NEW ISSUE – BOOK-ENTRY-ONLY

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

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest evidenced by the Series 2012 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the Series 2012 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest evidenced by, the Series 2012 Certificates. See "Tax Matters" herein.

$29,335,000
COUNTY OF SAN DIEGO
Certificates of Participation
(2012 Cedar and Kettner Development Project)

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

The County of San Diego Certificates of Participation (2012 Cedar and Kettner Development Project) (the "Series 2012 Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of August 1, 2011 (the "Original Trust Agreement"), as amended and supplemented by a First Supplemental Trust Agreement, dated as of October 1, 2012 (the "First Supplemental Trust Agreement" and, together with the Original Trust Agreement, the "Trust Agreement"), each by and among Zions First National Bank, as trustee (the "Trustee"), the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation"). The Series 2012 Certificates evidence proportionate undivided interests in base rental payments (together with the base rental payments presently made by the County under the herein described Original Facility Lease, the "Base Rental Payments") to be made by the County pursuant to that certain Facility Lease, dated as of August 1, 2011 (the "Original Facility Lease"), as amended by that certain First Amendment to Facility Lease, dated as of October 1, 2012 (the "First Amendment to Facility Lease" and, together with the Original Facility Lease, the "Facility Lease"), each by and between the County and the Corporation, pursuant to which the County subleases from the Corporation certain real property and all the improvements thereon comprising the George Bailey Detention Facility. See "The Leased Property" herein. The Series 2012 Certificates are secured on a parity with the County's Certificates of Participation (County Administration Center Waterfront Park) (the "Series 2011 Certificates" and, together with the Series 2012 Certificates and any additional certificates executed and delivered pursuant to the Trust Agreement, the "Certificates") executed and delivered pursuant to the Original Trust Agreement and evidencing proportionate undivided interests in Base Rental Payments pursuant to the Original Facility Lease. See "Security and Sources of Payment for the Series 2012 Certificates – Base Rental Payments" herein. The proceeds of the Series 2012 Certificates, together with available moneys of the County, will be applied to (i) finance the costs of construction of certain public facilities constituting a parking structure to be located at Cedar Street and Kettner Boulevard in the City of San Diego (the "Project"), (ii) fund a portion of the common reserve fund for the Series 2011 Certificates and the Series 2012 Certificates and (iii) pay certain costs of issuance incurred in connection with the Series 2012 Certificates. The Project is not a part of the Leased Property under the Facility Lease. See "Plan of Financing" and "Estimated Sources and Uses of Funds" herein.

Interest represented by the Series 2012 Certificates is payable on February 1 and August 1 of each year, commencing on February 1, 2013. The Series 2012 Certificates will be delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2012 Certificates. Individual purchases of the Series 2012 Certificates will be made in book-entry form only. Purchasers of the Series 2012 Certificates will not receive certificates representing their ownership interests in the Series 2012 Certificates purchased. Principal and interest payments represented by the Series 2012 Certificates are payable directly to DTC by the Trustee from Base Rental Payments. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Series 2012 Certificates. See Appendix D – "Book-Entry System" attached hereto.

The Series 2012 Certificates are subject to optional, extraordinary and mandatory sinking fund prepayment, as described herein. See "The Series 2012 Certificates – Prepayment" herein.

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

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

The Series 2012 Certificates will be offered when, as and if executed, delivered, and received by the Underwriters, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Special Counsel to the County, and certain other conditions. Certain legal matters will be passed upon for the County and the Corporation by the County Counsel and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. It is anticipated that the Series 2012 Certificates in definitive form will be available for delivery to DTC in New York, New York, on or about October 24, 2012.

BofA Merrill Lynch **Wedbush Securities**

Dated: October 9, 2012

$29,335,000
COUNTY OF SAN DIEGO
CERTIFICATES OF PARTICIPATION
(2012 CEDAR AND KETTNER DEVELOPMENT PROJECT)

MATURITY SCHEDULE

BASE CUSIP No.†: 797391

Maturity (February 1)	Principal Amount	Interest Rate	Yield	CUSIP Suffix†
2014	$ 585,000	2.000%	0.450%	V63
2015	595,000	3.000	0.660	V71
2016	615,000	3.000	0.810	V89
2017	630,000	4.000	1.050	V97
2018	655,000	4.000	1.270	W21
2019	685,000	4.000	1.540	W39
2020	710,000	5.000	1.850	W47
2021	745,000	4.000	2.110	W54
2022	775,000	4.000	2.340	W62
2023(1)	805,000	5.000	2.520	W70
2024(1)	845,000	4.000	2.750	W88
2025(1)	880,000	4.000	2.920	W96
2026(1)	915,000	4.000	3.040	X20
2027(1)	950,000	4.000	3.110	X38
2028	990,000	3.000	3.220	X46
2029	1,020,000	3.125	3.280	X53
2030	1,050,000	3.125	3.340	X61
2031	1,085,000	3.250	3.450	X79
2032	1,120,000	3.375	3.520	X87

$6,220,000 3.625% 2012 Term Certificates due February 1, 2037 – Priced to Yield: 3.790%; CUSIP 797391X95
$7,460,000 3.750% 2012 Term Certificates due February 1, 2042 – Priced to Yield: 4.000%; CUSIP 797391Y29

(1) Priced to call at par on February 1, 2022.

† CUSIP data, copyright 2012, American Bankers Association. CUSIP data herein is set forth for convenience of reference only. The Corporation, the County and the Underwriters assume no responsibility for its accuracy.

COUNTY OF SAN DIEGO, STATE OF CALIFORNIA

BOARD OF SUPERVISORS

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

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COUNTY OFFICIALS

Walter F. Ekard, *Chief Administrative Officer*
Dan McAllister, *Treasurer – Tax Collector*
Donald F. Steuer, *Chief Financial Officer*
Tracy M. Sandoval, *Auditor & Controller*
Thomas E. Montgomery, *County Counsel*

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SAN DIEGO COUNTY CAPITAL ASSET LEASING CORPORATION

BOARD OF DIRECTORS

Michel Anderson, *Chair*
Jeff Kane, *Vice Chair*
David E. DeVol, *Secretary*
Timothy Considine, *Treasurer*
John Todd

SPECIAL SERVICES

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

Trustee
Zions First National Bank
Los Angeles, California

Financial Advisor
Public Resources Advisory Group
Los Angeles, California

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2012 Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the County, the Corporation, or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2012 Certificates. Statements contained in this Official Statement which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

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

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

In connection with the offering of the Series 2012 Certificates, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of such Series 2012 Certificates at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Series 2012 Certificates to certain dealers and dealer banks and banks acting as agents at prices lower than the public offering prices stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

The County maintains a website at http://sdpublic.sdcounty.ca.gov/. The information presented therein is not a part of this Official Statement, is not incorporated by reference herein, and should not be relied upon in making an investment decision with respect to the Series 2012 Certificates.

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COUNTY OF SAN DIEGO
Certificates of Participation
(2012 Cedar and Kettner Development Project)

INTRODUCTION

This introduction contains only a brief summary of certain terms of the Series 2012 Certificates being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Trust Agreement and the Facility Lease (herein defined). See Appendix C – "Summary of Principal Legal Documents – Definitions" attached hereto.

General

This Official Statement, including the cover page, the inside cover page and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the County of San Diego Certificates of Participation (2012 Cedar and Kettner Development Project) in an aggregate principal amount of $29,335,000 (the "Series 2012 Certificates"). The Series 2012 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of August 1, 2011 (the "Original Trust Agreement"), as amended and supplemented by a First Supplemental Trust Agreement, dated as of October 1, 2012 (the "First Supplemental Trust Agreement" and, together with the Original Trust Agreement, the "Trust Agreement"), each by and among Zions First National Bank, as trustee (the "Trustee"), the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation") to (i) finance the costs of construction of certain public facilities constituting a parking structure to be located at Cedar Street and Kettner Boulevard in the City of San Diego (the "Project"), (ii) fund a portion of the common reserve fund for the Series 2011 Certificates (herein defined) and the Series 2012 Certificates and (iii) pay certain costs of issuance incurred in connection with the Series 2012 Certificates. The Project is not a part the Leased Property (herein defined) under the Facility Lease (herein defined). See "Plan of Financing" and "Estimated Sources and Uses of Funds" herein.

The County leases certain real property and all improvements thereon comprising the George Bailey Detention Facility, as more particularly described herein (the "Leased Property"), to the Corporation pursuant to a Site Lease, dated as of August 1, 2011 (the "Site Lease"), by and between the County and the Corporation. The County subleases the Leased Property from the Corporation pursuant to a Facility Lease, dated as of August 1, 2011 (the "Original Facility Lease"), as amended by that certain First Amendment to Facility Lease, dated as of October 1, 2012 (the "First Amendment to Facility Lease" and, together with the Original Facility Lease, the "Facility Lease"), each by and between the County and the Corporation. Pursuant to an Assignment Agreement, dated as of August 1, 2011 (the "Original Assignment Agreement"), as amended by a First Amendment to Assignment Agreement, dated as of October 1, 2012 (the "First Amendment to Assignment Agreement" and, together with the Original Assignment Agreement, the "Assignment Agreement"), each by and between the Trustee and the Corporation, the Corporation has assigned and will assign to the Trustee, for the benefit of the Owners of the Series 2011 Certificates (herein defined) and the Series 2012 Certificates, among other things, (i) all right, title and interest of the Corporation as lessee under each of the Site Lease and (ii) certain of its right, title and interest in and to the Facility Lease, including the right to receive Base Rental Payments (herein defined) under the Facility Lease.

The Series 2012 Certificates evidence proportionate undivided interests in base rental payments (together with the base rental payments presently made by the County under the Original Facility Lease, the “Base Rental Payments”) to be made by the County as the rental for the Leased Property under and pursuant to the Facility Lease. The Series 2012 Certificates are secured on a parity with the County’s Certificates of Participation (County Administration Center Waterfront Park) (the “Series 2011 Certificates”) executed and delivered pursuant to the Original Trust Agreement in 2011 and evidencing proportionate undivided interests in Base Rental Payments pursuant to the Facility Lease. See “Security and Sources of Payment for the Series 2012 Certificates” herein.

Security and Source of Payment for the Series 2012 Certificates

Under the Facility Lease, in consideration for the use and occupancy of the Leased Property, the County has agreed to make certain payments designated as Base Rental Payments and certain other payments designated as Additional Payments with respect to the Leased Property (the “Additional Payments”), in the amounts, at the times and in the manner set forth in the Facility Lease. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Series 2011 Certificates and the Series 2012 Certificates. The County has covenanted in the Facility Lease to take such action as may be necessary to include all Base Rental Payments and Additional Payments due under the Facility Lease in its general fund operating budget for each fiscal year commencing after the date of the Facility Lease, and to make all necessary appropriations for such Base Rental Payments and Additional Payments.

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

The County’s obligation to pay Base Rental Payments is subject to abatement. However, during periods of abatement, any moneys in the Base Rental Payment Fund or in the Reserve Fund and amounts, if any, received from rental interruption insurance are available to pay Base Rental Payments. See “Security and Sources of Payment for the Series 2012 Certificates – Base Rental Payments” and “– Abatement” herein.

The Series 2012 Certificates

The Series 2012 Certificates will be executed and delivered in the form of fully registered certificates in principal amounts of $5,000 each or any integral multiple thereof. The Series 2012 Certificates will be dated their date of delivery and mature on the dates set forth on the inside cover page hereof. The interest represented by the Series 2011 Certificates and the Series 2012 Certificates represents the sum of the portions of the Base Rental Payments designated as interest components coming due on the Interest Payment Dates (herein defined) in each year. The principal represented by the Series 2011 Certificates and the Series 2012 Certificates represents the sum of the portions of the Base Rental Payments designated as principal components coming due on the Principal Payment Date in each year.

Interest represented by the Series 2012 Certificates is payable on February 1 and August 1 of each year, commencing on February 1, 2013 (each an "Interest Payment Date").

The Series 2012 Certificates will be delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2012 Certificates. Individual purchases of the Series 2012 Certificates will be made in book-entry form only. Purchasers of the Series 2012 Certificates will not receive certificates representing their ownership interests in the Series 2012 Certificates purchased. Principal and interest payments represented by the Series 2012 Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Series 2012 Certificates. See "The Series 2012 Certificates – General" herein and Appendix D – "Book-Entry System" attached hereto.

Additional Certificates

The Series 2012 Certificates are being delivered as Additional Certificates (herein defined) under the Trust Agreement. The Series 2011 Certificates executed and delivered in 2011, the Series 2012 Certificates and any additional certificates which may hereafter be executed and delivered pursuant to the Trust Agreement (the "Additional Certificates") are referred to herein as the "Certificates". The Trust Agreement provides that, in addition to the Series 2011 Certificates and the Series 2012 Certificates, the County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners and subject to certain conditions, provide for the execution and delivery of Additional Certificates representing additional Base Rental Payments. See "Security and Sources of Payment for the Series 2012 Certificates - Additional Certificates" herein and Appendix C – "Summary of Principal Legal Documents – Trust Agreement – Execution and Delivery of Additional Certificates" attached hereto.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest evidenced by the Series 2012 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the Series 2012 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest evidenced by, the Series 2012 Certificates. See "Tax Matters" herein.

Continuing Disclosure

The County has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System (the "Repository") for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission certain annual financial information and operating data and notice of the occurrence of certain enumerated events ("Notice Events") in a timely manner not in excess of ten (10) business days after the occurrence of such Notice Event. These covenants have been made in order to assist the Underwriters in complying with the Rule. See "Continuing Disclosure" herein and Appendix F – "Form of Continuing Disclosure Agreement" attached hereto.

Forward-Looking Statements

Certain statements included or incorporated by reference in the Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are believed to be reasonable, there can be no assurance that such expectations will prove to be correct. Neither the County nor the Corporation is obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur, whether or not they prove to be correct.

Miscellaneous

The Series 2012 Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Special Counsel and certain other conditions.

The descriptions herein of the Trust Agreement, the Site Lease, the Facility Lease and the Assignment Agreement and any other agreements relating to the Series 2012 Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Series 2012 Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See Appendix C – "Summary of Principal Legal Documents" attached hereto. Copies of the documents are on file and available for inspection at the Corporate Trust Office of the Trustee at Zions First National Bank, 550 South Hope Street, Suite 2650, Los Angeles, California 90071.

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

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

THE LEASED PROPERTY

Pursuant to the Site Lease, the County leases to the Corporation the Leased Property. Pursuant to the Facility Lease, the Corporation subleases the Leased Property to the County, and the County makes Base Rental Payments in consideration for the use and occupancy of the Leased Property. The Leased Property consists of certain real property and equipment comprising the George Bailey Detention Facility, located at 446 Alta Road in Otay Mesa, in south San Diego County. The Leased Property is a 20-acre parcel containing a 248,952 square foot maximum security detention facility, the largest of all the facilities operated under the San Diego County Sheriff's jurisdiction. Construction of the Leased Property was completed in 1991 and it became fully operational in 1994. The Leased Property includes six housing units with facilities for special management inmates and facilities for medical services, inmate processing and administration. County staff at the Leased Property include sworn and professional staff that provide food services, religious services, medical services, counseling services, laundry and supply services, administrative support services, detention processing services and maintenance support. The Leased Property has a maximum capacity of 1,696 inmates and an average daily population of 1,500 inmates. The Leased Property receives on average 1,200 visitors per week, including both social and professional visits. The Project is not part of the Leased Property.

The County is permitted to substitute other real property for all or a part of the Leased Property upon compliance with all of the conditions set forth in the Facility Lease and the Site Lease. See Appendix C – "Summary of Principal Legal Documents – Facility Lease – The Leased Property – Substitution or Removal of Leased Property" attached hereto.

PLAN OF FINANCING

General

The Series 2012 Certificates are being executed and delivered to (i) finance the costs of construction of the Project, (ii) fund a portion of the common reserve fund for the Series 2011 Certificates and the Series 2012 Certificates and (iii) pay certain costs of issuance incurred in connection with the Series 2012 Certificates.

The Project

The Project consists of the development of a parking structure within the city block bounded by Beech Street on the south, Kettner Boulevard on the east, Cedar Street on the north and a railroad right-of-way on the west, all within the City of San Diego. The parking structure is expected to include three above-ground levels and four below-ground levels, for a total of over 600 parking spaces for County employees who currently use lots that will be demolished in connection with the construction of the County Administration Center Waterfront Park, a 12-acre park and underground parking structure on the historic County Administration Center grounds. All of the parking spaces are expected to be available for public parking on a fee basis during the evenings and on weekends and holidays. Sustainable design features will be incorporated into the Project with the goal of obtaining Leadership in Energy and Environmental Design certification. The Project includes demolition of existing on-site structures, excavation of approximately 50,000 to 70,000 cubic yards of material and certain soil remediation. The County has received proposals for development and construction of the Project and expects to award a contract in November 2012. Construction is expected to commence in the summer of 2013 and be completed by December 2014. The total cost of the Project is estimated to be approximately $36.1 million. The cost of the Project will be financed with the proceeds of the Series 2012 Certificates and approximately $8.3 million in available moneys of the County. Parking revenues are not pledged to the payment of Base Rental Payments or the payment of principal or interest with respect to the Certificates.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the Series 2012 Certificates, together with other moneys available therefor, are expected to be applied approximately as follows:

Sources:	
Principal Amount of Series 2012 Certificates	$ 29,335,000.00
Net Original Issue Premium	573,789.45
County Contribution	8,260,000.00
Total Sources	$ 38,168,789.45
Uses:	
Construction Fund	$ 27,840,000.00
Capital Project Fund (held by the County)	8,260,000.00
Reserve Fund	1,662,925.00
Costs of Issuance(1)	405,864.45
Total Uses	$ 38,168,789.45

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

THE SERIES 2012 CERTIFICATES

The following is a summary of certain provisions of the Series 2012 Certificates. Reference is made to the Series 2012 Certificates for the complete text thereof and to the Trust Agreement for a more detailed description of such provisions. The discussion herein is qualified by such reference. See Appendix C – "Summary of Principal Legal Documents" attached hereto.

General

The Series 2012 Certificates will be dated their date of delivery and principal with respect to the Series 2012 Certificates will be payable on the dates set forth on the inside cover page of this Official Statement. The interest represented by the Series 2011 Certificates and the Series 2012 Certificates represent the sum of the portions of the Base Rental Payments designated as interest components coming due on the Interest Payment Dates in each year. The principal represented by the Series 2011 Certificates and the Series 2012 Certificates represent the sum of the portions of the Base Rental Payments designated as principal components coming due on the Principal Payment Date in each year. Interest with respect to the Series 2012 Certificates will be payable semiannually on each February 1 and August 1 of each year, commencing on February 1, 2013 and will be computed on the basis of a 360-day year of twelve 30-day months.

Book-Entry System

The Series 2012 Certificates will be delivered in denominations of $5,000 or any integral multiple thereof ("Authorized Denominations"). The Series 2012 Certificates will be executed in fully registered form only, and, when delivered, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the Series 2012 Certificates. Individual purchases of the Series 2012 Certificates will be made in book-entry form only. Purchasers of the Series 2012 Certificates will not receive certificates representing their ownership interests in the Series 2012 Certificates purchased. Principal and interest payments represented by the Series 2012 Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Series 2012 Certificates. See Appendix D – "Book-Entry System" attached hereto.

Prepayment

Optional Prepayment. The Series 2012 Certificates maturing on and after February 1, 2023 are subject to optional prepayment prior to their stated Principal Payment Dates, on any date on or after February 1, 2022, in whole or in part, in Authorized Denominations, from and to the extent of prepaid Base Rental Payments paid pursuant to the Facility Lease, any such prepayment to be at a price equal to the principal evidenced by the Series 2012 Certificates to be prepaid, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium. See Appendix C – "Summary of Principal Legal Documents – Facility Lease – The Leased Property – Rental Payments – Prepayment of Base Rental Payments" attached hereto.

