein.

Since the budget must be in balance, any shortfall in revenues requires a reduction in appropriations. No increase in the aggregate appropriations can be made after the final budget has been adopted unless the County has received written certification of additional revenue from the sources of such revenue.

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

2001-02 Fiscal Year Financial Summary

Based on the unaudited financial statements, the County closed the Fiscal Year 2001-02 General Fund to end in a solid financial position, with a positive fund balance of \$229.7 million. Of this amount, \$76.7 million is comprised of unspent group management reserves and contingency reserves; the balance of \$153 million was from overrealized revenue or expenditure savings related to County operations. In addition, the County maintains a general reserve of \$53.0 million as a designation for any unforeseen catastrophic situations and for economic and operational uncertainties. Further, the steady local economy has contributed to additional year-end revenues and cost savings. Significant positive and negative components of the County's 2001-02 fiscal status include:

1. The gross regional product increased approximately 6.0% for 2001, with a real change of 2.2%;
2. As of July 2002, the estimated County unemployment rate of approximately 4.2% remained below both the estimated California and national levels;
3. Current and Supplemental Tax revenue at year-end exceeded the budgeted amounts by \$6.8 million due to continued strong real estate activity;
4. Sales and VLF revenues distributed by the State to cities and counties showed a positive budget variance of \$6.8 million due to healthy local retail activity and strong automotive sales statewide; and
5. Miscellaneous Fees including Franchises and Fines closed above the budgeted level by \$4.5 million due to the strong local economy.

2002-03 Fiscal Year Financial Summary

The County's operational plan (the "Operational Plan") describes the financial plan for the next two fiscal years. The proposed budget for the Operational Plan for Fiscal Years 2002-03 and 2003-04 is a total of \$2.669 billion, which is 6.1% greater than the Fiscal Year 2001-02 Operational Plan. Key assumptions and components of the proposed Operational Plan and comparisons with the 2001-02 unaudited Fiscal Year financial information include the following:

1. The gross regional product will experience growth of approximately 5.1% from December 31, 2002 to December 31, 2003, with real growth estimated at 1.8% from December 31, 2002 to December 31, 2003;
2. The County unemployment rate will decrease to approximately 3.8%, below both California and national levels;
3. Total General Revenues (revenues not tied to a specific County program) will increase by \$39.3 million and \$25.3 million, to \$608.1 million and \$633.3 million in Fiscal Year 2002-03 and 2003-04, respectively;
4. Key General Revenue categories will increase in Fiscal Year 2002-2003 by 9.2% (\$27.5 million) for current secured property taxes and 4.3% (\$7.6 million) for VLF revenues; and
5. In Fiscal Year 2002-2003, the County will increase the general reserve of \$53 million to \$55.5 million and appropriate an operational contingency reserve of \$11.0 million. Both reserves will be set aside for any unforeseen catastrophic situations and for economic and operational uncertainties during Fiscal Year 2002-03.

The following table shows the County's General Fund budgets for fiscal years 2001-2002 and 2002-2003.

**COUNTY OF SAN DIEGO
GENERAL FUND BUDGET
Fiscal Years 2001-2002 and 2002-2003
(in Thousands)**

	Adopted Budget <u>2001-2002</u>	Adopted Budget <u>2002-2003</u>
<u>APPROPRIATIONS</u>		
Public Safety	\$ 767,349	\$ 808,473
Health & Human Services	1,340,569	1,415,355
Land Use & Environment	84,717	88,578
Community Services	34,224	42,972
Finance and General Government and Other	272,298	296,970
Appropriation for Contingencies and Designation	<u>16,600</u>	<u>16,100</u>
Total Appropriations	<u>\$2,515,757</u>	<u>\$2,668,448</u>
 <u>REVENUES</u>		
Current Property Taxes	\$ 299,105	\$ 326,637
Taxes other than Current Property Taxes	55,901	57,094
Licenses, Permits & Franchises	25,881	28,296
Fines, Forfeitures & Penalties	26,824	33,624
Use of Money & Property	20,822	20,622
Aid from other Government Agencies	1,349,780	1,397,156
Charges for Current Service	188,346	203,538
Miscellaneous Revenues and Other Financing Sources*	<u>457,606</u>	<u>517,999</u>
Total Revenues	<u>\$2,424,265</u>	<u>\$2,584,966</u>
 Estimated Fund Balance Available	 <u>91,492</u>	 <u>83,482</u>
Total Available Financing	<u>\$2,515,757</u>	<u>\$2,668,448</u>

Source: County of San Diego Auditor and Controller.

* "Miscellaneous Revenues and Other Financing Sources" for Fiscal Year 2001-02 incorporates the conversion of Realignment and Proposition 172 safety revenues from "Aid from other Government Agencies" to "Special Revenues."

Teeter Plan

Beginning fiscal year 1993-1994, 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"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year end. Under this plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and, by such financing, its general fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County's general fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan in 1993, the County was required to distribute to participating local agencies, 95% of the then accumulated, secured roll property tax delinquencies and to place the

remaining 5% in the tax losses reserve fund, as described below. On November 20, 1995, the County issued its Teeter Obligation Taxable Commercial Paper Notes, Series A (the "Series A Teeter Notes") and its Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B (the "Series B Teeter Notes," and together with the Series A Teeter Notes, the "Teeter Obligation Commercial Paper Notes"). The Series A Teeter Notes were initially delivered in a principal amount of \$25,900,000, which principal amount was not in excess of remaining uncollected delinquencies in property taxes and assessments due to the County and the other Revenue Districts for all fiscal years of the County ended on and prior to June 30, 1993 for which the County has provided funds pursuant to the Law, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the Series A Teeter Notes were applied first to refund the principal amount of the Debenture issued to refund the County's obligation to fund the delinquencies in property taxes, assessments and other levies due to the County and the other Revenue Districts pursuant to the Law for all fiscal years of the County ended on and prior to June 30, 1993 (the "Initial Debenture"), with remaining amounts to pay costs in connection with the initial issuance of the Series A Teeter Notes. The Series B Teeter Notes were initially delivered in a principal amount of \$42,400,000, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the Series B Teeter Notes were applied to refund the remaining Debentures attributable to the fiscal years ended June 30, 1994 and June 30, 1995 and to pay costs in connection with the initial issuance of the Series B Teeter Notes. There are no Series A Teeter Notes outstanding and the County will not issue any additional Series A Teeter Notes. Beginning in June 1996 and each June thereafter, including on June 18, 2002, the County has issued its Series B Teeter Notes to refund the demand obligations attributable to the fiscal year then ending and to pay costs in connection with the issuance of such Series B Teeter Notes. As of August 21, 2002, \$58,024,000 aggregate principal amount of the Series B Notes were outstanding.

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

The Series B Teeter Notes have a first priority lien on Series B Taxes and certain amounts deposited in the Series B Pledge Fund held by the Fiscal Agent. "Series B Taxes" means (i) the right to collect any uncollected property taxes and assessments attributable to the fiscal years ended June 30, 1995 through June 30, 2002, and such other fiscal years, if any, as may be specified in a Supplemental Resolution, for which the County actually provided funding pursuant to Section 4705 of the California Revenue and Taxation Code (the "Law"), and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, (iii) all amounts received by the County upon redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default under the Reimbursement Agreement dated June 22, 1998 by and between Landesbank Hessen-Thüringen Girozentrale (the "Bank") and the County (the "Reimbursement Agreement"), or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law. Series B Taxes do not include Other Taxes. "Other Taxes" means (i) the right to collect delinquent property taxes and assessments due to the County and other Revenue Districts and attributable to the fiscal years ending after June 30, 1996 (except for such amounts which are defined as "Series B Taxes" or otherwise excluded from the definition of "Other Taxes"), for which the County actually provides funding pursuant to the Law and Default Penalties thereon, (ii) all amounts

received by the County upon the sale of property to recover such property taxes or assessments, and (iii) all amounts received by the County upon the redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default under the Reimbursement Agreement or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid in as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law.

Pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property (*i.e.*, if the sale price of the property is less than the amount owed). The amount required to be on deposit in the tax losses reserve fund is, at the election of the County, one of the following amounts: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. The County's tax losses reserve fund is fully funded, in accordance with the County's election to be governed by the second alternative, at \$7.047 million as of July 1, 2002. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are credited to the County's General Fund.

Interfund Borrowing

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

Retirement Program

General. The employees retirement system of the County (the "System"), established July 1, 1939 under provisions of the County Employees' Retirement Law of 1937, is a contributory type plan covering substantially all salaried employees. The plan is integrated with the federal Social Security System. There were 18,524 active members, 9,632 retired members and 3,315 deferred members as of June 30, 2002.

The retirement system operates on a fiscal year basis. The system is governed by a Retirement Board that causes an actuarial valuation to be prepared annually. At June 30, 2001, the date of the most recent actuarial valuation report, the actuarial accrued liability was approximately \$3.5 billion and was approximately 107% funded, based upon the methodology employed by the Association which is currently in dispute as described below under "*Current Litigation.*" For Fiscal Year 2001-2002, contributions to the retirement fund were approximately \$50.5 million by the County and \$17.3 million by employee members. Based on the June 30, 2001 actuarial valuation report, the County expects to make

no contributions for its General members and an estimated \$13 million in contributions for its Safety members during Fiscal Year 2002-03. This expectation may change based on the performance of the Association's investment portfolio or the results of litigation described below under "*Current Litigation*."

In the case of *Ventura County Deputy Sheriff's Association v. Board of Retirement of Ventura County Employees' Retirement Association ("Ventura")*, the California Supreme Court held that certain payments made by a county in excess of basic salary payments to employees are to be included in the definition of final compensation within the meaning of the Retirement Law. In 1998 there were three lawsuits filed against the San Diego County Employees Retirement Association which were consolidated into a coordinated proceeding in the County of San Francisco Superior Court. On February 14, 2002, the County of San Francisco Superior Court approved a settlement of these lawsuits. In consideration for the dismissal of these lawsuits, the San Diego County Employees Retirement Association and the County agreed to increase benefits for active and retired employees. As of January 31, 2002, the total estimated accrued unfunded liability from these additional benefits was approximately \$870.8 million. The Bonds are being issued in part to fund a portion of the increased unfunded liability that resulted from these settlements and labor agreements. See "Recent and Anticipated Financings" herein.

The Retirement Board's method for computing actual contributions (level percentages) results in the employer contribution remaining approximately level from generation to generation as a percentage of the active employee payroll. The actuarially computed liabilities are based upon assumptions, which make provisions for future salary increases resulting from inflationary factors. The level of funding available for the retirement system is a function of a number of factors, including duration of employment, assumptions regarding costs of living and the performance of the stock market. Additional costs resulting from retiree health insurance, certain cost-of-living adjustments (COLA) and death benefits are paid on a current basis from surplus investment earnings in the fund.

Current Litigation. Two employee organizations and several individual members of the Association have sued the County and the Association in three separate but presently identical lawsuits. In general, the plaintiffs allege that since the fiscal year ending June 30, 1996, contrary to requirements of the County Employees Retirement Law of 1937 and the California Constitution, the Association treated earnings of the System, in excess of total interest credited to contributions and reserves during a year, to be regarded as unrestricted assets of the System for purposes of ascertaining both the amount of the assets available to fund previously promised benefits and the amount of additional funds of the County needed to fund the previously promised benefits. Plaintiffs further allege that by failing to treat these excess earnings and surplus assets as available only for deficiencies in interest earnings in other years and losses on investments and other contingencies, the Association breached its duties to Association members when it recommended to the County Board of Supervisors that the County's contributions to the System be reduced or eliminated, by having improperly regarded those assets as being available to fund previously promised benefits. Plaintiffs also allege that the County or Retirement Board failed to discharge statutory obligations to "meet and confer" with the Plaintiff employee organizations prior to determining a course of action to be taken with respect to the recommendations contained in the actuarial valuation. For each of the fiscal years in issue, the County has either made reduced payments or no payments to the System based upon the actuarial report and the Retirement Board's recommendations, which the County believes were made in accordance with law.

The plaintiffs are requesting that the Association be mandated to limit the use of such excess earnings to the purposes alleged by them, to cause revised actuarial valuations of assets to be done reflecting the plaintiff's allegations, and to require the submission of revised recommendations to the County regarding necessary County appropriations based upon corrected actuarial valuations; and that the

County be mandated to implement these revised recommendations and pay to the System all arrears emanating from the revised recommendation, plus accrued interest.

Based upon the advice of County Counsel, who is representing the County in the litigation, it is the County's view that the prospects are remote that the County's exposure, if any, would exceed \$215 million, the amount of the County's annual employer contributions between July 1, 1996 and June 30, 2002 which, but for the existence of the alleged improperly-counted excess and surplus, the County would have paid to the System, including interest thereon. If unsuccessful in defending against plaintiffs' claims, it is unclear whether the County would have to reimburse all such employer contributions plus interest in a lump sum or whether the reimbursement could be spread over some longer period such as ten years, the current amortization period for payments for unfunded actuarial accrued liability to the System. Also, upon making certain hardship findings, the trial court could allow payments to be made in ten annual installments plus interest. Alternatively, the County could issue judgment bonds to cover an adverse decision. If the County did have to pay a judgment in a lump sum, it would utilize all available resources, as a consequence of which public services will be adversely affected.

The trial date for these cases, which are consolidated, is currently set for January 2003. It is possible that these cases could be resolved without a trial as the result of motions in or about December, 2002. If the County were not to prevail at the trial court level, it could commence the appellate process. This process is expected to take at least ten months, if not longer, from the time of the entry of the trial court final decisions disposing of the cases. Thereafter, one of the parties could seek additional discretionary appellate review by the California Supreme Court which, if granted, would take an additional period of time. The County does not believe that any adverse decision to the County in this case will adversely affect the repayment of the Series 2002 Bonds.

Financial Information Summary. Shown below are the County contributions for recent fiscal years and the estimated level of contributions to the retirement system for fiscal year 2002-2003.

**COUNTY OF SAN DIEGO
EMPLOYER CONTRIBUTIONS TOWARD RETIREMENT**

1993-94.....	\$ 98,983,977
1994-95.....	83,422,077
1995-96 ⁽¹⁾	101,403,375
1996-97 ⁽¹⁾	103,943,995
1997-98 ⁽¹⁾	106,058,597
1998-99 ⁽¹⁾	82,646,830
1999-00 ⁽¹⁾	85,636,380
2000-01 ⁽¹⁾	92,023,755
2001-02 ⁽¹⁾	104,277,169
2002-03 ⁽¹⁾⁽²⁾	116,447,504

Source: County of San Diego Auditor and Controller.

⁽¹⁾ Fiscal years 1995-96 through 2002-03 include principal and interest payments on the Prior Bonds.

⁽²⁾ Estimate.

Investments of the retirement system are recorded at fair value, net of brokerage commissions and other costs normally incurred in a sale, based upon closing sale proceeds reported on recognized securities exchanges on the last business day of the period, or for listed securities having no sales reported and for unlisted securities, based upon last reported bid prices. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies ("S&P") presently rates the County's retirement system's ability to meet its

financial commitments "AA+." The approximate fair value of all investments held by the retirement system, as of June 30, 2001 was as follows:

Domestic equity	\$1,654,200,000
International equity	894,400,000
Fixed Income	931,200,000
Real Estate	250,700,000
Other	<u>86,400,000</u>
Total Investments	<u>\$3,816,900,000</u>

Recently, certain public companies whose debt and stock securities are owned by the Association have declared bankruptcy. However, any Association portfolio losses resulting from these bankruptcies have not had a material adverse impact on the Association's financial condition.

Risk Management

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

The County does not carry liability insurance for premises liability, medical malpractice, errors and omissions, false arrest, general liability or primary workers' compensation. Accordingly, the County may not be in compliance with the insurance requirements of its financing lease. In accordance with Government Accounting Standards Board Statement 10, *"Accounting and Financial Reporting for Risk Financing and Relating Insurance Items,"* the County established two Internal Service Funds, the Public Service Liability Fund and the Worker's Compensation Fund (collectively, the "ISF") to report all of its uninsured risk management activities. In 1996, the County adopted a ten-year phased funding program to fund the liability for outstanding claims in its ISF. The County has deposited the following amounts into its ISF: \$2 million in Fiscal Year 1996-1997, \$4 million in Fiscal Year 1997-1998, \$6 million in Fiscal Year 1998-99, \$8 million in Fiscal Year 1999-2000, \$8 million in Fiscal Year 2000-01 and \$8 million in Fiscal Year 2001-02. Actuarial evaluations estimated that at June 30, 2002 claims of \$97.8 million, including \$16.1 million in public liability and \$81.7 million in workers' compensation, were probable. This estimate was based partially on the experience of similar governmental entities as well as the loss profile of the County. As of June 30, 2002, the ISF had reserves of \$47.5 million. The estimate of claims liabilities were recorded in the ISF. In Fiscal Year 2002-03, the County intends to deposit \$4 million into the Worker's Compensation Fund and does not intend to make a deposit into the Public Service Liability Fund. Thereafter, the County intends to deposit \$4 million annually until the liability for outstanding workers compensation claims is fully reserved.

Utility Costs

The State of California has experienced power shortages and significant increases in the wholesale cost of power. The State has taken several actions to mitigate the short-term and long-term effects of the power shortages on the State's economy. There can be no assurance that there will not be future disruptions in energy supplies or related developments that could affect the State's revenues. In addition, slower than expected economic growth could adversely affect projected revenues for the State for fiscal year 2001-02 and subsequent fiscal years. Any of these developments could adversely impact the financial condition of the County.

The County is supplied with electricity and natural gas solely by San Diego Gas & Electric ("SDG&E"). The County has experienced limited power shortages which, to date, have not affected the County's operations. For Fiscal Year 2001-02, approximately 2.49%, or \$7,507,149 of the County's General Fund property taxes of \$301,522,550.88 are derived from SDG&E and 1.70% or \$5,125,180 are derived from SCE. This portion represents approximately .50% of the County's total General Fund revenues of \$2,515,757,524. *Ad valorem* real property taxes are secured by the respective real property prior to all other obligations that may also be secured by such real property.

County of San Diego Employees

The following table lists the number of County employees for the years 1992 to 2001:

TOTAL COUNTY EMPLOYEES

<u>June 30</u>	<u>Total Employees</u> ⁽¹⁾
1992	17,022
1993	16,999
1994	17,256
1995	16,470
1996	17,626
1997	17,623
1998	17,775
1999	18,049
2000	18,866
2001	19,420

Source: County of San Diego Auditor and Controller.

⁽¹⁾ Includes permanent and temporary employees.

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

Labor agreements are in place for most unions through June 22, 2006, covering approximately 16,000 employees. The Deputy Sheriffs' Association and the District Attorney Investigators' Association have agreements through June 21, 2007. The labor contracts for the Deputy District Attorneys' Association and the Public Defenders' Association expired on June 30, 2001. The County Board of

Supervisors imposed final offers on these two labor unions on January 11, 2002. The remaining employees are unrepresented.

Short-Term Borrowing

The County issued its 2002-03 Tax and Revenue Anticipation Notes, \$34,855,000 Series A (the "2003A TRANs") and \$153,905,000 Series B (the "2003B TRANs", together with the 2003A TRANs, the "2003 TRANs") on behalf of the County and certain school districts within the County (the "Participants") in an aggregate principal amount of \$188,760,000, of which \$135,000,000 of the 2003B TRANs will represent notes issued by the County. The 2003 TRANs were executed and delivered on July 1, 2002. The 2003A TRANs are scheduled to mature on June 30, 2003 and the 2003B TRANs are scheduled to mature on July 31, 2003. The 2003 TRANs are being issued for the purpose of financing seasonal cash flow requirements for general fund expenditures during the fiscal year ending June 30, 2003. The 2003 TRANs are limited obligations of the County and each respective Participant but are payable only out of Unrestricted Revenues.

In addition, the County has authorized and issued its Series B Teeter Notes as taxable and tax-exempt obligations, secured by (i) a pledge of all amounts received by the County as payments for delinquent property taxes associated with the Teeter Plan levied in all fiscal years ended before June 30, 2002 and (ii) all amounts received by the County upon the sale of property to recover such property taxes, assessments and other levies, or upon redemption of properties previously sold to recover such property taxes, assessments or other levies. The Teeter Obligation Commercial Paper Notes may also be payable from the General Fund of the County. The amounts pledged to the Teeter Obligation Commercial Paper Notes will not be available to pay the 2003 TRANs and the amounts pledged to pay the 2003 TRANs will not be available to pay the Teeter Obligation Commercial Paper Notes. See "Security for and Sources of Payment of the Certificates" and "County Financial Information – The Teeter Plan."

During the 1990s, the County has utilized Treasurer's Loans from time to time for various purposes, including the finance of County library programs and other County programs. The largest Treasurer's Loan in the last five years was in fiscal year 1996-97 for \$25,000,000. Should the County find it necessary to use a Treasurer's Loan, then such borrowing, pursuant to the California Constitution, must be repaid from the first County revenues received thereafter before any other obligation, including the Notes, is paid from such revenues.

General Obligation Debt, Lease Obligations and Long-Term Loans

The County has no outstanding general obligation bonds. Starting with the financing of the El Cajon Administrative Building in 1955, the County has made use of various lease arrangements with joint powers authorities, a nonprofit corporation, the County Employees' Retirement Association, a redevelopment agency and private parties to finance capital project needs. Under these arrangements, the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County. As of June 30, 2002, annual long-term lease payments of the County for Fiscal Year 2001-02 amounted to approximately \$130 million and as of July 1, 2002 there was approximately \$765 million aggregate principal amount of long-term general fund obligations outstanding. The annual long-term lease payments for the obligations will aggregate approximately \$119 million in Fiscal Year 2002-03.

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

**COUNTY OF SAN DIEGO
SUMMARY OF GENERAL LONG-TERM OBLIGATIONS
PAYABLE FROM THE GENERAL FUND
As of July 1, 2002
(in Thousands)**

	<u>Interest Rates</u>	<u>Final Maturity Dates</u>	<u>Original Principal Amounts</u>	<u>Principal Amounts Outstanding</u>
CERTIFICATES OF PARTICIPATION (COPs)				
San Diego County Capital				
Asset Leasing Corporation (SANCAL):				
1993 Series A, COP's, issued March 1993	3.00-5.75 %	2013	\$ 7,640	\$ 5,415
1993 Master Refunding, COP's, issued May 1993	2.50-5.625	2012	203,400	112,945
1993 Vista Building, issued March 1993	3.25-5.10	2007	26,085	12,295
1996 Regional Communication System, COP's, issued May 1996	4.30-5.50	2018	52,230	37,780
1996 North & East County Courthouse, COP's, issued December 1996	4.30-5.60	2019	37,690	34,375
1997 Master Refunding, COP's, issued June 1997	4.00-4.80	2004	28,035	8,385
1997 Central Jail Refunding, COP's, issued July 1997	4.00-5.42	2025	80,675	73,745
1998 Downtown Courthouse Refunding, COP's, issued December 1998	4.00-4.94	2023	73,115	63,115
1999 East Mesa Refunding, COP's, issued September 1999	3.60-4.75	2009	15,010	13,770
2000 Information System, COP's, issued May 2000	4.50-5.125	2010	51,520	43,350
2002 Motorola Refunding, COP's issued March 2002	2.00-5.00	2011	26,060	26,060
San Diego Regional Building Authority (SDRBA):				
San Diego Regional Building Authority Lease, MTS Tower Refunding, COP's, issued September 2001	2.15-5.25	2019	36,960	36,960
Total SANCAL and SDRBA			\$ <u>638,420</u>	\$ <u>468,195</u>
Third-Party Financing Leases:				
Others, various beginning dates from March 1991 to the present	4.24-8.00	00-07	18,744	13,952
Total Third Party Financing Leases			\$ <u>18,744</u>	\$ <u>13,952</u>
Pension Bonds:				
San Diego County Pension Obligation Bonds, Series A, issued February 1994	4.70-6.60	2007	\$ 430,430	\$ 282,900
Total General Long Term Obligations			\$ <u>1,087,594</u>	\$ <u>765,047</u>

Source: County of San Diego Auditor and Controller.

Recent Financing and Anticipated Financings

In January 2002, the County sold all of its right, title and interest in and to a portion of the tobacco settlement payments required to be made to the County under the Master Settlement Agreement entered into by participation cigarette manufacturers ("County Tobacco Assets") to the San Diego County Tobacco Asset Securitization Corporation (the "Corporation"). The Tobacco Securitization Authority of Southern California (the "Authority"), a joint powers authority organized by the County and the County of Sacramento, issued approximately \$467 million tobacco settlement revenue bonds, the proceeds of which were used to fund a loan to the Corporation to purchase the County Tobacco Assets. These bonds

are not a debt of the County but are limited obligations of the Authority. No funds of the County are pledged or otherwise available to the payment of the principal of or interest on these bonds. The County will use the proceeds of the purchase price received from the Corporation to fund new health care programs. Such funding is not expected to impact available funds for existing health-related programs of the County.

The County expects to issue certificates of participation in fiscal year 2002-03 through the San Diego County Capital Asset Leasing Corporation in the approximate aggregate principal amount of \$65 million to finance reconstruction of Edgemoor Hospital, a skilled-nursing facility located in Santee, California.

Direct and Overlapping Debt

The County contains numerous municipalities, school districts and special purpose districts such as water districts, all of which have issued general obligation bonds. Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. as of August 1, 2002. The Debt Report is included for general information purposes only. The County has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith.

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

COUNTY OF SAN DIEGO
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(as of August 1, 2002)

2001-02 Assessed Valuation: \$214,483,668,959 (includes unitary utility valuation)
 Redevelopment Incremental Valuation: 13,289,406,770
 Adjusted Assessed Valuation: \$201,194,262,189

<u>OVERLAPPING TAX AND ASSESSMENT DEBT :</u>	<u>% Applicable</u>	<u>Debt 8/1/02</u>	
Metropolitan Water District of Southern California	17.743%	\$ 89,260,597	
San Diego County Water Authority	100.	3,220,000	
Southwestern Community College District	100.	39,540,000	
San Diego Unified School District	100.	489,989,881	
San Diego Unified School District Lease Tax Obligations	100.	67,845,000	
Vista Unified School District	100.	92,000,541	
Other Unified School Districts	100.	119,411,829	
Union High School Districts	100.	105,845,117	
School Districts	100.	270,361,885	
Otay Municipal Water District Improvement Districts	100.	11,480,000	
Other Municipal Water Districts	100.	1,840,000	
City of San Diego	100.	15,690,000	
Other Cities	100.	4,030,000	
San Diego Open Space Park Facilities District	100.	41,175,000	
Other Special Districts	100.	1,380,000	
Community Facilities Districts	100.	727,494,284	
1915 Act Bonds (Estimated)	100.	<u>211,391,864</u>	
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		\$2,291,955,998	
Less: San Diego Open Space Park Facilities District (100% self-supporting)		<u>41,175,000</u>	
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		\$2,250,780,998	
<u>DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT :</u>			
San Diego County General Fund Obligations	100. %	\$ 515,801,687	
San Diego County Pension Obligations	100.	282,900,000	(1)
San Diego County Superintendent of School Obligations	100.	2,122,500	
Community College District Certificates of Participation	100.	75,680,000	
San Diego Unified School District Certificates of Participation	100.	30,280,000	
Other Unified School District Certificates of Participation	100.	83,789,005	
High School District Certificates of Participation	100.	52,121,500	
School District Certificates of Participation	100.	121,632,155	
Municipal Water District Certificates of Participation	100.	29,425,000	
City of San Diego General Fund Obligations	100.	566,505,000	
City of Escondido General Fund Obligations	100.	92,572,847	
Other City General Fund Obligations	100.	366,258,378	
San Miguel Consolidated Fire Protection District Certificates of Participation	100.	10,505,000	
Fallbrook Sanitary District Certificates of Participation	100.	<u>10,780,000</u>	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$2,240,373,072	
Less: Otay Municipal Water District Certificates of Participation (100% self-supporting)		26,665,000	
Grossmont Union High School District Certificates of Participation (100% self-supporting from tax increment revenues)		7,389,000	
City of Oceanside Certificates of Participation		<u>2,635,000</u>	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		\$2,203,684,072	
GROSS COMBINED TOTAL DEBT		\$4,532,329,070	(2)
NET COMBINED TOTAL DEBT		\$4,454,465,070	

Ratios to 2001-02 Assessed Valuation:

Total Gross Overlapping Tax and Assessment Debt.....1.07%
 Total Net Overlapping Tax and Assessment Debt.....1.05%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$798,701,687).....0.40%
 Gross Combined Total Debt2.25%
 Net Combined Total Debt2.21%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/02: \$2,728,994

(1) Excludes pension obligations to be sold.

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

Source: California Municipal Statistics.

SUPPLEMENTAL FINANCIAL INFORMATION

The following information concerning the State of California's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

State Budget for Fiscal Year 2001-02

Governor Davis signed the 2001-02 State Budget on July 26, 2001. The total spending plan of \$103.3 billion represents a \$2.4 billion increase from the 2000-01 State Budget. Approximately \$78.8 billion of the spending plan relies on the General Fund, \$21.3 billion on special funds, and \$3.2 billion on bond funds. As a result of a slowdown in California's economy and state revenues, the final 2001-02 State Budget reflects significant cutbacks from the spending levels proposed by the Governor in January 2001, except for increases in K-12 spending. The 2001-02 State Budget also includes certain expansions to health programs described below, tax relief provisions for property tax assistance to senior citizens and for agricultural businesses and rural residents consisting of certain exemptions from the sales and use tax for agricultural and rural activities. The spending plan assumes that the General Fund monies spent for electricity purchases in 2000 and 2001 will be reimbursed from revenue bond proceeds.

The 2000-01 fiscal year ended with a reserve of \$6.3 billion. In Fiscal Year 2001-02, revenues are projected to fall by 3.7 percent from the prior year to \$75.1 billion. A decline in capital gains and stock market activity sectors and the general slowdown in statewide economic activity caused a decrease in revenues from Fiscal Year 2000-01. The year-end reserve is projected to decline to \$2.6 billion, or slightly below 3.5 percent of total General Fund revenues. Expenditures are estimated to be \$78.8 billion, a 1.7 percent decline from the prior year.

The principal features of the 2001-02 State Budget are summarized below:

1. The 2001-02 State Budget provides approximately \$122 million (\$115 million General Fund) in tax relief in Fiscal Year 2001-02. The main provision is a permanent 45 percent increase in the senior citizens' property tax assistance program. The 2001-02 State Budget also contains an agricultural and rural tax relief package, which includes sales tax exemptions for agricultural and forestry equipment, liquified petroleum gas, and diesel fuel used for agricultural purposes. In addition, the 2001-02 State Budget lowers the reserve threshold from 4 percent to 3 percent of annual revenues needed to impose one-quarter cent of the state's sales tax adopted in 1991.
2. The 2001-02 State Budget includes full funding for inflation and enrollment growth in K-12, as well as targeted increases for low-performing schools, expanded child care, a settlement of the special education lawsuit, revenue limit equalization, and before and after school programs. In higher education, the 2001-02 State Budget provides full funding for enrollment growth, avoids any fee increases, and generally increases base funding for various programs. The 2001-02 State Budget includes \$45.5 billion in Proposition 98 spending in 2001-02 for K-12 education, an increase of \$2.5 billion over the current year. The 2001-02 State Budget provides for funding of \$7,002 per pupil, which represents an increase of \$324, or 4.9 percent, above the revised current-year level of per-pupil spending of \$6,678. Proposition 98 totals (including the revised total for Fiscal Year 2000-01) reflect the Legislature's appropriation of more General Fund monies than is required to meet the constitutional minimum, which was \$415 million more than

the Fiscal Year 2000-01 minimum funding level and approximately \$4 billion more than the guarantee for Fiscal Year 2001-02. The budget allocates almost \$2 billion to provide for inflation and growth adjustments. Specifically, the budget includes approximately \$565 million to accommodate a projected 1.4 percent increase in the student population, and \$1.4 billion for a 3.87 percent cost-of-living adjustment which applies to most program funding.

3. The 2001-02 State Budget appropriates tobacco settlement funds to support expanded coverage under the Healthy Families Program and enhanced coverage for cancer treatment. The 2001-02 State Budget also provides a lump-sum payment of \$191 million to settle litigation relating to payment rates for hospital outpatient services, and funding for rate increases for long-term care nursing facilities.
4. The CalWORKs Program and Foster Care programs are allotted increased funding of \$97 million from 2000-01 for cost-of-living adjustments and to fund costs associated with a new methodology for CalWORKs beginning in Fiscal Year 2002-03. The 2001-02 State Budget also includes funds to expand services for foster youth, continue cash and food benefits for recent immigrants, and raise the hourly wage for specified In-Home Supportive Services workers.
5. The 2001-02 State Budget allocates \$5.3 million to inmate and ward populations for the Departments of Corrections and Youth Authority, respectively. Additionally, the 2001-02 State Budget includes funding of \$4.6 billion from the General Fund for the California Department of Corrections for increased health care services and the replacement of electromechanical doors. This represents an increase of \$71.2 million, or 1.6 percent, above the 2000-01 funding. The 2001-02 State Budget also contains funding in the Department of Youth Authority for new initiatives related to mental health, substance abuse, and sex-offender treatment. The 2001-02 State Budget also provides funding of \$30 million for new and expanded initiatives in the areas of anti-drug related activities, \$25 million to fund a local forensic laboratory Improvement program, and \$7.6 million to increase law enforcement capabilities in addressing high-technology crime programs, and rural law enforcement assistance programs.
6. The 2000-01 State Budget included a five-year transfer (from 2001-02 through 2005-06) of General Fund sales taxes on gasoline to support traffic congestion relief efforts. The 2001-02 State Budget adopts the Governor's May Revision proposal to postpone the transfer for two years; transfers are now scheduled to take place from 2003-04 through 2007-08. To provide cash resources for transportation projects during the next two years, the 2001-02 State Budget authorizes \$560 million in loans from the Motor Vehicle Account, Public Transportation Account, and State Highway Account, which will be repaid beginning in 2006-07. In addition, the 2001-02 State Budget includes a proposed constitutional amendment to permanently dedicate the sales taxes on gasoline to transportation-related projects beginning in 2003-04.
7. The 2001-02 State Budget includes allocations of \$7.7 million from the General Fund for Energy Commission power plant siting workload, \$3.7 million (\$2.7 million General Fund) for Public Utilities Commission work regarding power plant siting and operation, generation, transmission, and conservation issues, and \$1.8 million for the Electricity Oversight Board for issues related to market monitoring and power plant outage and maintenance standards.

State Budget for Fiscal Year 2002-03

Governor Davis signed the 2002-03 State Budget on September 5, 2002. The total spending plan of approximately \$98.9 billion represents a decrease of approximately 2.4 percent from the \$101.3 billion 2001-02 State Budget, with a corresponding decrease in the State's General Fund to approximately \$76.7 billion. The 2002-03 State Budget provides for a General Fund reserve of approximately \$1.035 billion. The Proposition 98 guarantee for 2002-03 is \$41.6 billion and represents approximately 54 percent of General Fund expenditures and more than 40 percent of all expenditures. In addition, the 2002-03 State Budget contains \$235 million in vetoes including a proposed \$50 million increase in the State's Healthy Family Program and \$70 million from transportation funding. The 2002-03 State Budget also limits the previous growth in State government by reducing State operations by approximately \$750 million and by eliminating 7,000 currently vacant State positions.

Overall, General Fund revenues and transfers represent approximately 83 percent of total State revenues. The remaining 17 percent are special funds dedicated to specific programs. The three largest revenue sources (personal income, sales and bank and corporation taxes) account for about 53 percent of total revenues. The decreases in spending from the 2001-02 State Budget are a result of the substantial decline in revenues from the personal income tax in capital gains and stock options.

The principal features of the 2002-03 State Budget include:

1. The Proposition 98 guarantee for 2002-03 is \$3.3 billion higher than the 2001-2002 State Budget. Approximately \$727 million relates to higher Department of Finance estimates for a K-12 average daily attendance ("ADA") increase of 1.37 percent. In addition, a total of \$143.3 million in Proposition 98 appropriations were vetoed and set aside to be appropriated later in the fiscal year for any increased costs in existing programs.
2. The 2002-03 State Budget reflects the Governor's proposed funding of \$7,067 per pupil, which represents an increase of 6.9 percent from the \$6,610 per pupil level in the 2001-2002 State Budget. It also includes \$817 million in new funds to provide for a 2.0 percent cost-of-living allowance ("COLA") for both apportionments and categorical programs, although the statutory rate provides for a 1.66 percent COLA.
3. The 2002-03 State Budget includes a \$738 million increase in federal funds, which funds are available under the recent No Child Left Behind Act enacted to help support existing programs and augment program funding in selected areas.
4. The 2002-03 State Budget provides the University of California \$69.2 million to fund 7,700 additional enrollments. It provides \$97.6 million for the California State University to fund 15,278 additional enrollments. Additionally, it contains \$118.7 million for the California Community Colleges to fund 32,200 additional students.
5. The 2002-03 State Budget provides \$629.3 million for four types of Cal Grant Awards, representing an increase of \$90 million, or 17 percent over the amount provided for Cal Grants in the 2001-02 State Budget.
6. The 2002-03 State Budget includes an additional appropriation of \$89.6 million for the California Highway Patrol for security purposes. These costs are expected to be reimbursed by the federal government.

7. The 2002-03 State Budget provides \$672.2 million for the Healthy Families Program for which enrollment is expected to increase to 624,000 children by June 30, 2003.
8. The 2002-03 State Budget provides \$2.6 billion for resources acquisition and protection through Proposition 40. In addition, \$476.7 million is allocated for the State's share of the CalFed Bay-Delta Program.
9. The 2002-03 State Budget allocates \$116.3 million for the COPS program and \$116.3 million for county juvenile justice crime prevention programs.

Future State Budgets

On May 29, 2002, the California Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State of California). The Court held that the State Controller may not disburse funds in the absence of a final budget bill or an emergency appropriation, except when payments are made pursuant to continuing appropriations authorized by the California Constitution, statutes or other provisions of law, the Federal Labor Standards Act and certain other federal funding mandates. The California Supreme Court has stayed the Court of Appeal's decision and has accepted the case on appeal. A ruling is expected in November 2002. To date there have not been any delays in State payments to the County. The County believes that it has sufficient resources to provide mandated County services.

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

SAN DIEGO COUNTY INVESTMENT POOL

General

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

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

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

The Treasury Pool's Portfolio

As of July 31, 2002, the securities in the Treasury Pool had a market value of \$3,314,701,248 and a book value of \$3,301,469,146, for a net unrealized gain of .40% or \$13,232,102 of the book value of the Treasury Pool. As of July 31, 2002, the weighted average maturity of the Pool portfolio was approximately 268 days. As of July 26, 2002, 31.09% of the Pool was invested in securities with maturities ranging from 1-30 days, 18.72% of the Pool was invested in securities with maturities ranging from 31-90 days, 18.89% of the Pool was invested in securities with maturities ranging from 91-180 days, 11.67% of the Pool was invested in securities with maturities ranging from 181-365 days, 2.30% of the Pool was invested in securities with maturities ranging from 366 to 2 years, and 17.34% of the Pool was invested in securities with maturities between 2 and 5 years.

The effective duration for the Treasury Pool was 0.38 years as of July 31, 2002. "Duration" is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 0.38 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.38 percent.

As of July 31, 2002, approximately 2.53% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 5.11% by community colleges, 37.15% by the County, and 51.95% by K-12 school districts.

S&P maintains ratings on the Pool's ability to meet its financial commitments of "AAAF" (credit quality rating) and "S1" (volatility rating). The "AAAF" rating reflects the extremely strong protection the pool's portfolio investments provide against losses from credit defaults. The Pool invests primarily in "AAA" or "A-1+" rated securities or in U.S. agency securities. The "S1" volatility rating signifies that the pool possesses low sensitivity to changing market conditions, given its low-risk profile and conservative investment policies. To maintain accurate ratings and analysis on rated pools, S&P's actively monitors the pool's investments, strategies and management. The ratings reflect only the views of S&P and any explanation of the significance of such ratings may be obtained from Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041.

Investments of the Treasury Pool

Authorized Investments. Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities. Generally, investments in repurchase agreements cannot exceed a term of one

year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement shall be adjusted no less than quarterly. In addition, reverse repurchase agreement generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed 92 days. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base Value is defined as the total cash balance excluding any amounts borrowed (i.e., amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods).

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

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

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

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

Certain Information Relating to Pool

The following table reflects information with respect to the Pool as of the close of business July 31, 2002. As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on July 31, 2002, the Pool necessarily would have received the values specified. The County has no Pool investments in Enron or any other corporation that has filed for bankruptcy.

**Treasurer-Tax Collector
San Diego County Portfolio Statistics
As of July 31, 2002**

	<u>Percent of Portfolio</u>	<u>Book Value</u>	<u>Market Price</u>	<u>Accrued Interest</u>	<u>Market Value</u>	<u>Unrealized Gain/(Loss)</u>	<u>Yield to Maturity</u>	<u>Weighted Average Days to Maturity</u>
Federal Farm Credit Bank Notes	1.51%	\$ 50,001,973	100.19%	\$ 185,069	\$ 50,093,750	\$ 91,177	3.11%	586
Federal Home Loan Bank Notes	3.68	119,964,528	101.67	1,712,018	121,997,522	2,032,994	6.65	765
Federal National Mortgage Association Notes	9.23	299,986,804	102.00	4,828,510	306,000,750	6,013,945	5.39	1,051
Federal Home Loan Mortgage Corporation Notes	9.30	304,980,492	101.07	2,735,636	308,278,000	3,297,508	4.45	795
Student Loan Marketing Assoc. Notes	1.51	50,010,888	100.19	87,500	50,095,500	84,612	2.20	156
Money Market Funds	12.67	420,000,000	100.00	596,957	420,000,000	0	1.79	1
Repurchase Agreements	13.58	450,000,000	100.00	23,517	450,000,000	0	1.88	1
Negotiable Certificates of Deposit	20.40	674,982,953	100.19	7,065,221	676,259,925	1,276,972	2.24	200
Commercial Paper	28.10	931,051,508	99.66	0	931,485,801	434,293	2.09	69
Collateralized Certificates of Deposit	0.01	490,000	100.00	376	490,000	0	2.90	137
Totals for July 2002	100.00%	\$3,301,469,146	100.29%	\$17,234,806	\$3,314,701,248	\$13,232,102	2.81%	268
Totals for June 2002	100.00%	\$3,180,325,241	100.27%	\$13,348,050	\$3,194,452,101	\$14,126,861	2.82%	284
Change from Prior Month		\$121,143,905	0.02%		\$120,249,147	(\$894,759)	-0.01%	-16
Overall Portfolio Effective Duration		0.38 years						

	<u>July '02 Return</u>	<u>Annualized</u>	<u>Fiscal Year to Date Return</u>	<u>Annualized</u>	<u>Calendar Year to Date Return</u>	<u>Annualized</u>
Book Value	0.234%	2.760%	0.234%	2.760%	1.813%	3.121%
Market Value	0.230	2.711	0.230	2.711	1.676	2.886

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A

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

Legislation enacted by the California Legislature to implement Article 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 and pension liability 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 Participants are unable to predict the nature or magnitude of future revenue sources which may be provided by the State of California (the "State") to replace any lost property tax revenues. Article 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 A Litigation

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

A class action complaint seeking only declaratory relief and comparable to the one involved in the Orange County Litigation has been filed against the County for the 2000-2001 property tax levy. The County cannot predict the outcome of the Orange County Litigation or the landowner lawsuit against the County. The Court's ruling in the Orange County Litigation only applies to the particular assessment involved in that case. However, if the Court's reasoning is applied generally, or if the decision in the County's lawsuit is consistent with the Orange County lawsuit, the loss of tax revenue to communities could be significant. Further, the County cannot predict the effect, if any, that the outcome of either the Orange County Litigation or the lawsuit against the County would have on property tax revenues to be received by the County, although the effect could be adverse.

Article XIII B

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

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

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

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

Article 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.

Proposition 46

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

Proposition 62

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

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

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

Since the adoption of Proposition 62, the County enacted an increase in the transient occupancy tax from 8% to 9% without a vote. No challenge has been instituted against the imposition or collection of this tax. The County has collected an average of approximately \$314,000 from the increase in the transient occupancy tax in each year from fiscal years 1997-98 through 2000-01, totaling approximately \$1.3 million, and has collected \$193,666 thus far in fiscal year 2001-02. The County believes that any effect on the ability of the County to collect this increase in the transient occupancy tax or order to refund any previously collected taxes will not adversely affect the ability of the County to repay any of its obligations as and when due.

Right to Vote on Taxes Initiative-Proposition 218

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

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

Article XIII C of Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite

voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 6, 1998 assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the County's General Fund. Further, "fees" and "charges" are not defined in Article XIIC or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIIC as they do in Article XIID, as described below. Accordingly, the scope of the initiative power under Article XIIC 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 XIIC of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges and is not limited to local taxes, assessments, fees and charges that are property related. The County is unable to predict whether the courts will interpret the initiative provision to be limited to property related fees and charges. No assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the County's General Fund. The County believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the County, including its General Fund, would be materially adversely affected. As a result, there can be no assurances that the County would be able to pay the principal of and interest represented by the Notes as and when due or any of its other obligations payable from the General Fund.

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

Article XIID of Proposition 218 also adds several provisions affecting "fees" and "charges" which are defined as "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and, after June 30, 1998, existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for

any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase of such property based fee, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The annual amount of revenues that are received by the County and deposited into its General Fund which may be considered to be property related fees under Article XIID of Proposition 218 is not substantial. Accordingly, presently the County does not anticipate that any impact Proposition 218 may have on future fees and charges will not adversely affect the ability of the County to pay the principal of and interest represented by the Notes as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

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

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

Future Initiatives

Article XIII A, Article XIII B, Article XIIC, Article XIID, Proposition 46 and Proposition 62 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting the County's revenues or its ability to expend revenues.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

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

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

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

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

The San Diego Convention Center began operation in November 1989. The Convention Center contains approximately 526,000 square feet of exhibit space and over 200,000 square feet of meeting/banquet rooms. In September 2001, a major expansion of the Convention Center was completed which increased the square footage by approximately 50%. Major conventions and trade shows are scheduled into the year 2009.

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

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

County Government

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

Growth Management

The County has fostered a regional growth management plan rather than development limitations. The current regional growth management effort was approved by the voters in November 1988 as Proposition C, the only one of five growth-related measures on the ballot to be approved. It provides for a

voluntary planning process to help define, plan, and prepare for the impacts of growth on a regional basis. Representatives of the County and each of the 18 incorporated cities within the County agreed to a growth management board that came into being in 1990 through an amendment to the SANDAG joint powers agreement designating SANDAG as the board. The board has no power to limit growth in any jurisdiction.

Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. For many years the population of the County has grown at a greater rate than that of either California or the nation. The County population as of January, 2002 was estimated to be approximately 2,918,300, making it the third largest County by population in California and the sixteenth largest Metropolitan Statistical Area in the United States. The 2002 population increased 2.0% from 2001.

Population in the County is expected to grow to over 3.2 million people by the year 2005, to over 3.6 million people by 2015, and to over 3.9 million people by 2020 which is a 35% increase over this twenty year period.

The City of San Diego is the sixth largest city in the nation, and had a population of approximately 1,255,700 people in as of January 1, 2002.

The following table shows changes in the population in the County, the State and the United States for the years 1991 to 2001.

POPULATION ESTIMATES⁽¹⁾

<u>Year</u>	<u>San Diego County (000)</u>	<u>Percent Change</u>	<u>State of California (000)</u>	<u>Percent Change</u>	<u>United States (000)</u>	<u>Percent Change</u>
1991	2,589	---	30,945	---	253,419	--
1992	2,628	1.51%	31,478	1.72%	256,304	1.14%
1993	2,646	.68	31,858	1.21	258,939	1.03
1994	2,653	.26	32,075	.68	261,431	.96
1995	2,657	.15	32,223	.46	263,909	.95
1996	2,662	.19	32,396	.54	266,398	.94
1997	2,692	1.13	32,743	1.07	268,930	.95
1998	2,741	1.82	33,186	1.35	271,387	.91
1999	2,789	1.75	33,660	1.43	273,828	.90
2000	2,835	1.65	34,207	1.63	276,059	.81
2001	2,883	1.69	34,818	1.79	281,426	1.94

Sources: State of California Department of Finance; U.S. Bureau of the Census.

⁽¹⁾ As of January 1 of the year shown.

Employment

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,473,000 as of July 2002. The number of employed workers in the labor force averaged approximately 1,410,700. The total work age population (15 to 64 years old) employed in the labor force is expected to increase. The following table sets forth information regarding the size of the labor force, employment and unemployment rates for the County, the State and the United States for the years 1998 through 2002.

LABOR FORCE – EMPLOYMENT AND UNEMPLOYMENT*
ANNUAL AVERAGES 1998-2002
By Place of Residence
(in Thousands)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁽¹⁾</u>
County of San Diego					
Labor Force	1,321.0	1,361.6	1,401.9	1,424.9	1,473.1
Employment	1,274.6	1,319.6	1,359.9	1,379.2	1,410.7
Unemployment Rate	3.5%	3.1%	3.0%	3.2%	4.2%
State of California					
Labor Force	16,336.5	16,596.5	17,090.8	17,362.3	17,728.5
Employment	15,367.5	15,731.7	16,245.6	16,435.2	16,561.6
Unemployment Rate	5.9%	5.2%	4.9%	5.3%	6.6%
United States					
Labor Force	138,624.0	140,213.0	141,544.0	142,314.0	142,605.0
Employment	132,517.0	134,513.0	135,888.0	134,055.0	134,149.0
Unemployment Rate	4.4%	4.1%	4.0%	4.0%	5.9%

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

* Data not seasonally adjusted; March 2001 Benchmark.

⁽¹⁾ Preliminary data for July, 2002.

Employment by industry statistics for San Diego County are tabulated on a major statistical area basis (the "MSA"). Non-agricultural employment for totaled 1,238,000 jobs as of July 2002. The services industry constitutes the largest employment sector and accounted for approximately 34.2% of nonagricultural employment as of July 2002, with a total of 424,000 employed. The wholesale and retail trade industries were the second largest sector as of July 2002, comprising approximately 22.5% of non-agricultural employment with a total of 278,100 jobs.

As of July 2002, agriculture accounted for approximately .91% of total employment in the County. Recently, the United States Department of Agriculture ("USDA") named the County as a primary disaster area due to wind, fire and drought conditions. This designation allows farmers and ranchers in the County to be immediately eligible for USDA emergency loans.

As of July 2002, government accounted for approximately 16.8% of total employment and manufacturing accounted for an additional 10.3%. The construction and transportation sectors of employment are greatly influenced by the general health of the economy due to the fact that they serve exclusively the local market. These two sectors are therefore directly influenced by the growth of population and housing.

The following table sets forth the annual average employment within the County, by employment sector, for the fiscal years 1998 through 2002.

SAN DIEGO COUNTY
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES
1998-2002
By Place of Work
(in Thousands)

<u>Employment Sector</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002⁽¹⁾</u>
Mining	0.3	0.3	0.4	0.3	0.3
Transportation Public Utilities and Communications	47.0	51.3	50.9	50.6	50.7
Construction	61.8	67.0	70.4	74.3	77.0
Manufacturing	127.6	128.1	129.7	128.7	127.7
Wholesale and Retail Trade	249.4	256.5	267.8	279.5	278.1
Finance, Insurance and Real Estate	65.3	68.7	69.8	71.6	72.4
Services	359.6	381.7	400.6	422.1	424.0
Government	194.5	199.3	206.8	221.4	207.8
Total, All Non- Farm Industries	1,105.5	1,152.9	1,196.5	1,248.5	1,238.0

Sources: California Employment Development Department.

⁽¹⁾ Preliminary data for July, 2002.

The following table sets forth the major employers in the County as of December 31, 2001:

**SAN DIEGO COUNTY
LARGEST EMPLOYERS**

<u>Firm</u>	<u>Service/Product</u>
10,000 OR MORE EMPLOYEES:	
Federal Government State of California	Government
University of California, San Diego	Higher Education
County of San Diego	Government
San Diego Unified School District	Education
City of San Diego	Government
5,000-9,999 EMPLOYEES:	
Sharp Healthcare Corp.	Healthcare
U.S. Postal Service	Postal Service
QUALCOMM, Inc.	Telecommunications
Kaiser Permanente Medical Care Program	Healthcare
Scripps Health	Healthcare
Pacific Bell	Telecommunications
3,000-4,999 EMPLOYEES:	
Science Applications International Corp.	Technology Services
Albertson's Inc	Retail Food Chain
Sempra Energy	Utilities
San Diego State University	Higher Education
Sony Technology Center	Communication-Wireless
Palomar Pomerado Health Systems	Healthcare
United Parcel Service	Mail Delivery Service
National Steel & Shipbuilding Co.	Shipbuilders and Repairers
Ace Parking Management, Inc.	Parking Stations and Garages
2,000-2,999 EMPLOYEES:	
The Scripps Research Institute	Research
Grossmont-Cuyamaca Community College	Education
Palomar Community College	Education
City of Chula Vista	Government
Children's Hospital & Health Center	Healthcare
Callaway Golf Co.	Recreation Manufacturer
Hewlett Packard Company	Electronic Instruments Manufacturer
Cajon Valley Union School District	Education

Source: San Diego County Chamber of Commerce.

Regional Economy

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

The GRP for 2001 rose to \$117.2 billion from \$110.1 billion in 2000. The GRP is an estimate of the value for all goods and services produced in the region. The following table presents the County's GRP from 1996 through 2001.

**COUNTY OF SAN DIEGO
GROSS REGIONAL PRODUCT
1996-2001**

<u>Year</u>	Gross Regional Product (Billion \$)	Annual Percent Change	
		Current Dollars San Diego	Real Change* San Diego
1996	\$ 79.4	5.9%	4.2%
1997	86.1	8.4	6.7
1998	92.6	7.6	6.7
1999	101.4	9.5	5.8
2000	110.1	8.6	6.4
2001 ⁽¹⁾	117.2	6.5	3.5

Sources: Bureau of Economic Analysis; Economic Research Bureau of the San Diego Regional Chamber of Commerce.

* Adjusted using the GDP/GSP Implicit Price Deflator.

(1) Forecast.

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

Building Activity

Building permit valuation for both residential and non-residential construction in the County in 2001 decreased over 2000 levels by approximately 1%. Even though measures limiting new housing remain in effect in areas throughout the County, residential valuations increased 5.4%. Non-residential valuations decreased 16.9%.

Annual total building permit valuation and the annual unit total of new residential permits from 1997 through 2001 are shown in the following table.

**COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
Calendar Years 1997-2001
(in Thousands)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Valuation					
Residential	\$2,032,771	\$2,314,056	\$2,985,960	\$3,008,209	\$3,169,514
Non-Residential	<u>958,229</u>	<u>1,211,275</u>	<u>1,336,628</u>	<u>1,391,497</u>	<u>1,189,910</u>
Total	<u>\$2,991,000</u>	<u>\$3,525,331</u>	<u>\$4,322,588</u>	<u>\$4,399,706</u>	<u>\$4,359,424</u>
New Housing Units					
Single Family	8,338	9,160	9,993	9,166	9,331
Multiple Family	<u>3,064</u>	<u>3,013</u>	<u>6,434</u>	<u>6,760</u>	<u>6,319</u>
Total	<u>\$ 11,402</u>	<u>\$ 12,173</u>	<u>\$ 16,427</u>	<u>\$ 15,926</u>	<u>\$ 15,650</u>

Source: Construction Industry Research Board.

Commercial Activity

Consumer spending for Calendar Year 2000 resulted in approximately \$36,245,418 in taxable sales in the County. The following table sets forth information regarding taxable sales in the County for Calendar Years 1997-2001.

**COUNTY OF SAN DIEGO
TAXABLE SALES
Calendar Years 1997-2001
(in Thousands)**

<u>Type of Business</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001⁽¹⁾</u>
Apparel Stores	\$ 926,657	\$ 1,029,691	\$ 1,050,003	\$ 946,351	\$ 307,105
General Merchandise	3,285,977	3,561,551	3,966,854	3,584,108	1,033,841
Specialty stores	2,739,312	2,991,422	3,311,320	3,663,924	891,375
Food Stores Group	1,337,330	1,375,365	1,469,238	1,557,244	401,809
Home Furnishings/Appliances	858,165	955,772	1,085,001	1,237,271	315,145
Eating and Drinking					
Establishments	2,523,340	2,714,916	2,929,084	3,211,306	854,003
Building Materials Group	1,466,965	1,671,507	1,882,514	2,104,100	609,777
Automotive	4,728,592	5,041,798	5,868,743	6,955,856	1,888,817
All Other Retail Stores	535,973	594,504	672,926	733,653	208,342
Business and Personal					
Services	1,538,544	1,703,325	1,863,511	1,954,589	496,362
All Other Outlets	<u>7,467,671</u>	<u>7,976,153</u>	<u>8,653,211</u>	<u>9,337,740</u>	<u>2,401,960</u>
TOTAL ALL OUTLETS	<u>\$27,408,526</u>	<u>\$29,616,004</u>	<u>\$32,752,405</u>	<u>\$36,245,418</u>	<u>\$9,404,536</u>

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

⁽¹⁾ Data through June 2001.

Personal Income

The following table summarizes the total effective buying income and the median household effective buying income for the County, the State, and the United States between 1995 and 2000.

PERSONAL INCOME
Calendar Years 1995 through 2000

<u>Year and Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
<u>1995</u>		
San Diego County	\$ 45,541,671	\$33,679
California	477,640,503	34,533
United States	3,964,285,118	32,238
<u>1996</u>		
San Diego County	40,913,543	34,445
California	492,516,991	35,216
United States	4,161,512,384	33,482
<u>1997</u>		
San Diego County	43,212,824	35,725
California	524,439,600	36,483
United States	4,399,998,035	34,618
<u>1998</u>		
San Diego County	46,056,143	36,296
California	551,999,317	37,091
United States	4,621,491,730	35,377
<u>1999</u>		
San Diego County	49,907,828	39,213
California	590,376,663	39,492
United States	4,877,786,658	37,233
<u>2000</u>		
San Diego County	54,337,662	44,292
California	652,190,282	44,464
United States	5,230,824,904	39,129

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

Transportation

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

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

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

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

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

Visitor and Convention Activity

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

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately \$5.2 billion in 2000, according to an estimate by the San Diego Convention and Visitors Bureau, an increase of approximately \$5.0 million from the prior year. The County hosted 51 conventions and trade shows in 2000, attended by approximately 261,590 delegates, who spent approximately \$248,127,238.

Education

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

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

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

APPENDIX B

**SAN DIEGO COUNTY
GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDING JUNE 30, 2001**

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750 B Street
San Diego, CA 92101

Independent Auditors' Report

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

We have audited the accompanying general purpose financial statements of the County San Diego, California (the County) as of and for the year ended June 30, 2001, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the management of the County. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the County of San Diego, California as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types, and the changes in net assets of its pension trust fund and investment trust fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4(H), during 2001, the Board adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the accompanying table of contents, which are also the responsibility of the management of the County, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the County. Such additional information has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, when considered in relation to the general purpose financial statements taken as a whole.



KPMG LLP KPMG LLP, a US limited liability partnership
a member of KPMG International, a Swiss association

The introductory and statistical sections listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the County. Such additional information has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements, and accordingly we express no opinion on it.

KPMG LLP

December 28, 2001

GENERAL PURPOSE STATEMENTS

IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD, THE FOLLOWING GENERAL PURPOSE STATEMENTS ARE PRESENTED:

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - (BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS - ALL GOVERNMENTAL FUND TYPES

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES

COMBINED STATEMENT OF CASH FLOWS - ALL PROPRIETARY FUND TYPES

PENSION TRUST FUND - STATEMENT OF CHANGES IN PLAN NET ASSETS

INVESTMENT TRUST FUND - STATEMENT OF CHANGES IN NET ASSETS

NOTES TO COMBINED FINANCIAL STATEMENTS

Financial Report of San Diego County

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001
With Comparative Figures for June 30, 2000
(In Thousands)

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
ASSETS AND OTHER DEBITS				
Equity in Pooled Cash and Investments	\$ 391,846	334,035	2,202	10,296
Cash with Fiscal Agent	186,043	1,793	36,082	35,510
Collections in Transit	2,198	5,667		
Imprest Cash	312	17		
Investments	2			
Taxes Receivable	102			
Accounts and Notes Receivable	158,558	111,301	238	814
Due from Other Funds	198,025	15,381	94	15,907
Advances to Other Funds	689	157	478	
Inventory of Materials and Supplies	8,070	3,070		
Deposits with Others		127		7
Restricted Assets:				
Investments		81,830		
Fixed Assets, Net				
Amount Available in Debt Service Funds				
Amount to be Provided for Retirement of General Long-Term Debt				
Total Assets and Other Debits	\$ 945,845	553,378	39,094	62,534
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts Payable	\$ 35,011	10,820		1,307
Accrued Payroll	29,874	1,662		
Accrued Interest				
Amount Due for Tax & Revenue Anticipation Notes	179,147			
Due to Other Funds	43,115	85,991	307	22,551
Obligations Under Securities Lending				
Due to Other Governments				
Advances from Other Funds		371	287	10,331
Amount Due for Commercial Paper Notes				
Deferred Revenue	40,414	10,075		5,810
Long-Term Debt Payable				
Total Liabilities	327,561	108,919	594	39,999
Equity and Other Credits:				
Investment in General Fixed Assets				
Contributed Capital				
Retained Earnings:				
Unreserved				
Fund Balances:				
Reserved for Encumbrances	99,848	67,741		160
Reserved for Notes Receivable and Advances	7,000	24,070		
Reserved for Deposits with Others		127		
Reserved for Inactive Landfill Maintenance		101,414		
Reserved for Inventory of Materials and Supplies	8,070	344		
Reserved for Debt Service			38,500	
Reserved for Pool Participants				
Reserved for Employees' Pension Benefits				
Reserved for Other Purposes	152,173	35,305		
Unreserved:				
Designated for Subsequent Years' Expenditures	125,290	86		
Undesignated	225,903	215,372		22,375
Total Equity and Other Credits	618,284	444,459	38,500	22,535
Total Liabilities, Equity and Other Credits	\$ 945,845	553,378	39,094	62,534

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001
With Comparative Figures for June 30, 2000
(In Thousands)

STATEMENT 1A

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	2001	2000
67,662	145,189	1,814,121			2,765,351	2,283,568
		144,471			403,899	504,565
7	2,922	12,855			23,649	13,425
2	201	39			571	520
		3,954,245			3,954,247	4,242,134
		215,237			215,339	213,266
408	2,021	73,574			346,914	306,243
1,972	23,772	66,846			321,997	202,648
9,772	207				11,303	5,359
118	2,166				13,424	13,335
					134	134
					81,830	102,014
68,112	75,650	1,503	1,267,762		1,413,027	1,365,895
				38,500	38,500	32,499
				1,000,951	1,000,951	1,085,105
148,053	252,128	6,282,891	1,267,762	1,039,451	10,591,136	10,370,710
1,791	13,096	145,769			207,794	140,072
139	829				32,504	30,829
					179,147	131,607
741	59,674	109,618			321,997	202,648
		183,184			183,184	206,065
1,417		502,537			503,954	685,058
314					11,303	5,359
		63,856			63,856	71,630
102	2				56,403	23,819
503	92,649			1,039,451	1,132,603	1,189,888
5,007	166,250	1,004,964		1,039,451	2,692,745	2,686,976
			1,267,762		1,267,762	1,236,708
44,456	57,458				101,914	101,915
98,590	28,420				127,010	106,950
					167,749	115,980
					31,070	26,044
					127	54
					101,414	104,224
					8,414	7,967
					38,500	32,499
		1,461,060			1,461,060	1,318,081
		3,816,867			3,816,867	4,272,606
					187,478	
					125,376	88,852
					463,650	271,854
143,046	85,878	5,277,927	1,267,762		7,898,391	7,683,734
148,053	252,128	6,282,891	1,267,762	1,039,451	10,591,136	10,370,710

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES**

Year Ended June 30, 2001

With Comparative Figures for Year Ended June 30, 2000

(In Thousands)

STATEMENT 1B

	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTALS (MEMORANDUM ONLY)	
					2001	2000
Revenues:						
Taxes	\$ 340,769	89,550	540	1,609	432,468	344,393
Licenses, Permits and Franchises	24,751	10,045			34,796	31,796
Fines, Forfeitures and Penalties	29,511	1,624		9,004	40,139	36,235
Revenue from Use of Money and Property	39,176	27,751	1,836	5,481	74,244	48,519
Aid from Other Governmental Agencies:						
State	773,424	426,933		1,693	1,202,050	1,070,475
Federal	423,066	64,466		1,405	488,937	454,968
Other	37,304	5,531	4,531	800	48,166	49,570
Charges for Current Services	198,522	22,374		2,400	223,296	209,400
Other Revenue	31,905	5,025		284	37,214	28,782
Total Revenues	1,898,428	653,299	6,907	22,676	2,581,310	2,274,138
Expenditures:						
Current:						
General	134,357	2,357			136,714	150,879
Public Protection	706,978	21,234			728,212	667,565
Public Ways and Facilities	2,819	81,113			83,932	72,721
Health and Sanitation	432,210	22,418			454,628	370,379
Public Assistance	692,983	54,447			747,430	737,284
Education	501	18,120			18,621	14,263
Recreational and Cultural	11,833	1,269			13,102	12,393
Capital Outlay				57,723	57,723	55,239
Debt Service	12,581	2,528	124,891		140,000	110,221
Total Expenditures	1,994,262	203,486	124,891	57,723	2,380,362	2,190,944
Excess of Revenues Over (Under) Expenditures	(95,834)	449,813	(117,984)	(35,047)	200,948	83,194
Other Financing Sources (Uses):						
Sale of Fixed Assets	14	19		2,825	2,858	1,277
Long Term Debt Proceeds		3,584			3,584	70,461
Proceeds of Lease Purchase Financing Instruments						1,654
Operating Transfers In	360,791	86,646	126,969	87,478	661,884	250,127
Operating Transfers (Out)	(135,296)	(441,786)	(2,984)	(81,115)	(661,181)	(258,057)
Proceeds of Refunding Bonds		454	17,946		18,400	14,988
Payment to Refunded Bond Escrow Agent		(454)	(17,946)		(18,400)	(14,988)
Total Other Financing Sources (Uses)	225,509	(351,537)	123,985	9,188	7,145	65,462
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	129,675	98,276	6,001	(25,859)	208,093	148,656
Fund Balances - Beginning of Year	495,367	346,119	32,499	48,394	922,379	515,070
Equity Conveyed to Other Entities						
Residual Equity Transfers (Out)	(7,141)				(7,141)	(16,268)
Increase (Decrease) in:						
Reserve for Inventory of Materials and Supplies	383	64			447	16
Fund Balances - End of Year	\$ 618,284	444,459	38,500	22,535	1,123,778	647,474