Mandatory Sinking Account Payment.* The Series 2012 Certificates maturing February 1, 2037 (the "2037 Term Series 2012 Certificates") are subject to prepayment in part by lot, on February 1 in each of the following years from sinking account payments as set forth below at a prepayment price equal to the principal amount thereof to be prepaid, without premium; provided, however, that if some but not all of the 2037 Term Series 2012 Certificates have been prepaid pursuant to an optional or extraordinary prepayment, the total amount of all future sinking account payments will be reduced by the aggregate principal amount of the 2037 Term Series 2012 Certificates so prepaid as nearly as practicable in a pro rata basis in integral multiples of $5,000. In addition, in lieu of prepayment thereof, the 2037 Term Series 2012 Certificates may be purchased by the County and tendered to the Trustee pursuant to the provisions of the Trust Agreement.

Mandatory Prepayment Date (February 1)	Sinking Account Payment
2033	$1,155,000
2034	1,200,000
2035	1,245,000
2036	1,285,000
2037†	1,335,000

† Final Maturity

The Series 2012 Certificates maturing February 1, 2042 (the "2042 Term Series 2012 Certificates") are subject to prepayment in part by lot, on February 1 in each of the following years from sinking account payments as set forth below at a prepayment price equal to the principal amount thereof to be prepaid, without premium; provided, however, that if some but not all of the 2042 Term Series 2012 Certificates have been prepaid pursuant to an optional or extraordinary prepayment, the total amount of all future sinking account payments will be reduced by the aggregate principal amount of the 2042 Term Series 2012 Certificates so prepaid as nearly as practicable in a pro rata basis in integral multiples of $5,000. In addition, in lieu of prepayment thereof, the 2042 Term Series 2012 Certificates may be purchased by the County and tendered to the Trustee pursuant to the provisions of the Trust Agreement.

Mandatory Prepayment Date (February 1)	Sinking Account Payment
2038	$1,380,000
2039	1,435,000
2040	1,490,000
2041	1,550,000
2042†	1,605,000

† Final Maturity

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

Notice of Prepayment. When prepayment is authorized pursuant to the Trust Agreement the Trustee shall give notice, at the expense of the County, of the prepayment of the Series 2012 Certificates. The notice of prepayment shall specify: (a) the Series 2012 Certificates or designated portions thereof (in the case of prepayment of the Series 2012 Certificates in part but not in whole) which are to be prepaid, (b) the date of prepayment, (c) the place or places where the prepayment will be made, including the name and address of any paying agent, (d) the prepayment price, (e) the CUSIP numbers assigned to the Series 2012 Certificates to be prepaid, (f) the numbers of the Series 2012 Certificates to be prepaid in whole or in part (if less than all of the Series 2012 Certificates of a maturity are to be prepaid) and, in the case of any Certificates to be prepaid in part only, the amount of such Certificates to be prepaid, and (g) the stated Principal Payment Date of each Series 2012 Certificate to be prepaid in whole or in part. Such notice of prepayment shall further state that on the specified date there shall become due and payable upon each Series 2012 Certificate or portion thereof being prepaid the prepayment price, together with interest accrued to the prepayment date thereon, and that from and after such date interest represented thereby shall cease to accrue and be payable. A notice of prepayment may provide (a) that the prepayment is conditioned upon the occurrence of one or more events specified in the notice and (b) that such notice may be revoked, without any cause, at any time prior to the prepayment date. The Trustee shall give the foregoing notice at least 30 but not more than 60 days before to the prepayment date to the respective Owners of Certificates designated for prepayment by first class mail, postage prepaid, at their addresses appearing on the registration books of the Trustee as of the close of business on the day before such notice of prepayment is given.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 CERTIFICATES

Base Rental Payments

General. The Series 2012 Certificates, together with the Series 2011 Certificates, represent the aggregate principal components of the Base Rental Payments under the Facility Lease and each Series 2012 Certificate and each Series 2011 Certificate evidences and represents a proportionate, undivided interest in such Base Rental Payments to be made by the County. The County is required under the Facility Lease to make Base Rental Payments subject to the provisions of the Facility Lease related to abatement. The County has covenanted in the Facility Lease to take such action as may be necessary to include all Base Rental Payments and Additional Payments due under the Leased Property in its general fund operating budget for each fiscal year commencing after the date of the Facility Lease and to make all necessary appropriations for such Base Rental Payments and Additional Payments. Base Rental Payments are scheduled to be paid as set forth herein. See "– Base Rental Payments Schedule" herein.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL PAYMENTS CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. SEE APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – FACILITY LEASE – RENTAL PAYMENTS – OBLIGATION TO MAKE BASE RENTAL PAYMENTS" ATTACHED HERETO.

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

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

The Facility Lease provides that, upon the occurrence of an Event of Default under the Facility Lease, the Corporation or its assignee must thereafter maintain the Facility Lease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the Leased Property regardless of whether or not the County has abandoned the Leased Property; THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE FACILITY LEASE OR OTHERWISE. Pursuant to the Facility Lease, in such event, the County shall remain liable and agrees to keep or perform all covenants and conditions contained in the Facility Lease to be kept or performed by the County and, to pay the rent to the end of the term of the Facility Lease and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Facility Lease for the payment of rent thereunder (without acceleration).

All funds and accounts held by the Trustee and all payments received by the Trustee with respect to the rental of the Leased Property after a default by the County under the Facility Lease, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Facility Lease, will be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied, first to the payment of all amounts due the Trustee under the Trust

Agreement; secondly, to the payment of all amounts then due as interest with respect to the Certificates, and thereafter to the payment of all amounts due as principal with respect to the Certificates (other than Certificates which have matured or otherwise become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable with respect to such Certificates.

Base Rental Payments Schedule. The Facility Lease provides that all Base Rental Payments due in any Fiscal Year shall be due and payable in one sum on July 5 of each year; provided that the February 1, 2013 Base Rental Payment relating to the Series 2012 Certificates shall be paid on February 1, 2013. Any payment scheduled to be made on a date which is not a Business Day shall be made on the next succeeding Business Day.

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

BASE RENTAL PAYMENTS

Fiscal Year Ending	Series 2011 Certificates Principal Component	Series 2011 Certificates Interest Component	Series 2012 Certificates Principal Component	Series 2012 Certificates Interest Component	Series 2012 Certificates Subtotal	Total Base Rental Payments[(1)]
2013	$ 575,000	$1,519,250	$ -	$ 290,899	$ 290,899	$ 2,385,149
2014	590,000	1,502,000	585,000	1,079,625	1,664,625	3,756,625
2015	610,000	1,484,300	595,000	1,067,925	1,662,925	3,757,225
2016	625,000	1,466,000	615,000	1,050,075	1,665,075	3,756,075
2017	645,000	1,447,250	630,000	1,031,625	1,661,625	3,753,875
2018	665,000	1,427,900	655,000	1,006,425	1,661,425	3,754,325
2019	690,000	1,401,300	685,000	980,225	1,665,225	3,756,525
2020	720,000	1,372,200	710,000	952,825	1,662,825	3,755,025
2021	750,000	1,343,400	745,000	917,325	1,662,325	3,755,725
2022	780,000	1,313,400	775,000	887,525	1,662,525	3,755,925
2023	815,000	1,277,550	805,000	856,525	1,661,525	3,754,075
2024	855,000	1,236,800	845,000	816,275	1,661,275	3,753,075
2025	890,000	1,202,600	880,000	782,475	1,662,475	3,755,075
2026	925,000	1,167,000	915,000	747,275	1,662,275	3,754,275
2027	965,000	1,127,688	950,000	710,675	1,660,675	3,753,363
2028	1,005,000	1,086,675	990,000	672,675	1,662,675	3,754,350
2029	1,050,000	1,041,450	1,020,000	642,975	1,662,975	3,754,425
2030	1,100,000	994,200	1,050,000	611,100	1,661,100	3,755,300
2031	1,150,000	939,200	1,085,000	578,288	1,663,288	3,752,488
2032	1,205,000	884,575	1,120,000	543,025	1,663,025	3,752,600
2033	1,270,000	822,819	1,155,000	505,225	1,660,225	3,753,044
2034	1,335,000	757,731	1,200,000	463,356	1,663,356	3,756,087
2035	1,400,000	689,313	1,245,000	419,856	1,664,856	3,754,169
2036	1,475,000	617,563	1,285,000	374,725	1,659,725	3,752,288
2037	1,550,000	541,969	1,335,000	328,144	1,663,144	3,755,113
2038	1,630,000	462,531	1,380,000	279,750	1,659,750	3,752,281
2039	1,715,000	378,994	1,435,000	228,000	1,663,000	3,756,994
2040	1,800,000	291,100	1,490,000	174,188	1,664,188	3,755,288
2041	1,890,000	198,850	1,550,000	118,313	1,668,313	3,757,163
2042	1,990,000	101,988	1,605,000	60,188	1,665,188	3,757,176
Total[(2)]	$32,665,000	$30,097,594	$29,335,000	$19,177,505	$48,512,505	$111,275,099

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

(2) Total may not equal sum of component parts due to independent rounding.

Reserve Fund

A Reserve Fund has been established under the Trust Agreement and is held by the Trustee as a separate fund for the benefit of the Owners of the Certificates. The Reserve Fund will be funded in the amount of the Reserve Fund Requirement and will be used and withdrawn by the Trustee solely for the purposes and at the times specified in the Trust Agreement. The term "Reserve Fund Requirement" means an amount with respect to all Certificates and Additional Certificates equal, as of any date of calculation, to the lesser of (a) Maximum Annual Debt Service on all Outstanding Certificates and Additional Certificates or (b) 125% of Average Annual Debt Service on all Outstanding Certificates and Additional Certificates; provided however, that the Reserve Fund Requirement with respect to any Series of Certificates or Additional Certificates shall be the least of (a) or (b) above, or (c) an amount equal to, or derived by the addition of, 10% of the proceeds from the sale of such Series of Certificates or Additional Certificates to the Reserve Fund. "Maximum Annual Debt Service" means an amount equal to the largest Annual Debt Service for all future Lease Years beginning in the Lease Year in which the calculation is made. "Average Annual Debt Service" means an amount equal to the average of the Annual Debt Service for all Lease Years, including the Lease Year in which the calculation is made. "Annual Debt Service" means, for each Lease Year, an amount equal to the sum of all Base Rental Payments due in such Lease Year. "Lease Year" means the period from each August 1 to and including the following July 31 during the term of the Facility Lease; provided that the final Lease Year shall terminate on the expiration date of the Facility Lease. Upon the execution and delivery of the Series 2012 Certificates, $1,662,925 from the proceeds of the Series 2012 Certificates will be deposited into the Reserve Fund which amount, together with amounts on deposit therein, will equal the Reserve Fund Requirement, which is $3,757,225 as of such date.

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

At the option of the County, a Reserve Fund Credit Facility may be substituted for the funds held by the Trustee in the Reserve Fund such that the amount available to be drawn under such Reserve Fund Credit Facility together with funds remaining in the Reserve Fund satisfies the Reserve Fund Requirement. "Reserve Fund Credit Facility" is defined as a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in the Reserve Fund in lieu of or in partial substitution for cash or securities on deposit therein, issued by a financial institution or insurance company whose unsecured debt obligations (or for which obligations secured by an insurance company's insurance policies) are rated, at the time of delivery of such Reserve Fund Credit Facility, in at least the second highest rating category (without respect to any modifier) of each rating agency then rating the Series 2012 Certificates.

See Appendix C – "Summary of Principal Legal Documents – Trust Agreement – Funds – Reserve Fund" attached hereto.

Insurance

The Facility Lease provides that the County shall secure and maintain, or cause to be secured and maintained, at all times with insurers of recognized responsibility, insurance against the risks and in the amounts set forth in the Facility Lease. Such insurance includes "all risk" insurance against loss or damage to the Leased Property including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the lesser of (i) the cumulative replacement values of the Leased Property and, in the case of a policy covering more than the Leased Property as permitted by the next succeeding sentence, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the aggregate amount of the principal component of the then-remaining Base Rental Payments payable under the Facility Lease; provided that the amount of coverage required may be reduced to a smaller amount if an insurance consultant retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot, flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. Such insurance may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County and may at any time include a deductible clause providing for a deductible not to exceed \$100,000 for any one loss (except for flood, in which case the deductible may not exceed \$250,000 for any one loss). Pursuant to the Facility Lease, the County may obtain such coverage as a joint insured with one or more other public agencies located within or outside of San Diego County, which may be limited in an amount per occurrence in the aggregate for all insureds as described in this paragraph and which may be limited in a cumulative amount of claims during a 12-month period in the aggregate for all insureds in an amount not less than \$500,000,000 (collectively, "Pooled Public Agencies Insurance"). The County anticipates that it will secure and maintain "all risk" insurance covering the Leased Property through an insurance policy described in the immediately preceding sentence. As a consequence, the Leased Property will not be covered through stand-alone insurance policies and will rather be covered through an insurance policy that covers multiple properties owned by the then participating public agencies located within or outside of San Diego County under the terms of such Pooled Public Agencies Insurance. If there occurs one or more losses or damages to the properties covered by that insurance policy in a fiscal year that exceeds the annual cumulative limit provided therein and there were also to occur a loss or damage to the Leased Property in the same fiscal year, then the County and the Trustee may be unable to make a claim under such insurance policy for such loss or damage and there may not otherwise be any other insurance covering such loss or damage to the Leased Property.

The Facility Lease provides that the County will also obtain rental interruption insurance with respect to the Leased Property in an amount sufficient at all times to pay the total rent payable under the Facility Lease for a period of not less than two years' Base Rental Payments for the Leased Property; provided that such rental interruption insurance may be included in the Pooled Public Agencies Insurance without increasing the aggregate limits for coverage with respect to any hazard covered thereby. See Appendix C – "Summary of Principal Legal Documents – Facility Lease – Maintenance; Taxes; Insurance and Other Charges – Insurance" attached hereto. The County is under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake. For additional information regarding the County's risk management programs, see Appendix A – "County of San Diego Financial, Economic and Demographic Information – County Financial Information – Risk Management" and Appendix C – "Summary of Principal Legal Documents – Facility Lease – Maintenance; Taxes; Insurance and Other Charges – Insurance" attached hereto.

Abatement

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

All funds and accounts held by the Trustee and all payments received by the Trustee with respect to the rental of the Leased Property after a default by the County under the Facility Lease, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Facility Lease, will be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied, first to the payment of all amounts due the Trustee under the Trust Agreement; secondly, to the payment of all amounts then due as interest with respect to the Certificates, and thereafter to the payment of all amounts due as principal with respect to the Certificates (other than Certificates which have matured or otherwise become payable prior to such event of default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable with respect to such Certificates.

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

Substitution or Removal of Leased Property

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

Additional Certificates

The Trust Agreement provides that, in addition to the Series 2011 Certificates and the Series 2012 Certificates, the County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners, provide for the execution and delivery of Additional Certificates. The Trustee may execute and deliver to or upon the request of the County such Additional Certificates, in such principal amount as shall reflect the additional principal components and interest components of the Base Rental Payments relating to the Additional Certificates, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the County or the Corporation, but such Additional Certificates may only be executed and delivered upon compliance by the County with the provisions set forth in the Trust Agreement and subject to the specific conditions set forth in the Trust Agreement, which are made conditions precedent to the execution and delivery of any such Additional Certificates, including, but not limited to, the condition that the County and the Corporation must enter into an amendment to the Facility Lease and the Site Lease, to the extent necessary, so as to increase the Base Rental Payments payable by the County thereunder in an aggregate amount equal to the principal and interest represented by such Additional Certificates. See Appendix C – "Summary of Principal Legal Documents – Trust Agreement – Execution and Delivery of Additional Certificates" attached hereto.

THE COUNTY

The County is the southernmost major metropolitan area in the State. The County covers 4,261 square miles, extending 75 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the geographic size of the State of Connecticut. The County's Fiscal Year 2012-13 Adopted Operational Plan is approximately $4.85 billion, of which $3.72 billion relates to the County's General Fund budget. For additional economic, demographic and financial information with respect to the County, see Appendix A – "County of San Diego Financial, Economic and Demographic Information" and Appendix B – "County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 2011."

THE CORPORATION

The Corporation was organized on June 12, 1984, as a nonprofit public benefit corporation pursuant to the Nonprofit Public Corporation Law of the State of California. The Corporation's purpose is to render assistance to the County in its acquisition of leased properties, real property and improvements on behalf of the County. Under its articles of incorporation, the Corporation has all powers conferred upon nonprofit public benefit corporations by the laws of the State of California, provided that it will not engage in any activity other than that which is necessary or convenient for, or incidental to the purposes for which it was formed. The Corporation has no taxing authority. The Corporation has no liability to the Owners of the Series 2012 Certificates and has pledged none of its moneys, funds or assets toward the Base Rental Payments or Additional Payments under the Facility Lease, or toward the payment of any amount due in connection with the Series 2012 Certificates.

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

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

The Corporation has not entered into any material financing arrangements with respect to the Series 2011 Certificates or the Series 2012 Certificates other than those referred to in this Official Statement. Further information concerning the Corporation may be obtained from the San Diego County Capital Asset Leasing Corporation office at 1600 Pacific Highway, Room 166, San Diego, California 92101.

RISK FACTORS

The following factors, along with all other information in this Official Statement, including, without limitation, Appendix A, should be considered by potential investors in evaluating the Series 2012 Certificates.

Not a Pledge of Taxes

The obligation of the County to pay the Base Rental Payments or Additional Payments does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. The obligation of the County to pay Base Rental Payments or Additional Payments does not constitute a debt or indebtedness of the County, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

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

Additional Obligations of the County

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

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

Default; Remedies Upon Default; No Right of Relet

The Facility Lease provides that, upon the occurrence of an Event of Default under the Facility Lease, the Corporation or its assignee must thereafter maintain the Facility Lease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the

County's right to possession of the Leased Property regardless of whether or not the County has abandoned the Leased Property; THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE FACILITY LEASE OR OTHERWISE. There is no remedy of acceleration of the total Base Rental Payments due over the term of the Facility Lease, nor is the Trustee empowered to sell the Leased Property and use the proceeds of such sale to prepay the Series 2011 Certificates and the Series 2012 Certificates or to make Base Rental Payments as and when due. Pursuant to the Facility Lease, in such event, the County shall remain liable and agrees to keep or perform all covenants and conditions contained in the Facility Lease to be kept or performed by the County and, to pay the rent to the end of the term of the Facility Lease and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Facility Lease for the payment of rent thereunder (without acceleration). The Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Base Rental Payments were due and against funds needed to serve the public welfare and interest.

Limitations on Remedies

The rights of the Owners of the Series 2012 Certificates are subject to the limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Series 2012 Certificates, and the obligations incurred by the County, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Series 2012 Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Abatement

Except to the extent of (a) amounts held by the Trustee in the Base Rental Payment Fund or in the Reserve Fund, (b) amounts received in respect of rental interruption insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Series 2011 Certificates and the Series 2012 Certificates, during any period in which, by reason of material damage, destruction, title defect, or condemnation, there is substantial interference with the use and possession by the County of any portion of the Leased Property, rental payments due under the Facility Lease with respect to such Leased Property shall be abated to the extent that the annual fair rental value of the portion of such Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments, in which case rental payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or sublease any or all of the Leased Property or other rights under the Facility Lease, as permitted by the Facility Lease, for purposes of determining the annual fair rental value available to pay Base Rental Payments, annual fair rental value of the Leased Property shall first be allocated to the Facility Lease, as provided therein. Any abatement of rental payments pursuant to the Facility Lease shall not be considered an Event of Default under the Facility Lease. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

Seismic Events

The Leased Property is located within a seismically active area, and damage from an earthquake could be substantial. The County is not obligated under the Facility Lease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Leased Property and no assurance can be made that the County will procure and maintain, or cause to be procured and maintained, such insurance. There can be no assurance that earthquake insurance on the Leased Property, if any, can be renewed or will be maintained by the County in the future, or will be available to make Base Rental Payments as and when due. If there is no earthquake insurance on the Leased Property and if the Leased Property is damaged in an earthquake, the Base Rental Payments would be subject to abatement. See "Risk Factors – Abatement" herein.