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2001
(In Thousands)

STATEMENT 1C

	GENERAL FUND		Variance Favorable (Unfavorable)
	Actual on Budgetary Basis	Budget	
Revenues:			
Taxes	\$ 340,769	337,436	3,333
Licenses, Permits and Franchises	24,751	22,872	1,879
Fines, Forfeitures and Penalties	29,511	27,642	1,869
Revenue from Use of Money and Property	36,877	23,939	12,938
Aid from Other Governmental Agencies:			
State	773,424	876,461	(103,037)
Federal	423,066	407,581	15,485
Other	37,304	37,446	(142)
Charges for Current Services	198,522	188,205	10,317
Other Revenue	31,905	46,846	(14,941)
Total Revenues	1,896,129	1,968,428	(72,299)
Expenditures:			
Current:			
General	142,584	203,207	60,623
Public Protection	719,296	779,068	59,772
Public Ways and Facilities	4,268	20,639	16,371
Health and Sanitation	447,476	521,622	74,146
Public Assistance	700,198	805,855	105,657
Education	503	523	20
Recreational and Cultural	14,009	15,358	1,349
Capital Outlay			
Debt Service	12,581	12,581	
Total Expenditures	2,040,915	2,358,853	317,938
Excess of Revenues Over (Under) Expenditures	(144,786)	(390,425)	245,639
Other Financing Sources (Uses):			
Sale of Fixed Assets	14		14
Operating Transfers In	360,791	361,171	(380)
Operating Transfers (Out)	(188,491)	(197,196)	8,705
Long Term Debt Proceeds			
Encumbrances, Beginning of Year	91,888	91,888	
Total Other Financing Sources (Uses)	264,202	255,863	8,339
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	119,416	(134,562)	253,978
Fund Balances - Beginning of Year	261,250	261,250	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)	(7,141)	(7,141)	
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies	383		383
Fund Balances - End of Year	\$ 373,908	119,547	254,361

(Cont)

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2001
(In Thousands)

STATEMENT 1C (Cont)

SPECIAL REVENUE FUNDS

	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 89,550	72,898	16,652
Licenses, Permits and Franchises	10,045	8,718	1,327
Fines, Forfeitures and Penalties	1,624	1,117	507
Revenue from Use of Money and Property	24,635	6,573	18,062
Aid from Other Governmental Agencies:			
State	426,934	436,364	(9,430)
Federal	64,466	97,470	(33,004)
Other	5,505	3,457	2,048
Charges for Current Services	22,374	35,728	(13,354)
Other Revenue	4,997	5,029	(32)
Total Revenues	650,130	667,354	(17,224)
Expenditures:			
Current:			
General	1,691	1,944	253
Public Protection	21,860	32,434	10,574
Public Ways and Facilities	107,499	145,809	38,310
Health and Sanitation	57,887	73,722	15,835
Public Assistance	54,447	90,183	35,736
Education	21,963	24,961	2,998
Recreational and Cultural	2,133	5,800	3,667
Capital Outlay			
Debt Service			
Total Expenditures	267,480	374,853	107,373
Excess of Revenues Over (Under) Expenditures	382,650	292,501	90,149
Other Financing Sources (Uses):			
Sale of Fixed Assets	19		19
Operating Transfers In	7,926	8,086	(160)
Operating Transfers (Out)	(366,901)	(381,046)	14,145
Long Term Debt Proceeds	3,584	3,584	
Encumbrances, Beginning of Year	24,051	24,051	
Total Other Financing Sources (Uses)	(331,321)	(345,325)	14,004
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	51,329	(52,824)	104,153
Fund Balances - Beginning of Year	182,276	182,276	
Equity Conveyed to Other Entities	-		
Residual Equity Transfers (Out)	-		
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies	64		64
Fund Balances - End of Year	\$ 233,669	129,452	104,217

(Cont)

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2001
(In Thousands)

STATEMENT 1C (Cont)

	DEBT SERVICE FUNDS		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 540	418	122
Licenses, Permits and Franchises			
Fines, Forfeitures and Penalties			
Revenue from Use of Money and Property	118	66	52
Aid from Other Governmental Agencies:			
State			
Federal			
Other	4,531	4,509	22
Charges for Current Services			
Other Revenue			
Total Revenues	5,189	4,993	196
Expenditures:			
Current:			
General			
Public Protection			
Public Ways and Facilities			
Health and Sanitation			
Public Assistance			
Education			
Recreational and Cultural			
Capital Outlay			
Debt Service	51,954	52,020	66
Total Expenditures	51,954	52,020	66
Excess of Revenues Over (Under) Expenditures	(46,765)	(47,027)	262
Other Financing Sources (Uses):			
Sale of Fixed Assets			
Operating Transfers In	47,021	46,994	27
Operating Transfers (Out)			
Long Term Debt Proceeds			
Encumbrances, Beginning of Year			
Total Other Financing Sources (Uses)	47,021	46,994	27
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	256	(33)	289
Fund Balances - Beginning of Year	1,238	1,238	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies			
Fund Balances - End of Year	\$ 1,494	1,205	289

(Cont)

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2001
(In Thousands)

STATEMENT 1C (Cont)

	CAPITAL PROJECTS FUNDS		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 1,609	7,155	(5,546)
Licenses, Permits and Franchises			
Fines, Forfeitures and Penalties	9,004	9,484	(480)
Revenue from Use of Money and Property	2,138	685	1,453
Aid from Other Governmental Agencies:			
State	1,693	54,115	(52,422)
Federal	1,405	4,657	(3,252)
Other	800	838	(38)
Charges for Current Services	2,400	4,630	(2,230)
Other Revenue	284	4,101	(3,817)
Total Revenues	19,333	85,665	(66,332)
Expenditures:			
Current:			
General			
Public Protection			
Public Ways and Facilities			
Health and Sanitation			
Public Assistance			
Education			
Recreational and Cultural			
Capital Outlay	39,016	175,111	136,095
Debt Service			
Total Expenditures	39,016	175,111	136,095
Excess of Revenues Over (Under) Expenditures	(19,683)	(89,446)	69,763
Other Financing Sources (Uses):			
Sale of Fixed Assets	2,825	9,809	(6,984)
Operating Transfers In	87,218	146,357	(59,139)
Operating Transfers (Out)	(68,852)	(68,887)	35
Long Term Debt Proceeds			
Encumbrances, Beginning of Year	41	41	
Total Other Financing Sources (Uses)	21,232	87,320	(66,088)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	1,549	(2,126)	3,675
Fund Balances - Beginning of Year	(67)	(67)	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies			
Fund Balances - End of Year	\$ 1,482	(2,193)	3,675

(Cont)

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 2001
(In Thousands)

STATEMENT 1C (Cont)

	TOTALS (MEMORANDUM ONLY)		
	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 432,468	417,907	14,561
Licenses, Permits and Franchises	34,796	31,590	3,206
Fines, Forfeitures and Penalties	40,139	38,243	1,896
Revenue from Use of Money and Property	63,768	31,263	32,505
Aid from Other Governmental Agencies:			
State	1,202,051	1,366,940	(164,889)
Federal	488,937	509,708	(20,771)
Other	48,140	46,250	1,890
Charges for Current Services	223,296	228,563	(5,267)
Other Revenue	37,186	55,976	(18,790)
Total Revenues	2,570,781	2,726,440	(155,659)
Expenditures:			
Current:			
General	144,275	205,151	60,876
Public Protection	741,156	811,502	70,346
Public Ways and Facilities	111,767	166,448	54,681
Health and Sanitation	505,363	595,344	89,981
Public Assistance	754,645	896,038	141,393
Education	22,466	25,484	3,018
Recreational and Cultural	16,142	21,158	5,016
Capital Outlay	39,016	175,111	136,095
Debt Service	64,535	64,601	66
Total Expenditures	2,399,365	2,960,837	561,472
Excess of Revenues Over (Under) Expenditures	171,416	(234,397)	405,813
Other Financing Sources (Uses):			
Sale of Fixed Assets	2,858	9,809	(6,951)
Operating Transfers In	502,956	562,608	(59,652)
Operating Transfers (Out)	(624,244)	(647,129)	22,885
Long Term Debt Proceeds	3,584	3,584	
Encumbrances, Beginning of Year	115,980	115,980	
Total Other Financing Sources (Uses)	1,134	44,852	(43,718)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	172,550	(189,545)	362,095
Fund Balances - Beginning of Year	444,697	444,697	
Equity Conveyed to Other Entities			
Residual Equity Transfers (Out)	(7,141)	(7,141)	
Increase (Decrease) in:			
Reserve for Inventory of Materials and Supplies	447		447
Fund Balances - End of Year	\$ 610,553	248,011	362,542

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

ALL PROPRIETARY FUND TYPES

Year Ended June 30, 2001

With Comparative Figures for Year Ended June 30, 2000

(In Thousands)

STATEMENT 1D

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	2001	2000
Operating Revenues:				
Charges for Services	\$ 33,248	264,272	297,520	242,197
Operating Expenses:				
Salaries	3,802	21,296	25,098	25,561
Claims and Judgments		51,593	51,593	22,398
Cost of Materials		43,223	43,223	45,119
Repairs and Maintenance	1,221	18,477	19,698	14,401
Fuel		4,801	4,801	4,062
Equipment Rental	576	395	971	1,544
Sewage Processing	9,897		9,897	10,975
Contracted Services	13,910	95,114	109,024	65,705
Depreciation	2,929	7,506	10,435	9,896
Utilities	293	29,340	29,633	15,146
Other	3,425	10,628	14,053	14,681
Total Operating Expenses	36,053	282,373	318,426	229,488
Operating Income (Loss)	(2,805)	(18,101)	(20,906)	12,709
Nonoperating Revenues:				
Interest	4,568	4,132	8,700	5,946
Taxes	30		30	26
Grants	1,180		1,180	722
Gain on Disposal of Equipment	6	97	103	58
Other	30	18	48	83
Total Nonoperating Revenues	5,814	4,247	10,061	6,835
Nonoperating Expenses:				
Interest on Long-Term Debt	18	374	392	575
Loss on Disposal of Equipment	323	45	368	2,286
Other	1	14	15	
Total Nonoperating Expenses	342	433	775	2,861
Nonoperating Income (Loss)	5,472	3,814	9,286	3,974
Net Income (Loss) Before Contributions and Transfers	2,667	(14,287)	(11,620)	16,683
Capital Contributions	(311)	26,207	25,896	
Operating Transfers In	756	4,977	5,733	10,527
Operating Transfers (Out)	(583)	(5,853)	(6,436)	(2,597)
Net Income (Loss)	2,529	11,044	13,573	24,613
Depreciation on Grant Funded Fixed Assets	586		586	446
Increase (Decrease) in Retained Earnings	3,115	11,044	14,159	25,059
Retained Earnings:				
Beginning Balance	95,475	17,376	112,851	81,891
Retained Earnings Ending Balance	\$ 98,590	28,420	127,010	106,950

See Notes to General Purpose Financial Statements

Financial Report of San Diego County

COMBINED STATEMENT OF CASH FLOWS

ALL PROPRIETARY FUND TYPES

Year Ended June 30, 2001

With Comparative Figures for June 30, 2000

(In Thousands)

	PROPRIETARY FUND TYPES		STATEMENT 1E TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL	2001	2000
		SERVICE		
Cash Flows from Operating Activities:				
Operating Income (Loss)	\$ (2,805)	(18,101)	(20,906)	12,709
Adjustments to Reconcile Operating Income(Loss) to Net Cash Provided by Operating Activities:				
Depreciation	2,929	7,506	10,435	9,896
Decrease (Increase) in Accounts Receivable and Notes Receivable, Net	667	(1,381)	(714)	16
Decrease (Increase) in Prepaid Expense				
Decrease (Increase) in Due from Other Funds	131	(10,120)	(9,989)	(6,535)
Decrease (Increase) in Inventory of Materials and Supplies, Net		352	352	(135)
Increase (Decrease) in Accounts Payable	147	(306)	(159)	6,363
Increase (Decrease) in Accrued Payroll	(3)	35	32	20
Increase (Decrease) in Due to Other Funds	(1,656)	41,600	39,944	8,243
Increase (Decrease) in Due to Other Governments	1,283		1,283	(1,339)
Increase (Decrease) in Long-Term Debt Payable	(37)	24,879	24,842	(4,044)
Increase (Decrease) in Deferred Revenue	14	(1,500)	(1,486)	1,145
Other Revenue	61		61	109
Net Cash Provided (Used) by Operating Activities	731	42,964	43,695	26,448
Cash Flows from Non-Capital Financing Activities:				
Advances Made on Long-Term Loans		(74)	(74)	183
Grants	1,491		1,491	(1,209)
Transfers from (to) Other Funds	518	(876)	(358)	7,930
Residual Equity Conveyed to Other Entities		(3)	(3)	
Loans from (to) Other Funds				10,964
Net Cash Provided (Used) by Non-Capital Financing Activities	2,009	(953)	1,056	17,868
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Fixed Assets	(1,008)	(25,565)	(26,573)	(20,546)
Capital Contributions		26,007	26,007	
Proceeds from Sale of Equipment	6	683	689	680
Grants	387		387	1,934
Principal Paid on Long-Term Debt	(176)	(5,211)	(5,387)	(3,800)
Interest Paid on Long-Term Debt	(20)	(427)	(447)	(542)
Transfers from (to) Other Funds	(345)		(345)	
Residual Equity Transfers In				17,590
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,156)	(4,513)	(5,669)	(4,684)
Cash Flows from Investing Activities:				
Interest	4,557	4,170	8,727	5,368
Net Increase (Decrease) in Cash and Cash Equivalents	6,141	41,668	47,809	45,000
Cash and Cash Equivalents-Beginning of Year	61,530	106,644	168,174	123,174
Cash and Cash Equivalents-End of Year	\$ 67,671	148,312	215,983	168,174
Noncash Investing, Capital Financing Activities:				
Acquisition of Fixed Assets	\$ 108		108	749
Transfer Fixed Assets from(to) General Fixed Assets/Other Funds		204	204	5,573
Fixed Asset acquisition through Capital Lease		-	-	2,418
Fixed Asset write-off	(291)		(291)	(1,856)
Assumption of Capital Lease From General Long-Term Debt		-	-	365
Accrued Interest	980	1,144	2,124	1,367
Total Noncash Investing Capital Financing Activities	\$ 797	1,348	2,145	8,616

See Notes to General Purpose Financial Statements

PENSION TRUST FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
Year Ended June 30, 2001
With Comparative Figures for Year Ended June 30, 2000
(In Thousands)

	STATEMENT 1F TOTALS	
	2001	2000
ADDITIONS:		
Contributions:		
Employer	\$ 41,123	38,167
Plan Members	10,789	8,359
Total Contributions	51,912	46,526
Investment Income:		
Net Appreciation (Depreciation) in Fair Market Value of Investments	(506,362)	420,965
Interest Income	112,795	105,053
Other Income	48,772	38,366
Total Investment Income	(344,795)	564,384
Total Additions	(292,883)	610,910
DEDUCTIONS:		
Benefits	154,828	142,565
Refunds of Contributions	1,645	976
Administrative Expense	6,383	5,318
Total Deductions	162,856	148,859
Net Increase (Decrease)	(455,739)	462,051
Net Assets Held in Trust for Pension Benefits:		
Beginning of Year	4,272,606	3,810,555
End of Year	\$ 3,816,867	4,272,606

Financial Report of San Diego County

INVESTMENT TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS
Year Ended June 30, 2001
With Comparative Figures for Year Ended June 30, 2000
(In Thousands)

	STATEMENT 1G	
	TOTALS	
	2001	2000
ADDITIONS:		
Contributions on Pooled Investments	\$ 12,872,164	10,339,734
Interest and Investment Income	89,979	62,208
Total Additions	12,962,143	10,401,942
DEDUCTIONS:		
Distribution from Pooled Investments	12,720,822	10,154,935
Net Increase (Decrease)	241,321	247,007
Net Assets Held in Trust for Pool Participants:		
Beginning of Year	1,219,739	1,071,074
End of Year	\$ 1,461,060	1,318,081

NOTES TO COMBINED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the County of San Diego (the "County") conform to generally accepted accounting principles (GAAP) applicable to governmental units. The following is a summary of the more significant of such policies.

A. THE FINANCIAL REPORTING ENTITY

The County of San Diego is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "Board"). As required by generally accepted accounting principles, these financial statements present the County of San Diego (the primary government) and its component units. The component units discussed in Note 1B are included in the County's reporting entity because of the significance of their operational or financial relationships with the County.

B. INDIVIDUAL COMPONENT UNIT DISCLOSURES

Blended component units are listed below. The first seven component units are legally separate entities which are governed by the San Diego County Board of Supervisors. They are reported as if they were part of the primary government, because they benefit the County exclusively. The San Diego County Capital Asset Leasing Corporation (SANCAL) is a non-profit corporation governed by a five-member Board of Directors which is appointed by the County Board of Supervisors. SANCAL is reported as if it was part of the primary government, because its sole purpose is to finance the acquisition of County buildings and equipment. The San Diego County Employees Retirement Association (SDCERA) is governed by a nine-person Board of Directors of which four members are appointed by the County Board of Supervisors. SDCERA is a legally separate entity reported as if it were part of the primary government, because it exclusively benefits the County by providing pensions for retired County employees. The San Diego County Children and Families Commission (SDCCFC) is governed by a five-member Board of Commissioners. All five Commissioners are appointed by the County Board of Supervisors. SDCCFC is reported as if it was part of the primary government, because its sole purpose is to finance the cost of ensuring that parents have high quality information and support so that their young children are physically, emotionally and developmentally ready to learn. Separate financial statements for the individual component units described above may be obtained from the County Chief Financial Officer/Auditor and Controller.

The first five entities listed below are included as special revenue funds, the sanitation districts as enterprise funds, and the Redevelopment Agency as a capital project fund and debt service fund. SANCAL is included as a special revenue fund, capital project fund and debt service fund. SDCERA is included as a pension trust fund. SDCCFC is included as a special revenue fund.

County Service Districts
Flood Control District
Lighting Maintenance District
Air Pollution Control District

County of San Diego Housing Authority
Sanitation Districts
San Diego County Redevelopment Agency
San Diego County Capital Asset Leasing Corporation (SANCAL)
San Diego County Employees' Retirement Association (SDCERA)
San Diego County Children and Families Commission (SDCCFC)

C. BASIS OF PRESENTATION

The financial transactions of the County are recorded in individual funds and account groups. The various funds and account groups are reported by type in the financial statements. Amounts in the "Totals-Memorandum Only" columns in the financial statements represent a summation of the combined financial statement line-items of the fund types and account groups and are presented only for analytical purposes. The summation includes fund types and account groups that use different bases of accounting, both restricted and unrestricted amounts, and the caption "amount to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "Totals-Memorandum Only" columns are not comparable to a consolidation and do not represent the total resources available or total revenues and expenditures/expenses of the County.

The County implemented Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" for fiscal year 2000/01. This statement establishes new standards concerning the timing for recognizing nonexchange transactions as revenues and deferred revenues. The County, in accordance with the statement, determined that it was not practical to restate the detailed transactions for fiscal year 1999/00 and, instead, restated the beginning fund balance/net asset numbers of certain funds for fiscal year 2000/01. It may therefore be misleading to make meaningful comparisons between the two fiscal years. The numbers for fiscal year 1999/00 are presented for informational purposes. See footnote 4H for additional details.

The County uses the following fund categories, fund types, and account groups:

Governmental Fund Types

General Fund - To account for all financial resources except those required to be accounted for in another fund. The general fund is the County's operating fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. Included in these funds are the general funds of various component entities as described in Note 1B.

Debt Service Funds - To account for the accumulation of resources for the payment of principal and interest on general long-term debt.

Capital Project Funds - To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund types).

Proprietary Fund Types

Enterprise Funds - To account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

Fiduciary Fund Types

Trust and Agency Funds - To account for assets held by the County as a trustee or as an agent for individuals, private organizations, other governments and/or other funds. These include the pension trust fund (San Diego County Employees' Retirement Association), investment trust fund and agency fund.

Account Groups

General Fixed Assets Account Group - To account for all fixed assets of the County, except those accounted for in the proprietary-fund types.

General Long-Term Debt Account Group - To account for all long-term obligations of the County, except those accounted for in the proprietary fund types.

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Agency funds are custodial in nature and do not involve measurement of results of operations.

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

Governmental and Agency fund types are accounted for on the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The County

considers this to be one year. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues that are accrued include property taxes, sales tax, interest, and state and federal grants and subventions.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include: (1) principal and interest on long-term debt which is recognized when due; (2) prepaid expenses which are reported as current period expenditures, rather than allocated; and (3) accumulated unpaid vacation, sick leave, and other employee benefits which are reported in the period due and payable rather than in the period earned by employees.

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

E. PROPERTY TAXES

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

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

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

F. ASSETS, LIABILITIES, AND FUND EQUITY

Cash and Investments

Investments in County funds are stated at fair value. Securities which are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments in the Pension Trust Fund are reported at cost, which approximates fair value. The fair value of Pension Trust Fund real estate

investments is based on independent appraisals. Investments of the Pension Trust Fund that do not have an established market are reported at estimated fair value.

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

Inventories

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

Fixed Assets

General fixed assets are recorded as expenditures in the governmental fund types at time of purchase. These assets are capitalized at cost in the General Fixed Assets Account Group (GFAAG). The County has elected not to capitalize interest costs during the construction phase for assets capitalized in the GFAAG but does capitalize such interest, net of interest earned on invested proceeds over the same period, for assets capitalized in proprietary funds. In the case of acquisitions through gifts or contributions, such assets are recorded at fair market value at the time received. No depreciation has been provided on general fixed assets. Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems have not been capitalized. Such assets normally are immovable and of value only to the County; therefore, the purposes of stewardship and cumulative accountability for capital expenditures are satisfied without recording these assets. Proprietary fund type fixed assets are reported in those funds at cost or estimated fair market value at time of donation.

Depreciation is charged to operations of proprietary funds over the fixed assets' estimated useful lives using the straight-line method for structures and improvements, and the hours/miles-of-service method for equipment. The estimated useful lives are as follows:

Structures and Improvements	5-50 years
Equipment	4-20 years

Long-Term Liabilities

Long-term liabilities expected to be financed with resources from governmental fund types are accounted for in the General Long-Term Debt Account Group. Long-term liabilities of all proprietary fund types are accounted for in the respective funds.

Amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of social security and Medicare

taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation, sick leave, and compensatory time worked in the amount of approximately \$68.8 million for the governmental fund types as of June 30, 2001, is recorded in the General Long-Term Debt Account Group. These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

Reservation/Designation of Fund Equity

Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Comparative Data/Totals-Memorandum Only

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the County's financial position and operations. Also, certain of the prior year amounts have been reclassified to conform with the current year financial statement presentations. See footnote 4H for additional details.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

General Budget Policies

An operating budget is adopted each fiscal year for the governmental funds. Annual budgets are not required to be adopted for SANCAL, a non-profit corporation. Accordingly, Special Revenue, Debt Service, and Capital Projects Funds for this entity are not included in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - (Budget and Actual) NonGAAP Budgetary Basis. Unencumbered appropriations for the governmental funds lapse at fiscal year-end. Encumbered appropriations are carried forward to the subsequent fiscal year. Budgets for the governmental funds are adopted on a basis of accounting which is different from generally accepted accounting principles.

The major areas of differences are as follows:

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) are reported as budgeted expenditures in the year the commitment to purchase is incurred. For GAAP purposes, encumbrances outstanding at fiscal year-end are reported as reservations of fund balances and do not constitute expenditures and liabilities, because the appropriations for these commitments will be carried forward and the commitments honored in the subsequent fiscal year.

Long-term capital lease obligations are not budgeted as an expenditure and source of funds in the year the asset is acquired. Under a GAAP basis, such obligations are included as an expenditure and source of funds in the year the asset is acquired.

1997, through increased rates to County departments and reduced claim experience through increased risk management.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. EQUITY IN POOLED CASH AND INVESTMENTS, CASH, INVESTMENTS, AND OBLIGATIONS UNDER REVERSE REPURCHASE AGREEMENTS

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

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

"Cash with Fiscal Agent," represents amounts on deposit with trustees for the Air Pollution District, SANCAL, Pension Trust Fund (SDCERA), Pension Obligation Bonds, Redevelopment Agency, Teeter Commercial Paper Notes, and for repayment of the General Fund Tax and Revenue Anticipation Notes.

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

Deposits: At year-end the carrying amount of the County's deposits was \$431,528,000 and the balance per various financial institutions was \$414,528,000. Of the balance in financial institutions, \$790,000 was covered by federal deposit insurance and \$413,738,000 was collateralized according to State statutes which require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit. Of this amount \$134,256,000 was held by the County or its agent in the County's name and \$279,482,000 was held by the depository's trust department or agent in the County's name.

Investments: State statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, medium-term notes, and negotiable certificates of deposit issued by national and state licensed or chartered banks or federal or state savings and loan associations. Pension Trust Fund investments are authorized by the County Employees' Retirement Law of 1937. Statutes authorize "Prudent Expert" guidelines as to the form and types of investments which may be purchased. The County's investments are categorized below to give an indication of the level of risk assumed by the entity at year end (In Thousands). Category 1 includes investments that are insured or registered or for which the securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered

Financial Report of San Diego County

investments for which the securities are held by counterparty's trust department or agent in the County's name. There were no investments with a risk Category 2 at June 30, 2001. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name.

(In Thousands)	Category		Fair Value
	1	3	
Investments – Categorized			
Bankers Acceptances	\$	29,996	29,996
Repurchase Agreements		5,192	235,192
Commercial Paper		729,194	729,194
U.S. Government Securities	1,663,838	147,996	1,811,834
Negotiable certificates of deposit	145,940		145,940
Corporate notes	88,101		88,101
Corporate bonds	612,608		612,608
Common and preferred stock	2,284,969		2,284,969
Investments held by the County for other agencies:			
U.S. Government Securities		109	109
Corporate bonds		36	36
Common Stock		2	2
Subtotal		5,754,797	183,184
			5,937,981
Investments – Not Categorized			
Investments held by broker dealers under Securities loans:			
U.S. Government securities			13,776
Corporate bonds			66,815
Common and preferred stock			91,544
Mutual Funds			267,348
Real Estate Equity			396,335
TOTAL INVESTMENTS			\$ 6,773,799

Fair values and estimates of fair values are provided monthly by an independent pricing agency and such values are not supported by any guarantees on the part of the pool sponsor or the pricing agency. The County and certain school districts are involuntary pool participants in the County Treasurer's investment pool and represent 92.7 percent of the total pooled cash and investments on hand at June 30, 2001.

Reverse Repurchase Agreements: State statutes permit the County to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The County had no reverse repurchase agreements outstanding at June 30, 2001.

Securities Lending Transactions: Under the provisions of State statutes, the County Treasurer lends U.S. government obligations and SDCERA lends U.S. government obligations, domestic and international bonds and equities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The County's custodial bank manages the securities lending programs for the County Treasurer and receives cash and securities as collateral pledged at 102 percent of the market value of securities lent. Fiscal agents for SDCERA manage the securities lending programs and receive cash securities pledged at 102 percent of fair value for domestic securities lent and 105 percent of the fair value of international securities lent.

Additional collateral has to be provided the next business day if its value falls to 100 percent or less of the market value of the securities lent. The collateral securities can not be pledged or sold by the County Treasurer or SDCERA unless the borrower defaults. No more than 20 percent of the Treasurer's pooled investment portfolio may be lent at one time. There is no restriction on the amount of SDCERA securities that may be lent at one time. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk and represent transactions of the SDCERA pension trust fund. At year-end, the pension trust fund has no credit risk exposure to borrowers because the amounts SDCERA owes the borrowers exceeds the amounts the borrowers owe SDCERA. The term to maturity of securities loans is generally matched with the term to maturity of the cash collateral. Such matching existed at fiscal year end.

B. RESTRICTED ASSETS-INVESTMENTS

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

C. GENERAL FIXED ASSETS

The following is a summary of investments in general fixed assets by sources and a summary of changes in general fixed assets as of and for the year ended June 30, 2001.

**Sources of Investment in General Fund Assets
By Fund at June 30, 2001
(In Thousands)**

General Fund:	
General Fund Revenues	\$1,192,458
Federal and State Grants	1,658
Special Revenue Funds:	
Special Revenue Fund Revenues	73,134
Special Revenue State & Fund Revenues	65
Capital Projects Funds:	
Lease Revenue Bonds	174
Certificates of Participation	273
<u>Total</u>	<u>\$1,267,762</u>

**Summary of Changes in General Fixed Assets by Class
For the Year Ended June 30, 2001
(In Thousands)**

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 217,073	27,215	22,710	221,578
Structures & Improvements	532,719	270,124	97	802,746
Equipment	62,544	11,388	4,272	69,660
Construction in Progress	424,372	27,214	277,808	173,778
<u>Total</u>	<u>\$1,236,708</u>	<u>335,941</u>	<u>304,887</u>	<u>1,267,762</u>

D. PROPRIETARY FUND TYPE FIXED ASSETS

Following is a summary of Proprietary Fund Type Fixed Assets by class as of June 30, 2001 (In Thousands):

	Enterprise	Internal Service
Land	\$ 7,491	
Structures & Improvements	90,625	3,479
Equipment	11,650	82,539
Construction in Progress	3,929	29,854
<u>Total</u>	<u>113,695</u>	<u>115,872</u>
Less Accumulated Depreciation	45,583	40,222
<u>Net</u>	<u>\$ 68,112</u>	<u>75,650</u>

E. LEASE COMMITMENTS

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

Fiscal Year	Minimum Payments
2001/02	\$ 7,486
2002/03	6,842
2003/04	5,663
2004/05	5,379
2005/06	4,237
Thereafter	17,739
<u>Total</u>	<u>\$47,346</u>

Total rental expense for all real property operating leases for the year ended June 30, 2001, was approximately \$19.9 million.

In addition to real property leases, the County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2001, was approximately \$15.7 million.

Certain buildings and equipment are being leased under capital leases as defined in FASB Statement 13. The present value of the minimum lease obligation has been capitalized in the General Fixed Asset Account Group and is reflected as a liability in the General Long-Term Debt Account Group. The County assumes responsibility for all

maintenance, repair, and structural modifications under the terms of the lease agreements.

Capital Lease Property Class	June 30, 2001 (In Thousands)
Structures and Improvements	\$45,544
Equipment	30,981
<u>Total</u>	<u>\$76,525</u>

Future minimum lease payments under capital leases consisted of the following at June 30, 2001 (In Thousands):

Fiscal Year	Minimum Lease Payment
2001/02	\$ 9,504
2002/03	9,412
2003/04	8,909
2004/05	8,887
2005/06	8,772
Thereafter	70,058
 Total Minimum Lease Payments	 115,542
 Less: Amount Representing Interest	 (39,017)
 <u>Net Lease Payments</u>	 <u>\$ 76,525</u>

F. GENERAL LONG-TERM DEBT

General Long-Term Debt outstanding at June 30, 2001, consists of certificates of participation, capital lease obligations (See Note 3E), pension obligation bonds, contracts/loans payable, revenue bonds, arbitrage rebate, accumulated unpaid employee leave benefits (See Note 1F) and landfill closure costs as follows (In Thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1993 Certificates of Participation issued March, 1993	3.00-5.75%	2013	\$7,640	\$5,735
1993 Certificates of Participation issued March, 1993	3.25-5.10%	2007	26,085	14,425
1993 Certificates of Participation issued May, 1993	2.50-5.625%	2012	203,400	125,095
1996 Certificates of Participation issued May, 1996	4.30-5.50%	2018	52,230	45,315
1996 Certificates of Participation issued December, 1996	4.00-6.00%	2019	37,690	35,525
1997 Certificates of Participation issued June, 1997	4.00-4.80%	2004	28,035	13,205
1997 Certificates of Participation issued July, 1997	4.00-5.00%	2025	80,675	75,620
1998 Certificates of Participation issued January, 1999	4.00-4.94%	2022	73,115	65,655
1999 Certificates of Participation issued September, 1999	3.60-4.75%	2009	15,010	13,770
2000 Certificates of Participation issued May, 2000	4.50-5.125%	2010	51,620	47,730
2000 Certificates of Participation issued May, 2000	4.50%	2020	19,000	5,975
2001 Certificates of Participation issued June, 2001	4.00%	2008	18,400	18,400
Total Certificates of Participation			612,900	466,450

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Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
San Diego Regional Building Authority Lease beginning October, 1991	4.60-6.363%	2019	\$ 46,965	\$ 39,035
Third Party Financing Leases:				
Motorola Corporation Lease beginning December, 1995	5.65%	2011	39,772	29,830
Others: Various beginning dates from August, 1997 to the present	4.24-8.00%	2002-2008	11,337	7,660
Total Capitalized Leases			98,074	76,525
Calif. Integrated Waste Mgmt Board Loans beginning December, 1995	5.83-5.87%	2016	1,260	1,050
Dept. of Transportation Loans Beginning March, 2001	5.63%	2017	3,584	3,440
Taxable Pension Obligation Bonds Series A	4.7-6.60%	2007	430,430	317,345
Revenue Bonds Redevelopment Agency Series 1995	4.75-6.75%	2020	5,100	4,770
Total Other Long-Term Obligations			440,374	326,605
Arbitrage Rebate				64
Accumulated Unpaid Employee Leave Benefits				68,807
Landfill Closure				101,000
Total General Long-Term Debt				\$1,039,451

The certificates of participation (COP) of the SANCAL non-profit corporation listed above are secured by annual base rental lease payments payable by the County for use of the facilities constructed or equipment purchased from debt proceeds. There are also encumbrances on the facilities constructed with the proceeds of the SANCAL COP and the San Diego Regional Building Authority Bonds. The capital leases between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and

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debt (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

Changes in General Long-Term Debt for the year ended June 30, 2001, are summarized as follows (In Thousands):

Obligation	Beginning Balance	Additions	Retirements	Ending Balance
Certificates of Participation	\$ 515,980	18,400	67,930	466,450
Capital Lease Obligations	81,834		5,309	76,525
Contracts/Loans Payable	1,120	3,584	214	4,490
Pension Obligation Bonds	347,305		29,960	317,345
Redevelopment Agency	4,870		100	4,770
Arbitrage Rebate	16	48		64
Accumulated Unpaid Employee Leave Benefits	65,479	3,328		68,807
Inactive Landfill Closure	101,000			101,000
Total	\$ 1,117,604	25,360	103,513	1,039,451

The following is a schedule of debt service requirements to maturity, including interest, for General Long-Term Debt outstanding at June 30, 2001 (In Thousands). Accumulated unpaid employee leave benefits and Landfill Closure are excluded since they are not estimable due to timing of payments.