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

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Special Counsel"), Special Counsel to the County, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest evidenced by the Series 2012 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, interest evidenced by the Series 2012 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Series 2012 Certificates is less than the amount to be paid at maturity of such Series 2012 Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Series 2012 Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest evidenced by the Series 2012 Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2012 Certificates is the first price at which a substantial amount of such maturity of the Series 2012 Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2012 Certificates accrues daily over the term to maturity of such Series 2012 Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2012 Certificates to determine taxable gain or loss upon disposition (including sale, prepayment, or payment on maturity) of such Series 2012 Certificates. Beneficial Owners of the Series 2012 Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Series 2012 Certificates with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2012 Certificates in the original offering to the public at the first price at which a substantial amount of such Series 2012 Certificates is sold to the public.

Series 2012 Certificates purchased, whether at original execution and delivery or otherwise, for an amount higher than their principal evidenced thereby payable at maturity (or, in some cases, at their earlier prepayment date) ("Premium Certificates") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like those evidenced by the Premium Certificates, the interest with respect to which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest evidenced by obligations such as the Series 2012 Certificates. The County has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest evidenced by the Series 2012 Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest evidenced by the Series 2012 Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the Series 2012 Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Counsel's attention after the date of execution and delivery of the Series 2012 Certificates may adversely affect the value of, or the tax status of interest evidenced by, the Series 2012 Certificates. Accordingly, the opinion of Special Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Counsel is of the opinion that interest evidenced by the Series 2012 Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest evidenced by, the Series 2012 Certificates may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depend upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest evidenced by the Series 2012 Certificates to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Series 2012 Certificates to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Series 2012 Certificates. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2012 Certificates. Prospective purchasers of the Series 2012 Certificates should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Special Counsel expresses no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the Series 2012 Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The County has covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to the Series 2012 Certificates ends with the execution and delivery of the Series 2012 Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the County or the Beneficial Owners regarding the tax-exempt status of the Series 2012 Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the County and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2012 Certificates for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2012 Certificates, and may cause the County or the Beneficial Owners to incur significant expense.

CERTAIN LEGAL MATTERS

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

FINANCIAL STATEMENTS

The general purpose financial statements of the County for the Fiscal Year ended June 30, 2011, pertinent sections of which are included in Appendix B to this Official Statement, have been audited by Macias Gini & O'Connell LLP ("Macias"), certified public accountants and management consultants, as stated in their report appearing in Appendix B. Macias has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Macias with respect to any event subsequent to its report dated November 17, 2011.

LITIGATION

No litigation is pending or, to the best knowledge of the County, threatened against the County or the Corporation to restrain or enjoin the delivery of the Series 2012 Certificates or the payments to be made pursuant to the Facility Lease or in any way contesting or affecting the validity of the Trust Agreement or the Facility Lease, or the power of the County to enter into or perform its obligations thereunder. The County is not aware of any litigation pending or threatened questioning the political existence of the County or the Corporation or contesting the County's ability to cause the execution and delivery of the Series 2012 Certificates or pay the Base Rental Payments pursuant to the Facility Lease. There are a number of lawsuits and claims pending against the County. The County does not believe that any of these proceedings could have a material adverse impact upon the financial condition of the County.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"), and Fitch Ratings ("Fitch") have assigned ratings of "Aa3," "AA+" and "AA+," respectively, to the Series 2012 Certificates. Moody's, S&P and Fitch have indicated that the outlook on the ratings are "Stable." The ratings reflect only the views of such organizations and explanations of the significance of such ratings may be obtained only from the organizations at: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007-2796, telephone number (212) 553-0317; Standard and Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone number (212) 438-2000; and Fitch Ratings, One State Street Plaza, New York, New York 10004, telephone number (212) 908-0500. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series 2012 Certificates.

UNDERWRITING

The Series 2012 Certificates are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated, as representative of itself and Wedbush Securities (collectively, the "Underwriters"). Pursuant to the Purchase Contract for the Series 2012 Certificates the Underwriters have agreed, subject to certain conditions, to purchase the Series 2012 Certificates at a price of $29,766,705.21 (representing the principal amount of the Series 2012 Certificates of $29,335,000, plus a net original issue premium of $573,789.45, less an underwriters' discount of $142,084.24). The Purchase Contract for the Series 2012 Certificates provides that the Underwriters will purchase all of the Series 2012 Certificates, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Series 2012 Certificates to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriters.

FINANCIAL ADVISOR

Public Resources Advisory Group, Los Angeles, California, served as Financial Advisor to the County in connection with the execution and delivery of the Series 2012 Certificates. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement (the "Disclosure Agreement") with Digital Assurance Certification, L.L.C., the County has agreed to provide, or cause to be provided, with respect to each fiscal year of the County, commencing with Fiscal Year 2011-12, by no later than nine months after the end of the respective fiscal year, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system ("EMMA") the audited financial statements, if available, or unaudited financial statements, and certain annual financial information and operating data with respect to the County for the most current fiscal year available. In addition, the County has agreed to provide, or cause to be provided, to through EMMA notice of the occurrence of any of the Notice Events enumerated in paragraph (b)(5)(i)(C) of the Rule. These covenants have been made in order to assist the Underwriters in complying with the Rule. See Appendix F – "Form of Continuing Disclosure Agreement" attached hereto.

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

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 2012 Certificates. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the County since the date hereof.

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

COUNTY OF SAN DIEGO

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

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

THE COUNTY

General

The County of San Diego (the "County") is the southernmost major metropolitan area in the State of California (the "State"). The County covers 4,261 square miles, extending 75 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the geographic size of the State of Connecticut. The County's Fiscal Year 2012-13 Adopted Operational Plan (the "Fiscal Year 2012-13 Adopted Budget") is approximately $4.85 billion, of which $3.72 billion relates to the County's General Fund budget.

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

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

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

County of San Diego Employees

General. Table 1 below sets forth the number of County employees for Fiscal Years 2003-04 through 2012-13:

TABLE 1
TOTAL COUNTY EMPLOYEES[1]

Year	Total Employees
2003-04	16,949
2004-05	16,418
2005-06	16,195
2006-07	16,471
2007-08	16,484
2008-09	16,176
2009-10	15,522
2010-11	15,067
2011-12	15,174
2012-13[2]	15,314

Source: County of San Diego Department of Human Resources.
(1) Excludes temporary employees of the County. Data as of June 30 of the indicated year.
(2) As of September 27, 2012.

County employees are represented by nine unions representing 25 bargaining units. The unions represent approximately 88% of the County's employees and include the Deputy Sheriffs' Association of San Diego County (the "Deputy Sheriffs' Association"); Deputy District Attorneys Association; Service Employees International Union ("SEIU"), Local 221, San Diego Probation Officers' Association; District Attorney Investigators Association; San Diego County Deputy County Counsels Association; Public Defender Association of San Diego County; San Diego County Supervising Probation Officers' Association, and Association of San Diego County Employees. The County has labor agreements with the Deputy Sheriffs' Association effective through June 26, 2014 and all other unions, effective through June 23, 2013. Agreements with all unions, except five bargaining units of SEIU, Local 221 and The Association of San Diego County Employees, include reductions to the County's portion of the employee paid retirement offset, flexible benefit increases, and a one-time salary payment equivalent to 2% of base pay. The County labor agreements for the remaining five bargaining units of SEIU Local include reductions to the County's portion of the employee paid retirement offset, flexible benefit increases, a one-time monetary payment of $750 per employee in Fiscal Year 2011-12 and a one-time monetary payment equivalent to 1% of base pay in Fiscal Year 2012-13. The agreement with The Association of San Diego County Employees includes reductions to the County's portion of the employee paid offset, flexible benefit increases and a one-time monetary payment equivalent to 1.5% of base pay. The remaining employees are unrepresented. See "San Diego County Employees Retirement Association" herein.

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

The County has negotiated amendments to the Employer Offsets (herein defined) for the 11 bargaining units of SEIU Local 221, the Deputy District Attorneys Association, the District Attorney Investigators Association, the Public Defender Association of San Diego County, the San Diego County Deputy County Counsels Association, the San Diego Supervising Probation Officers' Association, the San Diego Probation Officers' Association and the Deputy Sheriffs' Association. Pursuant to the amendments, the Employer Offsets are reduced over two fiscal years with start dates varying from July 1, 2011 to November 18, 2011, based on the applicable bargaining unit. The Employer Offsets rates for Tier I/A employees with more than 5 years of service are reduced by either 2.5% or 4% while the Employer Offsets rates for Tier I/A employees with less than 5 years of service will be reduced by 1.25%, 2% or 2.5%, based on the applicable bargaining unit. The Employer Offsets rates for Tier B employees with more than 5 years of service will be reduced by either 3.5% or 5% while the Employer Offsets rates for Tier B employees with less than 5 years of service will be reduced by 1.75%, 2.5% or 3.5%, based on the applicable bargaining unit.

The County has also negotiated a contract with The Association of San Diego County Employees. Pursuant to the contract, the Employer Offsets are reduced over two fiscal years starting November 8, 2011. The Employer Offsets rates for Tier I/A employees with more than 5 years of service are reduced by 2.5% while the Employer Offsets rates for Tier I/A employees with less than 5 years of service are reduced by 1.25%. The Employer Offsets rates for Tier B employees with more than 5 years of service are reduced by 5% while the Employer Offsets rates for Tier B employees with less than 5 years of service are reduced by 1.75%.

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

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

COUNTY FINANCIAL INFORMATION

The following is a summary of certain financial information with respect to the County, including the County's property tax collections, General Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance, Adopted and Amended General Fund Budgets for Fiscal Years 2010-11 and 2011-12, the Fiscal Year 2012-13 Adopted Budget, pension plan, risk management program, pending litigation and outstanding indebtedness.

Assessed Valuations

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

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year in accordance with Proposition 13. Annually, property owners may appeal the assessed value of their property. Additionally, under the provisions of Proposition 8, property owners may apply for a temporary reduction in the assessed value when the market value of the real property, as of January 1 of the applicable tax year, falls below its assessed value. Once reduced, the County Assessor must annually review the value of the property until the factored Proposition 13 value is fully restored (adjusted with the annual consumer price index, not to exceed 2%). Through August 23, 2012 of Fiscal Year 2012-13, the County Assessor has received 2,801 appeals, including appeals relating to real property, business personal property, boats and airplanes. Table 2 below sets forth the number of appeals received by the County Assessor and the number of affected parcels since Fiscal Year 2003-04. See "Economic and Demographic Information – Foreclosures; Notices of Loan Default" herein.

TABLE 2
ASSESSMENT APPEALS
Fiscal Years 2003-04 through 2012-13

Fiscal Year	Appeals[1]	Parcels
2003-04	2,700	3,035
2004-05	2,573	3,932
2005-06	2,486	2,752
2006-07	3,334	3,601
2007-08	13,150	15,872
2008-09	42,624	47,865
2009-10	21,772	26,635
2010-11	15,748	19,589
2011-12	19,215	27,916
2012-13[2]	2,801	2,978

Source: County of San Diego Assessor/Recorder/County Clerk.
(1) Appeal may relate to the reassessment for one or more parcels.
(2) Data as of August 23, 2012.

Ad Valorem Property Taxation

Table 3 below sets forth the assessed valuation of property within the County subject to taxation for Fiscal Years 2003-04 through 2012-13:

TABLE 3
ASSESSED VALUATION OF PROPERTY
SUBJECT TO AD VALOREM TAXATION
Fiscal Years 2003-04 through 2012-13
(In Thousands)

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Valuation	Exemption[1]	Net Assessed Valuation for Tax Purposes[2]
2003-04	$103,818,122	$145,973,945	$11,949,627	$261,741,694	$6,742,042	$254,999,652
2004-05	117,332,258	159,013,240	11,804,416	288,149,914	7,332,153	280,817,761
2005-06	137,276,347	175,791,219	12,807,092	325,874,658	7,916,172	317,958,485
2006-07	158,460,301	192,889,631	13,201,802	364,551,734	8,553,542	355,998,192
2007-08	176,074,513	208,732,483	13,916,210	398,723,206	9,427,705	389,295,500
2008-09	184,573,765	217,641,565	14,496,587	416,711,917	10,336,971	406,374,945
2009-10	177,035,056	215,309,621	15,194,665	407,539,342	11,244,820	396,294,522
2010-11	173,642,233	214,286,031	14,639,554	402,567,818	11,790,769	390,777,049
2011-12	174,658,242	216,383,122	14,483,422	405,524,786	12,537,490	392,987,296
2012-13	173,840,948	217,588,947	14,693,957	406,123,852	13,165,008	392,958,844

Source: County of San Diego Auditor and Controller.
(1) Exemption figures include veterans, church, welfare, religious, college and cemetery exemptions.
(2) Net Assessed Valuation for Tax Purposes figures include local secured, unsecured manufactured home and possessory interest, state unitary and redevelopment valuation, if any.

Table 4 below sets forth the approximate tax levied against the ten largest property taxpayers in the County for Fiscal Year 2012-13. These tax payments represent approximately 4.70% of the total secured property tax levied by the County for Fiscal Year 2012-13, which amount is $4,559,744,394.

TABLE 4
TEN LARGEST TAXPAYERS
Fiscal Year 2012-13

Property Owners	Business Area	Approximate Tax[(1)]
San Diego Gas & Electric Company	Gas and Electric Utility	$88,731,907
Southern California Edison Co.	Electric Utility	32,836,035
Irvine Co.	Real Estate	16,713,561
Kilroy Realty LLP	Real Estate	14,829,918
Qualcomm Inc.	Telecommunication	14,024,801
Host Hotels and Resorts	Hospitality	13,929,215
Pacific Bell Telephone Company	Telecommunication	10,861,566
B S K Del Partners LLC	Real Estate	8,921,787
O C/S D Holdings LLC	Real Estate	6,791,630
Sunstone Park Lessees LLC	Real Estate	6,675,186

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

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

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

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

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

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

Secured Tax Rolls Statistics

Table 5 below sets forth information relating to the County's secured tax roll and assessed value of property for Fiscal Years 2003-04 through 2012-13.

TABLE 5
SECURED TAX ROLL STATISTICS
Fiscal Years 2003-04 through 2012-13

Fiscal Year	Total Bills	Total Gross Assessed Value(1)	Total Tax Amount(2)	Delinquent Tax Bills	Delinquent Tax Amount(3)	Delinquent Tax Amount as Percent of Total Tax Amount
2003-04	898,222	$250,071,362,845	$2,831,188,116	30,244	$ 41,183,548	1.45%
2004-05	912,850	276,651,738,142	3,141,818,961	38,065	49,379,983	1.57
2005-06	934,416	313,592,785,425	3,565,874,923	46,386	70,146,925	1.97
2006-07	954,808	350,431,485,633	3,964,281,859	54,013	111,504,199	2.81
2007-08	968,699	385,014,085,589	4,364,915,835	58,579	163,865,524	3.75
2008-09	976,296	402,408,931,673	4,558,064,753	49,845	165,660,374	3.63
2009-10	978,170	392,680,850,836	4,509,795,774	40,214	120,563,754	2.67
2010-11	979,128	388,209,168,091	4,474,096,680	33,228	80,367,474	1.80
2011-12	979,386	391,319,634,514	4,537,672,296	30,565	65,585,438	1.45
2012-13(4)	981,161	391,853,256,766	4,559,744,934	30,700	65,900,000	1.45

Source: County of San Diego Auditor and Controller.
(1) Total Gross Assessed Value figures include local secured and state unitary valuation.
(2) Total Tax Amount includes local secured and state unitary 1% tax, debt service tax and special assessments.
(3) Delinquent Tax Amount represents the dollar value of tax due for delinquencies in the year shown that had not been collected as of June 30 of that year.
(4) Total Bill, Total Gross Assessed Value and Total Tax Amount figures are actual. Remaining columns are estimated.

Liens and Redemption

Properties may be redeemed under a five-year installment plan by paying current taxes plus a minimum annual payment of 20% of the original redemption amount, a payment plan set-up fee of sixty-three dollars, and an annual plan maintenance fee of seventy-one dollars. A delinquent taxpayer may enter into the installment plan at any time up to the June 30 occurring five years after the property becomes tax-defaulted. Redemption interest accrues at 1-1/2% per month on the unpaid principal balance of the installment plan redemption amount during the period of the installment plan. The property becomes subject to sale by the County Treasurer-Tax Collector if taxes are unpaid after June 30 of the fifth year of default unless the property is on an installment plan of redemption prior to the power to sell arising.

Financial Statements

Table 6 below sets forth the audited General Fund Balance Sheet for Fiscal Years 2009-10 and 2010-11 and the unaudited General Fund Balance Sheet for Fiscal Year 2011-12. Table 7 sets forth the audited General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Years 2007-08 through 2010-11 and the unaudited General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Year 2011-12.

TABLE 6
COUNTY OF SAN DIEGO
GENERAL FUND BALANCE SHEET
For Fiscal Years 2009-10 through 2011-12
(In Thousands)

	Audited 2010[(2)]	Audited 2011[(2)]	Unaudited 2012[(2)]
ASSETS			
Pooled Cash and Investments	$ 1,121,752	$ 1,286,610	$ 1,321,049
Cash with Fiscal Agents	31	20	109
Investments with Fiscal Agents	2	2	2
Property Taxes Receivables, net	195,499	149,980	135,292
Receivables, net	338,969	465,866	517,762
Due from Other Funds[(1)]	67,382	34,625	62,183
Prepaid Items	62	48	40
Inventories	9,418	10,187	11,369
Restricted Assets – Cash with Fiscal Agents	146	156	157
Restricted Assets – Lease Receivable	8,454	6,299	5,568
TOTAL ASSETS	$ 1,741,715	$ 1,953,793	$ 2,053,531
LIABILITIES			
Accounts Payable	$ 96,014	$ 101,157	$ 115,657
Accrued Payroll	36,576	39,890	44,996
Due to Other Funds[(1)]	36,888	36,813	34,649
Deferred Revenues	130,190	128,164	123,144
Unearned Revenue	221,939	253,389	243,327
TOTAL LIABILITIES	$ 521,607	$ 559,413	$ 561,773
FUND BALANCES			
(Audited 2009, 2010)[(3)]			
Reserved Fund Balance:			
Reserved for Loans, Due From Other Funds and Prepaids	$ 6,765	$	$
Reserved for landfill closure costs	927		
Reserved for Inventories	9,418		
Reserved for Realignment Health, Mental Health and Social Services	0		
Reserved for Other Purposes	145,147		
Unreserved:			
Designated for Encumbrances	267,340		
Designated for Economic Uncertainty	100,000		
Designated for Realignment Health, Mental Health and Social Services	73,729		
Designated for Unforeseen Catastrophic Events	55,500		
Designated for Subsequent Years' Expenditures	66,815		
Designated for landfill postclosure and landfill closure costs	852		
Undesignated	493,615		

(Table continued on subsequent page.)

(Table continued from prior page.)

(Audited 2011)[3] (Unaudited 2012)

Nonspendable:			
Not in Spendable Form:			
Loans, Due From Other Funds and Prepaids		1,070	1,074
Inventories and deposits with others		10,187	11,369
Restricted for:			
Grantors – Housing Assistance		55,338	54,360
Donations		3,363	2,949
Laws or regulations of other governments:			
Maintenance, operation and construction of criminal justice facilities and courthouses		24,411	25,822
Other Purposes		131,844	163,372
Committed to:			
Realignment Health, Mental Health and Social Services		69,297	65,297
Unforeseen Catastrophic Events		55,500	55,500
Capital projects' funding		353,165	339,453
Other Purposes		36,777	54,980
Assigned to:			
Other Purposes		40,614	51,325
Unassigned		612,814	666,257
TOTAL FUND BALANCES	$ 1,220,108	$ 1,394,380	$ 1,491,758
TOTAL LIABILITIES AND FUND BALANCES	$ 1,741,715	$ 1,953,793	$ 2,053,531

Source: County of San Diego Auditor and Controller.