Fiscal Years Ending June 30	Certificates Of Participation	Capital Leases	Other Long-Term Obligations	Pension Obligation Bonds	Redevelopment Agency	Total
2002	\$ 57,023	9,504	469	53,753	420	121,169
2003	59,659	9,412	456	56,448	424	126,399
2004	57,920	8,909	456	59,270	422	126,977
2005	54,281	8,888	455	62,237	424	126,285
2006	54,246	8,772	454	65,349	426	129,247
2007-2011	192,837	38,618	2,230	94,686	2,150	330,521
2012-2016	87,428	17,437	2,097		2,178	109,140
2017-2021	59,793	14,002	181		2,215	76,191
2022-2026	30,602					30,602
Total	\$ 653,789	115,542	6,798	391,743	8,659	1,176,531

Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds/certificates of participation (COPs) by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the liability for the defeased obligations are not included in the County's financial statements. At June 30, 2001, \$87.6 million of bonds/COPs outstanding are considered defeased.

Advance Refunding of Long-Term Debt

San Diego County Capital Asset Leasing Corporation (SANCAL)

On June 28, 2001 SANCAL issued \$18.4 million in Certificates of Participation (COP) with a variable interest rate. This variable-rate debt does not have minimum and maximum rate limits. At the pricing date, the assumed variable interest rate was 4%. The net proceeds will be used to current refund \$38.05 million of COP issued by SANCAL in 1991 for the Interim Justice Facility Project. The COP issued by the Corporation were secured by a long-term capital lease between the County and the Corporation. The net proceeds of \$17.87 million (less underwriting fees of \$184,000 and other issuance costs of \$347,000) were used to purchase the par value of \$18.4 million in US Government securities and to fund certain reserves for the COP. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the payment of the outstanding securities. As a result, the SANCAL 1991 COP is considered defeased. The liability for those COP issued by SANCAL and long-term capital lease between the County and the Corporation have been removed from the general long-term debt account group.

While there are inherent risks in issuing COP with variable rates, SANCAL will monitor the fluctuations in interest rates and will evaluate the economic advantage of refunding the issuance with a fixed rate or paying off the debt. Using the assumed variable rate of 4% at the time of pricing, SANCAL current refunded SANCAL's 1991 COP to achieve short-term budgetary savings to the County and to reduce the total debt service payments over the next 7 years by an estimated amount of \$512,000 and to obtain an economic gain (difference between the present values on the old and new debt) of an estimated amount of \$377,000.

Inactive Landfill Closure Costs

The County maintains 17 waste disposal sites that were closed prior to 1985. Consistent with State and Federal regulations pertaining to closed landfills, post-closure costs for these landfills, to include facilities maintenance and groundwater monitoring over a 30 year period, are estimated at \$101 million in current year costs. This amount has been recorded in the general long-term debt account group. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The County has funded this liability from cash reserves realized in prior years.

G. PROPRIETARY FUND TYPES LONG-TERM DEBT

Proprietary fund types long-term debt consists of revenue bonds, loans payable, capital leases, contracts payable, and unpaid accumulated employee leave benefits. The revenue bonds are general obligations of the issuing district and as such, the district is empowered and obligated to levy ad valorem taxes upon all taxable property within the

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district without limit as to rate or amount for the purpose of paying the principal and interest. The bonds are also payable from restricted sewer service revenues of the issuing districts. A schedule of proprietary fund types long-term debt is as follows (In Thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding 6/30/2001
Revenue Bonds:				
Alpine Sanitation 1970A	6.70-7.00%	2001	\$285	\$ 25
Loans:				
Julian Sanitation	5.3%	2003	61	5
Capital Leases:				
Mail/Print/Records ISF:				
Koch Financial	4.73%	2002	166	54
Pitney Bowes	4.33-4.62%	2003	304	107
Fleet ISF:				
Koch Financial	4.88-5.63%	2002	5,803	117
Pitney Bowes	4.22-4.87%	2004	11,101	6,201
GECPAC	5.35-7.05%	2001	387	7
Total			18,107	6,516
Contract Payable Spring Valley				195
Long-term Claims Payable - Risk Financing ISF				84,210
Unpaid Accumulated Employee Leave Benefits				2,231
Total Proprietary Fund Types Long-Term Debt				\$93,152

The following is a schedule of debt service requirements to maturity, including interest, for proprietary fund types revenue bonds, loans and capital leases outstanding at June 30, 2001. Accumulated unpaid employee leave benefits are excluded because they are not estimable due to timing of payments. Long term claims payable are also excluded since they are based on estimates which are uncertain as to the probable date of payment (In Thousands):

Year Ending June 30	Revenue Bonds	Loans	Capital Leases	Total
2002	\$26	4	3,269	3,299
2003		5	2,785	2,790
2004			844	844
Total	\$26	9	6,898	6,933

H. SPECIAL ASSESSMENT DEBT

The County Treasurer/Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated for repayment of any special assessment bonds and all special assessment debt is solely the obligation of various separate governmental agencies. The amount of

special assessment debt outstanding for which the County is a fiduciary is \$18.7 million at June 30, 2001.

I. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Individual Fund interfund balances at June 30, 2001 were (In Thousands):

	Due From Other Funds	Due To Other Funds
General Fund:	\$ 198,025	43,115
Special Revenue Funds:		
Road	3,068	1,603
Inactive Wastesites	657	273
Lighting District	34	21
Air Pollution	323	265
County Library	346	427
Asset Forfeiture Program	78	15
Inmate Welfare Program	228	361
HCD	406	4,807
Cable TV	23	13
Park Land Dedication	97	43
Children and Families Commission	1,358	82
County Service Districts	248	169
Flood Control District	286	67
Housing Authority	1,573	3,014
Realignment	6,328	45,042
Public Safety	272	29,204
Other Special Districts	56	585
Total Special Revenue Funds	15,381	85,991
Debt Service Funds:		
Pension Obligation Bonds	\$26	-
Nonprofit Corporation	47	-
Redevelopment Agency	21	307
Total Debt Service Funds	94	307
Capital Projects Funds:		
Capital Outlay	15,827	13,217
Edgemoor Development	4	1
Nonprofit Corporation	40	9,313
Redevelopment Agency	36	20
Total Capital Projects Funds	15,907	22,551
Enterprise Funds:		
Airport	746	296
Liquid Waste	332	142
Transit	39	64
Sanitation Districts	855	239
Total Enterprise Funds	1,972	741

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I. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)

	Due From Other Funds	Due To Other Funds
Internal Service Funds:		
Road & Communication Equipment	650	262
Purchasing	2,436	749
Risk Financing	382	1,283
Fleet Services	1,695	1,039
Mail, Print and Records	339	708
Facilities Management	7,783	6,268
Information Technology	10,436	48,990
Other Miscellaneous	51	375
Total Internal Service Funds	23,772	59,674
Trust and Agency Funds:		
Pension Trust	2,460	835
Investment Trust	61,965	5,962
Agency	2,421	102,821
Total Trust and Agency Funds	66,846	109,618
Total Due To – Due From Other Funds	\$ 321,997	321,997
	Advances To Other Funds	Advances From Other Funds
General Fund:	\$689	
Special Revenue Funds:		
County Service Districts		371
Flood Control District	157	
Total Special Revenue Funds	157	371
Debt Service Funds:		
Nonprofit Corporation	478	
Redevelopment Agency		287
Total Debt Service Funds	478	287
Capital Projects Funds:		
Redevelopment Agency		10,331
Total Capital Projects Funds		10,331
Enterprise Funds:		
Airport	9,637	
Sanitation Districts	135	314
Total Enterprise Funds	9,772	314
Internal Service Funds:		
Special District Loans	207	
Total Internal Service Funds	207	

L. CONTRIBUTED CAPITAL

During fiscal year 2000/01 contributed capital neither increased nor decreased substantially in accordance with the Governmental Accounting Standards Board's Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", footnote 18. Instead, capital contribution changes are reflected in the Combining Statements of Revenues, Expenses and Changes in Retained Earnings.

Enterprise Funds

SOURCE	Airport	Liquid Waste	Transit	Sanitation Districts	Total
Accumulated Depreciation on Grant Funded Fixed Assets	\$		(6,036)		(6,036)
Contributed Capital, July 1	15,922	695	10,784	23,091	50,492
Contributed Capital, June 30	\$ 15,922	695	4,748	23,091	44,456

Internal Service Funds

Source	Road & Comm. Equip.	Purch.	Spec. Dist. Loans	Fleet	Mail/Print Records	Facil. Mgmt.	Info. Tech.	Other Misc.	Total
Governments' Contributions Total									
Additions (Reductions)	\$		3					(4)	(1)
Contributed Capital, July 1	9,541	1,189	904	34,599	583	186	10,453	4	57,459
Contributed Capital, June 30	\$9,541	1,189	907	34,599	583	186	10,453		57,458

4. OTHER NOTE DISCLOSURES

A. COMMITMENTS AND CONTINGENCIES

(1) Litigation

In addition to the accrued liability for litigation and Workers Compensation claims described in Note 4B, the County has a potential liability of \$19 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above include estimates of claims incurred but not reported at June 30, 2001.

(2) Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately \$109.5 million in sick leave. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation has been recorded as current or long-term liabilities in the appropriate funds or General Long-Term Debt Account Group as described in Note 1F.

(3) Tax and Revenue Anticipation Notes

At June 30, 2001 \$175 million of Tax and Revenue Anticipation Notes issued during fiscal year 2000/01 were still outstanding. Monies for complete redemption of these notes were fully segregated with an independent trustee at June 30, 2001, and subsequently used to redeem the notes on October 4, 2001. On July 3, 2001, the County issued \$150 million of Tax and Revenue Anticipation notes to finance fiscal year 2001/02 General Fund cash flow requirements. The notes are scheduled to mature on June 28, 2002.

(4) Teeter Obligation Commercial Paper Notes

From November 1995 through June 2001, the County issued \$82.7 million in taxable and \$210.3 million in tax-exempt commercial paper notes (CP) to provide ongoing financing for tax apportionments to taxing jurisdictions within the County in the amount of delinquent secured property taxes due these districts. The notes are secured by delinquent secured property tax collections. No CP can be issued for a period longer than 270 days. At June 30, 2001, the outstanding balances of CP were \$20.0 and \$43.9 million for taxable and tax-exempt notes, respectively.

(5) Third Party Debt

Mortgage Revenue Bonds

Multi-family Housing Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between December 1985 and June 2001, the County issued \$49.7 million of Mortgage Revenue Bonds of which \$41.1 million were still outstanding as of June 30, 2001.

Certificates of Participation

Beginning in April 1998, \$112 million in Certificates of Participation have been issued to provide funding for construction of capital improvements and refunding of prior obligations for a hospital and medical center located within the County. In December 1998, the County entered into a lease agreement with the San Diego Natural History Museum to issue \$15 million of COPs to finance certain museum improvements. In September 1999, the County entered into a lease agreement with the Burnham Institute to issue \$51.5 million of COPs to finance the purchase of real property. In March 2000, the County entered into a lease agreement with the San Diego Museum of Art to issue \$6 million of COPs to finance certain museum improvements. In April 2000, the County entered into a lease with the Salk Institute to issue \$15 million of COPs to finance the

acquisition, construction and equipping of certain research facilities. In May 2001, the County entered into a lease agreement with the University of San Diego to issue \$36.9 million of COPs to finance certain capital improvements for the University. As of June 30, 2001, \$233.4 million of such COPs are still outstanding.

Industrial Development Revenue Bonds

Industrial Development Revenue Bonds have been issued to provide financial assistance for the acquisition, construction, and installation of facilities for industrial, commercial, or business purposes to mutually benefit the citizens of the County. The County issued \$3.5 million of Industrial Development Revenue Bonds in October 1987 and all of the outstanding bonds were redeemed on November 1, 2000. There are currently no county issued Industrial Development Revenue Bonds outstanding.

Reassessment District Improvement Bonds

Reassessment District Improvement Bonds were issued to provide for refunding an earlier issuance of Improvement Bonds for an assessment district. The district issued \$28.8 million of Improvement Bonds in July 1991 to finance the acquisition of certain infrastructure improvements specially benefiting properties within an assessment district. In July 1997, the district issued \$21.8 million of Reassessment Bonds to refund the original issuance, of which \$18.8 million were still outstanding as of June 30, 2001.

Mortgage Revenue Bonds, Certificates of Participation, Industrial Development Revenue Bonds and Reassessment District Improvement Bonds as described above, together with interest thereon, are limited obligations of the County payable solely from bond proceeds, revenues and other amounts derived solely from home mortgage and health institutions, developer loans secured by first deeds of trust, irrevocable letters of credit, irrevocable surety bonds and tax assessments. In the opinion of County officials, these bonds and certificates are not payable from any revenues or assets of the County, and neither the full faith and credit nor the taxing authority of the County, the State or any political subdivision thereof is obligated to the payment of the principal or interest on the bonds. Accordingly, no liability for these bonds have been recorded in the General Long-Term Debt Account Group.

(6) Federal Programs

The County participates in a number of federal financial assistance programs. Although these programs have been audited through June 30, 2000, in accordance with the provisions of the Single Audit Act of 1996, the resolution of previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

(7) SDCERA

SDCERA is party to financial instruments with off-balance sheet risk to generate earnings and stabilize excess earnings from active management of fixed income securities and common stocks. Managed futures contracts include, but are not limited to, contracts for delayed delivery of securities, commodities, or currencies

in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counter-parties to meet the terms of their contract. The risks of loss from these off-balance sheet financial instruments include minimal credit risks, but include the possibility that future changes in market prices may make such financial instruments less valuable (market risk).

Not reflected in the pension trust fund financial statements are commitments to acquire real estate totaling \$94 million.

The County has negotiated certain retirement enhancements as part of contract settlements with employee bargaining units that could become effective in March 2002. Because the effective date is contingent upon the resolution of several outstanding issues, the March date is tentative at this time. Implementation is contingent upon the conclusion of labor negotiations with two remaining employee organizations, the resolution of pending retirement litigation, decisions regarding the method of funding the additional benefits, and finally, approval by the County's Board of Supervisors. If implemented, the enhancements include the elimination of Tier II for both general and safety members, the introduction of a "3% at age 50" formula for safety members and a new optional Tier A for active general members. Preliminary actuarial estimates indicate that the Plan's accrued liability would increase by approximately \$990 million, including additional reserve requirements for COLA and retiree health. The SDCERA has been working with its actuarial consultant to assess the financial impact of these enhancements, also taking into consideration the current investment market, to ensure that the Plan remains in sound financial condition in accordance with accepted actuarial principles.

(8) Deposits for Other Agencies

The Treasurer is a named paying agent for various bonds issued by other agencies, e.g., school districts, pursuant to the bond resolutions. The proceeds from these issues are deposited with financial institutions as guaranteed investment contracts in accordance with the provisions of the bond resolution and contractual relationships between the Treasurer and these financial institutions. The amounts deposited belong to the specific agency which issued the bonds and are not assets of the County reporting entity and are not held in the County's external investment pool. The County has no liability with respect to these issues.

B. RISK MANAGEMENT

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, general liability, and the first \$1 million of workers' compensation. The County purchases insurance for property damage, certain casualty claims, public officials bond, employee dishonesty, faithful performance, volunteers, excess workers' compensation, airport comprehensive, and loss of money and securities based upon site locations. Earthquake insurance coverage decreased from \$100 million to \$75 million. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. During fiscal year 1994/95, the County established an Internal Service Fund (ISF) to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the

amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the workers' compensation portion of total risk liability at June 30, 2001. For the public liability portion of total risk liability, the actuarial evaluation from June 30, 2000 was used with an estimate for changes since that date. The actuarial estimate was based partially on the experience of similar governmental entities and included the effects of specific incremental claim adjustment expenses, salvage and subrogation if such factors could be estimated. This estimate may be modified in future years to reflect the historical accumulation of the County's actual claims experience. At June 30, 2001, the amount of these liabilities, including an estimate for claims incurred but not reported, was estimated at \$84.2 million, including \$12.0 million in public liability and \$72.2 million in workers' compensation. The workers' compensation liability increased by \$25 million over last year's figure. The \$25 million increase includes \$16 million that was due to an increase in the minimum required level, and \$9 million that was due to the County choosing the more conservative approach of recording the liability at an 80% confidence level. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll beginning fiscal year 1996/97. Changes in the balances of claim liabilities for fiscal year 1999/00 and 2000/01 were as follows (In Thousands):

Fiscal Year	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
1999/00	\$65,221	19,151	(24,849)	59,523
2000/01	59,523	51,593	(26,906)	84,210

Also, the County, in compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, has performed arbitrage rebate calculations to determine probable amounts due to the Federal government. An estimate of probable arbitrage rebate in the amount of \$64,000 has been included in the General Long-Term Debt Account Group.

C. JOINT VENTURE

The County is a participant with 16 incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one-half of the total required funding each year. The County, by agreement, also provides one-half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for the 2000/01 fiscal year were \$399,904. The organization had a cumulative surplus of \$223,902 at June 30, 2001. Separate financial statements for the joint venture may be obtained from the County Chief Financial Officer/Auditor and Controller.

D. JOINTLY GOVERNED ORGANIZATIONS

The County Board of Supervisors jointly governs two service authorities, the Service Authority for Abandoned Vehicles and the Service Authority for Freeway Emergencies. These Authorities are governed by two seven-member boards, consisting of

representatives from the city councils of the incorporated cities within the County and two members of the County Board of Supervisors. The purpose of the authorities is to provide for the removal of abandoned vehicles on streets and highways and to provide for freeway emergency call boxes on major freeways within the County, respectively. Funding for the authorities is derived from vehicle license fee surcharges, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for these authorities.

The County Board of Supervisors and the San Diego City Council jointly govern the San Diego Workforce Partnership (the "Partnership"). The Partnership's Board of Directors consists of two members of the County Board of Supervisors, two members from the San Diego City Council and one member of a charitable organization. The purpose of the Partnership is to provide employment training to area residents. Funding for such training is provided by State and Federal grants.

The County also jointly governs the San Dieguito River Valley Authority, the Serra Cooperative Library System, Southern California Regional Training and Development Center, and the Van Horn Regional Treatment Facility. The governing boards of these entities consist of representatives from the County and/or other regional governments and other counties. The County does not appoint a voting majority to the above boards. Services provided by these entities include park land acquisition, coordination of library services, regional governmental training, and treatment of emotionally disturbed youth.

E. SAN DIEGO COUNTY EMPLOYEES' RETIREMENT SYSTEM

(1) Plan Description

The SDCERA administers a single-employer defined benefit pension plan which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937 enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 401 West A Street, Suite 1300, San Diego, California 92101 or by calling (619) 515-0130.

(2) Basis of Accounting and Fair Value of Investments (See Notes 1D and 1F, respectively).

(3) Funding Policy

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates (weighted average) expressed as a percentage of salary are 4.76%-12.48% for general members and 6.51%-14.40% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate; the 2000/01 rates, expressed as a

percentage of covered payroll, are - (3.82)% for general members and 2.96% for safety members.

(4) Annual Pension Cost

For the current fiscal year, the County's net annual pension cost was zero and was equal to the County's required and actual contribution. However, the Safety member component did reflect a small liability and the County elected to make contributions of approximately \$2 million toward that liability. The General member liability was a negative number. The required contribution rates, as adopted by the SDCERA Board, were determined as part of the June 30, 1998 and June 30, 1999 actuarial valuations based upon entry-age actuarial cost method. The actuarial assumptions included (a) an 8.25% investment rate-of-return, (b) projected salary increases of 4.5% per year, and (c) cost-of-living increases for retirees of 3.0% (Tier I Safety and General members) and 2.0% (Tier II Safety and General members). The annual pension cost is the same as the annual pension contribution. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Any unfunded actuarially accrued liability would be funded as a level percentage of projected payroll over a closed five-year period.

(5) Schedule of Funding Progress (In Millions):

Required Supplementary Information Unaudited

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll (b-a)/(c)
06/30/1998	\$2,834.5	2,677.5	0	105.9%	\$599.8	0%
06/30/1999	3,211.9	2,990.1	0	107.4%	642.8	0%
06/30/2000	3,568.7	3,248.8	0	109.8%	672.5	0%

The actuarial report for June 30, 2001 is not yet available.

(6) Three-Year Trend Information (In Thousands):

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/1998	\$24,320	100%	0
06/30/1999	0	100%	0
06/30/2000	14,341	0%	0

The actuarial report for June 30, 2001 is not yet available. The Board of Retirement elected to offset the County's APC for the fiscal year ending June 30,

2000 from the considerable surplus within the Pension Trust Fund. Therefore, no County monies were expended for the APC.

(7) Retiree Health Benefits:

Retiree health benefits may be available to eligible retirees to the extent that the Board of Retirement on an annual basis approves the payments of such benefits. The Board of Supervisors and the Board of Retirement adopted a funding mechanism under 401(h) of the Internal Revenue Service code, which calls for a portion of the County's contributions to be deposited to a separate account each year. The amount of the contributions placed in this account are then withdrawn from the investment earnings which exceed the assumed rate of return of the portfolio, and placed in the retirement fund to ensure the funding of the pension benefits are made whole and complete. The health benefits fund began its funding with \$19.9 million that can only be used to pay retirement health benefits.

Approximately 8,900 retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated \$10.8 million for fiscal year 2000/01. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was approximately \$181.5 million at June 30, 2001, a \$45.8 million increase from the previous fiscal year.

(8) Equity and Bond Swaps and Futures Contracts:

SDCERA utilizes various financial instruments such as equity and bond interest rate swap agreements and stock and bond futures contracts in order to synthetically create exposure to the equity and bond markets. These financial instruments are intended to be equivalent to the asset they are designed to emulate and SDCERA management believes such investments offer significant advantages over the direct investment in securities including lower transaction fees and custody costs. The SDCERA governing board of directors has adopted a policy whereby specified amounts of cash and certain securities equal the exposures resulting from these agreements.

The use of swap agreements does expose the pension trust fund to the risk of dealing with financial counterparties and their ability to meet the terms of the contracts. Forward contracts for the purchase of certain commodities are reported at fair value in the financial statements. Obligations to purchase the commodities are not recognized until the commodities are delivered.

F. NEW SPECIAL REVENUE FUNDS

During the fiscal year, the County formed three new Special Revenue Funds. They are entitled Realignment, Children and Families Commission and Public Safety. All three funds were created by eliminating agency funds that formerly held receipts and periodically transferred them to and recognized revenue in the County general fund. The Realignment Fund accounts for revenues and expenditures related to providing health, mental health and public assistance programs to qualifying individuals. Financing is provided by a one-half cent statewide sales tax. The Children and Families Commission Fund accounts for revenues and expenditures related to ensuring that parents have high

quality information and support so that their young children are physically, emotionally and developmentally ready to learn. Financing is primarily from a statewide tax on tobacco products. The County Board of Supervisors appoints three of the five commissioners. The Public Safety Fund accounts for revenues and expenditures related to providing public safety services such as sheriffs, fire protection, district attorneys, and corrections. Financing is provided by a one-half cent statewide sales and use tax. The County deemed it impractical to restate the special revenue fund section in the CAFR for the prior period. Instead, the cumulative effect of creating these three new funds is being reported as a restatement of beginning fund balance in the three individual funds for the year ended June 30, 2001. The beginning fund balances for the Realignment, Children and Families Commission, and Public Safety Funds were \$25.0 million, \$62.1 million and \$27.5 million respectively.

G. PRIOR YEAR ADVANCE

Prior to the issuance of Revenue Bonds in 1995 by the San Diego County Redevelopment Agency, the County Airport Enterprise Fund funded the initial expenditures of the Agency's two airport projects. It has now been determined that the Redevelopment Agency is required to reimburse the Airport Enterprise Fund, which spent approximately \$5.9 million on the projects. The Redevelopment Agency -- Capital Project Fund and the Airport Enterprise Fund have both recognized this increase in their respective Advances From and To Other Funds. They have also adjusted their beginning fund balance and retained earnings figures respectively for the fiscal year ending June 30, 2001. The Agency will pay interest on advances, but is not responsible for payment until funds are available for this purpose. Funds were not available this fiscal year and are not expected to be available next year. Therefore, no provision for accrued interest has been made in this report. The Agency's independent auditor has concurred in this treatment.

H. NEW GOVERNMENTAL ACCOUNTING STANDARDS

In December 1998, the Governmental Accounting Standards Board (GASB) issued Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions". This statement establishes new standards to guide state and local governments' decisions about when to report the results of nonexchange transactions involving cash and other financial and capital resources. In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. The County has adopted the new standards for the current year.

In prior years, many nonexchange dollars were collected and maintained in agency funds until such time as they reimbursed expenditures incurred in the general fund and other funds of the County. Thus, revenues were not earned when received, but when expenditures were incurred. Under GASB Statement No. 33, the accounting method changed to require most nonexchange dollars to be recognized as revenues in the general fund or other appropriate fund when received. Time restrictions on revenue recognition required deferred revenues instead of actual revenues. Purpose restrictions did not affect revenue recognition, but did require a reservation of fund balance. The County analyzed hundreds of its trust and agency funds to determine the proper revenue recognition under the new standard. Many funds were found to hold assets for county purposes and for reporting purposes, were moved from the agency category to be recognized in other funds. The agency column now reports only assets held in an agent capacity for other governments, organizations and individuals. Any portion of agency fund assets belonging to other funds at year end are reported in those funds rather than in the agency fund.

Financial Report of San Diego County

The adoption of this statement has resulted in a restatement of several fund balances – beginning of year for the current year. The County determined that it was impractical to restate prior periods for an accounting change of this magnitude. Fund Balances - Beginning of Year for the 2000/01 fiscal year were restated (increased) in the General, Road and Flood Control District Funds by \$142,442, \$12,654 and \$11,077 respectively (In Thousands). The details of the adjustment are reflected below:

	General	Road	Flood Control
Reserved for Other Purposes Designated for Subsequent Years' Expenditures	\$ 118,028	12,696	11,111
Undesignated	20,783	(42)	(34)
	3,631		
Total	\$ 142,442	12,654	11,077

Revenue and fund balance increases were recognized in the current year as a result of implementing the new standards as follows (In Thousands):

Reserved for Other Purposes Designated for Subsequent Years' Expenditures	\$ 34,145	9,604	1,894
Undesignated	1,668		
	522		
Total	\$ 36,335	9,604	1,894

The fund balances in the General and Special Revenue Funds, the net assets of the Investment Trust Fund and the amounts due to other governments in the Agency Funds as of June 30, 2000 were restated as beginning balances in the fiscal year 2000/01 statements as follows:

	General	Special Revenue	Trust & Agency
Balances, June 30, 2000 as Previously Reported	\$ 352,925	207,755	2,003,040
Adjustment to Record Revenues of New Special Revenue Funds		96,336	(96,336)
Adjustment to Recognize Revenues in Accordance with GASB 33	141,956	23,731	(135,687)
Adjustment for Grants Now Recorded as Deferred Revenue			(33,705)
Revenue and Expenditure Accruals Related to GASB 33	486	18,297	
Adjustments Due to Changes in Fund Classifications			(6,634)
Balances, June 30, 2000 as Restated	\$ 495,367	346,119	1,730,678

In the Investment Trust Fund, the Net Assets Held In Trust for Pool Participants – Beginning of Year for the fiscal year 2000/01 was restated (decreased) by \$98.3 million. This was a result of the County's thorough review of all trust and agency funds. The adjustment consisted primarily of moving various Investment Trust Fund Equity in

Pooled Cash and Investment balances in the amount of \$144.8 million to the Agency, General and Special Revenue Funds. In addition, approximately \$47.6 million of Agency Fund Equity in Pooled Cash and Investments were moved to the Investment Trust Fund. Other net assets of \$1.1 million were moved from Investment Trust Funds.

In the Agency Fund, the beginning Equity in Pooled Cash and Investments for the fiscal year 2000/01 was restated (decreased) by \$259.1 million. Again, this resulted from the trust and agency fund review. The adjustment consisted of moving various Agency Fund Equity in Pooled Cash and Investments in the amount of \$349.5 million to the General, Special Revenue and Investment Trust Funds. The Agency Fund then received approximately \$90.4 million of Equity in Pooled Cash and Investments from various Investment Trust Funds. A portion of the assets moved to the General Fund consisted of \$32.6 million that was being held there for grants subject to time restrictions and thus was reported as deferred revenue.

In April 2000, the GASB issued Statement No. 36, "Recipient Reporting for Shared Nonexchange Revenues". This statement amended a paragraph within Statement No. 33 relating to shared derived tax revenues. The County has adopted the new standard for the current year, but no reporting changes were necessary.

In June 1999, the GASB issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments". This is a landmark statement that requires government agencies nationwide to report both on a fund basis and also on a government-wide full accrual basis, including infrastructure assets. A comprehensive management discussion and analysis section is also being added. In June 2001, the GASB issued Statement No. 37, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus". This statement will help governments to better implement GASB Statement No. 34 as it clarifies and modifies certain provisions of that statement. It also provides for a more consistent application to meet changing requirements. In June 2001, the GASB also issued Statement No. 38, "Certain Financial Statement Note Disclosures". This statement will provide users with new information while eliminating some disclosures no longer needed. Some requirements addressed are revenue recognition, debt service, receivables, payables, interfund transfers and short term debt. The County has not adopted the new standards in Statement Nos. 34, 37 and 38 for the current year, but must adopt the new standards for the fiscal year beginning July 1, 2001. The County has not determined the effect on the financial statements in the year of adoption.

I. SUBSEQUENT EVENT DISCLOSURE

In September 2001, the San Diego Regional Building Authority issued Certificates of Participation (COP), which defeased the 1991 COP. Total debt service requirements were reduced by \$9.8 million, resulting in an economic gain of approximately \$5 million. The County's interest in this debt is 73.29%.

In November 2001, SANCAL completed the redemption of \$5,975,000 of COP issued in May 2000 to finance the San Pasqual Academy. There are no outstanding COP from the original issuance of \$19.0 million.

APPENDIX C

SUMMARY OF THE TRUST AGREEMENT

The following is a summary of certain provisions contained in the Trust Agreement, as amended and supplemented as of the date of this Official Statement and is not to be considered a full description thereof. Reference is made to the Trust Agreement for a full description of its terms.

DEFINITIONS

“1994 Series A Bonds” means the County of San Diego Taxable Pension Obligation Bonds, Series A issued under the Original Trust Agreement and delivered on February 15, 1994.

“2002 Debenture” means the Pension Obligation Debenture dated as of the 3rd day of October, 2002, issued in favor of the Association in the principal amount of \$550,000,000.

“Act” means Articles 10 and 11 (commencing with Section 53570) of Chapter 3, Division 2, Title 5 of the Government Code of the State of California.

“Additional Bonds” means all bonds other than the Prior Bonds of the County authorized by and at any time Outstanding pursuant to the Trust Agreement and executed, issued and delivered in accordance with the Trust Agreement.

“All-Hold Rate” means, on any date of determination, the interest rate per annum equal to 85% (as such percentage may be adjusted pursuant to the First Supplemental Trust Agreement) of One-Month LIBOR on such date; provided that in no event shall the All-Hold Rate be more than the Maximum Auction Rate.

“Amount Available for Investment” means each of the amounts set forth and denominated as such in the Forward Delivery Agreement.

“Applicable Auction Rate” means the rate per annum at which interest accrues with respect to the Auction Rate Securities of each Subseries for any Auction Interest Period.

“Applicable Spread” means on any date of determination, the percentage determined (as such percentage may be adjusted pursuant to the First Supplemental Trust Agreement) based on Moody’s or S&P’s ratings of Auction Rate Securities in effect at the close of business on the Business Day immediately preceding such date, or, if the Auction Rate Securities are then rated by both Moody’s and S&P, based on the lower of such ratings on such Business Day, as set forth below:

MOODY’S RATINGS	S&P RATINGS	APPLICABLE SPREAD
“Aaa”	“AAA”	1.50%
“Aa”	“AA”	1.50
“A”	“A”	2.50
“BBB”	“BBB”	3.50
Below “BBB”	Below “BBB”	3.50

provided, that if the Auction Rate Securities are not then rated by a Rating Agency, the Applicable Spread shall be 3.5%. For purposes of this definition, Moody’s rating categories of “Aaa,” “Aa,” “A,” and “BBB,” and S&P’s rating categories of “AAA,” “AA,” “A,” and “BBB” refer to and include the respective rating categories correlative thereto if either or both of such Rating Agencies have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof shall use different rating categories. If the Auction Rate Securities are not rated by a Rating Agency, the requirement of a rating by such Rating Agency shall be disregarded. If the ratings for the Auction Rate Securities are split between two or more of the foregoing categories, the lower rating will determine the Applicable Spread.