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

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

(3) In Fiscal Year 2010-11, the County implemented GASB Statement 54 entitled "Fund Balance Reporting and Governmental Fund Type Definitions" ("GASB 54") establishing fund balance classifications that comprise a hierarchy based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Implementation of GASB 54 resulted in the above changes in the presentation of the General Fund's fund balance between Fiscal Year 2009-10 and Fiscal Year 2010-11.

TABLE 7
COUNTY OF SAN DIEGO
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For Fiscal Years 2007-08 through 2011-12
(In Thousands)

	Audited 2007-08	Audited 2008-09	Audited 2009-10	Audited 2010-11	Unaudited 2011-12
Revenues:					
Taxes	$ 928,066	$ 930,584	$ 904,515	$ 894,222	$ 925,861
Licenses, Permits and Franchise Fees	34,735	35,838	40,967	42,643	42,552
Fines, Forfeitures and Penalties	59,782	56,252	53,996	51,826	50,905
Revenue From Use of Money and Property	48,381	28,396	23,171	24,479	17,099
Aid From Other Governmental Agencies:					
State	849,783	878,902	814,553	904,749	991,619
Federal	792,430	729,675	824,821	818,217	831,859
Other	71,663	134,026	91,478	57,874	65,542
Charges for Current Services	267,624	282,151	277,252	320,966	292,807
Other Revenue	30,705	61,847	33,757	51,542	63,961
Total Revenues	$ 3,083,169	$ 3,137,671	$ 3,064,510	$ 3,166,518	$ 3,282,205
Expenditures:					
Current:					
General Government	$ 270,236	$ 236,874	$ 197,124	$ 209,293	$ 203,179
Public Protection	1,135,288	1,126,903	1,055,315	1,079,836	1,140,718
Public Ways and Facilities	5,907	690	10,063	5,543	1,300
Health and Sanitation	593,104	630,633	635,148	671,276	735,778
Public Assistance	987,730	1,039,496	1,034,340	1,055,530	1,032,701
Education	1,101	808	906	957	844
Recreation and Cultural	29,606	29,274	28,102	30,637	31,175
Capital Outlay	11,453	8,059	27,184	21,965	33,249
Debt service:					
Principal[1]	--	32,125	28,777	26,735	23,200
Interest and Fiscal Charges	5,169	12,255	17,025	15,044	17,308
Payment to Refunded Bond Escrow Agent	0	0	4,436	0	0
Total Expenditures	$ 3,039,594	$ 3,117,117	$ 3,038,420	$ 3,116,816	$ 3,219,452
Excess (Deficiency) of Revenues over (under) Expenditures	$ 43,575	$ 20,554	$ 26,090	$ 49,702	$ 62,753
Other Financing Sources (Uses):					
Sale of Capital Assets	$ 41	$ 29	$ 338	$ 414	$ 360
Refunding Bonds Issued[2]	0	443,515	0	0	0
Payment to Escrow Agent/Refunded Bond[2]	0	(441,038)	0	0	0
Transfers In[3]	257,890	230,296	226,039	274,448	244,148
Transfers Out[4]	(236,400)	(285,232)	(223,042)	(151,061)	(211,065)
Total Other Financing Sources (Uses)	$ 21,531	$ (52,430)	$ 3,335	$ 123,801	$ 33,443
Net Change in Fund Balance	$ 65,106	$ (31,876)	$ 29,425	$ 173,503	$ 96,196
Fund Balances at Beginning of Year	1,155,082	1,220,466	1,190,038	1,220,108	1,394,380
Increase (Decrease) in Reserve for Inventories	278	1,448	645	0	0
Increase (Decrease) in Nonspendable Inventories				769	1,182
Fund Balances at End of Year	$ 1,220,466	$ 1,190,038	$ 1,220,108	$ 1,394,380	$ 1,491,758

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

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

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

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

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

General Fund Budget

The Board of Supervisors is required by State law to adopt a balanced annual budget no later than October 2 of each year. The County General Fund finances the legally authorized activities of the County not provided for in other restricted funds. General Fund revenues are derived from such sources as taxes, licenses, permits and franchises, fines, forfeitures and penalties, use of money and property, aid from other governmental agencies, charges for current services and other revenue. General Fund expenditures and encumbrances are classified by the functions of public safety, health and human services, land use and environment, community services, finance and general government and other. Increases in the aggregate appropriations based on actual or anticipated increases in available financing can be made after the annual budget has been adopted upon approval by a four-fifths vote of the Board of Supervisors.

To ensure that the expenditures do not exceed authorized levels or available financing sources, quarterly reviews are conducted covering actual and projected receipts and expenditures. In the event of any shortfall in projected revenue, immediate steps are taken to mitigate the shortfall through the identification of alternative funding sources or freezing appropriations. Similarly, if expenditures are projected to exceed appropriations, steps are taken to freeze expenditures in other accounts within the affected department or to transfer available resources to offset the added expenditure requirement. California counties are not permitted by State law to impose fees to raise general revenue, but only to recover the costs of regulation or provision of services. The Chief Financial Officer is responsible for monitoring and reporting expenditures within budgeted appropriations.

Table 8 below sets forth the County's Adopted and final Amended Budgets for Fiscal Years 2010-11 and 2011-12. The table also sets forth the Adopted Budget for Fiscal Year 2012-13.

TABLE 8
GENERAL FUND
ADOPTED AND AMENDED BUDGET FOR FISCAL YEARS 2010-11 AND 2011-12 AND ADOPTED BUDGET FOR FISCAL YEAR 2012-13
(In Thousands)

	2010-11 Adopted Budget[1]	2010-11 Amended Budget[2]	2011-12 Adopted Budget[1]	2011-12 Amended Budget[2]	2012-13 Adopted Budget[1]
APPROPRIATIONS					
Public Safety	$ 1,106,327	$1,165,378	$1,174,041	$1,237,290	$ 1,223,862
Health and Human Services	1,820,717	1,841,157	1,883,650	1,903,308	1,891,276
Land Use and Environment	191,847	180,928	154,705	166,534	145,933
Community Services	70,769	89,802	77,887	95,538	75,775
Finance and General Government and Other	528,131	788,246	414,206	799,891	360,097
Contingency Reserve and Designations Increases	21,260	21,260	0	0	0
Contingency Reserve and Increases in Fund Balance Commitments[4]	0	0	38,320	38,320	21,961
Total Appropriations[3]	$ 3,739,051	$4,086,771	$3,742,809	$4,240,881	$ 3,718,904
BUDGETED REVENUES					
Current Property Taxes	$ 497,576	$ 497,576	$ 505,814	$505,814	$ 510,491
Taxes Other Than Current Property Taxes	383,235	383,235	381,647	381,647	383,772
Licenses, Permits and Franchises	40,189	40,189	41,618	41,618	41,563
Fines, Forfeitures and Penalties	54,668	56,774	52,057	56,393	52,005
Use of Money and Property	16,969	16,969	17,691	17,691	13,903
Aid from Other Government Agencies	1,912,830	1,950,760	1,970,464	2,039,899	2,016,098
Charges for Current Services	290,512	291,109	290,358	291,830	289,942
Miscellaneous Revenues and Other Financing Sources	251,712	270,932	267,202	278,431	296,114
Total Budgeted Revenues[3]	$ 3,447,691	$3,507,544	$3,526,851	$3,613,323	$ 3,603,888
Estimated Use of Unreserved and Designated Fund Balance[4]	$ 4,608	$ 4,608	$ 0	$ 0	$ 0
Estimated Use of Committed Fund Balance[4]	$ 0	$ 0	$ 5,893	$ 5 ,893	$ 544
Estimated Use of Unreserved and Undesignated Fund Balance[4]	286,752	293,763	0	0	0
Estimated Use of Unassigned Fund Balance[4]	0	0	210,065	209,600	114,472
Estimated Use of Fund Balance Reserved for Encumbrances[4]	0	280,856	0	0	0
Estimated Use of Fund Balance for Encumbrances[4]	0	0	0	412,065	0
Total Resources Utilized[3]	$ 3,739,051	$4,086,771	$3,742,809	$4,240,881	$ 3,718,904

Source: County of San Diego Auditor and Controller.

(1) Reflects appropriations, budgeted revenues and other financing sources adopted by the Board of Supervisors in the beginning of the fiscal year.

(2) Reflects, as of June 30, appropriations and budgeted revenues from the Adopted Budget plus carry forward appropriations from prior fiscal year and any mid-year changes authorized during the fiscal year.

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

(4) Reflects Fund Balance classification changes pursuant to GASB 54. "Contingency Reserves and Designation Increases" has been changed to "Contingency Reserves and Increases in Fund Balance Commitments", "Estimated Use of Unreserved and Designated Fund Balance" has been changed to "Estimated Use of Committed Fund Balance", "Estimated Use of Unreserved and Undesignated Fund Balance" has been changed to "Estimated Use of Unassigned Fund Balance", and "Estimated Use of Fund Balance Reserved for Encumbrances" has been changed to "Estimated Use of Fund Balance for Encumbrances".

County's Fiscal Year 2012-13 Adopted Budget and the Operational Plan

Adopted Operational Plan

The County annually prepares a two-year operational plan, the most recent of which was adopted by the County's Board on August 7, 2012 (the "Adopted Operational Plan"). The first year of the Adopted Operational Plan is the Fiscal Year 2012-13 Adopted Budget and the second year represents an estimate of the revenues and expenditures of the County for Fiscal Year 2013-14. The Operational Plan reflects the budgets for all funds within which the County accounts for the services it provides to its residents and property and business owners. The largest single fund is the General Fund, which accounts for the majority of the County's activities.

The County's Adopted Budget for the County General Fund for Fiscal Year 2012-13 is approximately $3.72 billion, with Total Appropriations of approximately $3.72 billion, supported by Total Revenues of approximately $3.60 billion, total estimated $114.5 million Use of Fund Balance and $0.5 million Fund Balance Component Decreases (formerly Reserves/Designation Decreases). See Table 8 entitled "GENERAL FUND ADOPTED AND AMENDED BUDGET FOR FISCAL YEARS 2010-11 AND 2011-12, AND ADOPTED BUDGET FOR FISCAL YEAR 2012-13" herein for a summary of the County's Fiscal Year 2012-13 Adopted Budget.

Summary of General Fund Financing Sources

In the Adopted Operational Plan, General Fund Financing Sources total $3.72 billion for Fiscal Year 2012-13, a $23.9 million or 0.6% decrease from Fiscal Year 2011-12. They are expected to decrease further by $81.3 million or 2.2% in Fiscal Year 2013-14. In comparison, the Fiscal Year 2011-12 Adopted Budget was 0.1% higher than the prior year, while the previous ten fiscal years saw an average annual growth rate of 3.4%. General Fund Financing Sources can be categorized as one of three types: Program Revenue, General Purpose Revenue, or Use of Fund Balance (including Fund Balance Component Decreases – formerly Reserves/Designation Decreases).

Program Revenues. Program Revenues are expected to total approximately $2.64 billion in Fiscal Year 2012-13 and $2.61 billion in Fiscal Year 2013-14. These revenues make up 70.9% of General Fund Financing Sources in Fiscal Year 2012-13, and are derived primarily from State and federal subventions and grants, and charges and fees earned from specific programs. Program Revenues are expected to increase by 2.9% over the Fiscal Year 2012-13 Adopted Budget compared to an average annual growth for the last nine years of 3.18%.

General Purpose Revenue. General Purpose Revenue, budgeted at approximately $967.1 million in Fiscal Year 2012-13 and $974.5 million in Fiscal Year 2013-14, comprise approximately 26.0% of General Fund Financing Sources. This revenue is derived from property taxes, property tax in lieu of Vehicle License Fees ("VLF"), the Teeter program, sales and use tax (and property tax in lieu of sales tax), real property transfer tax, Aid from Redevelopment Successor Agencies, and miscellaneous other sources. They may be used for any purpose that is a legal expenditure of County funds. The Board of Supervisors, therefore, has the greatest flexibility with this revenue when allocating resources to fund programs and services.

The growth in this revenue is principally affected by the local and State economies, with over 85% of General Purpose Revenue tied to activity in the real estate market. From Fiscal Year 1999-2000 through Fiscal Year 2010-11, General Purpose Revenue grew by an annual average of $41.4 million. Fiscal Year 2011-12 saw an increase in budgeted General Purpose Revenue of $10.0 million.

For Fiscal Year 2012-13, the $967.1 million budgeted for General Purpose Revenue is an increase of $2.7 million from the Fiscal Year 2011-12 budgeted amount of $964.4 million. The assessed value of real property declined in 2009 and 2010 (following the credit crisis and economic downturn that began in 2007) and it grew marginally in 2011. For 2012, weakness in residential markets is contributing to a 1% projected decline in assessed value of real property overall, though the actual decline may be less than 1%.

Use of Fund Balance. Use of Fund Balance, including Fund Balance Component Decreases (formerly Reserve/Designation Decreases) totals approximately $115.0 million in Fiscal Year 2012-13 and $52.0 million in Fiscal Year 2013-14. It represents 3.1% of General Fund Financing Sources in Fiscal Year 2012-13. This resource is used for one-time expenses, not for the support of ongoing operations. This compares with $216.0 million in uses of fund balance in the Fiscal Year 2011-12 Adopted Budget, which equaled 5.8% of total General Fund Financing Sources.

In the Adopted Operational Plan, a portion of the unreserved General Fund fund balance is budgeted as the funding source for various one-time or project specific purposes such as: management reserves, one-time major maintenance, negotiated one-time 1% salary payment not covered by other funding sources, one-time resources to support recruitment activities associated with Assembly Bill (AB) 109, Public Safety Realignment, reentry program in the District Attorney and Probation departments, IT equipment purchase and installation in the District Attorney, resources for Child Support Services to match available federal funds, Medical Examiner equipment replacement, Fire Protection and Emergency Medical services grant program for one-time capital needs for volunteer fire protection districts, Aerial Fire Suppression "Call When Needed" support, radio communication equipment for the Probation department, Sheriff's safety equipment, replace video equipment in Homicide interview rooms, equipment for Criminal Intelligence detail, outfit Rancho San Diego substation, defense of special circumstance cases rebudget, graduate law clerks and temporary staff for the Public Defender, Public Defender support for the remaining term of certain lease costs associated with the discontinued contract for Family Dependency Services, San Diego County Fire Authority equipment replacement commitment, acquisition of a reserve fire engine, and various program prevention and response activities.

Other uses include: relocation efforts related to the County Operations Center capital project, Health and Human Services Juvenile Diversion Program support, Health and Human Services resources for transition from future State enacted cuts or economic downturn, Health and Human Services technological advancements to support *Live Well San Diego!*, Grand Avenue clinic sale proceeds commitment for Public Health, Childhood Obesity Initiative in Public Health, Public Administration/Public Guardian (PA/PG) for one-time use to mitigate the projected decline in revenues and the continued reorganization of warehouse functions, Polaris spray equipment, Tribal liaison consultant and support rebudget, Firestorm 2007 rebuilding permit fee waiver rebudget, Environmental Health support for beach water quality monitoring rebudget, Green Building Program and Homeowner Relief Act Fee Waivers, Multiple Species Conservation Program ("MSCP") (North) Resource Management Plans to protect biological and cultural resources, Land Use implementation of workplan and associated GP amendments Land Use rebudgets for Purchase of Agriculture Conservation Easements program support, zoning ordinance update, Land Use continuous improvement program, Land Use sponsor group training Greenhouse Gas Guidelines Phase I, and Code Enforcement abatements, Total Maximum Daily Load testing for Watershed Program, Traffic modeling support, Public Works rebudgets for Integrated Regional Water Management data management system grant match, Residential Integrated Pest Management program, and Proctor Valley Road closure, Downtown Justice Center Support Facilities Master Plan, upgrade Fleet work order system to M5, continuation of Vote by Mail program, Voice Response System rebudget and digital X-ray cameras for Carlsbad and Bonita animal shelters.

Various information technology projects, such as: Mainframe system software support, Business Process Re-engineering initiatives, Probation Case Management System, Accela for Mobile Office Implementation, CalAgPermit System (CAPS), Agriculture Water Quality, and Pesticide Regulation Program and implementation costs for fee offset staff, Business Case Management System (Accela) – rebudget for continued implementation, user acceptance testing, reporting tools, and training, Data Imaging Project rebudget, On-line Payment Solution Integration, Parcel Genealogy, Business Intelligence and Asset Management applications rebudget, Qmatic System Upgrade – Customer Routing in Land Development Process, Web-based Reporting System for Waste Haulers rebudget, Documentum – document digitization, re-architect and upgrade to version 6.7, Community Development files (rebudget), upgrades or replacement of BRASS, XenDocs, and Chargeback, transition of County Counsel's Case Management System, electronic document submittal/review automation for Land Use rebudget, Justice electronic library system implementation to create electronic files for juvenile case management, Information Technology Improvement Needs Assessment projects: Identity & Access Management, Mobile Enterprise Applications Platform, Mobility Device Management, Master Data Management, endpoint encryption, desktop virtualization, electronic approval system and SharePoint enhancements and Documentum integration, transformation of Project Portfolio Management, Application Lifecycle Management, & Application Rationalization project to manage and identify existing software for replacement or upgrade, Learning Management System Database Upgrade and Enterprise Resource Planning short term data storage and unanticipated project costs.

Still further uses include: Assessor Film Deterioration Project, terminal leave for long-term staff, Workforce Academy for Youth program, grants provided to community organizations and capital projects including MCSP land purchases and Agua Caliente Campground Expansion and upgrades to sewer system and other utilities.

Summary of Total Appropriations in the Adopted Operational Plan

The Adopted Operational Plan includes appropriations totaling $4.85 billion for Fiscal Year 2012-13 and $4.65 billion for Fiscal Year 2013-14. This is a decrease of $14.4 million or 0.3% for Fiscal Year 2012-13 from the Fiscal Year 2011-12 Adopted Budget. Appropriations for the General Fund are $3.72 billion, a $23.9 million or 0.6% decrease from Fiscal Year 2011-12. The General Fund constitutes 76.8% of the County's total appropriations. Further, the Fiscal Year 2012-13 Adopted Operational Plan reflects a staffing increase of 323.5 full time equivalents ("FTEs"). This comprised an increase of 331.00 FTE increase in the General Fund and a decrease of 7.50 FTE in other funds. This increases budgeted FTEs for the County from 15,687.25 in Fiscal Year 2011-12 to 16,010.75 in Fiscal Year 2012-13.

The Adopted Operational Plan by Group/Agency includes decreased appropriations in Land Use and Environment, Finance and General Government, the Capital Program, and Finance Other, while they are increasing in Public Safety, HHSA and Community Services. HHSA, at $1.93 billion, continues to constitute the largest share of the budget at 39.8%, followed by the Public Safety Group at $1.47 billion, or 30.3%.

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

Public Safety Group – includes a net increase of 4.2% or $59.1 million from the Fiscal Year 2011-12 Adopted Budget and a net increase of 149.00 staff years. The increase primarily relates to increased costs reflecting negotiated labor agreements and increases in County retirement contributions, growth in Proposition 172 funding, additional service requirements due to the transfer of responsibilities for offenders from the State to the counties, and the planned use of one-time resources. Reductions in State funding and the expiration of funding under the American Recovery and Reinvestment Act (ARRA) of 2009 are recognized. All mandated services are maintained.