“Association” means the San Diego County Employees Retirement Association.

“Auction Agent Agreement” means the Initial Auction Agent Agreement for Auction Rate Securities unless and until a Substitute Auction Agent Agreement for any is entered into, after which “Auction Agent Agreement” shall mean such Substitute Auction Agent Agreement in each case as from time to time amended or supplemented.

“Auction Agent Fee” has the meaning set forth in the Auction Agent Agreement.

“Auction Agent” means the Initial Auction Agent for the Auction Rate Securities unless and until a Substitute Auction Agent Agreement, acceptable to the Broker-Dealer and the Insurer, becomes effective, after which “Auction Agent” shall mean the related Substitute Auction Agent.

“Auction” means the implementation of the Auction Procedures on an Auction Date.

“Auction Date” means the Business Day immediately preceding the first day of each Auction Interest Period for each Subseries of Auction Rate Securities, other than:

- (a) each Auction Interest Period for each Subseries commencing after the ownership of the Auction Rate Securities is no longer maintained in book-entry form by the Depository;
- (b) each Auction Interest Period commencing after the occurrence and during the continuance of a Payment Default; or
- (c) any Auction Interest Period commencing less than two Business Days after the cure or waiver of a Payment Default.

“Auction Documents” means, collectively, the Auction Agent Agreement, the Broker-Dealer Agreement and the Market Agent Agreement.

“Auction Interest Period” or “Interest Period” means, as to the applicable Auction Rate Securities of a Subseries, each period during which a specific Auction Rate is in effect, as a result of an Auction, for such Subseries of Auction Rate Securities, which Auction Interest Period may be a twenty-eight (28) day period or such other period as may be designated from time to time by the County and the Market Agent pursuant to an Auction Period Adjustment for a Subseries of Auction Rate Securities, each Auction Interest Period running from, and including, the Rate Adjustment Date and ending on, and including, the day immediately preceding the next succeeding Rate Adjustment Date; provided that the initial Auction Interest Period shall be as defined herein under “Initial Auction Interest Period”.

“Auction Period Adjustment” means an adjustment to the length of an Auction Interest Period implemented by the County and the Market Agent pursuant to the First Supplemental Trust Agreement and the Market Agent Agreement as described below under paragraph (n) under the heading “Maturity, Interest Rates and Payment Terms herein.”

“Auction Procedures” means the Auction and Settlement Procedures set forth in the Auction Agent Agreement.

“Auction Rate Securities” means, individually and collectively, each of the four Subseries of the Series 2002 B Bonds prior to any Fixed Rate Conversion Date or any one or more Subseries.

“Auction Rate” means, as to the interest rate with respect to the applicable Subseries of Auction Rate Securities, the rate of interest per annum that results from implementation of the Auction Procedures with respect to such Subseries of Auction Rate Securities, and determined as described in the Auction Procedures; provided however, that the Auction Rate shall not exceed 17% per annum or the Maximum Auction Rate, if lower than 17% per annum.

“Authorized Denomination” means, (i) with respect to Series 2002 A Bonds, \$5,000 principal amount or any integral multiple thereof, (ii) with respect to Series 2002 B Bonds that are Auction Rate Securities, \$25,000 principal amount or any integral multiple thereof and with respect to Series 2002 B Bonds that are not Auction Rate Securities, \$5,000 and any integral multiple thereof, and (iii) with respect to Series 2002 C Bonds, \$25 principal amount or integral multiples thereof.

“Bond Year” means the twelve-month period ending on August 15 of each year to which reference is made; provided that the first Bond Year is deemed to have commenced on February 15, 1994 (the date the 1994 Series A Bonds were originally delivered) and ended on August 15, 1994.

“Bonds” means the 1994 Series A Bonds, the Series 2002 Bonds and all Additional Bonds.

“Broker-Dealer” means, collectively, Salomon Smith Barney Inc., Morgan Stanley & Co. Incorporated, Banc of America Securities LLC, Bear Stearns & Co. Inc. and Lehman Brothers Inc., with respect to the Series 2002 B Bonds or any other broker or dealer (each as defined in the Securities Exchange Act of 1934), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures which is an “Authorized Broker-Dealer” under the Broker-Dealer Agreement and which:

- (a) is a Depository System Participant (or an affiliate of a Depository System Participant);
- (b) has been appointed as such by the County and approved by the Insurer pursuant to the First Supplemental Trust Agreement; and
- (c) has entered into a Broker-Dealer Agreement that is in effect on the date of reference.

When used herein at a time when more than one Broker-Dealer is acting under the Trust Agreement, the term “the Broker-Dealer” shall mean, as the context dictates, either all such Broker-Dealers collectively, or only each Broker-Dealer acting with respect to the applicable Auction Rate Securities.

“Broker-Dealer Agreement” means the agreement between the Auction Agent and the applicable Broker-Dealer relating to the Auction Rate Securities pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented. The Broker-Dealer Agreement shall be substantially in the form of the Broker-Dealer Agreement, dated as of September 1, 2002, between the Initial Auction Agent and the initial Broker-Dealer.

“Broker-Dealer Fee” has the meaning set forth in each Broker-Dealer Agreement.

“Business Day” means any day other than a Saturday or Sunday or day upon which the Corporate Trust Office is authorized by law to remain closed.

“Certificate of the County” means an instrument in writing signed by the Chairperson or Vice-Chairperson of the Board of Supervisors of the County or the Chief Administrative Officer or Treasurer-Tax Collector of the County, or by any other officer of the County duly authorized by the Board of Supervisors for that purpose.

“Corporate Trust Office” means such corporate trust office of the Trustee as may be designated from time to time by written notice from the Trustee to the County, initially being 700 South Flower Street, Suite 500, Los Angeles, California 90017; provided, however, that the Trustee may designate in writing to the County and the Holders such other office or agency from time to time for purposes of registration, transfer, exchange, payment or redemption of Bonds.

“County Auditor” means the Auditor-Controller of the County.

“County Treasurer” means the Treasurer-Tax Collector of the County.

“County” means the County of San Diego, a legal subdivision and body corporate and politic of the State.

“Dated Date” means October 3, 2003, being the initial issuance date of the Series 2002 Bonds.

“Original Debenture” means the Pension Obligation Debenture of the County dated February 15, 1994, issued in favor of the Association in the principal amount of \$428,500,000.

“Defaulted Interest” means interest with respect to any Series 2002 B Bond which is payable but is not punctually paid or duly provided for on any Interest Payment Date.

“Event of Default” means an event of default under and as defined in the Trust Agreement.

“Existing Holder Registry” means, with respect to each Subseries of Auction Rate Securities, the registry of Persons who are Beneficial Owners of the related Subseries of Auction Rate Securities, maintained by the Auction Agent as provided in the applicable Auction Agent Agreement.

“Existing Holder” means, with respect to any Auction, a Person who was listed as the Beneficial Owner of the applicable Subseries of Auction Rate Securities in the related Existing Holder Registry at the close of business on the Business Day immediately preceding such Auction.

“Financial Newspaper” means *The Wall Street Journal* or *The Bond Buyer*, or any other newspaper or journal printed in the English language, publishing financial news and selected by the Trustee, who shall be under no liability by reason of such selection.

“First Supplemental Trust Agreement” means the First Supplemental Trust Agreement, dated as of September 1, 2002, between the County and the Trustee.

“Fiscal Year” means the twelve-month period terminating on June 30 of each year, or any other annual accounting period hereafter selected and designated by the County as its Fiscal Year in accordance with applicable law.

“Fixed Rate Conversion Date” means the date on which interest with respect to any Subseries of Auction Rate Securities is converted to a fixed interest rate in accordance with the provisions of the First Supplemental Trust Agreement.

“Forward Delivery Agreement” means the Debt Service Forward Delivery Agreement dated as of _____, 2002, by and among the County, the Trustee and _____.

“Holder” and “Holders” means any person who shall be a registered owner of any Outstanding Bond; provided that the Insurer shall be deemed Holder of such percentage of Outstanding Bonds then covered by the Insurance Policy and, for so long as the aggregate principal amount of Bonds insured by a financial guaranty insurance policy issued by the Insurer shall be at least 51% of the aggregate principal amount of all Outstanding Bonds and provided that no event of default shall have occurred and be continuing under such insurance policy, with respect to consent required for (a) the execution and delivery of any Supplemental Trust Agreement, (b) the removal of the Trustee and selection and appointment of any successor Trustee, and (c) initiation or approval of any action not described in (a) or (b) above which requires the consent of the Holders of the Bonds, as more particularly set forth under the heading “PAYMENTS UNDER THE INSURANCE POLICY” herein.

“Independent Certified Public Accountant” means any certified public accountant or firm of such accountants duly licensed and entitled to practice and practicing as such under the laws of the State or a comparable successor, appointed and paid by the County, and who, or each of whom --

(1) is in fact independent according to Statement of Auditing Standards No. 1 and not under the domination of the County;

(2) does not have a substantial financial interest, direct or indirect, in the operations of the County; and

(3) is not connected with the County as a member, officer or employee of the County, but who may be regularly retained to audit the accounting records of and make reports thereon to the County.

“Information Services” means Financial Information, Inc.’s “Daily Called Bond Service,” 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 17302, Attention: Editor; Kenny Information Services’ “Called Bond Service,” 55 Broad Street, 28th Floor, New York, New York 10004; Moody’s Investors Service’s “Municipal and Government,” 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard & Poor’s Corporation’s “Called Bond Service,” 25 Broadway, 3rd Floor, New York, New York 10004; or, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to called bonds, or such services as the County may designate in a Certificate of the County delivered to the Trustee.

“Initial Auction Agent Agreement” means each Auction Agent Agreement, dated as of the date of the First Supplemental Trust Agreement, relating to the Auction Rate Securities, between the Trustee and the Initial Auction Agent, including any amendment thereof or supplement thereto.

“Initial Auction Agent” means Deutsche Bank Trust Company Americas, a New York banking corporation, its successors and assigns.

“Initial Auction Interest Period” means, with respect to each Subseries of the Auction Rate Securities, the period from and including the Dated Date of the Series 2002 B Bonds to and including the following dates in the case of each Subseries of Auction Rate Securities: (i) October 23, 2002 in the case of Series 2002 B-1 Bonds; (ii) October 30, 2002 in the case of the Series 2002 B-2 Bonds; (iii) November 6, 2002 in the case of Series 2002 B-3 Bonds; and (iv) November 13, 2002 in the case of Series 2002 B-4 Bonds.

“Initial Broker-Dealers” means, severally, Salomon Smith Barney Inc., Morgan Stanley & Co. Incorporated, Banc of America Securities LLC, Bears Stearns & Co. Inc., and Lehman Brothers Inc., and their respective successors and assigns.

“Initial Interest Payment Date” means with respect to the Series 2002 B Bonds and the Series 2002 C Bonds, February 15, 2003; and with respect to the Series 2002 A Bonds, August 15, 2003.

“Initial Market Agent Agreement” means the Market Agent Agreement, dated as of September 1, 2002, relating to the Auction Rate Securities, between the Trustee and the Market Agent, including any amendment thereof or supplement thereto.

“Initial Market Agent” means Salomon Smith Barney Inc. under the Market Agent Agreement, and its successors and assigns.

“Initial Rate Adjustment Date” shall mean the first Business Day following (a) October 23, 2002 in the case of Series 2002 B-1 Bonds; (b) October 30, 2002 in the case of the Series 2002 B-2 Bonds; (c) November 6, 2002 in the case of Series 2002 B-3 Bonds; and (d) November 13, 2002 in the case of Series 2002 B-4 Bonds.

“Insurance Policy” means the financial guaranty insurance policy issued by the Insurer guaranteeing the scheduled payments of principal of and interest on the Series 2002 Bonds.

“Insurer” means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York, as issuer of the Insurance Policy.

“Interest Payment Date” means a date on which interest is due on the Bonds, being February 15 and August 15 of each year to which reference is made, commencing August 15, 1994 with respect to the 1994

Series A Bonds and commencing with respect to the Series 2002 B Bonds and the Series 2002 C Bonds, February 15, 2003; and with respect to the Series 2002 A Bonds, August 15, 2003.

“Investment Maturity Date” means each of the dates set forth and denominated as such in Schedule 1 to the Forward Delivery Agreement.

“Investment Purchase Date” means each of the dates set forth and denominated as such in Schedule 1 to the Forward Delivery Agreement.

“Market Agent Agreement” means the Initial Market Agent Agreement until and unless a Substitute Market Agent Agreement is effective after which “Market Agent Agreement” shall mean the Substitute Market Agent Agreement, as from time to time amended or supplemented.

“Market Agent” means the Initial Market Agent for the Auction Rate Securities unless and until a Substitute Market Agent Agreement, acceptable to the Broker-Dealer and the Insurer, is entered into after which “Market Agent” shall mean the related Substitute Market Agent.

“Maximum Auction Rate” means:

(a) with respect to the Auction Rate Securities of each Subseries on any date of determination, the interest rate per annum equal to the lesser of:

(i) One-Month LIBOR on such date plus the Applicable Spread (as such percentage may be adjusted as set forth in paragraph (m) under the heading “Maturity, Interest Rates and Payment Terms”; and

(ii) 17% per annum; and

(b) with respect to Series 2002 B Bonds that are not Auction Rate Securities, the rate of 17% per annum.

provided, that in no event shall the Maximum Auction Rate be more than the maximum rate permitted by the laws of the State.

“Moody’s” means Moody’s Investors Service, Inc., and its successors and assigns, or, if it shall no longer perform the functions of a securities rating organization, any other nationally recognized securities Rating Agency designated by the County, by notice to the Trustee.

“Nominee” means Cede & Co. or such other entity as is designated by an authorized representative of the Depository.

“Non-Payment Rate” means, for Auction Rate Securities of each Subseries, on any date of determination, the interest rate per annum equal to the Maximum Auction Rate, provided that in no event shall the Non-Payment Rate be more than the maximum rate permitted by State law.

“Notice of Cure of Payment Default” means a notice substantially in such form provided in the First Supplemental Trust Agreement.

“Notice of Payment Default” means a written notice substantially in such form provided in the First Supplemental Trust Agreement.

“Notice of Percentage Change” means a written notice to the Trustee, the Broker-Dealer and the Auction Agent substantially in the form provided in the Market Agent Agreement.

“Notice of Proposed Percentage Change” means a written notice to the Trustee, the Broker-Dealer and the Auction Agent substantially in the form provided in the Market Agent Agreement.

“One-Month LIBOR” means the rate of interest per annum equal to the rate per annum at which United States dollar deposits having a maturity of one month are offered to prime banks in the London interbank market which appear on Telerate Page 3750 as of approximately 11:00 am, London time, on such day. If at least two such quotations appear, “One-Month LIBOR” shall be the arithmetic mean (rounded upward, if necessary, to the nearest one-hundredth of one percent) of such offered rates. If such rate does not appear on Telerate page 3750, the rate for that day will be determined on the basis of the Reuters Screen LIBOR Page. If at least two such quotations appear, “One-Month LIBOR” shall be the arithmetic mean (rounded upward, if necessary, to the nearest one-hundredth of one percent) of such offered rates. If fewer than two such quotes appear, “One-Month LIBOR” with respect to such Auction Interest Period shall be determined at approximately 11:00 am, London time, on such day on the basis of the rate at which deposits in United States dollars having a maturity of one month are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the Auction Agent and in a principal amount of not less than U.S. \$1,000,000 and that is representative for a single transaction in such market at such time. The Auction Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two quotations are provided, “One-Month LIBOR” shall be the arithmetic mean (rounded upward, if necessary, to the nearest one-hundredth of one percent) of such offered rates. If fewer than two quotations are provided, “One-Month LIBOR” shall be the arithmetic mean (rounded upward, if necessary to the nearest one-hundredth of one percent) of the rates quoted at approximately 11:00 am, New York City time, on such day by three major banks in New York, New York selected by the Auction Agent for loans in United States dollars to leading European banks having a maturity of one month, three months, six months or one year, respectively, and in a principal amount equal to an amount of not less than U.S. \$1,000,000 and that is representative for a single transaction in such market at such time; provided, however, that if the banks selected as aforesaid are not quoting as mentioned in this sentence, “One-Month LIBOR” shall be One-Month LIBOR as was in effect under the foregoing provisions for the immediately preceding Auction Interest Period.

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the County.

“Original Trust Agreement” means the Trust Agreement, dated as of February 1, 1993, between the County and the Trustee, as originally executed and delivered.

“Outstanding,” when used as of any particular time with reference to Bonds, means (subject to the provisions of the Trust Agreement) all Bonds except:

- (1) Bonds theretofore cancelled by or surrendered to the Trustee for cancellation;
- (2) Bonds paid or deemed to have been paid within the meaning of the Trust Agreement; and
- (3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the County pursuant to the Trust Agreement.

“Payment Default” means:

- (a) a default in the due and punctual payment of any installment of interest with respect to a Subseries of Series 2002 B Bonds, or
- (b) a default in the due and punctual payment of any interest, principal or premium, if any, with respect to Auction Rate Securities on their stated maturity date or pursuant to a mandatory sinking fund redemption;

provided however, that any payment of scheduled interest on any Subseries of Auction Rate Securities in the manner contemplated by the First Supplemental Trust Agreement shall not constitute a Payment Default.

State: “Permitted Investments” means any of the following to the extent permitted by the laws of the

(1) United States Treasury notes, bonds, bills, or certificates of indebtedness, or obligations for which the faith and credit of the United States of America are pledged for the payment of principal and interest (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America and securities which represent an undivided interest in such direct obligations), and also any securities now or hereafter authorized, the timely payment of both the principal of and interest on which is guaranteed fully and directly by the full faith and credit of the United States of America;

(2) Bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, bonds, debentures, participation certificates or other obligations of the Government National Mortgage Association or the Federal National Mortgage Association established under the National Housing Act, as amended;

(3) Demand deposits, time certificates of deposit or negotiable certificates of deposit issued by a state or nationally chartered bank or trust company, including the Trustee, or a state or national savings and loan association, provided that such certificates of deposit shall be (i) continuously and fully insured by the Federal Deposit Insurance Corporation or (ii) issued by any bank or trust company organized under the laws of any state of the United States, or any national banking association (including the Trustee), having a combined capital and surplus of at least \$500,000,000, whose non-guaranteed senior debt is rated “A” or equivalent or better by the Rating Agencies and such certificates shall have maturities of six months or less;

(4) Any repurchase agreement approved by the Insurer with any bank or trust company organized under the laws of any state of the United States (including the Trustee) or any national banking association or government bond dealer reporting to, trading with and recognized as a primary dealer by, the Federal Reserve Bank of New York, which agreement is secured at all times by collateral security described in clause (1) or (2) of this definition and in which the Trustee has a perfected security interest, and which collateral (a) is held by the Trustee or a third party agent, (b) is not subject to liens or claims of third parties, (c) has a market value determined as frequently and in an amount sufficient to satisfy the collateralization levels required by the Rating Agencies, and (d) failure to maintain the requisite collateral level will require the liquidation of the collateral;

(5) Bankers’ acceptances which are issued by a bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) rated “A” or equivalent or better by the Rating Agencies; provided, that such banker’s acceptances may not exceed 270 days’ maturity;

(6) Commercial paper of “prime” quality of the highest ranking or of the highest letter and numerical rating as provided by the Rating Agencies, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of five hundred million dollars (\$500,000,000) and that have an “A” or equivalent or higher rating for the issuer’s debentures, other than commercial paper, as provided by the Rating Agencies; provided that purchases of eligible commercial paper may not exceed one hundred eighty (180) days’ maturity nor represent more than ten percent (10%) of the outstanding commercial paper of an issuer corporation;

(7) Bonds, notes, warrants or other evidence of indebtedness of any of the states of the United States or of any political subdivision or public agency thereof which are rated in the highest short-term or one of the two highest long-term rating categories by the Rating Agencies;

(8) Government money market portfolios or money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and restricted to obligations issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States, which portfolios shall have an “AAA” or equivalent by the Rating Agencies;

(9) Tax exempt securities issued by any state or municipality rated “AAA” or equivalent by the Rating Agencies, for which the interest and principal has been provided by an escrow deposit which, in the opinion of an Independent Certified Public Accountant, is fully sufficient to pay the principal of and interest and redemption premium, if any, on such tax exempt securities at their stated maturity or redemption date;

(10) Guaranteed investment contracts in a form approved by the Rating Agencies and the Insurer with entities the unsecured debt securities of which are rated in one of the two highest long-term rating categories by the Rating Agencies or the equivalent of such ratings by virtue of guarantees or insurance arrangements;

(11) The pooled investment fund of the County of San Diego, California, which is administered in accordance with the investment policy of said County as established by the County Treasurer, as permitted by Section 53601 of the Government Code of the State, copies of which policy are available upon written request to the County Treasurer; and

(12) The Local Agency Investment Fund (as that term is defined in Section 16429.1 of the Government Code of the State, as such Section may be amended or recodified from time to time).

“Person” means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

“Principal Office” means the address stated as such for the Trustee and any other fiduciary, agent or service provider as provided in the First Supplemental Trust Agreement or any Related Documents.

“Principal Payment Date” means, with respect to each Series and Subseries of Bonds, each date on which principal is scheduled to be due and payable by reason of mandatory sinking fund redemption or maturity dates.

“Prior Bonds” means all of the County’s Taxable Pension Obligation Bonds, Series A, authorized by and at any time Outstanding pursuant to the Trust Agreement.

“Rate Adjustment Date” shall mean with respect to each Subseries of the Auction Rate Securities, the date on which a new Interest Rate becomes effective with respect to such Subseries of Auction Rate Securities, and shall mean the initial Rate Adjustment Date and, thereafter, the first Business Day following each Rate Determination Date (which, until an Auction Period Adjustment, generally is each fourth Wednesday, or the next Business Day if such Wednesday is not a Business Day).

“Rate Determination Date” shall mean (a) October 23, 2002 in the case of Series 2002 B-1 Bonds; (b) October 30, 2002 in the case of the Series 2002 B-2 Bonds; (c) November 6, 2002 in the case of Series 2002 B-3 Bonds; and (d) November 13, 2002 in the case of Series 2002 B-4 Bonds, and thereafter, the Business Day immediately preceding the first day of each related Auction Interest Period, other than: (i) an Auction Interest Period which commences on a Fixed Rate Conversion Date; (ii) each Auction Interest Period commencing after the ownership of Auction Rate Securities is no longer maintained in Book-Entry Form; (iii) each Auction Interest Period

commencing after and during the continuance of a Payment Default; or (iv) an Auction Interest Period commencing less than two Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Rate Determination Date for one or more Auction Interest Periods may be changed as described below under paragraph (n) under the heading “Maturity, Interest Rates and Payment Terms herein.”

“Rating Agencies” means, collectively, Moody’s and S&P.

“Record Date” means, with respect to an Interest Payment Date, fifteen calendar days immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

“Redemption Date” means any date on which any Bond is redeemed and fully paid pursuant to the First Supplemental Trust Agreement.

“Redemption Price” means the principal, premium (if any) and accrued interest to the applicable redemption date on which all or any portion of the Series 2002 B Bonds are subject to optional or mandatory sinking fund redemption pursuant to the provisions of the First Supplemental Trust Agreement.

“Regular Record Date” means, with respect to Auction Rate Securities, the second Business Day immediately preceding each Interest Payment Date.

“Related Documents” means the Auction Agent Agreement, each Broker-Dealer Agreement and each Market Agent Agreement, in each case as from time to time amended or supplemented.

“Representation Letter” means the letter of representation dated the date of issuance of the 1994 Series A Bonds, to The Depository Trust Company, New York, New York, from the County and the Trustee relating to the 1994 Series A Bonds.

“Retirement Law” means the County Employees Retirement Law of 1937, consisting of Division 4 of Title 3 of the Government Code of the State.

“S&P” means Standard & Poor’s Ratings Service, and its successors and assigns, or, if it shall no longer perform the functions of a securities rating organization, any other nationally recognized securities Rating Agency designated by the County.

“Securities Act” means the Securities Act of 1933, as amended.

“Securities Depositories” means: The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; or such other addresses and/or such other securities depositories as the County may designate to the Trustee.

“Sell Order” shall have the meaning given to such term in the Auction Procedures.

“Series 2002 Bonds” means the County of San Diego Taxable Pension Obligation Bonds, Series 2002 A, Series 2002 B and Series 2002 C.

“Series 2002 B Serial Bonds” means, upon the Fixed Rate Conversion Date, Series 2002 B Fixed Rate Bonds of any single maturity or maturities (i.e. “term bonds” prior to the Fixed Rate Conversion Date), with respect to which the County elects to establish a schedule of one or more principal maturity dates, and/or principal amounts and redemption dates and prices for optional redemption or mandatory redemption of Series 2002 B Fixed Rate Bonds if an Opinion of Counsel is provided to the Trustee to the effect that such schedule, dates, principal amounts and/or redemption prices will not adversely affect the validity of the Series 2002 B Bonds under State law.

“Series 2002 B Fixed Rate Bonds” means any Subseries of Series 2002 B Bonds which are no longer Auction Rate Securities following the Fixed Rate Conversion Date.

“Special Record Date” means a special date fixed to determine the names and addresses of Holders of the Bonds for purposes of paying interest on a special interest payment date for the payment of defaulted interest, all as further provided in the First Supplemental Trust Agreement.

“State” means the State of California.

“Subseries” means, severally, the Series 2002 B Bonds, Subseries B-1, Subseries B-2, Subseries B-3 and Subseries B-4.

“Substitute Auction Agent Agreement” means an auction agent agreement containing terms substantially similar to the terms of the Initial Auction Agent Agreement, whereby a Person having the qualifications required by the First Supplemental Trust Agreement agrees with the Trustee to perform the duties of the Auction Agent under the First Supplemental Trust Agreement.

“Substitute Auction Agent” means the Person with whom the Trustee enters into a Substitute Auction Agent Agreement.

“Substitute Market Agent Agreement” means a market agent agreement containing terms substantially similar to the terms of the Initial Market Agent Agreement, whereby a Person or Persons having the qualifications required by the First Supplemental Trust Agreement agrees with the Trustee to perform the duties of the Market Agent under the Trust Agreement.

“Substitute Market Agent” means the Person or Persons acceptable to the Insurer with whom the Trustee enters into a Substitute Market Agent Agreement.

“Supplemental Trust Agreement” means any trust agreement then in full force and effect which has been duly executed and delivered by the County and the Trustee amendatory or supplemental to the Trust Agreement; but only if and to the extent that such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

“Tender Date” means the date on which the Auction Rate Securities of any Series are required to be tendered purchased pursuant to the First Supplemental Trust Agreement.

“Tender Price” means the purchase price to be paid to the Holders of any Auction Rate Securities purchased pursuant to the provisions of First Supplemental Trust Agreement, which shall be the principal amount thereof tendered for purchase, without premium, plus accrued and unpaid interest, if any, to the Tender Date.

“Term Bonds” means Bonds which are payable on or before their specified maturity dates from sinking fund payments established for that purpose and calculated to retire such Bonds on or before their specified maturity dates.

“Trust Agreement” means the Trust Agreement, dated as of February 1, 1993, between the County and the Trustee, as originally executed and as amended and supplemented by the First Supplemental Trust Agreement, and as it may from time to time be amended or supplemented by all Supplemental Trust Agreements executed pursuant to the provisions of the Trust Agreement.

“Trust Indenture Act” means the Trust Indenture Act of 1939, as amended.

“Trustee” means BNY Western Trust Company, any other association or corporation which may at any time be substituted in its place as provided in the Trust Agreement.

“Undelivered Bond” means any Auction Rate Security which constitutes an Undelivered Bond under the provisions of the First Supplemental Trust Agreement.

“Written Request of the County” means an instrument in writing signed by the Chief Administrative Officer or Treasurer-Tax Collector of the County, or by any other officer of the County duly authorized by the County for that purpose.

SERIES 2002 B BONDS

Auction Interest Periods

After the Initial Auction Period for Series 2002 B Bonds, the Auction Interest Period shall be a 28-day period unless and until changed in accordance with the definition of Auction Interest Period.

Date; Initial Accrual of Interest

Each Series 2002 B Bond shall be dated the Dated Date. Interest with respect thereto shall be payable from the Interest Payment Date next preceding the date of execution thereof, unless:

- (a) it is executed on an Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or
- (b) it is executed after a Regular Record Date and on or before the following Interest Payment Date, in which event interest with respect thereto shall be payable from such Interest Payment Date; or
- (c) it is executed on or before the first Regular Record Date, in which event interest with respect thereto shall be payable from the Dated Date;

provided, however, that if, as of the date of execution of any Series 2002 B Bond, interest is in default with respect to any Outstanding Series 2002 B Bond, interest on such Series 2002 B Bond shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Outstanding Series 2002 B Bonds.

Maturity, Interest Rates and Payment Terms

Interest on the Series 2002 B Bonds shall be computed and payable, and principal shall be payable, in each case in lawful money of the United States of America, as follows:

(a) Interest Rates; Distributions on Auction Rate Securities. Interest with respect to the Auction Rate Securities of each Subseries shall be at the rates specified under this heading, as determined under the Trust Agreement from time to time. The Trustee shall determine the aggregate interest payable by the County in accordance with the Trust Agreement on or before each Interest Payment Date but not later than two Business Days prior to each Interest Payment Date. Interest due on any Interest Payment Date with respect to Auction Rate Securities in the aggregate shall equal the sum of all interest accrued with respect to such Auction Rate Securities during and to the extent of each Auction Interest Period occurring on and after the immediately preceding Interest Payment Date or the Dated Date (whichever came last). The interest accrued with respect to Auction Rate Securities at the conclusion of any Auction Interest Period in the aggregate for such Subseries shall equal:

- (i) the applicable Auction Rate for such Subseries, multiplied by
- (ii) the aggregate principal amount of the Outstanding Auction Rate Securities of such Subseries, multiplied by

(iii) the number of days in the applicable Auction Interest Period for such Subseries or part thereof, divided by

(iv) 360,

and rounding the resulting figure to the nearest cent (a half-cent being rounded upward). The amount of such interest distributable to the Depository (which in turn is obligated to remit such interest to its DTC Participants for subsequent disbursement to the Beneficial Owners of Auction Rate Securities), in respect of each \$25,000 in principal amount for any Auction Interest Period or part thereof, shall be calculated by the Trustee by applying the applicable Auction Rate for such Auction Interest Period or part thereof to such \$25,000 principal amount, multiplying the result by the actual number of days in such Auction Interest Period or part thereof, divided by 360, and rounding the resultant figure to the nearest cent (a half-cent being rounded upward).

The Trustee shall deliver to the Auction Agent, to the Depository or other Holders of the Applicable Auction Rate Securities, a notice of any Payment Default in accordance with the First Supplemental Trust Agreement.

(b) Payment of Principal Upon Surrender. Principal with respect to a Series 2002 B Bond, whether or not designated as Auction Rate Securities, shall be payable only upon presentation and surrender of such Series 2002 B Bond at the Principal Office of the Trustee; provided, however, that payments of principal with respect to Auction Rate Securities, at maturity or upon redemption, shall be made by wire transfer of immediately available funds to the Depository while the Auction Rate Securities are in book-entry form unless such method of payment shall have been modified by written agreement among the Trustee, the Depository and the Auction Agent.

(c) Mailed Interest Payments. Except as provided in paragraph (d) immediately below, interest with respect to the Series 2002 B Bonds, whether or not designated as Auction Rate Securities, shall be payable on each Interest Payment Date by the Trustee by check mailed on the date on which such interest is due, to the Holders as of the close of business on the Regular Record Date for such Interest Payment Date to the registered address of Holders appearing on the registration books maintained by the Trustee.

(d) Wired Interest Payments. In the case of Series 2002 B Bonds, whether or not designated as Auction Rate Securities, held by any Holder in an aggregate principal amount of \$1,000,000 or more as shown on the registration books maintained by the Trustee, who, prior to the Regular Record Date next preceding any Interest Payment Date, has provided the Trustee with wire transfer instructions, interest shall be paid on each Interest Payment Date in immediately available funds in accordance with such wire transfer instructions provided by that Holder. Unless otherwise requested by the Depository, payments of interest with respect to Auction Rate Securities shall be made to the Depository in the foregoing manner while the Auction Rate Securities are in book-entry form; provided, however, that such manner may be modified by written agreement among the Trustee, the Depository and the Auction Agent.

(e) Payment of Defaulted Interest. The Trustee shall determine not later than 2:00 p.m., New York City time, on the Business Day next succeeding each Interest Payment Date, whether a Payment Default relating to the applicable Subseries of Series 2002 B Bonds has occurred. If a Payment Default relating to any Subseries has occurred, the Trustee, not later than 3:00 p.m., New York City time, on such Business Day, shall send a Notice of Payment Default to the Auction Agent and the Broker-Dealer by facsimile or similar means and, if such Payment Default is cured, the Trustee shall as quickly as is commercially reasonable send a Notice of Cure of Payment Default to the Auction Agent relating to by facsimile or similar means. Whether or not Series 2002 B Bonds are then designated as Auction Rate Securities, Defaulted Interest with respect thereto shall forthwith cease to be payable to DTC and DTC's Participants for the benefit of their respective Beneficial Owners as of the relevant Regular Record Date by virtue of having been such Beneficial Owners, but such Defaulted Interest shall continue to accrue, and if and when money becomes available for the payment of such interest, the Trustee shall establish a Special Record Date for the payment of such interest, which date shall be not more than 15 nor fewer than 10 days before the proposed payment date, and shall give notice by first-class mail of the pending payment and the Special Record Date and, on the proposed payment date, such interest shall be payable to the Holders of the Series 2002 B Bonds as of the close of business on such Special Record Date.

(f) Payment of Unpresented Series 2002 B Bonds. If any Series 2002 B Bonds are not presented for payment when the principal with respect thereto becomes due or if any check or draft mailed to an Holder in connection with a payment of interest with respect to any Series 2002 B Bond is not cashed by such Holder, if an amount sufficient to pay principal and interest with respect to such Series 2002 B Bonds is held by the Trustee for the benefit of the Holders thereof, the Trustee shall segregate and hold such money in trust for the benefit of such Holders, who shall, except as provided in paragraph (g) below, thereafter be restricted exclusively to such amounts for the satisfaction of any claim of whatever nature on their part under the Trust Agreement or relating to the Series 2002 B Bonds. Any money which the Trustee segregates and holds in trust for the payment of the Tender Price of any Series 2002 B Bond which remains unclaimed for two years after the applicable maturity or redemption date shall be paid to the County. After the payment of such unclaimed money to the County, the former Holder of such Series 2002 B Bond shall look only to the County for the payment of the principal amount due on the applicable maturity or redemption date, plus accrued interest thereon to such applicable maturity or redemption date. The County shall not be liable for any interest on unclaimed money from and after the applicable maturity or redemption date and the County shall not be regarded as a trustee of such unclaimed money. This subsection (f) shall supersede the Original Trust Agreement and shall apply only to Auction Rate Securities.

(g) General Limits on Interest Rate Adjustments. The interest rate with respect to the Auction Rate Securities of any one or more Subseries may be adjusted as provided in the remaining paragraphs under this heading "Maturity, Interest Rates and Payment Terms," and interest with respect to all Series 2002 B Bonds of each Subseries shall be calculated at the same rate established for the Series 2002 B Bonds at any given time; provided, however, that such interest shall not exceed the Maximum Auction Rate. As for Auction Rate Securities of each Subseries, the related Auction Agent shall calculate the Maximum Auction Rate and the All-Hold Rate on each Auction Date. If the ownership of the Auction Rate Securities is no longer maintained in book-entry form by the Depository, the Auction Agent shall calculate the Maximum Auction Rate on the Business Day immediately preceding each Interest Payment Date after the delivery of Series 2002 B Bonds representing the Auction Rate Securities pursuant to the First Supplemental Trust Agreement. If a Payment Default shall have occurred, the Trustee shall calculate the Non-Payment Rate on the first day of (i) each Auction Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Auction Interest Period commencing less than two Business Days after the cure of any Payment Default. The Auction Agent shall determine One-Month LIBOR for each Auction Interest Period for each Subseries of Auction Rate Securities on each respective Rate Determination Date in accordance with the Auction Agent Agreement; provided that if the ownership of the Auction Rate Securities is no longer maintained in book-entry form, or if a Payment Default has occurred, then the Trustee shall determine One-Month LIBOR for each such Auction Interest Period. The determination by the Trustee or the Auction Agent, as the case may be, of One-Month LIBOR, the Maximum Auction Rate, the All-Hold Rate and the Non-Payment Rate shall (in the absence of manifest error) be final and binding upon the Holders, all Beneficial Owners and all other parties. If calculated or determined by the Auction Agent, the Auction Agent shall promptly advise the Trustee and each Broker-Dealer of One-Month LIBOR, the Maximum Auction Rate, the All-Hold Rate and the Non-Payment Rate. The County hereby approves the Auction Procedures and Settlement Procedures set forth in the forms of Auction Agent Agreement, Broker-Dealer Agreement and Market Agent Agreement, with such changes thereto and completion thereof as are not materially adverse to the County. Except for the determination by the Trustee of One Month LIBOR as provided in this subsection (g), nothing in this subsection (g) shall otherwise be construed to require the Trustee to establish the Auction Rate for any Auction Rate Securities; the establishment of each Auction Rate shall be determined in the manner set forth in the Auction Documents.

(h) Basis for Interest Accrual. Except for Auction Rate Securities, as to which interest shall be calculated in accordance with the provisions described under "Maturity, Interest Rates and Payment Terms – Interest Rates; Distributions on Auction Rate Securities," interest with respect to the Series 2002 B Bonds shall accrue on the basis of a 360-day year of twelve 30-day months.

(i) Dates for Interest Payments. Interest with respect to the Series 2002 B Bonds of each Subseries shall be payable on each Interest Payment Date, each Redemption Date, each Tender Date and on each maturity date of such Subseries.

(j) Applicable Auction Rate. Interest with respect to the Auction Rate Securities of each Subseries shall be computed on the basis of a 360-day year for the actual number of days elapsed. The applicable

Auction Rate for each Subseries of Auction Rate Securities for each Auction Interest Period shall be the Auction Rate established for the applicable Subseries of Auction Rate Securities, provided that:

(i) if a notice of an adjustment in the percentages used to determine the Maximum Auction Rate, the All-Hold Rate and the Non-Payment Rate shall have been given by the Market Agent in accordance with paragraph (m) below and because of a failure to satisfy either of the conditions set forth in subparagraphs (i) or (ii) of paragraph (m) below, such adjustment shall not have taken effect, then an Auction shall not be held on the Auction Date immediately preceding the next succeeding Interest Payment Date and the applicable Auction Rate for such next succeeding Auction Interest Period shall equal the Maximum Auction Rate on such Auction Date; and

(ii) if, on any Auction Date, an Auction is not held for any reason then the Applicable Auction Rate for the next succeeding Auction Interest Period shall equal the Maximum Auction Rate on such Auction Date.

Notwithstanding the foregoing:

(A) if the ownership of the Auction Rate Securities of any Subseries is no longer maintained in book-entry form by the Depository, the applicable Auction Rate for each Subseries for any Auction Interest Period commencing after the delivery of Series 2002 B Bonds as Auction Rate Securities pursuant to the First Supplemental Trust Agreement shall equal the Maximum Auction Rate on the Business Day immediately preceding the first day of such succeeding Auction Interest Period; or

(B) if a Payment Default shall have occurred, the Applicable Auction Rate for the Auction Interest Period commencing on or immediately after such Payment Default, and for each Auction Interest Period thereafter, to and including the Auction Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured in accordance with the First Supplemental Trust Agreement, shall equal the Non-Payment Rate on the first day of each such Auction Interest Period, provided that if an Auction occurred on the Business Day immediately preceding any such Auction Interest Period, the applicable Auction Rate for such Auction Interest Period shall be the Non-Payment Rate.

(k) Notice of Auction Rate, Amounts and Payment Dates. For Series 2002 B Bonds designated as Auction Rate Securities:

(i) So long as the ownership of Auction Rate Securities is maintained in book-entry form by the Depository, the Trustee shall advise the Depository of each Regular Record Date for the Auction Rate Securities of each Subseries at least two Business Days prior thereto and request, by 4:00 p.m., New York City time, on the Business Day immediately preceding each Regular Record Date, that the Depository deliver to the Trustee a position listing showing, at the close of business on the applicable Regular Record Date, the aggregate principal amount of Auction Rate Securities of each Subseries; and

(ii) On the date of delivery of the Series 2002 B Bonds, or as soon as practicable thereafter, and on the Business Day preceding each Interest Payment Date for each Subseries, the Trustee shall inform:

(A) the Auction Agent (so long as no Payment Default has occurred and is continuing and the ownership of the Auction Rate Securities is maintained in book-entry form by the Depository) and the Insurer, of:

(1) the next Interest Payment Date, and

(2) the amount payable to the Auction Agent on the Auction Date pursuant to paragraph (1) set forth immediately below; and

(B) the Depository (so long as the ownership of the Auction Rate Securities is maintained in book-entry form by the Depository) and the Insurer of the amount of interest distributable in respect of each \$25,000 in principal amount (taken to the nearest .000001 without rounding) of the Auction Rate Securities of each Subseries for any Auction Interest Period or part thereof, calculated in accordance with paragraph (a) under this heading.

So long as no Payment Default has occurred and is continuing and the ownership of the Auction Rate Securities is maintained in book-entry form by the Depository, if any day scheduled to be an Interest Payment Date shall be changed after the Trustee shall have given the notice referred to in subparagraph (i) of this paragraph (k), the Trustee shall, not later than 12:15 p.m., New York City time, on the Business Day next preceding the earlier of the new Interest Payment Date or the old Interest Payment Date, by such means as the Trustee deems practicable, give notice of such change to the Auction Agent and the Insurer.

(l) Auction Agent Fees and Broker-Dealer Fees with Respect to Auction Rate Securities. On each Interest Payment Date for each Subseries, the County shall pay (or shall cause the Trustee to pay pursuant to the First Supplemental Trust Agreement) to each Auction Agent and to each Broker-Dealer (or to each Auction Agent for the benefit of each Broker-Dealer), on behalf of the Existing Holders of the Auction Rate Securities of the related Subseries, in immediately available funds, an amount equal to the Auction Agent Fee then due to the Auction Agent (as calculated by the Auction Agent and delivered to the Trustee in the form of an electronic transmission or facsimile transmission) with respect to each Subseries and the Broker-Dealer Fee then due to the applicable Broker-Dealer (as calculated by the Auction Agent and delivered to the Trustee in the form of an electronic transmission or facsimile transmission).

(m) Adjustments in Percentages for Auction Rate Securities. Pursuant to each Market Agent Agreement, the Market Agent, with the consent of the County and the Insurer, will adjust the percentages used in determining the All-Hold Rate, the Applicable Spreads used in determining the Maximum Auction Rate and the percentage used in calculating the Non-Payment Rate, and the Market Agent thereunder will communicate its determination to make such adjustments by means of a Notice of Proposed Percentage Change, delivered in writing at least twenty days prior to any Auction Date on which the Market Agent desires to effect the change, to the County, the Broker-Dealer, the Trustee, the Insurer and the Auction Agent. Such notice shall be effective only if it is accompanied by the form of an Opinion of Counsel to the effect that such adjustment is authorized under the First Supplemental Trust Agreement and satisfies the requirements of the First Supplemental Trust Agreement. Any such adjustment shall take effect on the applicable Auction Date only if:

(i) the Trustee and the Auction Agent receive by 9:30 am, New York City time, on such Auction Date, an Opinion of Counsel to the effect that such adjustment is authorized by the First Supplemental Trust Agreement; and

(ii) If the condition referred to in subparagraph (i) above is not satisfied, the existing percentage used in determining the All-Hold Rate, the percentage used in determining the Non-Payment Rate and the Applicable Spreads used in determining the Maximum Auction Rate shall remain in effect and the rate of interest for the next succeeding Auction Interest Period shall equal the Maximum Auction Rate on the applicable Auction Date.

(n) Changes in Auction Interest Period or Periods. The County may change, from time to time, the length of one or more Auction Interest Periods in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Interest Period and the Interest Rate borne by the Auction Rate Securities (an "Auction Period Adjustment"); provided that the County shall have received a Rating Affirmation from each Rating Agency and a Opinion of Counsel to the effect that such action is duly authorized under the Trust Agreement and will not, in and of itself, have and adverse effect on the State of California personal income taxes exemption. The County will not initiate such change in the length of the Auction Interest Period unless it has received the written consent of the Market Agent, which consent shall not be unreasonably withheld (and in the case of any adjustment where the new Auction Interest Period will be in excess of thirty five (35) days, the written consent of the Insurer), not less than fifteen days nor more than 20 days prior to the effective date of an Auction Period Adjustment. The County will initiate an Auction Period Adjustment by giving written notice to the Trustee, the Auction Agent, the Market Agent,

the Securities Depository and each Rating Agency then rating the Auction Rate Securities subject to such Auction Period Adjustment, in substantially the form of, or containing substantially the information contained in the Trust Agreement at least 10 days prior to the Rate Determination Date for such Auction Interest Period.

No Auction Period Adjustment may result in an Auction Interest Period of less than 7 nor more than 91 days, with respect to Auction Rate Securities with a “Short Auction Period”, or in an Auction Interest Period that is more than three months shorter or longer than the Auction Interest Period established upon the issuance of such Auction Rate Securities, with respect to Auction Rate Securities with a “Long Auction Period.” An Auction Period Adjustment will not be allowed unless Sufficient Clearing Bids (as defined in APPENDIX F – “AUCTION AND SETTLEMENT PROCEDURES” herein) existed or all Auction Rate Securities were subject to Submitted Hold Orders (as defined in APPENDIX F – “AUCTION AND SETTLEMENT PROCEDURES” herein) at both the Auction preceding the date on which the notice of the proposed change was given as described above and the Auction preceding the proposed change.

An Auction Period Adjustment will take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 A.M., eastern time, on the Business Day before the Rate Determination Date for the first such Auction Interest Period, a Certificate from the County authorizing an Auction Period Adjustment specified in such certificate and the written consent of the Market Agent described above and the Rating Affirmation and the Opinion of Counsel specified above, and (B) Sufficient Clearing Bids exist or all Auction Rate Securities were subject to Submitted Hold Orders at the Auction on the Rate Determination Date for such first Auction Interest Period. If the conditions referred to above are not met, the Auction Rate applicable for the next Auction Interest Period will be determined pursuant to the Auction Procedures and the length of the Auction Interest Period will remain the same.

(o) Changes in the Rate Determination Date. The Market Agent may, while any of the Auction Rate Securities are Outstanding and with the written consent of an Authorized Officer of the County, specify an earlier Rate Determination Date for any one or more Series of the Auction Rate Securities (but in no event than five Business Days earlier than the Rate Determination Date for the Auction Rate Securities that would otherwise be determined in accordance with the definition of Rate Determination Date for such Series) with respect to one or more specified Auction Interest Periods in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting a Rate Determination Date and the Interest Rate borne on the Auction Rate Securities. The Authorized Officer of the County will not consent to such change in the Rate Determination Date unless he or she shall have received from the Market Agent not less than 15 days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent will provide notice of its determination to specify an earlier Rate Determination Date for one or more Auction Interest Periods by means of a written notice delivered at least 10 days prior to the proposed changed Rate Determination Date to the Trustee, the Auction Agent, the County and the Securities Depository. Such notice will be substantially in the form of, or contain substantially the information contained in, the Trust Agreement.

In connection with any change in Auction terms described above, the Auction Agent will provide such further notice to such parties as is specified in the Auction Agent Agreement.

(p) Conversion of Auction Rate Securities to Fixed Interest Rates. At the option of the County, with the prior written consent of the Insurer, all but not less than all of the Series 2002 B Bonds may be converted from Auction Rate Securities to Series 2002 B Bonds bearing interest at fixed interest rates as follows:

(i) The Fixed Rate Conversion Date shall be an Interest Payment Date.

(ii) The County shall give written notice of any such conversion to the Trustee, the applicable Auction Agent, the Insurer and the applicable Broker-Dealer not less than fifteen (15) days nor more than thirty (30) days prior to the date on which the Trustee is required to notify the Series 2002 B Bond Holders of the conversion of the applicable Subseries pursuant to subparagraph (iii) immediately below. Such notice shall specify the proposed Fixed Rate Conversion Date of the applicable Subseries and the principal amount of Auction Rate Securities to be converted to Series 2002 B Bonds bearing interest at fixed interest rates. Together with such notice, the County shall file with the applicable Broker-Dealer and

the Trustee a form of Opinion of Counsel addressed to the Broker-Dealer, the Trustee, the County and the Insurer to the effect that the conversion of the Auction Rate Securities of the applicable Subseries to fixed interest rates will not adversely affect the validity of the Series 2002 B Bonds under State law. No conversion shall become effective unless on or before the proposed Fixed Rate Conversion Date the County shall also file with the Trustee an Opinion of Counsel addressed to the Trustee, the County and the Insurer substantially in the form described in the immediately preceding sentence, dated the Fixed Rate Conversion Date.

(iii) Not fewer than forty (40) days prior to the Fixed Rate Conversion Date established for the applicable Series, the Trustee shall mail a written notice of the conversion to the Holders of all Auction Rate Securities (with a copy to the Insurer) of the applicable Subseries to be converted, which notice shall:

(A) specify the Fixed Rate Conversion Date established for the applicable Subseries;

(B) notify such Holders that the Auction Rate Securities of the applicable Subseries to be converted will be subject to mandatory tender for purchase on such Fixed Rate Conversion Date at a price equal to 100% of the principal amount of such Auction Rate Securities, plus interest accrued and unpaid with respect thereto, if any, to but not including the Fixed Rate Conversion Date;

(C) notify such Holders that in the event of a failed conversion, or in the event the County exercises its right of election to revoke the conversion pursuant to the First Supplemental Trust Agreement, such Auction Rate Securities will not be subject to mandatory tender, will be returned to their Holders, will automatically convert to the Auction Interest Period in effect immediately prior to the Fixed Rate Conversion Date and will bear interest at the Maximum Auction Rate;

(D) set forth the time, the place and the manner for tendering such Auction Rate Securities for purchase; and

(E) set forth any other matters required to be stated pursuant to the First Supplemental Trust Agreement.

(iv) Not later than 12:00 noon, New York City time, on the Business Day immediately preceding the Fixed Rate Conversion Date established for the applicable Subseries, at the direction of the County, the applicable Broker-Dealer shall determine, by offering for sale and using at least its best efforts to find purchasers for the Subseries of Auction Rate Securities which are to be converted to Series 2002 B Bonds bearing interest at fixed interest rates:

(A) the fixed interest rate(s) applicable to such Series 2002 B Bonds after such Fixed Rate Conversion Date;

(B) the allocation of such Series 2002 B Bonds between Series 2002 B Serial Bonds and other Series 2002 B Bonds, which allocation shall be made in such manner as shall:

(1) produce the lowest aggregate interest payable with respect to the converted Series 2002 B Bonds;

(2) establish mandatory Redemption Dates and related principal amounts for Series 2002 B Serial Bonds, if any, and establish mandatory Redemption Dates and related principal amounts for Series 2002 B Bonds other than Series 2002 B

Serial Bonds, if any, which are consistent, on a *pro rata* basis, with the principal of such Series 2002 B Bonds prior to such Fixed Rate Conversion Date;

(3) permit Bond Counsel to render the opinion described in subparagraph (ii) above;

provided, however, that if Bond Counsel is unable to render such opinion because of the allocation procedures set forth in this subparagraph (iv), all such converted Series 2002 B Bonds shall be redesignated as Series 2002 B Serial Bonds with mandatory Redemption Dates and related principal amounts which are consistent, on a *pro rata* basis, with the applicable principal of such Series 2002 B Bonds prior to the Fixed Rate Conversion Date).

Such determination shall be conclusive and binding upon the County, the Trustee and the Holders of the Series 2002 B Bonds of the applicable Subseries to be converted to which such rate or rates will be applicable. Not later than 5:00 pm, New York City time, on the date of determination of the fixed interest rate(s), as provided in the first sentence of this subparagraph (iv), the applicable Broker-Dealer shall notify the County and the Trustee of the following by facsimile notice:

(C) the aggregate principal amount of the Series 2002 B Bonds bearing interest at fixed rates as a result of such conversion;

(D) a schedule of the mandatory Redemption Dates and related principal amounts of converted Series 2002 B Bonds which the County has redesignated as Series 2002 B Serial Bonds; and

(E) a schedule of the mandatory Redemption Dates and related principal amounts of converted Series 2002 B Bonds which are not Serial Bonds, if any.

If necessary or appropriate in the Opinion of Counsel, the County shall execute and deliver an additional supplement to the Trust Agreement setting forth, among other things, the terms of the Series 2002 B Fixed Rate Bonds and the form of Series 2002 B Fixed Rate Bond;

(v) The County may revoke its election to effect a conversion of the applicable Subseries of the Auction Rate Securities to Series 2002 B Bonds bearing interest at fixed interest rates by giving written notice of such revocation to the Trustee, the Insurer and the applicable Broker-Dealer and at any time prior to the Business Day immediately preceding the Fixed Rate Conversion Date.

(vi) Auction Rate Securities of the applicable Subseries which are to be converted to Series 2002 B Bonds bearing interest at fixed interest rates shall be subject to mandatory tender for purchase on a proposed Fixed Rate Conversion Date (subject to the availability of funds sufficient to pay the Tender Price of such Series 2002 B Bonds having been provided to the Trustee through the remarketing of such Series 2002 B Bonds) at a price equal to 100% of the principal amount of such Auction Rate Securities, plus interest accrued and unpaid with respect thereto to, if any, but not including, the Fixed Rate Conversion Date.

(vii) If on a proposed Fixed Rate Conversion Date, any condition precedent to such conversion required under the First Supplemental Trust Agreement shall not be satisfied, the Trustee shall give written notice by first-class mail, postage prepaid, as soon as practicable and in any event not later than the next succeeding Business Day to the Holders of the applicable Subseries to be converted that such conversion has not occurred, that the Series 2002 B Bonds of the applicable Subseries to be converted shall not be purchased on the failed Fixed Rate Conversion Date, that the Auction Agent shall continue to implement the Auction Procedures on the Auction Dates with respect to the Series 2002 B Bonds which otherwise would have been converted, excluding, however, the Auction Date falling on the Business Day next preceding the failed Fixed Rate Conversion Date, and that the interest rate with respect to such Series

2002 B Bonds shall continue to be the applicable Auction Rate; provided, however, that the interest rate on the Series 2002 B Bonds during the Auction Interest Period commencing on such failed Fixed Rate Conversion Date shall be the Maximum Auction Rate until the next scheduled Auction Date.

(q) Purchase of Series 2002 B Bonds.

(A) Mandatory Tender for Purchase Upon Conversion to Fixed Interest Rates. The Series 2002 B Bonds of any Subseries shall be subject to mandatory tender for purchase if at any time the Trustee gives notice, in accordance with the procedures set forth in subsection (B) immediately below, that, at the option of the County, the Series 2002 B Bonds of such Subseries are to be converted to a fixed interest rate pursuant to the provisions of the First Supplemental Trust Agreement; subject to the availability of funds sufficient to pay the Tender Price of such Series 2002 B Bonds having been provided to the Trustee through the remarketing of such Series 2002 B Bonds. In the case of conversion of Series 2002 B Bonds to fixed interest rates, the Series 2002 B Bonds of such Subseries shall be subject to mandatory tender for purchase as provided in the First Supplemental Trust Agreement. The Series 2002 B Bonds of such Subseries subject to mandatory tender shall be purchased or deemed purchased at the Tender Price.

(B) Notice of Mandatory Tender for Purchase. In connection with any mandatory tender for purchase of any Series 2002 B Bonds of any Subseries in accordance with paragraph (A) immediately above and paragraph (p) under this heading “Maturity, Interest Rates and Payment Terms”, the Trustee shall give the notice required by the First Supplemental Trust Agreement as part of the notices given pursuant to (if applicable) paragraph (p) under this heading “Maturity, Interest Rates and Payment Terms”. Such notice shall state:

(1) that the Tender Price of any Series 2002 B Bond subject to mandatory tender for purchase shall be payable only upon surrender of that Series 2002 B Bond to the Trustee at its Principal Office for delivery of Series 2002 B Bonds, accompanied by an instrument of transfer, in form satisfactory to the Trustee, executed in blank by the Holder or such Holders duly authorized attorney, with such signature guaranteed in the manner set forth in the form attached to the Series 2002 B Bonds;

(2) that, provided that moneys sufficient to effect such purchase have been provided through the remarketing of such Series 2002 B Bonds by the applicable Broker-Dealer, and provided that the County has not exercised its right of election to revoke the conversion pursuant to the First Supplemental Trust Agreement, Series 2002 B Bonds subject to mandatory tender for purchase shall be purchased on the Tender Date;

(3) that if any Holder of a Series 2002 B Bond subject to mandatory tender for purchase does not surrender such Series 2002 B Bond to the Trustee for purchase on the Tender Date, then such Series 2002 B Bond, on and after such Tender Date, shall be deemed to be an Undelivered Series 2002 B Bond, that no interest shall accrue with respect to such Series 2002 B Bond on and after such Tender Date and that the Series 2002 B Bond shall have no rights under the Trust Agreement other than to receive payment of the Tender Price; and

(4) that, in the event moneys sufficient to pay the Tender Price of such Series 2002 B Bonds have not been provided to the Trustee through the remarketing of such Series 2002 B Bonds, such Series 2002 B Bonds shall not be purchased or deemed purchased and shall continue to have interest accrue with respect thereto as if such failed purchase had not occurred.

If the circumstances described in subparagraph (4) above should occur, then the affected Series 2002 B Bonds shall not be purchased or deemed purchased and shall continue to

have interest accrue with respect thereto as described in subparagraph (4) above. The Insurance Policy may not be drawn upon to purchase any Series 2002 B Bonds under the Trust Agreement.

(C) Undelivered Series 2002 B Bonds. The following provisions shall apply to Undelivered Series 2002 B Bonds:

(1) The Trustee may refuse to accept delivery of any Series 2002 B Bond for which a proper instrument of transfer has not been provided; provided, however, that such refusal shall not affect the validity of the purchase of such Series 2002 B Bond as provided in the First Supplemental Trust Agreement. If any Holder of a Series 2002 B Bond subject to mandatory tender for purchase pursuant to the First Supplemental Trust Agreement fails to deliver such Series 2002 B Bond properly endorsed, such Series 2002 B Bond shall constitute an Undelivered Series 2002 B Bond.

(2) If funds in the amount of the purchase price of the Undelivered Series 2002 B Bond are available for payment to the Holder thereof on the Tender Date and at the time specified, then, from and after the Tender Date and time of such required delivery:

(A) such Undelivered Series 2002 B Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Trust Agreement;

(B) interest shall no longer accrue with respect to such Undelivered Series 2002 B Bond; and

(C) funds in the amount of the purchase price of the Undelivered Series 2002 B Bond shall be held uninvested by the Trustee for the benefit of the Holder thereof (provided that such Series 2002 B Bond shall have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of such Undelivered Series 2002 B Bond to the Trustee at its Principal Office for delivery of the Series 2002 B Bonds. Any money which the Trustee segregates and holds in trust for the payment of the Tender Price of any Series 2002 B Bond which remains unclaimed for two years after the date of purchase shall be paid to the County. After the payment of such unclaimed money to the County, the former Holder of such Series 2002 B Bond shall look only to the County for the payment of the Tender Price. The County shall not be liable for any interest on unclaimed money and shall not be regarded as a trustee of such money.

(r) Determination by Trustee; Notice of Tender. For purposes of paragraph (p) under this heading, the Trustee shall determine timely and proper delivery of Series 2002 B Bonds and the proper endorsement of Series 2002 B Bonds delivered. Such determination shall be binding on the Holders of such Series 2002 B Bonds, the County, and the Broker-Dealer, absent manifest error.

Transfer And Exchange

(a) Transfer of Series 2002 B Bonds. The registration of any Series 2002 B Bond may, in accordance with its terms, be transferred upon the Registration Books by the Person in whose name it is registered, in Person or by his attorney duly authorized in writing upon surrender of such Series 2002 B Bond for cancellation at the Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Series 2002 B Bond shall be surrendered for registration of transfer, the Trustee shall execute and deliver a new Series 2002 B Bond or Series 2002 B Bonds for a like aggregate principal

amount in authorized denominations. The Trustee shall require the payment by the Series 2002 B Bond Holder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The cost of printing any Series 2002 B Bonds and any services rendered or any expenses incurred by the Trustee in connection with any transfer shall be paid by the County. The Trustee shall not be required to transfer:

(i) any Series 2002 B Bonds during the period between the date fifteen (15) days prior to the date of selection of Series 2002 B Bonds for redemption and such date of selection, or

(ii) any Series 2002 B Bonds selected for redemption.

(b) Exchange of Series 2002 B Bonds. Series 2002 B Bonds may be exchanged, upon surrender thereof, at the Office of the Trustee for a like aggregate principal amount of Series 2002 B Bonds of other authorized denominations of the same maturity. Whenever any Series 2002 B Bond or Series 2002 B Bonds shall be surrendered for exchange, the Trustee shall execute and deliver a new Series 2002 B Bond or Series 2002 B Bonds for like aggregate principal amount in Authorized Denominations. The Trustee shall require the payment by the Series 2002 B Bond Holder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The cost of printing any Series 2002 B Bonds and any services rendered or any expenses incurred by the Trustee in connection with any exchange shall be paid by the County. The Trustee shall not be required to exchange:

(i) any Series 2002 B Bonds during the period between the date fifteen (15) days prior to the date of selection of Series 2002 B Bonds for redemption and such date of selection, or

(ii) any Series 2002 B Bonds selected for redemption.

CUSIP Numbers

The Trustee and the County shall not be liable for any defect or inaccuracy in any CUSIP number that appears on any Series 2002 B Bond or in any redemption notice. The Trustee may, in its discretion, include in any redemption notice a statement to the effect that the CUSIP numbers on the Series 2002 B Bonds have been assigned by an independent service and are included in such notice solely for the convenience of the Holders and that neither the Trustee nor the County shall be liable for any inaccuracies in such numbers.

Book-Entry Procedures

(a) Transfers Outside Book-Entry System. The Depository may determine to discontinue providing its services with respect to the Series 2002 B Bonds at any time by giving notice to the County and the Trustee and discharging its responsibilities with respect thereto under applicable law. The Trustee shall notify the Depository in the event any such notice is received from the Depository. The County, at the request or with the consent of the Depository and without the consent of any other Person, may terminate the services of the Depository with respect to the Series 2002 B Bonds if the County or the Depository determines that:

(i) the Depository is unable to discharge its responsibilities with respect to the Series 2002 B Bonds, or

(ii) a continuation of the requirement that all of the Outstanding Series 2002 B Bonds be registered in the Registration Books kept by the Trustee in the name of the Nominee, or any other nominee of the Depository, is not in the best interest of the Beneficial Owners of the Series 2002 B Bonds.

Upon the termination of the services of the Depository with respect to the Series 2002 B Bonds pursuant to subparagraph (ii) immediately above, or upon any other discontinuance or termination of the services of the Depository with respect to the Series 2002 B Bonds after which no substitute securities depository willing to undertake the functions of the Depository hereunder can be found which, in the opinion of the County, is willing and

able to undertake such functions upon reasonable and customary terms, the Trustee is obligated to deliver Series 2002 B Bonds at the expense of the Beneficial Owners of the Series 2002 B Bonds, as described in the First Supplemental Trust Agreement, and the Series 2002 B Bonds shall no longer be restricted to being registered in the registration books kept by the Trustee in the name of the Nominee of the Depository, but may be registered in whatever name or names Series 2002 B Bond Holders transferring or exchanging Series 2002 B Bonds shall designate, in accordance with the provisions of the First Supplemental Trust Agreement.

(b) Payments and Notices. Notwithstanding any other provision of the First Supplemental Trust Agreement to the contrary, so long as any Series 2002 B Bond is registered in the name of the Nominee, all payments with respect to principal, premium, if any, and interest evidenced by such Series 2002 B Bond and all notices with respect to such Series 2002 B Bond shall be made and given, respectively, in the manner prescribed by the Depository from time to time. Series 2002 B Bond Holders shall have no lien or security interest in any rebate or refund paid by the Depository to the Trustee or the County which arises from the payment by the Trustee of principal or interest evidenced by the Series 2002 B Bonds in immediately available funds to the Depository.

(c) Tenders and Deliveries. So long as Cede & Co. is the sole registered Holder of the Series 2002 B Bonds, all deliveries of Series 2002 B Bonds under the provisions of the First Supplemental Trust Agreement shall be made pursuant to DTC's procedures as in effect from time to time, and none of the County or the Trustee shall have any responsibility for or liability with respect to the implementation of such procedures.

Market Agent

The County hereby authorizes and expressly directs the Trustee, as agent for the Beneficial Owners of the Auction Rate Securities, to enter into a Market Agent Agreement relating to Auction Rate Securities with the Initial Market Agent. The Market Agent shall serve in such capacity under the terms and provisions hereof and of the Market Agent Agreement. The Market Agent shall be a member of the National Association of Securities Dealers, Inc., having capitalization of at least \$25,000,000, and be authorized by law to perform all the duties imposed upon it by this First Supplemental Trust Agreement and the Market Agent Agreement. The Market Agent will promptly resign following receipt of a request by the Trustee or the Insurer (with a copy to the County and the Trustee) or at any time, with the prior written consent of the Insurer, upon and pursuant to the written direction of the Beneficial Owners of at least two-thirds of the aggregate principal amount of the Auction Rate Securities then Outstanding filed with the Market Agent, the Insurer and the County, provided that such removal shall not take effect until the appointment by the County of a Substitute Market Agent and the successors acceptance of their duties and obligations pursuant to appropriate documentation. The Market Agent may also resign upon 30 days' prior written notice delivered to the Trustee, provided that such resignation shall not take effect until the appointment by the County of a substitute Market Agent. If the County is unable to appoint a Substitute Market Agent within 30 days following receipt of such written notice of resignation, the Market Agent may petition the appropriate court having jurisdiction to appoint a Substitute Market Agent. Notwithstanding this provisions of the paragraph, the Market Agent may be removed at any time, at the request of the County with the consent of the Insurer, for any breach of its obligations under the First Supplemental Trust Agreement or under the Market Agent Agreement.