Health and Human Services Agency – includes a net increase of 0.5% or $9.0 million from the Fiscal Year 2011-12 Adopted Budget and a net increase of 176.00 staff years. The increase relates to the increase in staff years as well as increases in wage and benefit costs that reflect negotiated labor agreements and increases in retirement contributions, and costs associated with contracted services and client payments. Reductions in funding and caseloads are also recognized as well as the implementation of Assembly Bill (AB) 118, Local Revenue Fund 2011, which shifts State financial responsibility of various services to counties, funded with a dedicated portion of sales tax..

Land Use and Environment Group – includes a net decrease of 6.2 % or $26.1 million from Fiscal Year 2011-12 Adopted Budget and a decrease of 5.00 staff years. Significant decreases are in: right-of-way acquisition costs for Bear Valley Parkway; completion of capital projects in the County of San Diego Sanitation District and Airports; completion of grant funded contracts; one-time only costs for completion of several business process reengineering projects and reductions in staffing.

Community Services Group – includes a net increase of 5.7% or $16.4 million from the Fiscal Year 2011-12 Adopted Budget and a decrease of 4.50 staff years. The increase is due to a major upgrade of the Documentum Enterprise Content Management application, the use of loans from the California Energy Commission to finance energy-efficiency projects, and increases in wage and benefit costs that reflect negotiated labor agreements and increases in County retirement contributions. Offsetting the increases in program appropriations is a decrease of $7.6 million due to the elections' costs held in February 2012 Presidential Primary.

Finance and General Government Group – includes a net decrease of 6.2% or $22.4 million from the Fiscal Year 2011-12 Adopted Budget and an increase of 8.00 staff years. The decrease is mainly due to the replacement of one-time funding of major enterprise information technology (IT) projects in Fiscal Year 2011-12 with smaller IT projects in Fiscal Year 2012-13. There are also offsetting increases in staffing costs due to a net increase in staff years and increases in wage and benefit costs that reflect negotiated labor agreements and increases in County retirement contributions.

Capital Program – includes a net decrease of 26.0% or $33.0 million from the Fiscal Year 2011-12 Adopted Budget. The amount budgeted in the Capital Program for Capital Projects can vary significantly from year to year. The Fiscal Year 2012-13 Capital Program includes: $35.4 million for the Cedar and Kettner Development, $10.0 million for MSCP and $2.0 million for Agua Caliente Park Water, Sewer and Electrical Line Replacement project.

Finance Other – includes a net decrease of 5.3% or $17.5 million from the Fiscal Year 2011-12 Adopted Budget. Many of the appropriations in this group vary little from year to year, but some appropriations reported here are one-time and can fluctuate significantly. One-time appropriations in Fiscal Year 2011-12 included $70.0 million for the Women's Detention Facility Replacement project, $10.0 million for MSCP, $0.5 million for the Agua Caliente Park Cabins and $0.46 million for the Long-Term Animal Care Facility. In the Fiscal Year 2012-13 adopted budget, the General Fund contribution to the Capital Program continues to include appropriations for MSCP of $10.0 million and $2.0 million for the Agua Caliente Park Water, Sewer and Electrical Line Replacement project. In addition, one-time appropriation of $45.4 million is budgeted to fund future capital projects and anticipated higher payments to the retirement fund in future years.

Impact of the Fiscal Year 2012-13 State Budget Act on the County's Fiscal Year 2012-13 Adopted Budget

On June 27, 2012, the Governor signed the State Budget Act for Fiscal Year 2012-13 (the "Fiscal Year 2012-13 State Budget Act") to address a then-projected $16.6 billion deficit through June 30, 2013, which includes a reserve of $1.0 billion. The budget is based on voter approval of the Governor's Revised 2012 Tax Initiative (herein defined) on the November 2012 ballot which contains five and seven year tax increases as well as constitutional guarantee of county funding for 2011 Realignment. In the case that the initiative fails, the Fiscal Year 2012-13 State Budget Act sets forth $6.0 billion in trigger cuts that are scheduled to go into effect on January 1, 2013. The vast majority of the enacted trigger cuts would impact education including K-14 and higher education. In addition, the Fiscal Year 2012-13 State Budget Act continues 2011 Realignment and contains a two year county-by-county funding allocation formula for community corrections related to realignment, which funding is not dependent upon voter approval of the Governor's Revised 2012 Tax Initiative. The enacted budget also implements significant permanent cuts. Among these are limiting CalWorks recipients who do not meet federal work requirements to two years of benefits, eliminating Healthy Families and transferring those children to Medi-Cal and extraordinary cuts to trial courts. The elimination of the Healthy Families program, transferring beneficiaries to Medi-Cal over a 12 month period, is scheduled to begin January 1, 2013 and is estimated to increase the County's Medi-Cal caseloads by approximately 73,000, requiring the addition of 150 to 300 FTEs over a 6 to 9 month period, which are not currently reflected in the County's Fiscal Year 2012-13 Adopted Budget. The exact number of FTEs needed is dependent on details yet to be provided by the State. Funding of these additional FTEs will be supported by an increase in Federal and State Medi-Cal Administrative revenues. See "STATE OF CALIFORNIA BUDGET INFORMATION AND FEDERAL STIMULUS INFORMATION – State Budget for Fiscal Year 2012-13" herein.

The County accounted for the various expenditure reductions when adopting its Proposed Operational Plan and no material adjustments in revenues or expenditures were made for purposes of the Adopted Operational Plan for Fiscal Year 2012-13 described above.

Fund Balance and Reserves Policy

The County's Fund Balance and Reserves Policy (the "Fund Balance and Reserves Policy") establishes guidelines regarding the maintenance of fund balance and reserve levels in the General Fund. Pursuant to the Fund Balance and Reserves Policy, subject to a waiver of all or a portion of such policy by the Board of Supervisors, the County will maintain: a Commitment for Unforeseen Catastrophic Events (the "Commitment for Unforeseen Catastrophic Events") with a targeted amount equivalent to 5% of the total budgeted General Purpose Revenue to fund legally declared emergencies; a Contingency Reserve (the "Contingency Reserve") with a targeted amount equivalent to 2% of the total budgeted General Purpose Revenue to fund unanticipated needs of the County or offset revenue shortfalls during the Fiscal Year; and a General Fund Minimum Fund Balance for Economic Uncertainty (the "General Fund Minimum Fund Balance for Economic Uncertainty") at the targeted level of 10% of the total budgeted General Purpose Revenue. In the event that the Commitment for Unforeseen Catastrophic Events, the Contingency Reserve or the Minimum Fund Balance for Economic Uncertainty fall below their targeted levels, the CAO will present a plan to the Board of Supervisors for restoration of those levels.

The Commitment for Unforeseen Catastrophic Events, Contingency Reserve and the General Fund Minimum Fund Balance for Economic Uncertainty totals set forth in the Fiscal Year 2012-13 Adopted Budget exceed the County's 17% Fund Balance and Reserves Policy target. The General Purpose Revenue in the Fiscal Year 2012-13 Adopted Budget totals $967.1 million. For Fiscal Year 2012-13, the Commitment for Unforeseen Catastrophic Events is budgeted to remain at $55.5 million, exceeding the reserve requirement of $48.4 million; the Contingency Reserve is budgeted to remain at $20.0 million, exceeding the target level of $19.3 million; and the General Fund Minimum Fund Balance for Economic Uncertainty will also remain at $100.0 million, exceeding the target level of $96.7 million. See also "– Budget and Financial Position of the County" and "– County's 2012-13 Adopted Budget and the Operational Plan" herein.

Other Operational Impacts

The San Diego Regional Water Quality Control Board ("RWQCB") adopted a resolution entitled the Bacterial Total Maximum Daily Load Resolution ("Resolution") that became effective in April 2011. The Resolution impacts eight watersheds within the region, requiring that water quality of highly urbanized watersheds be returned to pre-development levels within eight years for dry weather conditions and 18 years for wet weather conditions. Along with other local agencies, the County shares responsibility for six of these eight watersheds. The RWQCB has indicated its intention to enforce the Resolution by incorporating its requirements into the San Diego Regional Municipal Storm Water Permit ("Permit"). While the County continually works to improve water quality, the Resolution includes requirements that are very expensive to achieve, and may not be attainable. The County is urging the RWQCB to make the goals of the Resolution more reasonable. It is unknown, until the applicable total maximum daily loads plan is reviewed in 2016, whether the RWQCB will revise the requirements of the Resolution. The County's share of the estimated 20-year compliance costs for the six watersheds are estimated between $286 million and $567 million over the remaining 18 years left in the 20-year compliance period provided in the Resolution. On average, the annual cost to the County would be an additional $16 million to $31 million. The first compliance milestone for the Resolution is a load reduction plan for each of the watersheds. The County currently is only required to submit load reduction plans for three of the six watersheds within the affected jurisdiction. The County plans to submit a proposed Comprehensive Load Reduction Plan ("CLRP") for the three impacted watersheds to the RWQCB before the October 4, 2012 deadline. The proposed CLRPs will state that the responsible agencies are only prepared to implement the actions identified in the plans as existing resources allow.

Teeter Plan

In Fiscal Year 1993-94, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the Revenue and Taxation Code of the State of California (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at Fiscal Year end. Under this plan, the County assumes an obligation to advance funds to these entities to cover expected delinquencies. The County's general fund benefits from future collections of penalties and interest on delinquent taxes collected on behalf of participants in this alternative method of apportionment. The County has not issued Teeter Notes to fund delinquencies since June 15, 2006 and there are currently no plans to issue Teeter Notes in the future.

Temporary Transfers

Section 6 of Article XVI of the California Constitution provides for temporary transfers of funds by the Treasurer-Tax Collector of the County (the "Temporary Transfers"; such transfers are referred to as Treasurer's Loans from time to time) to cover short-term operational deficits occurring as a result of imbalances between receipts and expenditures. The California Constitution prohibits Temporary Transfers by participants of the Treasury Pool (herein defined) (including the County) after the last Monday of April of each Fiscal Year, and in amounts in excess of 85% of the anticipated revenue accruing the Treasury Pool participant. Treasury Pool participants may utilize Temporary Transfers from time to time for various purposes. A Temporary Transfer must be repaid from the Treasury Pool participant's first revenues received thereafter before any other obligation and thus, in the case of the County, would have a priority over the County's general fund debt obligations. The County has not received any Temporary Transfers in the past ten years.

San Diego County Employees Retirement Association

The following information concerning the San Diego County Employees Retirement Association (the "Association") has been excerpted from publicly available sources, which the County believes to be accurate, or otherwise obtained from the Association. The Association is not obligated in any manner for payment of debt service on the Series 2012 Certificates described in the forepart of the Official Statement, and the assets of the County's pension plan are not available for such payment. The Association issues publicly available reports, including its financial statements, required supplementary information and actuarial valuations for the herein described pension plan and retiree health plan. The reports are available on the Association's website: http://www.sdcera.org/investments.htm. Information on such site is not incorporated herein by reference.

General

The Association, which was established July 1, 1939 under provisions of the County Employees Retirement Law of 1937 (the "Retirement Law"), administers the County's cost-sharing multiple-employer defined benefit pension plan covering substantially all compensated employees of the County. Benefits under the County's pension plan are paid in finite amounts, derived from a formula based on age, service credit and levels of compensation, as calculated by the Association in accordance with applicable law and agreements. As of June 30, 2011, there were 16,523 active members, 14,496 retired members and beneficiaries and 5,125 deferred members. Deferred members are those members whose employment has terminated with a participating employer and who left their respective retirement contributions with the Association. The system operates on a fiscal year basis, with its year ending June 30. The pension system currently has four tiers and provides retirement, disability, death and survivor benefits to its General and Safety members. Tier B is the current open plan, which became effective on August 28, 2009. Tier A (with 15,765 active members as of June 30, 2011) and Tier I (with 37 active members as of June 30, 2011) are closed to new entrants, and Tier II was eliminated for active members. Consistent with PEPRA, the County will implement the new mandatory retirement tiers for new employees who become new members on or after January 1, 2013. See "County of San Diego Employees – Negotiated Retirement Amendments" herein for a description of modifications to the benefit tiers effective August 28, 2009 and a description of the new mandatory retirement tiers.

The County is one of the employers that participate in the Association. In addition to the County, participating employers include the San Diego Superior Court (the "Court"), the Local Agency Formation Commission and the San Dieguito River Valley Joint Powers Authority. The County and these other participating employers are collectively referred to herein as the "Employers" and contributions to the Association made by such Employers are referred to herein as "Employer Contributions". The County is obligated to make approximately 91% of the annual Employer Contributions to the Association and the other participating Employers are obligated to make approximately 9% of the annual Employer Contributions to the Association, based on the estimated relative percentage of payroll of the County and the other participating Employers for Fiscal Year 2010-11. Separate from the Employers, the San Diego County Office of Education (the "Office of Education") has approximately 24 retirees who participate in the Association's retirement plan and receive benefits, but no longer makes contributions to the Association. Retirement benefits for these 24 retirees are funded by contributions previously made by the Office of Education.

General Funding Practices of the Association

Introduction. The Retirement Law requires the Association to commission an actuarial valuation and an experience study at least every three years. It is the Association's policy to conduct an actuarial valuation at least every three years; the Association's practice has been to conduct an actuarial valuation on an annual basis as of June 30 of each year, which is the end of the Association's fiscal year. The valuation must be completed by an Enrolled Actuary, covering the mortality, service, and compensation experience of the members and beneficiaries, and must evaluate the valuation assets and actuarially determined liabilities of the Association. The Retirement Law requires the Retirement Board of the Association (the "Retirement Board") to recommend to the Board of Supervisors and the other Employers such changes in the rate of contribution by the Employers and members, and in the County's and the other Employers' appropriations as necessary. Once the Retirement Board recommends any such changes, the Retirement Law requires the Employers (including the County) to implement such changes. The most recent actuarial valuation is as of June 30, 2011, prepared by The Segal Company, the Association's actuary (the "Actuary").

Normal Cost and UAAL and its Calculation. Currently, the Association uses the "entry age normal actuarial cost method" to calculate the Employers' annual rates of contribution. The actuarially required contribution has two components, the "normal cost" and the amortized amount of the unfunded actuarial accrued liability ("UAAL"). Normal cost represents the portion of the actuarial present value of the benefits that the Employers and their respective employees will be expected to fund that are attributable to a current year's employment. The normal cost contribution amount is calculated based on a set of actuarial assumptions about future events pertaining to the amount and timing of benefits to be paid and the accumulation of assets to pay the benefits. The UAAL may increase or decrease as a result of changes in actuarial assumptions or methods, statutory provisions, benefit improvements and other experience which differs from that anticipated by the actuarial assumptions. There is a lag between the point in time at which the actuary completes the actuarial valuation and the date that the contribution rates calculated in the valuation go into effect. This lag is typically 12 months. For example, the recommended contributions contained in the actuarial report as of June 30, 2011 apply to contributions to be made by the County and the other Employers for the Fiscal Year beginning July 1, 2012.

The UAAL calculation is necessary to determine how sufficient the assets in the Association are to fund, as of the date of calculation, the accrued costs attributable to currently active, deferred vested members and retired members. The funding sufficiency is typically expressed as the ratio of the valuation assets to the actuarial accrued liabilities. If the actuarially calculated funding level of a plan is less than 100%, the plan has a UAAL. The UAAL is determined by comparing the actuarial assumptions made to actual experience. Examples of the data that are used in this process are the assumed (versus actual) rates of earnings on the assets of the plan, pay increases for current employees, disability retirements, retirement ages of active employees, and post-employment life expectancies of retirees and beneficiaries.

When measuring assets for determining the UAAL, many pension plans, including the Association, "smooth" gains and losses to reduce volatility. For example, if in any year the actual investment return on the Association's assets is lower or higher than the actuarial assumed rate of return (which is 8.00%, net of expenses), then the shortfall or excess, together with other experience gains or losses, is smoothed or spread over a five-year period. The impact of this will result in an actuarial value of assets which is lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss.

Further, various plans use different amortization periods for paying off (or "amortizing") a UAAL. The amortization of the UAAL represents the current year's portion of the unfunded accrued costs (*i.e.*, the UAAL) attributable to past years' employment. Some plans use rolling periods and others use "fixed" periods, such as a 30-year fixed period, meaning that the actuarially required contribution in a particular year would be the unfunded actuarial accrued liability amortized over the remaining years in the fixed period. On June 17, 2004, the Retirement Board changed the Association's amortization period from a 15-year rolling amortization period to a 20-year fixed layered amortization period.

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

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

Demographic Assumptions. The Retirement Board and the Association's actuary review the various demographic assumptions that are employed in calculating the normal cost rates against actual experience at least every three years. The Association's actuary last presented an experience study to the Association on April 1, 2010 with respect to results as of June 30, 2006 through June 30, 2009. The Association's actuary recommended changes to certain assumptions, including the assumed future merit and longevity pay increases for current employees, the assumed rates of disability, the assumed retirement ages of active employees, the assumed ordinary withdrawal and vested termination rates, and the post-employment life expectancies of retirees and beneficiaries. The Association's actuary reported that the proposed set of assumptions would result in an increase in the aggregate contribution rate of less than 1%. At its June 3, 2010 meeting, the Retirement Board adopted the recommendations presented by the Association's actuary. The set of assumptions approved by the Retirement Board were used to prepare subsequent actuarial valuation reports, beginning with the report for the year ended June 30, 2010. The next experience study is expected to be conducted in 2013 with respect to results as of June 30, 2009 through June 30, 2012.

Economic Assumptions. The Association's actuary prepares a review of economic actuarial assumptions every three years in conjunction with the demographic study. At the May 6, 2010 Retirement Board meeting, the Association's actuary presented proposed new economic assumptions. The Association's actuary recommended a reduction of the current annual investment return assumption of 8.25% to 8.00%, a reduction in the assumed inflationary salary rate from 3.75% to 3.50%, an increase in the assumed "across the board" salary assumption from 0.50% to 0.75% and no overall change to the combined inflationary and real "across the board" salary increase assumption of 4.25%. These assumptions were used to prepare subsequent actuarial valuation reports, beginning with the report for the year ended June 30, 2010. The actuary stated at the June 3, 2010 meeting that had the 8.00% rate of return assumption been in place for the June 30, 2009 actuarial valuation, the aggregate employer contribution rate for Fiscal Year 2010-11 would have been approximately 3 percentage points higher. The next economic assumptions review is expected to be conducted in conjunction with the next demographic experience study, which, as noted above, is expected to occur in 2013. The County cannot predict at this time the further recommendations to be made by the Association's actuary, the Retirement Board's determinations with respect thereto and their potential effects on the Association's assets and liabilities or the contributions to be made by the County, other employers and their respective employees.

Funding Status of the Association

Current Status. As of June 30, 2011, the date of the most recent actuarial valuation report, the valuation value of assets of the Association was approximately $8.542 billion and the actuarial accrued liability was approximately $10.483 billion, resulting in a funded ratio of approximately 81.5% and an UAAL of approximately $1.940 billion. By comparison, the funded ratio as of June 30, 2010 was 84.3%, reflecting valuation value of assets of approximately $8.433 billion, actuarial accrued liability of approximately $9.999 billion and the UAAL of approximately $1.566 billion. See Table 9 – Historical Funding Status. The decline in the funded ratio reflects, among other things, the recognition of a portion of prior years' investment losses. The total unrecognized investment loss as of June 30, 2011 was $467.9 million, which amount will be recognized in the determination of the actuarial value of assets for funding purposes over the next five years, to the extent it is not offset by recognition of investment gains derived from future experience. The actuarial value of assets and the UAAL may increase or decrease based on investment results of the Association being above or below the actuarially assumed rate of return of 8.00% per annum as a consequence of increases or decreases in the securities market. Based on the foregoing, earning the assumed rate of investment return of 8.00% per annum on a market value basis will result in investment losses on the actuarial value of assets and an increase in the County's contribution requirements in each of the next five years as the investment losses are recognized. No assurance can be given that the actuarial value of assets of the Association will not materially decrease. The Association reported a total portfolio market value of net pension assets of $8.521 billion as of June 30, 2012, compared to $8.183 billion as of June 30, 2011, a $0.338 billion increase in net assets or a 6.42% return on the market value of pension assets. The Association reported a total portfolio market value of net pension assets of $8.674 billion as of July 31, 2012, a $0.153 billion increase in net assets or a 1.91% return on the market value of pension assets from June 30, 2012. Table 10 – Prospective Funding Status of the Association below reflects the projected funding status through Fiscal Year 2017-18. These projections are based on certain assumptions, including achieving an 8.00% return on investments described herein. Investment results may help mitigate the material adverse effect of the losses experienced in Fiscal Year 2008-09 on the actuarial value of the assets, the funded ratio and the employer contributions beginning in Fiscal Year 2011-12. The impact of the Fiscal Year 2008-09 losses and the current demographic and economic assumptions is illustrated in Table 10 – Prospective Funding Status of the Association below. See "County Financial Information – San Diego County Employees Retirement Association – General Funding Practices of the Association – Normal Cost and UAAL and its Calculation" herein.

Historical Funding Status. Table 9 below sets forth for each of the ten years ended June 30, 2011 the amount of the total Employer Contributions and Employer Offsets made by the County and the other Employers. The contribution amounts are based on the market value of the pension assets, the valuation value of the pension assets, the actuarial accrued liability of the pension system, the UAAL and the funded ratio of the Association as of the end of the second preceding fiscal year, which are set forth in Table 9 below.

TABLE 9
HISTORICAL FUNDING STATUS
Valuation Years Ended June 30, 2000 through 2011 and
Fiscal Years Ended June 30, 2002 through 2013
($ In Millions)

Valuation Date (June 30)	Net Market Value of Assets	Valuation Value of Assets	Actuarial Accrued Liability	UAAL[1]	Funded Ratio	Fiscal Year	Employer Contribution[1]	Employer Offsets[2]
2000	$4,275.1	$3,568.7	$3,248.8	$(319.8)	109.9%	2002	$5.3	$45.2
2001	3,816.9	3,745.6	3,506.8	(238.8)	106.8	2003	12.2[5]	53.9
2002	3,533.6	3,831.3	5,078.1	905.1[3][4]	82.5[3][4]	2004	195.0[5]	55.2
2003	4,103.3	4,417.8	5,853.1	1,435.4[3][5]	75.5[3][5]	2005	260.0[6]	56.1
2004	5,508.6	5,166.8	6,369.5	1,202.7[5]	81.1[5]	2006	243.7[7]	58.8
2005	6,358.5	5,612.3	6,990.7	1,378.4	80.3	2007	258.2[8]	62.3
2006	7,330.9	6,263.0	7,495.3	1,232.3	83.6	2008	236.8	68.7
2007	8,444.5	7,250.4	8,082.5	832.1	89.7	2009	219.6	71.6
2008	8,408.0	8,236.9	8,722.3	485.4	94.4	2010	189.5[9]	68.4
2009	6,192.0	8,413.1	9,198.6	785.6	91.5	2011	235.4[10]	68.4
2010	6,878.2	8,433.3	9,999.2	1,565.9	84.3	2012	294.0[11]	59.0[11]
2011	8,182.9	8,542.3	10,482.7	1,940.4	81.5	2013	327.0[11]	42.0[11]

Source: The County.

(1) Negative numbers represent an actuarially accrued surplus.

(2) These contribution amounts reflect the aggregate contribution amount of all Employers and not only that of the County. In each year the amounts indicated under the columns Employer Contribution and the Employer Offsets were based on the valuations as reported in the actuarial valuation dated as of the end of the second preceding year ended June 30 (as set forth in the table). The County share of Employer Contributions and Employer Offsets are estimated to be approximately 91.0% based on the estimated relative percentage of payroll of the County for Fiscal Year 2010-11. See "County Financial Information – San Diego County Employees' Retirement Association – General" herein.

(3) From June 30, 2001 to June 30, 2003, a number of events adversely affected the UAAL and the funded ratio, including, but not limited to, (1) effective March 8, 2002, the Board of Supervisors increased retirement benefits for active employees which in turn increased actuarially determined liabilities, (2) investment results of the Association were below the actuarially assumed rate of 8.25% per annum as a consequence of declines in the securities market; (3) the Association adjusted several demographic assumptions based on a regular experience study conducted by its actuary that evaluates the reasonableness of the Association's assumptions and implemented those in the actuarial valuation report as of June 30, 2003; (4) the Association ceased including amounts in the Undistributed Reserve (as defined herein) as valuation assets when calculating the Association's UAAL; and (5) deviations occurred between actual experience and those assumptions used in calculating the UAAL.

(4) The UAAL and Funded Ratio indicated for the Fiscal Year ended June 30, 2002 are those calculated in an October 2002 actuarial valuation. The October 2002 actuarial valuation report reflected the contribution by the County of $550 million of proceeds of the 2002 POBs to the Association on October 3, 2002.

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

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

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

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

(9) Includes $188.4 million of required contributions plus an additional discretionary contribution of $1.1 million.

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

(11) Estimated. See Table 10 for prospective Employer Contributions and Employer Offsets.

Employee Contributions Paid by the Employers. In addition to making annual contributions to the Association in accordance with the applicable actuarial valuation, the Employers also have agreed pursuant to the collective bargaining arrangements with their employee unions dating back to 1982 to pay a portion of the employees' required contribution to the Association (these payments by the Employers are referred to herein as the "Employer Offsets"). For non-safety employees, the Employer Offsets range from 3% to 9.5% of their salary, and for safety employees the Employer Offsets range from 2.75% to 16.73% of their salary. In most instances, the amount of Employer Offsets will be less than the total required employee annual contribution. See "County Financial Information – San Diego County Employees Retirement Association – Historical Funding Status" herein for information regarding payments by the Employer of Employer Offsets for each of the ten years ending June 30, 2011. See "The County – County of San Diego Employees – Negotiated Retirement Amendments" herein for a description of negotiated changes to the Employer Offsets effective July 1, 2011.

Prospective Funding Status of the Association

Table 10 below sets forth projections by the Association's actuary relating to future Employer Contribution amounts, Employer Offsets, UAAL, and funded ratio. The information contained in this table, and the related assumptions, are "forward-looking" in nature and are not to be construed as representations of fact or representations that in fact the various tabular information shown will be the correct amounts for the years indicated. Rather, these reflect good faith estimates by the Association's actuary and the Association, taking into account a variety of assumptions, a number of which are discussed herein. The County cannot predict whether the Association will achieve its assumed rate of return in the current or future years. Accordingly, prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts.

TABLE 10
PROSPECTIVE FUNDING STATUS OF THE ASSOCIATION
Fiscal Years Ended June 30, 2012 through 2020
($ In Millions)

Fiscal Year	Employer Contributions(1)(2)(3)	Employer Offsets(1)(2)(3)	Valuation Date (June 30)	UAAL(1)(2)(3)	Funded Ratio(1)(3)
2012	$294	$59	2010	$1,566	84.3%
2013	327	42	2011	1,940	81.5
2014	388	43	2012	2,432	78.1
2015	433	45	2013	2,832	76.0
2016	429	47	2014	2,561	79.5
2017	431	49	2015	2,354	82.2
2018	443	51	2016	2,256	83.9
2019	458	53	2017	2,168	85.3
2020	473	56	2018	2,064	86.8

Source: The Segal Company.

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

(a) The annual investment return on the market value of assets will be 8.00% effective July 1, 2011, based on the 8.00% assumption adopted by the Retirement Board for the June 30, 2010 valuation. Under the Retirement Board's asset smoothing method, if actual return on market value of assets is above/below the expected return on market value of assets, the difference between the actual and the expected return will be recognized over a five-year period. There was a total of $467.9 million in unrecognized investment loss as of June 30, 2011.

(b) With the exception of the recognition of the above investment loss, it has been assumed that all of the other actuarial assumptions that were approved for use with the June 30, 2011 valuation will be met in the future.

(c) In projecting the payroll, the Actuary assumed that the estimated Fiscal Year 2011-12 payroll of $1,090.4 million used in the June 30, 2011 actuarial valuation will increase by 4.25% per annum (3.50% inflation plus 0.75% across-the-board salary increase).

(d) The Employer Offsets (the County's pickup of member contributions) reflect negotiated offset savings in the current bargaining agreements which are reflected in the County's Fiscal Year 2011-12 Adopted Budget and the County's Fiscal Year 2012-13 Proposed Budget. The actuarial assumptions that these costs will increase by 4.25% per year is reflected. This is a simplifying assumption as the actual Employer Offsets amount is governed by bargaining agreements with employee groups and actual membership demographics.

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

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

(g) The Retirement Board's current valuation methodologies, such as the 20-year fixed layered amortization period for the UAAL and the five-year smoothing asset valuation method, will remain unchanged. The above projections do not reflect the impact of any assumption changes that may be adopted by the Board after the June 30, 2011 valuation.

(2) The County is obligated to make approximately 91.0% of the annual Employer Contributions to the Association and the other participating employers are obligated to make approximately 9.0% of the annual Employer Contributions to the Association, based on the estimated relative percentage of payroll of the County and the other participating employers for Fiscal Year 2010-11.

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

Investment

General. The Retirement Law and the California Constitution grant the Retirement Board exclusive control over the investment of the Association's assets. The Retirement Law and the Constitution provide general guidelines which generally require the Retirement Board to manage the investments for the purpose of providing benefits to members, minimizing Employer Contributions, and defraying the reasonable expenses of administering the Association. The Retirement Law and the Constitution further require the Retirement Board to manage the Association's investments prudently and to diversify investments in the manner and to the extent it deems appropriate. See "County Financial Information – San Diego County Employees Retirement Association – Investment – Investment Policy" below.

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

The Board has considered different investment management service models, including options that call for a division of responsibility as to various asset classes between internal and outside resources. A final decision has not yet been reached on whether, and if so how, the Association's current investment staffing model will change.

Investment Policy. The Retirement Board has adopted an investment policy statement, last revised in July, 2010, and related policies that set investment return and risk objectives and provide for extensive guidelines with respect to the diversification of assets, the appropriate securities, lending of securities, commission recapture, value-added strategies, proxy voting, and corporate governance issues. The Association's assets are diversified across asset classes, including equity, fixed income and real estate assets, and within asset classes. Table 11 below sets forth the Association's current asset allocation policy (the "Asset Allocation Policy"), effective as of July 1, 2010. The asset allocation policy is managed and monitored by the Association's staff with the assistance of external investment consultants. That total investment portfolio was $8.408 billion as of June 30, 2008, $6.192 billion as of June 30, 2009, $6.878 billion as of June 30, 2010, $8.255 billion as of June 30, 2011 and $8.518 billion as of June 30, 2012 and $8.977 billion as of July 31, 2012.

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

		Percentage Limits		
Asset Class	**Benchmark**	**Target**	**Min.**	**Max.**
Global Developed Equities	MSCI World Net Index	20%	15%	25%
Emerging Market Equities	MSCI Emerging Markets Index	5	2	10
High Yield	ML High Yield Master II	5	2	10
Private Equity[2]		10	5	15
	Russell 3000 + 3%			
Total Growth Oriented Assets	*Target Weighted Average*	*40*	*24*	*60*
Emerging Market Debt (Local)	JP Morgan GBI – EM Global Diversified (Unhedged)	10	5	15
Global Macro/CTA	2/3 HFRI Macro + 1/3 Barclays CTA Indices	10	5	15
Relative Value Strategies	Three-Month Treasury Bills + 2%	10	5	15
US Treasuries	Barclay's 10-year UST Futures Index[1]	40	20	60
Total Stable Value Assets	*Target Weighted Average*	*70*	*35*	*105*
Real Estate[2]		10	5	15
	NCREIF NPI			
Natural Resources and Other Real Assets	1/3 GSCI + 1/3 S&P MLP + 1/6 S&P Materials Index + 1/6 S&P/TSX Materials Composite Index	10	5	15
Treasury Inflation Protected Securities	Barclay's Capital US TIPS	5	2	15
Total Inflation-Sensitive Assets	*Target Weighted Average*	*25*	*12*	*45*
Total Fund	**Target Weighted Average**	**135**		

Source: San Diego County Employees Retirement Association.

(1) The benchmark for the cash backed portion of the 10-year Treasury futures allocation will include the return on three-month Treasury bills in addition to the Barclay's 10-year Futures Index.

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

The 8.0% assumed rate of return adopted by the Retirement Board and applicable to the projection of the Association's assets and liabilities is lower than the expected compound annual passive return of the Association's Asset Allocation Policy, which is 8.1%, as calculated by the Association's Investment Consultant in December 2011. The passive rate of return is the rate that would be earned if invested in passive index funds for a selected asset allocation, e.g. funds allocated to US Equities would be invested in a S&P 500 Index fund as a passive equivalent. The investment return assumption of 8.0% recommended by the Actuary is based on a number of assumptions, including the average assumed passive rate of earnings by asset class from a sample of investment consultants to several public pension funds including the Association's investment consultant, and then applied to the Association's asset allocation policy portfolio. From 2006 through 2009, the Retirement Board elected to maintain the assumed rate of earnings at 8.25% for the applicable fiscal year, a rate acceptable to the actuary, in part because the active management portfolio strategy of the Association, including the application of the Alpha Engine strategy, which the Association no longer uses, historically yielded rates of earnings substantially higher than the rates recommended by the Actuary. See "County Financial Information – San Diego County Employees Retirement Association – Historical Investment Return".

Historical Investment Return. The historical annual net investment return on the market value of the Association's entire investment portfolio, after management fees, was 5.79% for the year ended

June 30, 2012, 13.03% for the three years then ended, 1.76% for the five years then ended and 7.55% for the ten years then ended. This compares to the 8.00% actuarial assumed rate of return that the Association's actuary uses to calculate the normal Employer and employee contribution rates and the UAAL on a year-to-year basis (which is done by projecting into the future a variety of estimates, including how much will be earned on the assets of the Association in future years).

Hedge Funds. As of June 30, 2012, the fund was invested in15 hedge funds with an approximate market value of 1.416 million or 16.6% of the total market value of the portfolio.

Litigation Involving Prior Investment

On February 25, 2009, the United States Attorney's Office and the Federal Bureau of Investigation arrested the two principals of WG Trading Company ("WG TC"), a limited partnership fund in which the Association invested, on charges of securities fraud, wire fraud, and conspiracy to commit securities fraud and wire fraud. On the same day, all entities connected with the principals of WG TC were placed in receivership at the request of the U.S. Securities and Exchange Commission (the "SEC") and Commodity Futures Trading Commission ("CFTC"). As of December 31, 2008, the Association had $78 million (including retained earnings) invested with WG TC as reported by WG TC. On December 31, 2008, based on WG TC's refusal to promptly and completely answer all questions presented during a due diligence investigation, the Association terminated the WG TC relationship and requested a full redemption of its investment. The decision to terminate the WG TC relationship was a result of issues and concerns that arose during the due diligence review. Fraud was not suspected at the time. The Association's agreement with WG TC allows for a six-month redemption window. The assets were not returned to the Association prior to WG TC being placed in receivership.

To preserve its interests in the holdings of WG TC, on March 25, 2009 the Association filed a motion to intervene in the two lawsuits brought by the CFTC and the SEC against WG TC, its principals and certain related entities. The motion to intervene was summarily denied, from which denial the Association has appealed; however that appeal is unlikely to be pursued, given the Association's subsequent appeal discussed below. In July 2009, the Chief Compliance Officer of WG TC pleaded guilty to certain charges. In July 2010, Paul Greenwood, one of the two principals of WG TC, pleaded guilty to seven counts alleging violations of federal law, including securities fraud, wire fraud, commodities fraud, conspiracy, and money laundering. The receiver appointed by the United States District Court for the Southern District of New York (the "Receiver") has filed reports asserting that WG TC was operated as part of a Ponzi scheme because funds of WG TC were intermingled with those of a sister entity, which was found by the court to have been operated as a Ponzi scheme. The Receiver proposed that WG TC's assets be distributed pro rata to investors in both WG TC and its insolvent sister entity, not just to investors in WG TC. The Association and six other WG TC limited partners filed joint objections to the Receiver's proposal. However, at a hearing on the proposal held March 16, 2011 in the receivership proceedings, the United States District Court for the Southern District of New York approved the Receiver's plan of distribution, and on March 21, 2011, entered an order directing the Receiver to make a distribution in accordance with the plan. Although the Association and six other WG TC limited partners have appealed the District Court's ruling to the United States Court of Appeals for the Second Circuit seeking a greater share of distributions on equitable grounds, the interim distribution pursuant to that ruling has been made, including a distribution of approximately $35 million to the Association, leaving approximately $50 million of receivership assets for future distribution to investors. Oral argument in the appeal took place on May 16, 2012, but no decision has yet been issued. The receiver has also recently filed a motion in the district court seeking permission to make a second distribution; there is no hearing date set for the motion, although it is fully briefed. The likelihood of success of the Association's appeal, and the amount of additional future distributions the Association may receive, cannot be assessed at this time.

Transfers of Investment Earnings by the Association

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

Pursuant to the statutory authority of the Retirement Law, the Retirement Board has adopted an "Interest Crediting and Excess Earnings Policy", most recently amended in August 2007, which directs that investments earnings be transferred from the Undistributed Reserve to the following Association reserves, effectively, in the following order. First, such earnings are credited to the Association's valuation assets up to an amount determined by the Retirement Board's policies, currently in an amount equal to 8.00% of the value of the Association's valuation assets as of the end of the prior fiscal year. Second, a portion of such earnings is transferred to an Association Contingency Reserve (the "Association Contingency Reserve") to maintain the amount on deposit in the Association Contingency Reserve, which is not part of valuation assets, equal to one percent of the total market value of assets of the Association. The Association may transfer amounts from the Association Contingency Reserve to valuation assets when current investment earnings are insufficient to credit the valuation asset reserves with the 8.00% interest target. Earnings in excess of the amounts transferred to the Association Contingency Reserve are referred to herein as "Excess Earnings." The Association currently uses the change in actuarial value methodology to calculate Excess Earnings.

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

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

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

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

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

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

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

Historical Transfers of Investment Earnings. Table 12 below sets forth the amount of the Association's investment earnings that the Retirement Board has transferred from the Undistributed Reserve into reserves that are separate from valuation assets during the ten fiscal years ending June 30, 2012.

TABLE 12
TRANSFERS OF INVESTMENT EARNINGS
TO NON-VALUATION RESERVES
Fiscal Years Ended June 30, 2003 through 2012
(In Millions)

Fiscal Year	Post-Retirement Healthcare(1)	STAR COLA(2)	Contingency Reserve(3)	Total
2003	0.0	0.0	0.0	0.0
2004	0.0	19.6	19.8	39.4
2005(4)	0.0	9.3	8.5	17.8
2006	31.4	10.0	9.7	51.1
2007(5)	0.0	26.4	11.1	37.5
2008	0.0	0.0	(0.4)	(0.4)
2009	0.0	0.0	(2.2)	(2.2)
2010	0.0	0.0	0.0	0.0
2011	0.0	0.0	0.0	0.0
2012	0.0	0.0	0.0	0.0
Total(6)	$131.4	$65.3	$46.5	$143.2

Source: The Association.

(1) Reflects amounts that the Association transferred to the Health Reserve from Excess Earnings for Fiscal Years 2002-03 through 2011-12. The Health Reserve was originally established to hold amounts with which the Association reimbursed the County for amounts that the County contributed for the payment of post-retirement healthcare benefits. See footnote (5) below regarding the restructuring of the Health Reserve in Fiscal Year 2007-08.