The Trustee shall not be liable under any circumstances for any action taken, suffered or omitted by the Market Agent and shall be indemnified as set forth in the Trust Agreement.

Auction Agent

(a) The County authorizes and expressly directs the Trustee, as agent for the Beneficial Owners of the Auction Rate Securities, to enter into the Initial Auction Agent Agreement relating to Auction Rate Securities with Deutsche Bank Trust Company Americas, a New York Banking Corporation, as the Initial Auction Agent. Any Substitute Auction Agent shall be:

- (i) subject to the written approval of the applicable Broker-Dealer; and either:

(ii) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, New York, or such other location as approved by the Trustee and the Market Agent in writing and having a combined capital stock or surplus of at least \$15,000,000; or

(iii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$15,000,000,

and, in either case, authorized by law to perform all the duties imposed upon it under the First Supplemental Trust Agreement and under the Auction Agent Agreement. The Auction Agent may at any time resign and be discharged of its duties and obligations under the Auction Agent Agreement as Auction Agent by giving at least 90 days' prior notice to the Trustee, the County, the Insurer and the Market Agent. The Auction Agent may be removed at any time by a request of the Trustee or the Insurer (with a copy to the Trustee and the County) and upon thirty days notice to the Auction Agent or upon the written direction of the County or, with the prior written consent of the Insurer, the Beneficial Owners of at least two-thirds of the aggregate principal amount of the Auction Rate Securities then Outstanding, by an instrument signed by such Beneficial Owners or their attorneys and filed with the Auction Agent, the applicable Broker-Dealer, the Trustee, the Insurer and the Market Agent upon at least 30 days' prior notice. Neither resignation nor removal of the Auction Agent pursuant to the provisions of the preceding two sentences shall be effective until and unless a Substitute Auction Agent has been appointed and has accepted such appointment. If required by the Market Agent, a Substitute Auction Agent Agreement shall be entered into with a Substitute Auction Agent. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agent Agreement if, within 45 days after notifying the Trustee, the applicable Broker-Dealer, the County, the Insurer and the Market Agent in writing that it has not received payment of any Auction Agent Fee due it in accordance with the terms of the Auction Agent Agreement, the Auction Agent does not receive such payment. The Trustee shall not be liable for any action taken, suffered or omitted by the Auction Agent.

(b) If the Auction Agent shall resign or be removed or be dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Trustee, at the direction of the County, with the consent of the Insurer, shall use its best efforts to appoint a Substitute Auction Agent for such Series.

(c) The Auction Agent is acting as agent for the Beneficial Owners of the Auction Rate Securities in connection with Auctions. In the absence of bad faith, negligent failure to act or negligence on its part, the applicable Auction Agent shall not be liable for any action taken, suffered or omitted or any error of judgment made by it in the performance of its duties under the Auction Agent Agreement and shall not be liable for any error of judgment made in good faith unless the Auction Agent shall have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

(d) Notwithstanding the provisions of paragraph (a) under this heading, the Auction Agent may be removed at any time, at the request of the County, with the consent of the Insurer, for any breach of its obligations under the First Supplemental Trust Agreement or under the related Auction Agent Agreement.

Broker-Dealers

(a) The Auction Agent will enter into a Broker-Dealer Agreement with Salomon Smith Barney Inc., Morgan Stanley & Co. Incorporated, Banc of America Securities LLC, Bear Stearns & Co. Inc. and Lehman Brothers Inc. for the Auction Rate Securities. The County may, from time to time, approve one or more additional Persons to serve as Broker-Dealers under Broker-Dealer Agreements and shall be responsible for providing such Broker-Dealer Agreements to the Trustee and the applicable Auction Agent.

(b) Any Broker-Dealer may be removed at any time, at the request of the County, for any breach of its obligations under the First Supplemental Trust Agreement or under the Broker-Dealer Agreement, provided that at least one Broker-Dealer Agreement must be in effect immediately following such removal.

No County or Trustee Liability For Auction Failures

Neither the County nor the Trustee shall be responsible for any failure of a Broker-Dealer to submit an Order (as defined in the Auction Agent Agreement) to the Auction Agent on behalf of any Existing Holder or Potential Holder (as defined in the Auction Agent Agreement), nor shall the County nor the Trustee be responsible for failure by any Depository to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers. The County shall have no liability if there are not Sufficient Clearing Bids (as such term is defined in the Auction Agent Agreement) from time to time pursuant to the Auction Procedures.

FUNDS AND ACCOUNTS

Bond Fund; Deposits to Bond Fund. The Debenture provides that the County is obligated to prepay each Fiscal Year's obligations within 30 days of the commencement of such Fiscal Year. In order to meet the County's obligations under Section 31453.5 of the Retirement Law for each Fiscal Year, the County shall deposit or cause to be deposited with the Trustee the amount of the County's obligations on the Bonds for such Fiscal Year within 30 days of the commencement of each Fiscal Year (the "Prepayment Obligation Date") and covenants that on October 3, 2002 and on each Prepayment Obligation Date commencing July 5, 2003 and thereafter, it will transfer to the Trustee an amount which, together with the amount then on deposit in the Debt Service Fund, will be not less than the amount of the obligations on the Bonds becoming due in such Fiscal Year. For purposes of determining the amount of the County's obligations on any Outstanding Auction Rate Securities for such Fiscal Year to be deposited in accordance with the previous sentence, the County's obligation (the "Auction Rate Securities Prepayment Obligation") with respect to such Auction Rate Securities shall be calculated on the basis of actual principal to be due and payable during such Fiscal Year plus interest payable on Outstanding Auction Rate Securities based upon the weighted average interest rates with respect to the Auction Rate Securities for the 12-month period ending March 31 of the preceding Fiscal Year plus 200 basis points, as set forth in a certificate to be provided to the County by the Trustee on or before July 1 of each year.

On or about December 15 of each year, the County will calculate, and set forth in a certificate to be provided to the Trustee and the Insurer on such date, the projected interest to be payable with respect to the Auction Rate Securities on February 15 of the succeeding year. Such calculation shall be made on the basis of (1) interest payable for any then current or past Auction Interest Period for which interest has not been paid for each Subseries of Auction Rate Securities for which a specific Auction Rate has been determined, and (2) for any Auction Interest Period ending on or before the last Business Day preceding such February 15 for each Subseries of Auction Rate Securities for which a new interest rate has yet to be determined, on the basis of the weighted average interest rates with respect to the Auction Rate Securities for dates after the immediately preceding Interest Payment Date and for which rates have been determined plus 200 basis points. If the amount then on deposit in the Debt Service Fund is less than the amount of the interest projected to be payable on all Outstanding Bonds on February 15 of the succeeding year, the County will transfer to the Trustee an amount which, together with the amount then on deposit in the Debt Service Fund, will be not less than the amount of the principal and the interest projected to be payable on all Outstanding Bonds on February 15 of the succeeding year.

If on the second Business Day prior to any February 15 Interest Payment Date the amount then on deposit in the Interest Account is less than the amount of the interest to be payable on all Outstanding Bonds on such February 15, the County will transfer to the Trustee an amount which, together with the amount then on deposit in the Interest Account, will be not less than the amount of the interest to be payable on all Outstanding Bonds on such February 15.

Further, to the extent permitted by law, the County covenants to take such action as may be necessary to amend or supplement the budget appropriations for payments of the County's obligations on the Bonds including, without limitation the Auction Rate Securities Prepayment Obligation and Swap Payments at any time and from time to time during any Fiscal Year in the event that the County's obligations on the Bonds including, without limitation the Auction Rate Securities Prepayment Obligation and Swap Payments paid in any Fiscal Year exceeds the pro rata portion of the appropriations then contained in the County's budget.

All amounts payable by the County under the Trust Agreement shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which fund is created under the Trust Agreement and shall be held in trust by the Trustee.

Allocation of Moneys in Bond Fund. At least two Business Days prior to each Interest Payment Date or date fixed for redemption of Bonds, the Trustee shall transfer from the Bond Fund, in immediately available funds, for deposit into the following respective accounts (each of which the Trustee shall maintain in trust separate and distinct from the other funds and accounts established under the Trust Agreement), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of funds sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

- (a) Interest Account,
- (b) Principal Account, and
- (c) Administrative Expense Account.

All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized in the Trust Agreement.

Interest Account. On each February 15 and August 15, (commencing on August 15, 1994 with respect to the issuance of the 1994 Series A Bonds and February 15, 2003 with respect to the issuance of the Series 2002 Bonds), the Trustee shall set aside from the Bond Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Bonds on such February 15 or August 15, as the case may be.

No deposit need be made in the Interest Account if the amount contained in the Trust Agreement is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

Principal Account. On each August 15, the Trustee shall set aside from the Bond Fund and deposit in the Principal Account an amount of money equal to the amount of all sinking fund payments required to be made on such August 15 into the respective sinking fund accounts for all Outstanding Term Bonds and the principal amount of all Outstanding Bonds maturing on such August 15.

No deposit need be made in the Principal Account if the amount contained in the Trust Agreement is at least equal to the aggregate amount of the principal of all Outstanding Series 2002 B Serial Bonds maturing by their terms on such August 15 plus the aggregate amount of all sinking fund payments required to be made on such August 15 for all Outstanding Term Bonds.

The Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Bonds of each series and maturity, designated as the "__ Sinking Account" (the "Sinking Account"), inserting in the Trust Agreement the series and maturity (if more than one such account is established for such series) designation of such Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Trust Agreement; provided that, at any time prior to giving such notice of such redemption, the Trustee may upon the Written Request of the County, apply moneys in such Sinking Account to the purchase for cancellation of Term Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and

other charges, but excluding accrued interest, which is payable from the Interest Account), as may be directed by the County, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Bonds upon redemption by application of such mandatory sinking account payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such series and maturity with moneys in such Sinking Account, such Bonds so purchased shall be applied, to the extent of the full principal amount thereof to reduce said mandatory sinking account payment.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they shall become due and payable, whether at maturity or redemption, except that any money in any sinking account shall be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such sinking account was created.

Administrative Expense Account. Following the deposits set forth above having been made on each February 15 Interest Payment Date, any moneys remaining in the Bond Fund (other than those funds representing Swap Payments under any swap agreement paid to the County or the Trustee and deposited in the Bond Fund as of August of the preceding year, which amounts shall be retained in the Bond Fund) shall be deposited by the Trustee in the Administrative Expense Account. Moneys deposited in the Administrative Expense Account shall be transferred by the Trustee to or upon the order of the County, as specified in a Written Request of the County, provided all of the County's obligations under the Trust Agreement are then otherwise satisfied.

Deposit and Investments of Money in Accounts and Funds. All money held by the Trustee in any of the accounts or funds established pursuant hereto shall be invested in Permitted Investments at the Written Request of the County. If no Written Request of the County is received, the Trustee shall invest funds held by it in Permitted Investments described in clause (8) of the definition thereof. Such investments shall as nearly as practicable mature on, but in any event before, the dates on which such money is anticipated to be needed for disbursement under the Trust Agreement. All interest or profits received on any money so invested shall be deposited in the Bond Fund.

REDEMPTION OF BONDS

Notice of Redemption. Notice of redemption with respect to Bonds other than Auction Rate Securities shall be mailed by first-class mail by the Trustee, not less than 30 nor more than 45 days prior to the redemption date and with respect to Auction Rate Securities shall be mailed by first-class mail by the Trustee, not less than 30 days nor more than 60 days prior to the redemption date to (i) the respective Holders of the Bonds designated for redemption at their addresses appearing on the registration books of the Trustee and to the Insurer, (ii) the Securities Depositories and (iii) one or more Information Services. Notice of redemption to the Securities Depositories and the Information Services shall be given by registered mail or overnight delivery or facsimile transmission. Each notice of redemption shall state the date of such notice, the redemption price, if any, (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Bonds of such maturity, to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the redemption price, if any, thereof and in the case of a Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Failure to receive such notice or any defect in the Trust Agreement shall not invalidate any of the proceedings taken in connection with such redemption.

In the event of redemption of Bonds (other than sinking account redemptions), the Trustee shall mail a notice of redemption upon receipt of a Written Request of the County but only after the County shall file a Certificate of the County with the Trustee that on or before the date set for redemption, the County shall have deposited with or otherwise made available to the Trustee for deposit in the Principal Account the money required for payment of the redemption price, including accrued interest, of all Bonds then to be called for redemption (or the

Trustee determines that money will be deposited with or otherwise made available to it in sufficient time for such purpose), together with the estimated expense of giving such notice.

If notice of redemption has been duly given as aforesaid and money for the payment of the redemption price of the Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice Bonds so called for redemption shall become due and payable, and from and after the redemption date so designated interest on such Bonds shall cease to accrue, and the Holders of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

Partially Redeemed Series 2002 B Bonds

Upon surrender of any Series 2002 B Bond redeemed in part only, the Trustee shall execute and deliver to the Holder thereof, at the expense of the County, a new Series 2002 B Bond or Series 2002 B Bonds of Authorized Denominations then applicable, equal in aggregate principal amount to the unpaid portion of the Series 2002 B Bond surrendered and of the same interest rate and the same maturity.

Effect of Redemption

From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) with respect to the Series 2002 B Bonds so called for redemption shall have been duly provided, such Series 2002 B Bonds so called shall cease to be entitled to any benefit under the First Supplemental Trust Agreement other than the right to receive payment of the principal, interest accrued to the Redemption Date, and premium, if any, and no interest shall accrue with respect thereto from and after the Redemption Date specified in the notice of such redemption. All Series 2002 B Bonds redeemed in whole or in part pursuant to the provisions of the Trust Agreement shall be canceled by the Trustee and destroyed, and the Trustee shall certify in writing as to their destruction. If such funds shall not be so available on the Redemption Date, interest with respect to such Series 2002 B Bonds or portions thereof shall continue accrue until paid at the same rate as it would have accrued had they not been called for redemption.

ISSUANCE OF ADDITIONAL BONDS

Conditions for the Issuance of Additional Bonds. The County may at any time issue Additional Bonds on a parity with the Prior Bonds, but only subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such Additional Bonds:

(a) The County shall be in compliance with all agreements and covenants contained in the Trust Agreement.

(b) The issuance of such Additional Bonds shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Trust Agreement which shall specify the following:

(1) The purpose for which such Additional Bonds are to be issued; provided that such Additional Bonds shall be applied solely for (i) the purpose of satisfying any obligation to make payments to the Association pursuant to the Act relating to pension benefits accruing to the Association's members, and/or for payment of all costs incidental to or connected with the issuance of Additional Bonds for such purpose, and/or (ii) the purpose of refunding any Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding;

(2) The authorized principal amount and designation of such Additional Bonds;

(3) The denomination or denominations of and method of numbering such Additional Bonds;

(4) The redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;

(5) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Interest Account in the Trust Agreement after referred to;

(6) Such other provisions (including the requirements of a book-entry Bond registration system, if any) as are necessary or appropriate and not inconsistent herewith.

Procedure for the Issuance of Additional Bonds. At any time after the sale of any Additional Bonds in accordance with the Act, the County shall execute such Additional Bonds for issuance under the Trust Agreement and shall deliver them to the Trustee, and thereupon such Additional Bonds shall be delivered by the Trustee to the purchaser thereof upon the Written Request of the County, but only upon receipt by the Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Bonds by the Trustee:

(a) An executed copy of the Supplemental Trust Agreement authorizing the issuance of such Additional Bonds;

(b) A Written Request of the County as to the delivery of such Additional Bonds;

(c) An Opinion of Counsel to the effect that (1) the County has executed and delivered the Supplemental Trust Agreement, and the Supplemental Trust Agreement is valid and binding upon the County and (2) such Additional Bonds are valid and binding obligations of the County entitled to the benefits of the Act and of the Trust Agreement, and such Additional Bonds have been duly and validly issued in accordance with the Act and with the Trust Agreement;

(d) A Certificate of the County containing such statements as may be reasonably necessary to show compliance with the conditions for the issuance of such Additional Bonds contained in the Trust Agreement;

(e) Such further documents, money or securities as are required by the provisions of the Supplemental Trust Agreement providing for the issuance of such Additional Bonds.

Additional Bonds. The County shall not issue Additional Bonds if immediately following issuance of such Additional Bonds the aggregate principal amount of Bonds insured by a financial guaranty insurance policy issued by the Insurer shall be less than 51% of the aggregate principal amount of all Outstanding Bonds.

COVENANTS OF THE COUNTY

Punctual Payment and Performance. The County will punctually pay the interest on and the principal of and redemption premiums, if any, to become due on every Bond issued under the Trust Agreement in strict conformity with the terms of the Trust Agreement and of the Bonds, and will faithfully observe and perform all the agreements and covenants to be observed or performed by the County contained in the Trust Agreement and in the Bonds.

Extension of Payment of Bonds. The County shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Trust Agreement, to the benefits of the Trust Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in the Trust Agreement shall be deemed to limit the right of the County to issue Bonds

for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Additional Debt. The County expressly reserves the right to enter into one or more other agreements or indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds. The County is duly authorized pursuant to law to issue the Bonds and to enter into the Trust Agreement. The Bonds and the provisions of the Trust Agreement are the legal, valid and binding obligations of the County in accordance with their terms. The Bonds constitute obligations imposed by law. In the event the County fails to deposit with the Trustee the amounts required to pay principal of, premium, if any, and interest on the Bonds by an Interest Payment Date, in accordance with Section 31584 of the Retirement Law, the County Auditor shall forthwith transfer any lawfully available funds to the Trustee to the extent necessary to pay the principal of, premium, if any, and interest coming due on the Bonds on such Interest Payment Date. The County may issue at any time, and from time to time, Additional Bonds in accordance with the Trust Agreement and any such Additional Bonds shall be subject to the benefits of the obligation imposed upon the County Auditor by the next preceding sentence.

Accounting Records and Reports. The County will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of moneys on deposit in the funds and accounts established under the Trust Agreement, and such books shall be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. Not more than 180 days after the close of each Fiscal Year, the County shall furnish or cause to be furnished to the Trustee a complete financial statement covering receipts, disbursements, allocation and application of moneys on deposit in the funds and accounts established under the Trust Agreement for such Fiscal Year. The Trustee shall have no duty to review or examine such statement.

Prosecution and Defense of Suits. The County will defend against every suit, action or, proceeding at any time brought against the Trustee upon any claim to the extent involving the failure of the County to fulfill its obligations under the Trust Agreement; provided that the Trustee or any affected Holder at its election may appear in and defend any such suit, action or proceeding. The County will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person to the extent arising out of such failure by the County, and will indemnify and hold harmless the Trustee against any attorney's fees or other expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions under the Trust Agreement, except for any loss, cost, damage or expense resulting from the active or passive negligence, willful misconduct or breach of duty by the Trustee. Notwithstanding any contrary provision hereof, this covenant shall remain in full force and effect even though all Bonds secured hereby may have been fully paid and satisfied.

Further Assurances. Whenever and so often as reasonably requested to do so by the Trustee or any Holder, the County will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Holders all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them hereby.

Waiver of Laws. The County shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Trust Agreement or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the County to the extent permitted by law.

Costs of Issuance. The County shall punctually pay or cause to be paid all costs of issuance relating to the Bonds.

Performance of ISDA Master Agreements. The County shall perform its obligations under and in accordance with one or more ISDA Master Agreements dated as of September 17, 2002 by and between the County and Citibank N.A., New York and/or Morgan Stanley Capital Services, Inc.

CERTAIN PROVISIONS RELATING TO THE TRUSTEE

Appointment of Trustee; Removal and Resignation. BNY Western Trust Company shall serve as the Trustee for the Bonds for the purpose of receiving all money which the County is required to deposit with the Trustee under the Trust Agreement and for the purpose of allocating, applying and using such money as provided in the Trust Agreement and for the purpose of paying the interest on and principal of and redemption premiums, if any, on the Bonds presented for payment at the Corporate Trust Office of the Trustee with the rights and obligations provided in the Trust Agreement. The County agrees that it will at all times maintain a Trustee having a corporate trust office in Los Angeles or San Francisco, California.

The County may at any time, unless there exists any event of default as defined in the Trust Agreement, remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto, in each case acceptable to the Insurer, by an instrument in writing; provided that any such successor shall be a bank or trust company doing business and having a corporate trust office in Los Angeles or San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least one hundred million dollars (\$100,000,000) and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee may at any time resign by giving written notice of such resignation to the County and by mailing to the Holders notice of such resignation. Upon receiving such notice of resignation, the County shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of appointment by the successor Trustee. If, within 30 days after notice of the removal or resignation of the Trustee no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required hereby.

The Trustee is authorized to pay or redeem the Bonds when duly presented for payment at maturity or on redemption prior to maturity. The Trustee shall cancel all Bonds upon payment thereof or upon the surrender thereof by the County and shall destroy such Bonds and a certificate of destruction shall be delivered to the County. The Trustee shall keep accurate records of all Bonds paid and discharged and cancelled by it.

The Trustee shall, prior to an event of default, and after the curing of all events of default that may have occurred, perform such duties and only such duties as are specifically set forth in the Trust Agreement and no implied duties or obligations shall be read into the Trust Agreement. The Trustee shall, during the existence of any event of default (that has not been cured), exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

Liability of Trustee. The Trustee shall not be liable in connection with the performance of its duties under the Trust Agreement except for its own active or passive negligence, willful misconduct or breach of duty.

The Trustee shall not be bound, subject to the rights of the Insurer in connection with its Insurance Policy, to recognize any person as the Holder of a Bond unless and until such Bond is submitted for inspection, if required, and such Holder's title thereto satisfactorily established, if disputed.

The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Trust Agreement.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request, order or direction of any of the Bondholders pursuant to the provisions of the Trust Agreement unless such Bondholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that may be incurred therein or thereby. The Trustee has no obligation or liability to the Holders for the payment of interest on, principal of or redemption premium, if any, with respect to the Bonds from its own funds; but rather the Trustee's obligations shall be limited to the performance of its duties under the Trust Agreement.

The Trustee shall not be deemed to have knowledge of any event of default unless and until an officer at the Trustee's Corporate Trust Office responsible for the administration of its duties under the Trust Agreement shall have actual knowledge thereof or the Trustee shall have received written notice thereof at its Corporate Trust Office. The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Trust Agreement or of any of the documents executed in connection with the Bonds, or as to the existence of a default or event of default under the Trust Agreement. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

The Trustee may execute any of the trusts or powers under the Trust Agreement or perform any duties under the Trust Agreement either directly or by or through attorneys-in-fact, agents or receivers, and shall be answerable for the negligence or misconduct or any such attorney-in-fact, agent or receiver. The Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty under the Trust Agreement, but the Trustee shall not be answerable for the professional malpractice of any attorney-in-law or certified public accountant in connection with the rendering of his professional advice in accordance with the terms of the Trust Agreement, if such attorney-in-law or certified public accountant was selected by the Trustee with due care.

Compensation and Indemnification of Trustee. The County covenants to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation for all services rendered by it in the exercise and performance of any of the powers and duties under the Trust Agreement of the Trustee, and the County will pay or reimburse the Trustee upon its request for all expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of the Trust Agreement (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence, default or willful misconduct, including the negligence or willful misconduct of any of its officers, directors, agents or employees. The County, to the extent permitted by law, shall indemnify, defend and hold harmless the Trustee against any loss, damages, liability or expense incurred without negligence, willful misconduct or bad faith on the part of the Trustee, arising out of or in connection with the acceptance or administration of the trusts created hereby, including costs and expenses (including attorneys' fees) of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Trust Agreement. The rights of the Trustee and the obligations of the County described in this paragraph shall survive the discharge of the Bonds and the Trust Agreement and the resignation or removal of the Trustee.

AMENDMENT OF THE TRUST AGREEMENT

Amendment of the Trust Agreement Upon Consent of the Holders. The Trust Agreement and the rights and obligations of the County and of the Holders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of or redemption premium, if any, on any Bond without the express written consent of the Holder of such Bond, or (2) reduce the percentage of Bonds required for the written consent to any such amendment.

Amendment of the Trust Agreement Without Consent of the Holders. Subject to the rights of the Insurer as particularly set forth under the heading "PAYMENTS UNDER THE INSURANCE POLICY" herein, the Trust Agreement and the rights and obligations of the County and of the Holders may also be amended at any

time by a Supplemental Trust Agreement which shall become binding upon adoption without the consent of any Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel for any purpose that will not materially adversely affect the interests of the Holders, including (without limitation) for any one or more of the following purposes --

(a) to add to the agreements and covenants required in the Trust Agreement to be performed by the County other agreements and covenants thereafter to be performed by the County, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the County;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement and in any supplemental trust agreement or in regard to questions arising under the Trust Agreement which the County may deem desirable or necessary and not inconsistent herewith;

(c) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Trust Agreement (which shall be deemed not to adversely affect Holders);

(d) to modify, amend or add to the provisions in the Trust Agreement or in any supplemental agreement to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statutes hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by such statute or similar statute; or

(e) to modify, amend or supplement the Trust Agreement and any supplemental agreement in any manner that does not materially adversely affect the interest of Holders of Bonds.

Disqualified Bonds. Bonds owned or held by or for the account of the County shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in the Trust Agreement; provided, however, that Series 2002 Bonds covered by the Insurance Policy shall not be so disqualified.

Endorsement or Replacement of Bonds After Amendment. After the effective date of any action taken as in the Trust Agreement above provided, the County may determine that the Bonds may bear a notation by endorsement in form approved by the County as to such action, and in that case upon demand of the Holder of any Outstanding Bonds and presentation of his Bond for such purpose at the office of the Trustee a suitable notation as to such action shall be made on such Bond. If the County shall so determine, new Bonds so modified as, in the opinion of the County, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Holder of any Outstanding Bond a new Bond or Bonds shall be exchanged at the office of the Trustee without cost to each Holder for its Bond or Bonds then Outstanding upon surrender of such Outstanding Bonds.

Amendment by Mutual Consent. The provisions of the Trust Agreement shall not prevent any Holder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds; provided that no Holder of a Series 2002 Bond insured by a financial guaranty insurance policy issued by the Insurer shall be permitted to accept such an amendment without the prior written consent of the Insurer.

EVENTS OF DEFAULT AND REMEDIES OF HOLDERS

Events of Default and Acceleration of Maturities. If one or more of the following events (in the Trust Agreement called "events of default") shall happen, that is to say:

(a) if default shall be made by the County in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;

(b) if default shall be made by the County in the due and punctual payment of the principal of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as expressed in the Trust Agreement or by proceedings for redemption;

(c) if default shall be made by the County in the performance of any of the agreements or covenants required in the Trust Agreement to be performed by the County, and such default shall have continued for a period of 60 days after the County shall have been given notice in writing of such default by the Trustee; specifying such default and requiring the same to be remedied, shall have been given to the County by the Trustee or the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; provided, however, if the default stated in the notice can be corrected, but not within the applicable period, the Trustee and such Holders shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the County within the applicable period and diligently pursued until the default is corrected.

(d) if the County shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the County seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the County or of the whole or any substantial part of its property;

then and in each and every such case during the continuance of such event of default the Trustee may, and upon the written request of the Holders of not less than fifty-one percent (51%) in aggregate principal amount of the Bonds then Outstanding shall, by notice in writing to the County, declare the principal of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the Trust Agreement or in the Bonds to the contrary notwithstanding. The Trustee shall promptly notify all Holders of any such event of default which is continuing.

This provision, however, is subject to the condition that if at any time after the principal of the Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered the County shall deposit with the Trustee a sum sufficient to pay all matured interest on all the Bonds and all principal of the Bonds matured prior to such declaration, with interest at the rate borne by such Bonds on such overdue interest and principal, and the reasonable fees and expenses of the Trustee, and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Holders of not less than fifty-one percent (51%) in aggregate principal amount of Bonds then Outstanding, by written notice to the County and to the Trustee, may on behalf of the Holders of all the Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All moneys in the accounts and funds provided in the Trust Agreement upon the date of the declaration of acceleration by the Trustee and all amounts in such funds and accounts thereafter received by the County under the Trust Agreement shall be transmitted to the Trustee and shall be applied by the Trustee in the following order --

First, to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of the Trust Agreement with respect to Events of Default and remedies thereon, including reasonable compensation to their accountants and counsel, and to the payment of the costs and expenses of the Holders (including the Insurer) in providing for the declaration of such event of default, including reasonable compensation to its accountants and counsel; and

Second, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest and principal, with (to the extent permitted by law) interest on the overdue interest and principal at the rate borne by such Bonds, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, principal and (to the extent permitted by law) interest on overdue interest and principal without preference or priority among such interest, principal and interest on overdue interest and principal ratably to the aggregate of such interest, principal and interest on overdue interest and principal.

Institution of Legal Proceedings by Trustee. If one or more of the events of default shall happen and be continuing, the Trustee may with the prior written consent of the Insurer, and upon the written request of the Holders of a majority in principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Holders of Bonds under the Trust Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement, or in aid of the execution of any power in the Trust Agreement granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties under the Trust Agreement.

Non-Waiver. Nothing in any provision of the Trust Agreement or in the Bonds shall affect or impair the obligation of the County, which is absolute and unconditional, to pay the interest on and principal of and redemption premiums, if any, on the Bonds to the respective Holders of the Bonds at the respective dates of maturity or upon prior redemption as provided in the Trust Agreement, or shall affect or impair the right of such Holders, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Trust Agreement and in the Bonds.

A waiver of any default or breach of duty or contract by the Trustee or any Holder shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee or any Holder to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence in the Trust Agreement, and every right or remedy conferred upon the Holders by the Act or by the Trust Agreement may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Holders.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the County, the Trustee and any Holder shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Actions by Trustee as Attorney-in-Fact. Any action, proceeding or suit which any Holder shall have the right to bring to enforce any right or remedy under the Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Holders, whether or not the Trustee is a Holder, and the Trustee is hereby appointed (and the successive Holders, by taking and holding the Bonds issued under the Trust Agreement, shall be conclusively deemed to have so appointed it) the true and lawful attorney-in-fact of the Holders for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Holders as a class or classes as may be advisable or necessary in the opinion of the Trustee as such attorney-in-fact.

Remedies Not Exclusive. No remedy in the Trust Agreement conferred upon or reserved to the Holders is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

Limitation on Bondholders' Right to Sue. No Holder of any Bond issued under the Trust Agreement shall have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon the Trust Agreement, unless (a) such Holder shall have previously given to the Trustee written notice of the occurrence of an event of default as defined under the Trust Agreement; (b) the Holders of at least a majority in

aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers in the Trust Agreement before granted or to institute such suit, action or proceeding in its own name; (c) said Holders shall have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Trust Agreement; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner in the Trust Agreement provided; and that all proceedings at law or in equity to enforce any provision of the Trust Agreement shall be instituted, had and maintained in the manner in the Trust Agreement provided and for the equal benefit of all Holders of the Outstanding Bonds.

Absolute Obligation of County. Nothing in any provision of the Trust Agreement or in the Bonds contained shall affect or impair the obligation of the County, which is absolute and unconditional, to pay the principal of, premium, if any and interest on the Bonds to the respective Holders of the Bonds at their respective due dates as in the Trust Agreement provided.

Rights of Insurer. The Insurer shall be deemed the Holder and shall be treated as such for purposes of any provisions requiring the consent or approval of the Holders of 2002 Bonds or with respect to rights of such Holders other than the right to receive payments of principal, purchase price and interest, and tender and purchase rights under the Trust Agreement, but only for so long as the Insurer is in compliance with the Insurance Policy, and if the Insurer is in default under the Insurance Policy, the Insurer shall not have any rights granted to the Insurer under the Trust Agreement. See also, "PAYMENTS UNDER THE INSURANCE POLICY" herein.

DEFEASANCE OF BONDS

Discharge of Bonds. If the County shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Bonds the interest thereon and the principal thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated in the Trust Agreement and in the Bonds, then all agreements, covenants and other obligations of the County to the Holders of such Bonds under the Trust Agreement shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the County all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, the Trustee shall pay over or deliver to the County all money or securities held by it pursuant hereto which are not required for the payment of the interest on and principal of and redemption premiums, if any, on such Bonds.

Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in the paragraph above if (1) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the County shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with the Trust Agreement, (2) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Permitted Investments of the type described in clause (1) of the definition of Permitted Investments and which are not subject to redemption prior to maturity (including any such Permitted Investments issued or held in book-entry form on the books of the County or the Treasury of the United States of America) or tax exempt obligations of a state or political subdivision thereof which have been defeased under irrevocable escrow instructions by the deposit of such money or Permitted Investments and which are then rated in the highest rating category by the Rating Agencies, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an Independent Certified Public Accountant, to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and redemption premiums, if any, on such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding 60 days, the County shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Holders of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are

deemed to have been paid in accordance with the Trust Agreement and stating the maturity date or redemption date upon which money is to be available for the payment of the principal of and redemption premiums, if any, on such Bonds.

Unclaimed Money. Anything contained in the Trust Agreement to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Bonds or interest thereon which remains unclaimed for two years after the date when such Bonds or interest thereon have become due and payable, either at their stated maturity dates or by call for redemption prior to maturity, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such Bonds have become due and payable, shall at the Written Request of the County be repaid by the Trustee to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Holders shall not look to the Trustee for the payment of such Bonds; provided, however, that before being required to make any such payment to the County, the Trustee may, and at the request of the County shall, at the expense of the County, cause to be published once a week for two successive weeks in a Financial Newspaper of general circulation in Los Angeles and in San Francisco, California and in the same or a similar Financial Newspaper of general circulation in New York, New York a notice that such money remains unclaimed and that, after a date named in such notice, which date shall not be less than 30 days after the date of the first publication of each such notice, the balance of such money then unclaimed will be returned to the County.