(2) Reflects amounts that the Association has transferred from Excess Earnings to a reserve established for the payment of STAR COLA. The Association began providing STAR COLA benefits in the year ended June 30, 1999, and transfers to the STAR COLA reserve began in the year ended June 30, 1998. The STAR COLA reserve was originally established to hold amounts to fund a supplemental targeted cost of living adjustment. See footnote (5) below regarding the restructuring of the STAR COLA reserve effective with the June 30, 2007 Valuation Report.

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

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

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

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

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

Reserve Levels. As of June 30, 2012, no funds were on deposit in the Association Contingency Reserve, $69.0 million was on deposit in the Supplemental Benefits Allowance Reserve (restructured from the Health Reserve during Fiscal Year 2007-08), $9.5 million was on deposit in the Disability Supplemental Benefits Allowance Reserve, $5.1 million was on deposit in the 401(h) Reserve (see "Post-Retirement Healthcare Benefits – Funding Source for Post-Retirement Healthcare Benefits" below) and no funds were on deposit in the STAR COLA or Undistributed Earnings Reserve. For a discussion on actions of the Retirement Board with respect to the transfer of certain Excess Earnings to the Health Reserve and the STAR COLA reserve. See "County Financial Information – San Diego County Employees Retirement Association – Transfers of Investment Earnings by the Association" and "County Financial Information – STAR COLA Benefits" and "County Financial Information – Supplemental Pension Benefits" herein.

Financial Reporting Standard

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

Post-Retirement Healthcare Benefits

General. The Association offers to eligible retirees a health insurance allowance to offset or reimburse the cost of medical insurance premiums. A variety of healthcare and dental plans with varying providers and levels of premiums are sponsored by the Association. Once a retiree elects a particular healthcare or dental plan, the amount of the premium is deducted from the retiree's monthly retirement check. Alternatively, retirees may be reimbursed for health insurance premiums of non-Association sponsored plans. Effective July 1, 2007, the Association limited the health insurance allowance to retirees who retired under the Tier I or Tier II plan.

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

Funding Source for Post-Retirement Healthcare Benefits. The Retirement Law authorizes a mechanism for the payment of post-retirement healthcare benefit costs pursuant to which a portion of the

Employers' pension contributions are applied to the payment of these post-retirement healthcare benefits and the amounts of those contributions are credited to the Employers' valuation assets. In years past, the County designated up to 25% of its respective normal cost and employer offset annual contributions to the payment of the monthly medical allowance and Medicare Part B premium reimbursement to be recorded in a separate account (the 401(h) account) under the provisions of section 401(h) of the Internal Revenue Code. The designated amounts were determined by funding the post-retirement healthcare benefits on a pay-as-you-go basis. Upon receiving the County's 401(h) contribution, the Association would transfer an equal amount from the Health Reserve to the County Contribution Reserve (part of the Association's valuation assets) as a credit for the County's current-year contribution. Beginning on July 1 of Fiscal Year 2007-08, the funding mechanism changed. See *"Payment of the Annual Required Contribution for Post-Retirement Healthcare Benefits"* herein. Benefits paid to retirees from the 401(h) account are non-taxable.

Reporting Requirements Regarding Post-Retirement Benefits. In 2004, GASB issued two statements that address other post-employment benefits ("OPEB"), which are defined to include post-retirement healthcare benefits. GASB Statement No. 43, Financial Reporting for Post-employment Benefits Plans Other Than Pension Plans ("GASB 43") and GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions ("GASB 45"), establish accounting and financial reporting standards for OPEB in a manner similar to those currently in effect for pension benefits. The provisions of GASB 43 focus on the entity that administers such benefits (the Association) while GASB 45 focuses on the employer's reporting requirements (the County). The Statements require an actuarial valuation to determine the funded status of benefits accrued, along with other required information to be disclosed by the Association and the County. The Retirement Board adopted and implemented the provisions of GASB 43 as part of the Association's comprehensive annual financial report for the Fiscal Year ended June 30, 2007. The County has included the required disclosures beginning with the County's comprehensive annual financial report for the Fiscal Year ended June 30, 2008. The requirements that GASB 45 imposes on the County only affect the County's financial statements and would not impose any requirements regarding the funding of any OPEB plans.

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

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

TABLE 13
HISTORICAL FUNDING STATUS
FOR POST-RETIREMENT HEALTHCARE BENEFITS
Years Ended June 30, 2007 through 2012
($ in thousands)

Funding Progress

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

Employer Contributions

Year Ended	Annual Required Contribution	Contributions Made	Percentage of Required Contribution Made
June 30, 2008	$ 23,616	$ 23,616	100.0%
June 30, 2009	23,237	23,237	100.0
June 30, 2010	18,789	18,789	100.0
June 30, 2011	18,028	18,028	100.0
June 30, 2012	19,198	19,198	100.0

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

(1) Excludes $18.2 million available for benefits.

Payment of the Annual Required Contribution for Post-Retirement Healthcare Benefits. The County and other employers have determined to pay the ARC as calculated by the Association's actuary. The payment of the ARC is in addition to the Employers' regular pension contributions and is contingent upon the Association continuing to limit the retiree healthcare benefits to the Tier I and Tier II retirees and at levels no greater than were in effect on December 5, 2006, which are those benefit levels described under the caption "Post-Retirement Healthcare Benefits – General" herein. For the Fiscal Year ended June 30, 2012, the employers collectively paid $19.2 million to the Association for deposit into the 401(h) account, which satisfied the ARC for that year.

Historical Payments. Table 14 below sets forth the amounts for each of the ten years ended June 30, 2012 that the Association has paid to its members for post-retirement healthcare benefits.

TABLE 14
PAYMENTS FOR POST-RETIREMENT HEALTHCARE BENEFITS
Years Ended June 30, 2003 through 2012

Fiscal Year Ended June 30	Payments for Retiree Healthcare Benefits (in millions)
2003	20.0[(1)]
2004	26.4[(1)]
2005	32.6
2006	32.9
2007	35.3
2008	24.4[(2)]
2009	23.6
2010	23.3
2011	21.5
2012	20.2

Source: The Association.

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

(2) Beginning with Fiscal Year 2007-08, healthcare benefits were paid from the 401(h) account, which had an available balance of $18.8 million on June 30, 2007 and received contributions from the employers of $23.6 million during that fiscal year.

Supplemental Pension Benefits

Beginning July 1 of Fiscal Year 2007-08, the Association stopped paying a non-taxable healthcare benefit to its previously eligible General Tier A retirees and Safety retirees covered by the 3% at age 50 benefit formula, and instead started paying to them a taxable pension supplement based on years of service. The source of these payments is the former Healthcare Reserve, which was converted to a Supplemental Benefit reserve. The supplemental benefit allowance ("SBA") ranges from $200 per month (10 years of service) to $400 per month (20 or more years of service). During Fiscal Year 2011-12, a total of $21.4 million was paid from this reserve to Tier A retirees, leaving a balance in the reserve of $69.0 million on June 30, 2012 that is expected to provide for payments to eligible members through approximately 2017. In addition, the Association set aside $20.7 million in excess earnings from Fiscal Year 2006-07 to provide a taxable pension supplement to General Tier A members and Safety members covered by the 3% at age 50 benefit formula who retire because of a disability. Members who are granted a disability retirement and determined to be totally disabled are eligible for the maximum SBA ($400 per month) regardless of years of service. Members with less than 10 years of service credit who are granted a disability retirement and determined to be partially disabled are eligible for the minimum SBA ($200 per month). During Fiscal Year 2011-12, a total of $2.4 million was paid to these disability retirees, leaving a balance in the Disability Supplemental Benefit Allowance Reserve on June 30, 2012 of $9.5 million.

STAR COLA Benefits

General. The STAR COLA benefits provide retirees with additional cost-of-living adjustments. The Retirement Board's STAR COLA policy preserves 80% of a retiree's purchasing power calculated against when that retiree retired. The Retirement Law does not require the Association to provide any STAR COLA payments. In addition, in the opinion of County Counsel, the County has not entered into any collective bargaining agreements or other arrangements that require the County or the Association to maintain STAR COLA benefits.

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

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

Table 15 below sets forth the amounts paid by the Association to retirees out of the STAR COLA reserve since 2001. The Association does not track either the Employer or the departments or funds of any Employer from which retired personnel receiving STAR COLA benefits, when in active service, were paid.

TABLE 15
PAYMENTS FROM STAR COLA RESERVE
Since Fiscal Year Ended June 30, 2001

Fiscal Year Ending June 30	Payments from STAR COLA Reserve (in millions)
2001	$ 8.2
2002	8.1
2003	7.2
2004	11.3
2005	11.0
2006	10.7
2007	10.4
since 2008[(1)]	0.0

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

Pension Obligation Bonds

Introduction. The County has issued taxable pension obligation bonds ("POBs") from time to time and transferred the proceeds to the Association to reduce the UAAL existing at the time of issuance of the POBs. Under California law, the obligation to fund the UAAL by making actuarially required contributions is an obligation imposed by law. The effect of issuance of POBs is to finance that obligation and convert it from an obligation to make actuarially required contributions to an obligation to make interest and principal payments on bonds which are sold to the public.

County Pension Obligation Bonds. In February 1994, the County issued $430,430,000 in principal amount of POBs (the "1994 POBs") and in October 2002 the County issued an additional $737,340,000 in principal amount of POBs (the "2002 POBs"), in part to refund a portion of the 1994 POBs. In June 2004, the County issued $454,112,915.70 in principal amount of POBs (the "2004 POBs"). The County has contributed to the Association an aggregate amount of $1,428,500,000 from the issuance of the 1994 POBs, the 2002 POBs and the 2004 POBs to reduce the UAAL. On August 15, 2007, the County prepaid in full all of the $100 million Series 2002C PINES and on February 15, 2008, the County prepaid $20 million of the Series 2002B-1 POBs (herein defined) with available cash, these two prepayments resulted in over approximately $7.5 million of annual interest savings to the County. In August 2008, the County prepaid $44 million of its Series 2002B-1 POBs, which resulted in approximately $3.06 million of annual interest savings to the County. On August 7, 2008, the County issued $443,515,000 aggregate principal amount of Taxable Pension Obligation Bonds, Series 2008A (the "2008A POBs") and Series 2008B (Variable Rate Demand Obligations) (the "2008B POBs" and, together with the 2008A POBs, the "2008 POBs"). The proceeds of the 2008 POBs were used to refund all of the then-outstanding 2002 B1-B4 POBs that were originally issued as auction rate securities (the "2002B POBs"). On July 1, 2009, the County prepaid in full all of the $100 million Series 2008B POBs, which resulted in approximately $4.5 million of annual interest savings. As of October 1, 2012, the County had POBs outstanding in the aggregate principal amount of $768.8 million. The County may, from time to time, finance all or a portion of the UAAL employer contributions through the additional issuances of POBs. The County has no variable rate POBs outstanding. See "County Financial Information – General Obligation Debt, Pension Obligation Bonds, Lease Obligations and Long-Term Loans" herein.

Pension Related Payments and Obligations

Payments. Table 16 below sets forth the estimated Employer Contributions, Employer Offsets and POB debt service for Fiscal Years 2012 through 2020. The estimates and related assumptions are "forward-looking" in nature and are not to be construed as representations of fact or representations that in fact the various estimates shown will be the correct amounts for the years indicated. Rather, these reflect good faith estimates by the County taking into account a variety of assumptions, a number of which are discussed herein. Accordingly, prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts.

TABLE 16
PENSION RELATED PAYMENTS
Fiscal Years Ended June 30, 2012 through 2020
(In Millions)

Fiscal Year	Employer Contributions[1]	Employer Offsets[2]	County Pension Obligation Bonds Debt Service[3]	Total
2012[4]	$294.0	$59.0	$81.4	$434.4
2013[4]	327.0	42.0	81.4	464.4
2014[4]	388.0	43.0	81.4	512.4
2015[4]	433.0	45.0	81.4	559.4
2016[4]	429.0	47.0	81.4	557.4
2017[4]	431.0	49.0	81.3	561.3
2018[4]	443.0	51.0	81.4	575.4
2019[4]	458.0	53.0	81.4	592.4
2020[4]	473.0	56.0	81.4	610.4

Source: The Segal Company; County of San Diego.

(1) These contribution amounts reflect the aggregate contribution amount of all Employers and not only that of the County. The County share of Employer Contributions and Employer Offsets are estimated to be approximately 91.0% based on the estimated relative percentage of payroll of the County for Fiscal Year 2011-12. See "County Financial Information – San Diego County Employees' Retirement Association – General" herein.

(2) Employer Offsets reflect negotiated offset savings in the current bargaining agreements, which are reflected in the County's Fiscal Year 2011-12 Adopted Budget and the County's Fiscal Year 2012-13 Preliminary Budget estimates.

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

(4) Estimated. The amounts indicated are subject to the same assumptions as set forth in footnotes (1) through (3) to the "Prospective Funding Status of the Association" table herein.

Pension-Related Obligations. Table 17 below sets forth the estimated UAAL and expected outstanding principal amounts of POBs for the years indicated, assuming no additional POBs are issued and the outstanding POBs mature on their respective amortization schedules. The estimates contained in Table 17 and the related assumptions are "forward-looking" in nature and are not to be construed as representations of fact or representations that in fact the various estimates shown will be the correct amounts for the years indicated. Rather, these reflect good faith estimates by the County taking into account a variety of assumptions, a number of which are discussed herein. Accordingly, prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts.

TABLE 17
COUNTY PENSION RELATED OBLIGATIONS
Fiscal Years Ended June 30, 2012 through 2020
(In Millions)

Fiscal Year	UAAL[(2)]	Outstanding Pension Obligation Bonds[(1)]	Total Outstanding Obligations
2012	$1,566	$806.8	$2,372.8
2013	1,940	770.5	2,710.5
2014	2,432	732.3	3,164.3
2015	2,832	692.3	3,524.3
2016	2,561	649.9	3,210.9
2017	2,534	605.5	3,139.5
2018	2,256	558.5	2,814.5
2019	2,168	508.8	2,676.8
2020	2,064	456.0	2,520.0

Source: The Segal Company; County of San Diego.

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

(2) Estimated. The UAAL information is based on the UAAL as reported in the actuarial valuation dated as of the end of the second preceding year ended June 30, which is the amount that impacts the Employer Required Contribution and Employer Offsets in any given fiscal year. The amounts indicated are subject to the same assumptions as set forth in footnote (1) to the "Prospective Funding Status of the Association" table herein.

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

Risk Management

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

The County operates a Risk Management Program, whereby it is self-insured for general liability, medical malpractice, errors and omissions, and workers' compensation. The County purchases insurance for all risk property damage, boiler and machinery, earthquake on specified locations and certain casualty claims, such as airports, sheriff helicopters, and employee dishonesty and faithful performance of duties. The amount of coverage varies depending on the type of policy. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. The County allocates the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll. In accordance with Government Accounting Standards Board Statement 10, "Accounting and Financial Reporting for Risk Financing and Relating Insurance Items," the County established two Internal Service Funds, the Public Service Liability Fund and the Employee Benefits Internal Service Fund to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Actuarial evaluations were obtained which determine estimates of known and projected general liability and workers compensation claim liabilities. At June 30, 2011, the amount of these actuarial liabilities amount to $29.0 million for the public liability and $106.6 million in workers' compensation. The June 30, 2011 available cash balances for the ISFs combined were $136.0 million.

The County will continue to purchase excess workers' compensation insurance for Fiscal Year 2012-13. The County does not carry excess liability insurance at this time.

Litigation

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

Short-Term Borrowing

In July 2012, the County issued its Tax and Revenue Anticipation Note Program Note Participations, Series 2012 (the "2012 TRANs") on behalf of itself and certain school districts within the County in an aggregate principal amount of $176,060,000, of which $50,000,000 represent notes issued by the County. The 2012 TRANs mature on June 28, 2013. The 2012 TRANs were issued for the purpose of financing seasonal cash flow requirements for general fund expenditures.

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

The County has no outstanding general obligation bonds. As of October 1, 2012, the County had POBs outstanding in the aggregate principal amount of $768.8 million. Starting with the financing of the El Cajon Administrative Building in 1955, the County has made use of various lease arrangements with joint powers authorities, a nonprofit corporation, a redevelopment agency and private parties to finance capital project needs. Under these arrangements, the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds ("LRBs") or certificates of participation ("COPs") and then leases the asset or assets to the County. As of October 1, 2012, the County had LRBs and COPs outstanding in the aggregate principal amount of $384.7 million. As of October 1, 2012, there were approximately $1.2 billion aggregate principal amount of long-term general fund obligations outstanding. The annual long-term lease payments and annual debt service payments on the LRBs, COPs and POBs of the County aggregate to approximately $124.5 million for Fiscal Year 2012-13, excluding debt service on the Series 2012 Certificates. Debt service on the aforementioned obligations and evidences of indebtedness are paid from amounts in the County's General Fund, a portion of which is reimbursed with amounts from various other revenue sources. The County has no outstanding variable rate obligations and does not have an outstanding liquidity facility in support of payment of any of its outstanding bonds payable from general fund revenues. See "County Financial Information – Pension Obligation Bonds" herein.

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

TABLE 18
COUNTY OF SAN DIEGO
SUMMARY OF LONG-TERM BONDED OBLIGATIONS
PAYABLE FROM THE GENERAL FUND
As of October 1, 2012
($ In Thousands)

	Interest Rates	Final Maturity Dates	Original Principal Amounts	Principal Amounts Outstanding
Certificates of Participation and Lease Revenue Bonds				
San Diego County Capital Asset Leasing Corporation ("SANCAL"):				
2005 RCS Refunding, issued February 2005	3.00-5.00%	2019	$ 28,885	$ 11,120
2005 Edgemoor, issued February 2005	3.00-5.00%	2030	83,510	71,780
2005 North and East County Justice Facility Refunding, issued September 2005	3.25-5.00%	2019	28,210	18,065
2006 Edgemoor Completion Project, issued December 2006	4.00-5.00%	2030	42,390	38,415
2009 Justice Facilities Refunding, issued October 2009	2.00-5.00%	2025	80,940	61,600
2011 CAC Waterfront Park, issued August 2011	3.00-5.13%	2042	32,665	32,665
Total SANCAL			$ 467,335	$ 233,645
San Diego Regional Building Authority (SDRBA):				
2009 COC Phase 1A, issued February 2009	3.00-5.375%	2036	136,885	133,755
2011 MTS Tower Refunding, issued May 2011	1.00-5.00%	2019	19,260	17,265
Total SDRBA			$ 156,145	$ 151,020
Total Certificates of Participation and Lease Revenue Bonds			$ 623,480	$ 384,665
Taxable Pension Obligation Bonds:				
County of San Diego Pension Obligation Bonds, issued October 2002				
Series A	3.88-4.95%	2015	$ 132,215	$ 51,990
County of San Diego Pension Obligation Bonds, issued June 2004				-
Series A	3.28-5.87%	2022	241,360	212,870
Series B1, B2	5.91%	2024	147,825	147,825
Series C[1]	4.66-5.76%	2015	64,928	45,225
Less Unaccreted Value			-	(4,649)
County of San Diego Pension Obligation Bonds, issued August 2008				
Series A	3.33-6.03%	2027	343,515	315,545
Total Pension Obligation Bonds			$ 929,843	$ 768,806
Total General Fund Long-Term Bonded Obligations			$ 1,553,323	$ 1,153,471

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

Source: The County of San Diego Auditor and Controller.

Table 19 below sets forth a summary of outstanding principal and interest payments attributable to long-term obligations payable from the County General Fund. Funds for all principal and interest payments due throughout the fiscal year are deposited with the applicable trustee at the beginning of the fiscal year on July 5 or, if July 5 is not a business day, the first business day after July 5.