PAYMENTS UNDER THE INSURANCE POLICY

A. In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the Series 2002 Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Series 2002 Bonds due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

B. If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the Insurer or its designee.

C. In addition, if the Trustee has notice that any Bondholder has been required to disgorge payments of principal or interest on the Series 2002 Bond to a trustee in Bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Bondholder within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

D. The Trustee is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Holders of the Series 2002 Bonds as follows:

1. If and to the extent there is a deficiency in amounts required to pay interest on the Series 2002 Bonds, the Trustee shall (a) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the Insurance Policy (the "Insurance Paying Agent"), in form satisfactory to the Insurance Paying Agent, an instrument appointing the Insurer as agent for such Holders in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the Insurance Policy payment from the Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Holders; and

2. If and to the extent of a deficiency in amounts required to pay principal of the Series 2002 Bonds, the Trustee shall (a) execute and deliver to the Insurance Paying Agent in form satisfactory to the Insurance Paying Agent an instrument appointing the Insurer as agent for such Holder in any legal proceeding relating to the payment of such principal and an assignment to the Insurer of any of the Series 2002 Bond surrendered to the Insurance Paying agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such

payment (but such assignment shall be delivered only if payment from the Insurance Paying Agent is received), (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the Insurance Policy payment therefor from the Insurance Paying Agent, and (c) disburse the same to such Holders.

E. Payments with respect to claims for interest on and principal of Series 2002 Bonds disbursed by the Trustee from proceeds of the Insurance Policy shall not be considered to discharge the obligation of the County with respect to such Series 2002 Bonds, and the Insurer shall become the owner of such unpaid Series 2002 Bond and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

F. Irrespective of whether any such assignment is executed and delivered, the County and the Trustee hereby agree for the benefit of the Insurer that:

1. They recognize that to the extent the Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of principal of or interest on the Series 2002 Bonds, the Insurer will be subrogated to the rights of such Holders to receive the amount of such principal and interest from the County, with interest thereon as provided and solely from the sources stated in the Trust Agreement and the Series 2002 Bonds; and

2. They will accordingly pay to the Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Trust Agreement and the Series 2002 Bond, but only from the sources and in the manner provided herein for the payment of principal of and interest on the Series 2002 Bonds to Holders, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.

G. In connection with the issuance of Additional Bonds, the County shall deliver to the Insurer a copy of the disclosure document, if any, circulated with respect to such Additional Bonds.

H. Copies of any amendments made to the documents executed in connection with the issuance of the Series 2002 Bonds which are consented to by the Insurer shall be sent to Standard & Poor's Corporation.

I. The Insurer shall receive notice of the resignation or removal of the Trustee and the appointment of a successor thereto.

J. The Insurer shall receive copies of all notices required to be delivered to Bondholders and, on an annual basis, copies of the County's audited financial statements and Annual Budget.

L. For so long as the aggregate principal amount of Bonds insured by a financial guaranty insurance policy issued by the Insurer shall be at least 51% of the aggregate principal amount of all Outstanding Bonds and provided that no event of default shall have occurred and be continuing under such insurance policy, the Insurer's consent shall be required, in addition to the consent of the Holders of the Bonds, when such consent is required for the following purposes: (a) execution and delivery of any Supplemental Trust Agreement, (b) removal of the Trustee and selection and appointment of any successor Trustee, and (c) initiation or approval of any action not described in (a) or (b) above which requires the consent of the Holders of the Bonds; and any provision of the Trust Agreement requiring the consent or approval of a majority or specified percentage of Holders of Outstanding Bonds shall, unless expressly stated otherwise, be satisfied by the consent or acquiescence of the Insurer in lieu of the consent of Holders, provided that such percentage shall correlate to the aggregate principal amount of Bonds insured by the Insurance Policy issued by the Insurer.

M. Notwithstanding the terms of the Trust Agreement as described above under the heading "AMENDMENT OF THE TRUST AGREEMENT - Amendment of the Trust Agreement Without Consent of the

Holders,” for so long as the aggregate principal amount of Bonds insured by a financial guaranty insurance policy issued by the Insurer shall be at least 51% of the aggregate principal amount of all Outstanding Bonds and provided that no event of default shall have occurred and be continuing under such insurance policy, the Insurer’s prior written consent shall be required as a condition to any amendment of the Trust Agreement not otherwise requiring consent of the Holders.

N. Anything in the Trust Agreement to the contrary notwithstanding, for so long as the aggregate principal amount of Bonds insured by a financial guaranty insurance policy issued by the Insurer shall be at least 51% of the aggregate principal amount of all Outstanding Bonds and provided that no event of default shall have occurred and be continuing under such insurance policy, upon the occurrence and during the continuance of an Event of Default under the Trust Agreement, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Bonds or the Trustee for the benefit of the Holders of the Bonds under the Trust Agreement, including, without limitation, (i) the right to accelerate the principal of the Bonds as provided in the Trust Agreement, and (ii) the right to annul any declaration of acceleration, and the Insurer shall also be entitled to approve all waivers of Events of Default.

Notices: Any notice that is required to be given to a Holder of the Series 2002 Bond or to the Trustee pursuant to the Trust Agreement shall also be provided to the Insurer. All notices required to be given to the Insurer under the Trust Agreement shall be in writing and shall be sent by registered or certified mail addressed to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504 Attention: Surveillance.

The County agrees to reimburse the Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorneys’ fees and expenses, incurred by the Insurer in connection with (i) the enforcement by the Insurer of the County’s obligations, or the preservation or defense of any rights of the Insurer, under the Trust Agreement and any other document executed in connection with the issuance of the Series 2002 Bonds, and (ii) any consent, amendment, waiver or other action with respect to the Trust Agreement or any related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank’s Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, the Insurer agrees reserves the right to charge a fee in connection with its review of any such consent, amendment or waiver, whether or not granted or approved.

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APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Series 2002 Bonds, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, proposes to render its final approving opinion with respect to the Series 2002 Bonds in substantially the following form:

[Date of Delivery]

County of San Diego
1600 Pacific Highway
San Diego, California 92101

Re: County of San Diego Taxable Pension Obligation Bonds,
Series 2002 A, Series 2002 B and Series 2002 C
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the County of San Diego (the "County") of \$737,340,000 aggregate principal amount of County of San Diego Taxable Pension Obligation Bonds, Series 2002 A, Series 2002 B and Series 2002 C (collectively, the "Bonds"), pursuant to Articles 10 and 11 of Chapter 3 of Division 2 of Title 5 of the California Government Code (the "Act") and a Trust Agreement, dated as of February 1, 1994 (the "Original Trust Agreement"), between the County and U.S. Trust Company of California, N.A., as trustee, as amended and supplemented by a First Supplemental Trust Agreement, dated as of September 1, 2002 (the "Supplemental Trust Agreement" and together with the Original Trust Agreement, the "Trust Agreement"), between the County and BNY Western Trust Company, as successor trustee (the "Trustee").

In such connection, we have reviewed the Trust Agreement, the opinions of counsel to the Trustee and the County, the report prepared by the County's Actuary (the "Actuary") regarding the valuation of the assets and liabilities of the County Employees' Retirement Association, certificates of the County, the Trustee, the Actuary and others and such other documents, matters and opinions to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, including the default judgment rendered on December 16, 1993, by the Superior Court of the County of San Diego in the action entitled *County of San Diego v. All Persons*, No. 670668, filed November 10, 1993, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. We call attention to the fact that the rights and obligations under the Bonds and the Trust Agreement may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent

conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding obligations of the County.
2. The Supplemental Trust Agreement has been duly executed and delivered by, and constitutes a valid and binding obligation of, the County.
3. The Bonds do not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation, and neither the Bonds nor the obligation of the County to make payment of the interest on or the principal of the Bonds constitutes an indebtedness of the County or the State, or any of its political subdivisions, in contravention of any constitutional or statutory debt limitation or restriction.
4. Interest on the Bonds is not excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The Series 2002 Bonds will be available in book-entry form only in the denominations of (i) with respect to Fixed Rate Bonds, \$5,000 or any integral multiple thereof, (ii) with respect to Auction Rate Securities, \$25,000 or any integral multiple thereof, and (iii) with respect to PINES, \$25 or integral multiples thereof. Purchasers of beneficial ownership interests in the Series 2002 Bonds will not receive bonds representing their interests in the Bonds purchased. The Underwriter will confirm original issuance purchases with statements containing certain terms of the Bonds purchased. DTC will act as securities depository for the Series 2002 Bonds. The ownership of one fully registered Bond for each maturity and type of the Series 2002 Bonds as set forth on the cover page hereof, each in the aggregate principal amount of each such maturity, will be registered in the name of Cede & Co., as nominee for DTC and will be deposited with DTC.

The information in this Appendix concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the County takes no responsibility for the completeness or accuracy thereof. The County cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2002 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2002 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2002 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The DTC will act as securities depository for the Series 2002 Bonds. The Series 2002 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Series 2002 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC," "GSCC," "MBSCC," and "EMCC," also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities

brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2002 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2002 Bonds 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 2002 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2002 Bonds, except in the event that use of the book-entry system for the Series 2002 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2002 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2002 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2002 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2002 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2002 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2002 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Series 2002 Bonds may wish to ascertain that the nominee holding the Series 2002 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Series 2002 Bonds called for redemption or of any other action premised on such notice. Redemption of portions of the Series 2002 Bonds by the County will reduce the outstanding principal amount of Series 2002 Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Series 2002 Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Series 2002 Bonds for the Beneficial Owners. Any such selection of Series 2002 Bonds to be redeemed will not be governed by the Indenture and will not be conducted by the County or the Trustee.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2002 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2002 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Series 2002 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Trustee, 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 (nor its nominee), the Trustee, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Series 2002 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County 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.

NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF SERIES 2002 BONDS FOR PREPAYMENT.

None of the County or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Series 2002 Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

DTC may discontinue providing its services as depository with respect to the Series 2002 Bonds at any time by giving reasonable notice to the County or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, security certificates are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the County or the Trustee take any responsibility for the accuracy thereof.

None of the County or the Underwriters can and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Series 2002 Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the County or the Underwriters are

responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2002 Bonds or an error or delay relating thereto.

GLOBAL CLEARANCE PROCEDURES

The information that follows is based solely on information provided by the Euroclear Operator. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Clearstream International and Clearstream

Clearstream International is the product of the merger of Deutsche Borse and Cedel International, the European international clearing depository founded in 1970, and a number of its subsidiaries including Cedelbank. Clearstream International is registered in Luxembourg and has two subsidiaries: Clearstream Banking and Clearstream Services. Clearstream Banking ("Clearstream") contains the core clearing and settlement business and consists of Clearstream Banking Luxembourg, Clearstream Banking Frankfurt and six regional offices in Dubai, Hong Kong, London, New York, São Paulo and Tokyo. Clearstream holds securities for its participating organizations ("Clearstream Participants") and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

Euroclear System

The Euroclear System ("Euroclear") was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear System is owned Euroclear plc and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (the "Euroclear Operator").

The Euroclear Operator holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and Participants of certain other securities intermediaries through electronic book-entry changes in accounts of such Participants or other securities intermediaries.

The Euroclear Operator provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services.

Non-Participants of Euroclear may hold and transfer book-entry interests in the Securities through accounts with a direct Participant of Euroclear or any other securities intermediary that holds a book-entry interest in the Securities through one or more securities intermediaries standing between such other securities intermediary and the Euroclear Operator

The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with Persons holding through Euroclear participants.

Distribution of the Series 2002 Bonds through Clearstream or Euroclear

Distributions with respect to the Series 2002 Bonds held through Clearstream or Euroclear are to be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its Depository (as defined below). Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an Owner of the Series 2002 Bonds under the Indenture on behalf of a Clearstream Participant or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the relevant Depository's ability to effect such actions on its behalf through DTC. Owners of the Series 2002 Bonds may hold their Series 2002 Bonds through DTC (in the United States) or Clearstream or Euroclear (in Europe) if they are participants of such systems, or indirectly through organizations which are participants in such systems.

The Series 2002 Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories which in turn are to hold such positions in customers' securities accounts in the depositories' names on the books of DTC. Citibank, N.A. acts as depository for Clearstream and the Euroclear Operator acts as depository for Euroclear (in such capacities, individually, the "Depository" and, collectively, the "Depositaries").

Transfers of the Series 2002 Bonds between DTC Participants are to occur in accordance with DTC Rules. Transfers between Clearstream Participants and Euroclear Participants are to occur in accordance with their respective rules and operating procedures. Because of time-zone differences, credits of securities received in Clearstream or Euroclear as a result of a transaction with a Participant may be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such securities settled during such processing would be reported to the relevant Euroclear or Clearstream Participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream Participant or Euroclear Participant to a Participant are to be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlements in DTC.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, are to be effected in DTC in accordance with DTC Rules on behalf of the relevant European international clearing system by its Depository; however, such cross-market transactions require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system if the transaction meets its settlement requirements, is to deliver instructions to its Depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions to the Depositories.

THE COUNTY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2002 BONDS (I) PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE SERIES 2002 BONDS (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SERIES 2002 BONDS OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2002 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON SERIES 2002 BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE INDENTURE; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SERIES 2002 BONDS.

APPENDIX F

AUCTION AND SETTLEMENT PROCEDURES

Capitalized terms used herein and not otherwise defined shall have the meanings given such terms in Appendix C.

SECTION 1. Auction Procedures. So long as the ownership of the Auction Rate Securities is maintained in book-entry form by the Securities Depository, an Existing Owner may sell, transfer or otherwise dispose of Auction Rate Securities only pursuant to a Bid or Sell Order placed in an Auction or through the Authorized Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions of the Auction Rate Securities, such Existing Owner, its Authorized Broker-Dealer or its Participant advises the Auction Agent of such transfer. Subject to the provisions set forth in Appendix D under the heading "Maturity, Interest Rate and Payment Terms," Auctions of the Auction Rate Securities shall be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the following manner:

(a) (i) Prior to 1:00 p.m., New York City time (the "Submission Deadline") on each Auction Date relating to Auction Rate Securities;

(A) each Existing Owner of Auction Rate Securities may submit to the Authorized Broker-Dealer by telephone or otherwise any information as to:

(I) the principal amount of outstanding Auction Rate Securities, if any, held by such Existing Owner which such Existing Owner desires to continue to hold without regard to the Auction Rate for the next succeeding Auction Interest Period;

(II) the principal amount of outstanding Auction Rate Securities, if any, which such Existing Owner offers to sell if the Auction Rate for the next succeeding Auction Interest Period shall be less than the rate per annum specified by such Existing Owner; and/or

(III) the principal amount of outstanding Auction Rate Securities, if any, held by such Existing Owner which such Existing Owner offers to sell without regard to the Auction Rate for the next succeeding Auction Interest Period; and

(B) the Authorized Broker-Dealer may contact Potential Owners to determine the principal amount of Auction Rate Securities which each Potential Owner offers to purchase, if the Auction Rate for the next succeeding Auction Interest Period shall not be less than the rate per annum specified by such Potential Owner.

The statement of an Existing Owner or a Potential Owner referred to in (A) or (B) of this paragraph (i) is hereinafter referred to as an "Order," and each Existing Owner and each Potential Owner placing an Order is hereinafter referred to as a "Bidder"; an Order described in clause (A)(I) is hereinafter referred to as a "Hold Order"; an Order described in clause (A)(II) or (B) is hereinafter referred to as a "Bid"; and an Order described in clause (A)(III) is hereinafter referred to as a "Sell Order."

(ii) (A) Subject to the provisions of Section 1(b) hereof, a Bid by an Existing Owner shall constitute an irrevocable offer to sell (in each case for settlement in same day funds on the next Interest Payment Date therefor at a price equal to 100% of the principal amount thereof):

(I) the principal amount of outstanding Auction Rate Securities specified in such Bid if the Auction Rate determined as provided herein shall be less than the rate specified in such Bid; or

(II) such principal amount or a lesser principal amount of outstanding Auction Rate Securities to be determined as set forth in Section 1(d)(i)(D), if the Auction Rate determined as provided herein shall be equal to the rate specified in such Bid; or

(III) such principal amount or a lesser principal amount of outstanding Auction Rate Securities to be determined as set forth in Section 1(d)(ii)(C) if the rate specified therein shall be higher than the Maximum Auction Rate and Sufficient Clearing Bids have not been made.

(B) Subject to the provisions of Section 1(b) hereof, a Sell Order by an Existing Owner shall constitute an irrevocable offer to sell (in each case for settlement in same day funds on the next Interest Payment Date therefor at a price equal to 100% of the principal amount thereof):

(I) the principal amount of outstanding Auction Rate Securities specified in such Sell Order if Sufficient Clearing Bids exist; or

(II) such principal amount or a lesser principal amount of outstanding Auction Rate Securities set forth in Section 1(d)(i)(C), if Sufficient Clearing Bids have not been made.

(C) Subject to the provisions of Section 1(b) hereof, a Bid by a Potential Owner shall constitute an irrevocable offer to purchase (in each case for settlement in same day funds on the next Interest Payment Date therefor at a price equal to 100% of the principal amount thereof):

(I) the principal amount of outstanding Auction Rate Securities specified in such Bid if the Auction Rate determined as provided herein shall be higher than the rate specified in such Bid; or

(II) such principal amount or a lesser principal amount of outstanding Auction Rate Securities set forth in Section 1(d)(i)(E), if the Auction Rate determined as provided herein shall be equal to the rate specified in such Bid.

(b) (i) The Authorized Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date relating to the Auction Rate Securities, all Orders obtained by such Authorized Broker-Dealer and shall specify with respect to each such Order:

- (A) the name of the Bidder placing such Order;
- (B) the aggregate principal amount of Auction Rate Securities that are the subject of such Order;
- (C) to the extent that such Bidder is an Existing Owner:
 - (I) the principal amount of Auction Rate Securities, if any, subject to any Hold Order placed by such Existing Owner;
 - (II) the principal amount of Auction Rate Securities, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and
 - (III) the principal amount of Auction Rate Securities, if any, subject to any Sell Order placed by such Existing Owner; and
- (D) to the extent such Bidder is a Potential Owner, the rate specified in such Potential Owner's Bid.

(ii) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next higher one thousandth (.001) of 1%.

(iii) If an Order or Orders covering all outstanding Auction Rate Securities held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of outstanding Auction Rate Securities held by such Existing Owner and not subject to an Order submitted to the Auction Agent.

(iv) Neither the County, the Trustee nor the Auction Agent shall be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner, nor shall any such party be responsible for failure by any Securities Depository to effect any transfer or to provide the Auction Agent with current information regarding registration of transfers.

(v) If any Existing Owner submits through the Authorized Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of outstanding Auction Rate Securities held by such Existing Owner, such Orders shall be considered valid as follows and in the following order of priority:

- (A) All Hold Orders shall be considered valid, but only up to and including in the aggregate the principal amount of outstanding Auction Rate Securities held by such Existing Owner, and if the aggregate principal amount of Auction Rate Securities subject to such Hold Orders exceeds the aggregate principal amount of Auction Rate Securities held by such Existing Owner, the aggregate principal amount of Auction Rate Securities subject to each such Hold Order shall be reduced so that the aggregate principal amount of Auction Rate Securities subject to such Hold Orders equals the aggregate principal amount of outstanding Auction Rate Securities held by such Existing Owner.

(B) (I) any Bid shall be considered valid up to and including the excess of the principal amount of outstanding Auction Rate Securities held by such Existing Owner over the aggregate principal amount of Auction Rate Securities subject to any Hold Order referred to in subsection (v)(A) above;

(II) subject to subsection (v)(B)(I) above, if more than one Bid with the same rate is submitted on behalf of such Existing Owner and the aggregate principal amount of outstanding Auction Rate Securities subject to such Bids is greater than such excess, such Bids shall be considered valid up to and including the amount of such excess;

(III) subject to subsections (v)(B)(I) and (v)(B)(II) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to and including the amount of such excess; and

(IV) in any such event, the amount of outstanding Auction Rate Securities, if any, subject to Bids not valid under this subsection (B) shall be treated as the subject of a Bid by a Potential Owner at the rate therein specified; and

(C) All Sell Orders shall be considered valid up to and including the excess of the principal amount of outstanding Auction Rate Securities held by such Existing Owner over the aggregate principal amount of Auction Rate Securities subject to Hold Orders referred to in subsection (v)(A) and valid Bids referred to in subsection (v)(B).

(vi) If more than one Bid for Auction Rate Securities is submitted on behalf of any Potential Owner, each Bid submitted shall be a separate Bid with the rate and principal amount therein specified.

(vii) Any Bid or Sell Order submitted by an Existing Owner covering an aggregate principal amount of Auction Rate Securities not equal to an Authorized Denomination shall be rejected and shall be deemed a Hold Order. Any Bid submitted by a Potential Owner covering an aggregate principal amount of Auction Rate Securities not equal to an Authorized Denomination shall be rejected.

(viii) Any Bid specifying a rate higher than the Maximum Auction Rate will be treated as a Sell Order if submitted by an Existing Owner and will not be accepted if submitted by a Potential Owner. Any Bid submitted by an Existing Owner or on behalf of a Potential Owner specifying a rate lower than the All Hold Rate shall be treated as a Bid specifying the All Hold Rate, and each such Bid shall be considered as valid and shall be selected in the ascending order of their respective rates contained in the Submitted Bids.

(ix) Any Order submitted in an Auction by the Authorized Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date shall be irrevocable.

(c) (i) Not earlier than the Submission Deadline on each Auction Date, the Auction Agent shall assemble all valid Orders submitted or deemed submitted to it by the

Authorized Broker-Dealer (each such Order as submitted or deemed submitted by the Authorized Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and shall determine:

(A) the excess of the total principal amount of outstanding Auction Rate Securities over the sum of the aggregate principal amount of outstanding Auction Rate Securities subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction Rate Securities"), and

(B) from the Submitted Orders whether:

(I) (aa) the aggregate principal amount of outstanding Auction Rate Securities subject to Submitted Bids by Potential Owners specifying one or more rates equal to or lower than the Maximum Auction Rate exceeds or (bb) is equal to the sum of:

(II) the aggregate principal amount of outstanding Auction Rate Securities subject to Submitted Bids by Existing Owners specifying one or more rates higher than the Maximum Auction Rate, and

(III) the aggregate principal amount of outstanding Auction Rate Securities subject to Submitted Sell Orders

(in the event such excess or such equality exists, other than because all of the outstanding Auction Rate Securities are subject to Submitted Hold Orders, such Submitted Bid described in subclause (I) above shall be referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the lowest rate specified in such Submitted Bids (the "Winning Bid Rate") such that if:

(I) (aa) each such Submitted Bid from Existing Owners specifying such lowest rate and (bb) all other Submitted Bids from Existing Owners specifying lower rates were rejected, thus entitling such Existing Owners to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bids, and

(II) (aa) each such Submitted Bid from Potential Owners specifying such lowest rate and (bb) all other Submitted Bids from Potential Owners specifying lower rates were accepted,

the result would be that such Existing Owners described in subsection (C)(I) above would continue to hold an aggregate principal amount of outstanding Auction Rate Securities which, when added to the aggregate principal amount of outstanding Auction Rate Securities to be purchased by such Potential Owners described in subsection (C)(II) above, would equal not less than the Available Auction Rate Securities.

(ii) Promptly after the Auction Agent has made the determinations pursuant to Section 1(c)(i) hereof, the Auction Agent shall advise the County and the Trustee of the Maximum Auction Rate and the All-Hold Rate and the components thereof on the Auction Date

and, based on such determinations, the Auction Rate for the next succeeding Auction Interest Period as follows:

(A) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Auction Interest Period shall be equal to the Winning Bid Rate so determined;

(B) if Sufficient Clearing Bids do not exist (other than because all of the outstanding Auction Rate Securities are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Auction Interest Period shall be equal to the Maximum Auction Rate; or

(C) if all outstanding Auction Rate Securities are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Auction Interest Period shall be equal to the All-Hold Rate.

(d) Existing Owners shall continue to hold the principal amount of Auction Rate Securities that are subject to Submitted Hold Orders, and, based on the determinations made pursuant to Section 1(c)(i) hereof, Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) if Sufficient Clearing Bids have been made, all Submitted Sell Orders shall be accepted and, subject to the provisions of Sections 1(d)(iv) and 1(d)(v), Submitted Bids shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is higher than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to sell the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(B) Existing Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be rejected, thus entitling each such Existing Owner to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(C) Potential Owners' Submitted Bids specifying any rate that is lower than the Winning Bid Rate shall be accepted;

(D) each Existing Owners' Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be rejected, thus entitling such Existing Owner to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bid, unless the aggregate principal amount of outstanding Auction Rate Securities subject to all such Submitted Bids shall be greater than the principal amount of Auction Rate Securities (the "remaining principal amount") equal to the excess of the Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subsections (B) and (C) of this Section 1(d)(i), in which event such Submitted Bid of such Existing Owner shall be rejected in part, and such Existing Owner shall be entitled to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bid, but only in an

amount equal to the aggregate principal amount of Auction Rate Securities obtained by multiplying the remaining principal amount by a fraction, the numerator of which shall be the principal amount of outstanding Auction Rate Securities held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of outstanding Auction Rate Securities subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate; and

(E) Each Potential Owner's Submitted Bid specifying a rate that is equal to the Winning Bid Rate shall be accepted, but only in an amount equal to the principal amount of Auction Rate Securities obtained by multiplying the excess of the aggregate principal amount of Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subsections (B), (C) and (D) of this Section 1(d)(i) by a fraction the numerator of which shall be the aggregate principal amount of outstanding Auction Rate Securities subject to such Submitted Bid and the denominator of which shall be the sum of the principal amount of outstanding Auction Rate Securities subject to Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the outstanding Auction Rate Securities are subject to submitted Hold Orders), subject to the provisions of Section 1(d)(iv), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids shall be rejected:

(A) Existing Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be rejected, thus entitling such Existing Owners to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

(B) Potential Owners' Submitted Bids specifying any rate that is equal to or lower than the Maximum Auction Rate shall be accepted, and specifying any rate that is higher than the Maximum Auction Rate shall be rejected; and

(C) each Existing Owner's Submitted Bid specifying any rate that is higher than the Maximum Auction Rate and the Submitted Sell Order of each Existing Owner shall be accepted, thus entitling each Existing Owner that submitted any such Submitted Bid or Submitted Sell Order to sell the Auction Rate Securities subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Auction Rate Securities obtained by multiplying the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in subsection (B) of this Section 1(d)(ii) by a fraction the numerator of which shall be the aggregate principal amount of outstanding Auction Rate Securities held by such Existing Owner subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate principal amount of outstanding Auction Rate Securities subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If all outstanding Auction Rate Securities are subject to Submitted Hold Orders, all Submitted Bids shall be rejected.

(iv) If, as a result of the procedures described in Section 1(d)(i) or 1(d)(ii), any Existing Owner would be entitled or required to sell, or any Potential Owner would be entitled or required to purchase, a principal amount of Auction Rate Securities that is not equal to an Authorized Denomination the Auction Agent shall, in such manner as in its sole discretion it shall determine, round up or down the principal amount of Auction Rate Securities to be purchased or sold by any Existing Owner or Potential Owner so that the principal amount of Auction Rate Securities purchased or sold by each Existing Owner or Potential Owner shall be equal to an Authorized Denomination.

(v) If, as a result of the procedures described in Section 1(d)(ii), any Potential Owner would be entitled or required to purchase less than an Authorized Denomination of Auction Rate Securities, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate Auction Rate Securities for purchase among Potential Owners so that only Auction Rate Securities in Authorized Denominations are purchased by any Potential Owner, even if such allocation results in one or more of such Potential Owners not purchasing any Auction Rate Securities.

(vi) the County, Trustee and Auction Agent shall have no liability in the event that there are not Sufficient Clearing Bids from time to time pursuant to the Auction Procedures.

(e) Based on the result of each Auction, the Auction Agent shall determine the aggregate principal amount of Auction Rate Securities to be purchased and the aggregate principal amount of Auction Rate Securities to be sold by Potential Owners and Existing Owners on whose behalf the Authorized Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of Auction Rate Securities to be sold differs from such aggregate principal amount of Auction Rate Securities to be purchased, determine to which other Broker-Dealer or Broker Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealer acting for one or more sellers such Broker-Dealer shall receive, as the case may be, Auction Rate Securities.

(f) Any calculation by the Auction Agent (or the Trustee, if applicable) of the Applicable Auction Rate, the Maximum Rate, the All-Hold Rate and the Non-Payment Rate shall, in the absence of manifest error, be binding on all Beneficial Owners and all other parties.

SECTION 2. Settlement Procedures.

(a) Not later than 3:00 p.m., New York City time, on each Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction relating to the Auction Rate Securities held on such Auction Date and submitted an Order on behalf of an Existing Owner or Potential Owner of:

- (i) the Auction Rate fixed for the next Auction Interest Period;
- (ii) whether there were Sufficient Clearing Bids in such Auction;

(iii) If the Authorized Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be sold by such Existing Owner;

(iv) if the Authorized Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be purchased by such Potential Owner;

(v) if the aggregate amount of Auction Rate Securities to be sold by all Existing Owners on whose behalf such Seller's Broker-Dealer submitted a Bid or a Sell Order exceeds the aggregate principal amount of Auction Rate Securities to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealer (and the name of the Participant, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be purchased from one or more Existing Owners on whose behalf such Seller's Broker-Dealer acted by one or more Potential Owners on whose behalf each of such Buyer's Broker-Dealer acted;

(vi) if the principal amount of Auction Rate Securities to be purchased by all Potential Owners on whose behalf such Buyer's Broker-Dealer submitted a Bid exceeds the amount of Auction Rate Securities to be sold by all Existing Owners on whose behalf such Seller's Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealer (and the name of the Participant, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be sold to one or more Potential Owners on whose behalf such Buyer's Broker-Dealer acted by one or more Existing Owners on whose behalf each of such Seller's Broker-Dealer acted; and

(vii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, the Authorized Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Authorized Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) in the case of an Authorized Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Owner on whose behalf such Authorized Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Participant to pay to such Authorized Broker-Dealer (or its Participant) through the Securities Depository the amount necessary to purchase the principal amount of Auction Rate Securities to be purchased pursuant to such Bid against receipt of such Auction Rate Securities;

(iii) in the case of an Authorized Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Participant to deliver to such Authorized Broker-Dealer (or its Participant)

through the Securities Depository the principal amount of Auction Rate Securities to be sold pursuant to such Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Seller's Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Buyer's Broker-Dealer submitted a Bid of the Auction Rate for the next Auction Interest Period;

(v) advise each Existing Owner on whose behalf such Seller's Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Owner on whose behalf such Buyer's Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to Section 2(a), an Authorized Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to Section 2(b)(ii), and any Auction Rate Securities received by it in connection with such Auction pursuant to Section 2(b)(iii) among the Potential Owners, if any, on whose behalf such Authorized Broker-Dealer submitted Bids, the Existing Owners, if any on whose behalf such Authorized Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Authorized Broker-Dealer identified to it by the Auction Agent following such Auction pursuant to Section 2(a)(v) or 2(a)(vi).

(d) On each Auction Date:

(i) each Potential Owner and Existing Owner with an Order in the Auction on such Auction Date shall instruct its Participant as provided in Section 2(b)(ii) or 2(b)(iii), as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant of the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to the Participant of the Existing Owner delivering Auction Rate Securities to such Seller's Broker-Dealer following such Auction pursuant to Section 2(b)(iii) the amount necessary to purchase such Auction Rate Securities against receipt of such Auction Rate Securities, and (B) deliver such Auction Rate Securities through the Securities Depository to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to Section 2(a)(v) against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not a Participant in the Securities Depository shall instruct its Participant to (A) pay through the Securities Depository to Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to Section 2(a)(vi) the amount necessary to purchase the Auction Rate Securities to be purchased pursuant to Section 2(b)(ii) against receipt of such Auction Rate Securities, and (B) deliver such Auction Rate Securities through the Securities Depository to the Participant of the purchaser thereof against payment therefor.

(e) On the Business Day following each Auction Date:

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in Section 2(d)(i) shall instruct the Securities Depository to execute the transactions

described under Section 2(b)(ii) or 2(b)(iii) for such Auction, and the Securities Depository shall execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in Section 2(d)(ii) for such Auction, and the Securities Depository shall execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant shall instruct the Securities Depository to execute the transactions described in Section 2(d)(iii) for such Auction, and the Securities Depository shall execute such transactions.

(f) If an Existing Owner selling Auction Rate Securities in an Auction fails to deliver such Auction Rate Securities (by authorized book-entry), an Authorized Broker-Dealer may deliver to the Potential Owner on behalf of which it submitted a Bid that was accepted a principal amount of Auction Rate Securities that is less than the principal amount of Auction Rate Securities that otherwise was to be purchased by such Potential Owner. In such event, the principal amount of Auction Rate Securities to be so delivered shall be determined solely by such Authorized Broker-Dealer. Delivery of such lesser principal amount of Auction Rate Securities shall constitute good delivery. Notwithstanding the foregoing terms of this subsection, any delivery or nondelivery of Auction Rate Securities which shall represent any departure from the results of an Auction, as determined by the Auction Agent, shall be of no effect unless and until the Auction Agent shall have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreement.

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APPENDIX G

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of a such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

In the event the Insurer were to become insolvent, any claims arising under a policy of financial guaranty insurance are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 14.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

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