TABLE 19
COUNTY OF SAN DIEGO
SUMMARY OF OUTSTANDING PRINCIPAL AND INTEREST PAYMENTS
ATTRIBUTABLE TO LONG-TERM OBLIGATIONS PAYABLE FROM THE GENERAL FUND
(as of October 1, 2012)

	Certificates of Participation and Lease Revenue Bonds										Pension Obligation Bonds				
Fiscal Year	1993 Master Refunding	2005 RCS Refunding	2005 Edgemoor	2005 North & East	2006 Edgemoor	2009 COC Phase 1A	2009 Justice Facilities Refunding	2011 MTS Tower Refunding	2011 CAC Waterfront Park	Subtotal	2002 Pension Obligation Bonds	2004 Pension Obligation Bonds	2008 Pension Obligation Bonds	Subtotal	Total General Fund Obligation
2013	$3,906,875	$2,960,350	$6,136,900	$2,716,725	$3,131,983	$9,876,594	$9,591,325	$2,715,000	$2,094,250	$43,130,001	$20,438,748	$36,715,701	$24,263,767	$81,418,216	$124,548,218
2014	0	2,962,350	6,136,150	2,724,563	3,134,783	9,874,844	7,377,475	2,668,250	2,092,000	36,970,414	20,438,346	38,210,701	22,763,875	81,412,922	118,383,336
2015	0	1,433,400	6,139,600	2,719,113	3,135,183	9,876,944	7,343,450	2,718,400	2,094,300	35,460,389	17,656,527	39,741,424	24,013,656	81,411,606	116,871,995
2016	0	1,427,750	6,140,750	2,722,300	3,132,683	9,874,744	7,341,375	2,650,000	2,091,000	35,380,601	17,656,443	41,337,148	22,420,907	81,414,497	116,795,098
2017	0	1,429,000	6,138,000	2,721,125	3,131,433	9,877,144	7,333,238	2,678,800	2,092,250	35,400,989	0	42,965,099	38,373,607	81,338,705	116,739,694
2018	0	1,427,250	6,138,000	2,719,000	3,136,183	9,878,744	7,329,625	2,693,000	2,092,900	35,414,701	0	44,717,296	36,694,015	81,411,311	116,826,013
2019	0	1,417,500	6,140,250	2,720,875	3,136,433	9,877,644	6,474,375	2,694,875	2,091,300	34,553,251	0	46,507,149	34,906,405	81,413,555	115,966,806
2020	0	0	6,139,250	2,721,375	3,132,183	9,875,044	6,474,000	1,347,875	2,092,200	31,781,926	0	48,369,669	33,038,654	81,408,323	113,190,249
2021	0	0	6,139,750	0	3,133,183	9,878,444	6,472,125	0	2,093,400	27,716,901	0	50,283,425	31,128,216	81,411,642	109,128,543
2022	0	0	6,136,250	0	3,135,983	9,876,569	6,467,500	0	2,093,400	27,709,701	0	52,322,691	29,085,382	81,408,073	109,117,774
2023	0	0	6,138,500	0	3,135,033	9,874,869	6,147,125	0	2,092,550	27,388,076	0	54,439,051	26,892,208	81,331,260	108,719,336
2024	0	0	6,135,750	0	3,135,258	9,876,394	4,171,625	0	2,091,800	25,410,826	0	56,663,519	24,750,780	81,414,299	106,825,125
2025	0	0	6,137,750	0	3,136,445	9,874,644	4,160,250	0	2,092,600	25,401,689	0	58,942,024	22,478,030	81,420,054	106,821,743
2026	0	0	6,138,750	0	3,133,383	9,874,813	2,916,125	0	2,092,000	24,155,070	0	0	81,415,400	81,415,400	105,570,470
2027	0	0	6,138,250	0	3,136,070	9,878,438	0	0	2,092,688	21,245,445	0	0	67,113,947	67,113,947	88,359,392
2028	0	0	6,135,750	0	3,133,813	9,877,625	0	0	2,091,675	21,238,863	0	0	0	0	21,238,863
2029	0	0	6,140,750	0	3,136,438	9,875,106	0	0	2,091,450	21,243,744	0	0	0	0	21,243,744
2030	0	0	6,137,250	0	3,133,500	9,878,706	0	0	2,094,200	21,243,656	0	0	0	0	21,243,656
2031	0	0	0	0	0	9,877,506	0	0	2,089,200	11,966,706	0	0	0	0	11,966,706
2032	0	0	0	0	0	9,874,700	0	0	2,089,575	11,964,275	0	0	0	0	11,964,275
2033	0	0	0	0	0	9,876,200	0	0	2,092,819	11,969,019	0	0	0	0	11,969,019
2034	0	0	0	0	0	9,875,663	0	0	2,092,731	11,968,394	0	0	0	0	11,968,394
2035	0	0	0	0	0	9,877,013	0	0	2,089,313	11,966,325	0	0	0	0	11,966,325
2036	0	0	0	0	0	9,878,906	0	0	2,092,563	11,971,469	0	0	0	0	11,971,469
2037	0	0	0	0	0	0	0	0	2,091,969	2,091,969	0	0	0	0	2,091,969
2038	0	0	0	0	0	0	0	0	2,092,531	2,092,531	0	0	0	0	2,092,531
2039	0	0	0	0	0	0	0	0	2,093,994	2,093,994	0	0	0	0	2,093,994
2040	0	0	0	0	0	0	0	0	2,091,100	2,091,100	0	0	0	0	2,091,100
2041	0	0	0	0	0	0	0	0	2,088,850	2,088,850	0	0	0	0	2,088,850
2042	0	0	0	0	0	0	0	0	2,091,988	2,091,988	0	0	0	0	2,091,988
Total	$3,906,875	$13,057,600	$110,487,650	$21,765,076	$56,419,970	$237,037,298	$89,599,613	$20,166,200	$62,762,596	$615,202,863	$76,190,064	$611,214,897	$519,338,849	$1,206,743,810	$1,821,946,675

Source: County of San Diego.

Anticipated Capital Financings

A Capital Improvements Needs Assessment ("CINA") is prepared and presented annually to the Board of Supervisors to guide the development of both immediate and long-term capital projects. The CINA includes a comprehensive list of all current and anticipated capital projects over a five-year period. Capital projects are considered during the annual budget process unless the Board of Supervisors or the CAO recommends mid-year adjustments to the budget as circumstances warrant to meet emergent needs or to benefit from unusual developments or purchase opportunities. The Fiscal Year 2012-2017 CINA was approved on May 1, 2012. It includes $571.0 million in currently approved and active projects, $22.3 million in recently completed projects and $477.0 million in partially funded and unfunded priority major and minor capital projects over the five-year time-frame of the CINA, including the Project described in the forepart of this Official Statement. All of the other projects included in the current CINA will be funded with alternative sources of revenue; there will be not debt financing for such projects.

Long-Term Financial Obligation Management Policy

In 1998, the County adopted a long-term financial strategy and policy (as amended, the "Long-Term Financial Obligation Management Policy") to ensure sound financial management practices with respect to County or County-related obligations whose terms exceed one fiscal year (excluding leases in which payments are not securitized). Pursuant to the Long-Term Financial Obligation Management Policy, a Debt Advisory Committee ("DAC") consisting of the Chief Financial Officer, the Auditor and Controller and the Treasurer-Tax Collector and established by the Chief Administrative Office, reviews proposed financings. DAC approval is required prior to consideration of a financing by the Board of Supervisors. The Long-Term Financial Obligation Management Policy requires that prior to any recommendation by DAC to move forward with a long-term financial obligation, there shall be an assessment of the ability to repay the obligation, identification of the funding source of repayment, evaluation of the impact of the ongoing obligation on the current budget and future budgets, assessment of the maintenance and operational requirements of the project to be financed, and consideration of the impact on the County's credit rating. The Long-Term Financial Obligation Management Policy also provides for the filing of notices of completion on all projects within five years of their financing, continuous review of outstanding obligations for economically feasible and advantageous refinancing opportunities and the periodic reporting of unspent capital project funds through quarterly or year-end budget reports. The Long-Term Financial Obligation Management Policy prohibits the use of long-term financial obligations to fund current operations or for recurring purposes, and the issuance of variable rate obligations in excess of 15% of the County's outstanding long-term obligations. Recently, the County's practice of using 5% of General Fund revenue as a not-to-exceed guideline for annual debt service requirements in long-term planning has been formalized and incorporated into the Long-Term Financial Obligation Management Policy. Exceptions to the provisions of the Long-Term Financial Obligation Management Policy are permitted in extraordinary conditions.

Swap Policy

In 2004, the DAC approved an Interest Rate Swap Policy (the "Swap Policy") establishing guidelines for the execution and management of the County's use of interest rate and other swaps and other similar products (the transactions involving such products being referred to herein as "Swap Transactions"). The Swap Policy is reviewed, and updated as necessary, annually by the DAC. The County may integrate Swap Transactions into its overall debt and investment management programs in a prudent manner to, among other things, enhance the relationship between risk and return with respect to debt or investments, achieve significant savings as compared to products available in the cash market, provide a higher level of savings, lower level of risk, greater flexibility, or other direct benefits not available in the cash market and achieve more flexibility in meeting overall financial objectives than can be achieved in conventional markets, all in accordance with the parameters set forth in the Swap Policy and consistent with the County's overall long-term financial obligation management policy. Pursuant to the Swap Policy, the total notional amount of all Swap Transactions executed by the County shall not exceed 30% of the outstanding principal of the County's long-term debt obligations at the time of execution. The County has no outstanding Swap Transactions.

Overlapping Debt and Debt Ratios

Table 20 sets forth a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated as of October 1, 2012. The Debt Report is included for general information purposes only. The County has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith. The Debt Report does not include the 2012 TRANs described in the forepart of this Official Statement.

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

TABLE 20
COUNTY OF SAN DIEGO
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
(As of October 1, 2012)

2012-13 Assessed Valuation:	$382,126,855,240	(includes unitary utility valuation)
Redevelopment Incremental Valuation:	38,829,202,875	
Adjusted Assessed Valuation:	$343,297,652,365	

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 10/1/12
Metropolitan Water District	18.432%	$ 36,227,174
Grossmont-Cuyamaca Community College District	100.	182,648,154
Palomar Community College District	100.	318,573,901
San Diego Community College District	100.	933,048,037
Southwestern Community College District	100.	235,884,345
Carlsbad Unified School District	100.	197,524,364
Oceanside Unified School District	100.	230,939,327
Poway Unified School District SFID Nos. 2002-1 and 2007-1	100.	347,663,406
San Diego Unified School District	100.	1,862,913,695
San Marcos Unified School District	100.	215,540,017
Vista Unified School District	100.	126,894,882
Other Unified School Districts	100.	15,377,146
Grossmont Union High School District	100.	406,100,095
Sweetwater Union High School District	100.	328,479,415
Other Union High School Districts	100.	112,549,519
Cajon Valley Union School District	100.	127,233,107
Chula Vista City School District	100.	66,405,000
San Ysidro School District	100.	126,152,611
Other School Districts	100.	323,631,392

(Table continued on subsequent page.)

(Table continued from prior page.)

Otay Municipal Water District	100.	6,235,000
Cities	100.	104,570,000
Grossmont Healthcare District	100.	221,337,076
Palomar Pomerado Hospital District	100.	477,631,555
Community Facilities Districts	100.	1,534,801,635
1915 Act Bonds (Estimated)	100.	128,291,707
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$8,666,652,560

DIRECT AND OVERLAPPING GENERAL FUND DEBT:	% Applicable	Debt 10/1/12
San Diego County General Fund Obligations	**100. %**	**$ 384,665,000**[1]
San Diego County Pension Obligations	**100.**	**753,897,748**
San Diego County Superintendent of School Obligations	100.	18,612,500
Community College District Certificates of Participation	100.	10,615,000
San Marcos Unified School District Certificates of Participation	100.	55,753,327
Other Unified School District Certificates of Participation	100.	119,408,351
High School District Certificates of Participation	100.	88,227,500
Chula Vista City School District Certificates of Participation	100.	143,480,000
Other School District Certificates of Participation	100.	119,120,864
Otay Municipal Water District Certificates of Participation	100.	56,245,000
City of Chula Vista General Fund Obligations	100.	129,800,000
City of Escondido General Fund Obligations	100.	42,487,098
City of San Diego General Fund Obligations	100.	549,390,000
City of Vista General Fund Obligations	100.	114,395,000
Other City General Fund Obligations	100.	212,070,000
Special District Certificates of Participation	100.	15,205,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$2,813,372,388
Less: Otay Municipal Water District Certificates of Participation (100% supported)		56,245,000
City of El Cajon General Fund Obligations supported by sales tax revenues		22,255,000
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$2,734,872,388
GROSS COMBINED TOTAL DEBT		$11,480,024,948[2]
NET COMBINED TOTAL DEBT		$11,401,524,948

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

Ratios to 2012-13 Assessed Valuation:
Total Overlapping Tax and Assessment Debt..............2.27%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($1,138,562,748)....................0.33%
Gross Combined Total Debt 3.34%
Net Combined Total Debt..3.32%

Source: California Municipal Statistics, Inc.

SAN DIEGO COUNTY INVESTMENT POOL

General

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

The County is required to invest funds in accordance with California Government Code Sections 53635 et seq. In addition, counties are required to establish their own investment policies which may impose limitations beyond those required by the Government Code. All investments in the Treasurer's investment portfolio conform to the statutory requirements of Government Code Section 53635 et seq., authorities delegated by the County Board of Supervisors and the Treasurer's investment policy. Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the County Treasurer the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County (and the various departments in the County, such as Public Works and Public Administration), funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into County treasury ("Involuntary Depositors"). In addition, certain agencies, including community college districts, invest certain of their funds in the County treasury on a voluntary basis ("Voluntary Depositors" and together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment.

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

The County has established an Oversight Committee pursuant to State law. The 11 members of the Oversight Committee include the County Treasurer, the Auditor and Controller, members of the public, and a representative from a special district and a school district. The role of the Oversight Committee is to review and monitor the Investment Policy that is prepared by the County Treasurer.

Treasury Pool's Portfolio

As of August 31, 2012, the securities in the Treasury Pool had a market value of $5,855,630,051 and a book value of $5,835,619,256 for a net unrealized gain of $20,010,795 of the book value of the Treasury Pool.

The effective duration for the Treasury Pool was 0.710 years as of August 31, 2012. The duration is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 0.710 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.710%.

As of August 31, 2012, approximately 8.94% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts, 12.66% by community colleges, 30.65% by the County, 5.02% by the Non-County and 42.73% by K-12 school districts.

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

Investments of the Treasury Pool

Authorized Investments

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

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

The Investment Policy

The Investment Policy currently states the primary goals of the County Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the County Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve an investment return on the funds under the control of the County Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 50% of the Pool should be invested in securities maturing in one year or less, with the remainder of the portfolio being invested in debt securities with maturities spread over more than one year to five years. Furthermore, at least 25% of the securities must mature within 90 days. The maximum effective duration for the Pool shall be 1.50 years.

With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements and/or securities lending agreements to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements shall be to invest the proceeds from the agreement into permissible securities that have the highest short-term credit ratings; to supplement the yield on securities owned by the Pool; or to provide funds for the immediate payment of an obligation. The maturity of the reverse repurchase agreement and the maturity of the security purchased shall be the same.

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

The Investment Policy also authorizes investments in covered call options and put options, which are options that the Treasurer sells to a third party the right to buy an existing security in the Pool or sell a security to the Pool, both at a specific price within a specific time period. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase agreements; cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option; the maximum maturity of a covered call option/put option is to be 90 days and not more than 10% of the total investments in the Pool could have options written against them at any given time.

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

In order to limit exposure to credit risk, the Pool has limited purchases of corporate securities to maturities less than 90 days. All investments in the Treasurer's investment portfolio conform to the statutory requirements of Government Code Section 53635 et seq., authorities delegated by the Board of Supervisors and the Treasurer's investment policy.

Certain Information Relating to Pool

Table 21 below reflects information with respect to the Pool as of the close of business August 31, 2012. As described above, a wide range of investments is authorized by state law. Investments mature and trading activity is constant. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below. In addition, the values specified in the following table were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on August 31, 2012, the Pool necessarily would have received the values specified.

TABLE 21
TREASURER-TAX COLLECTOR
SAN DIEGO COUNTY PORTFOLIO STATISTICS[1]
(As of August 31, 2012)

	Percent of Portfolio	Weighted Average Maturity	Yield to Maturity[2]	Current Par/Share	Book Value	Market Price	Market Value	Accrued Interest	Yield to Worst[3]	Unrealized Gain/Loss
Certificates of Deposit	1.11%	187	0.31%	$ 65,061,000	$ 65,061,000	1.000	$ 65,061,000	$ 3,210	0.31%	$ 0
Commercial Paper	17.48	25	0.14	1,020,000,000	1,019,898,697	1.000	1,019,788,584	0	0.14	(110,113)
Fannie Mae	13.72	1,044	0.92	795,820,000	800,576,263	1.012	805,761,645	3,313,054	0.88	5,185,382
Fannie Mae Discount Notes	3.51	116	0.14	205,000,000	204,894,511	0.999	204,816,000	0	0.14	(78,511)
Federal Farm Credit Bank Discount Notes	1.97	215	0.18	115,000,000	114,873,625	0.998	114,811,540	0	0.18	(62,085)
Federal Farm Credit Bank Notes	5.42	543	0.38	316,489,000	316,427,804	1.001	316,697,947	161,512	0.38	270,143
Federal Home Loan Bank Discount Notes	0.43	168	0.18	25,000,000	24,979,125	0.998	24,955,250	0	0.18	(23,875)
Federal Home Loan Bank Notes	18.98	386	0.55	1,104,215,000	1,108,389,403	1.009	1,114,003,247	2,715,531	0.54	5,613,843
Federal Home Loan Mortgage Corp Discount Notes	0.86	19	0.13	50,000,000	49,996,660	0.999	49,935,450	0	0.13	(61,210)
Federal Home Loan Mortgage Corp Notes	10.17	977	0.98	590,190,000	593,567,378	1.013	598,120,195	1,839,279	0.95	4,552,817
Money Market Funds	3.04	1	0.12	177,175,000	177,175,000	1.001	177,280,105	12,963	0.12	105,105
Negotiable CD	19.11	31	0.15	1,115,000,000	1,115,000,287	1.000	1,114,999,240	140,591	0.15	(1,047)
Repurchase Agreements	0.24	1	0.02	13,819,439	13,819,439	1.000	13,819,439	8	0.02	0
U.S. Treasury Notes	3.61	756	1.72	207,000,000	210,417,394	1.037	214,744,410	938,127	1.72	4,327,016
U.S. Treasury Notes EOM	0.35	1,367	0.78	20,000,000	20,542,670	1.042	20,836,000	863	0.78	293,330
Totals for August 2012	100.00%	399	0.49%	$5,819,769,439	$5,835,619,256	1.010	$5,855,630,051	$9,125,138	0.48%	$20,010,795
Totals for July 2012	100.00%	368	0.48%	$6,082,871,444	$6,097,140,142	1.010	$6,117,097,499	$8,474,731	0.47%	$19,957,357
Change From Prior Month		31	0.01	(263,102,005)	(261,520,886)	0.000	(261,467,448)	650,407	0.01	53,438
Portfolio Effective Duration	0.710 years									

Source: The County.
(1) Yields for the portfolio are aggregated based on the book value of each security.
(2) Yield to maturity ("YTM") is the estimated rate of return on a bond given its purchase price, assuming all coupon payments are made on a timely basis and reinvested at this same rate of return to the maturity date.
(3) Yield to worst ("YTW") is the lesser of yield to maturity or yield to call, reflecting the optionality of the bond issuer.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A

On June 6, 1978, California voters approved Proposition 13, adding Article XIII A to the California Constitution. Article XIII A, among other things, affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value,' or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data for the area under taxing jurisdiction, or reduced in the event of declining property value caused by substantial damage, destruction or other factors including a general economic downturn. Any reduction in assessed value is temporary and may be adjusted for any given year by the Assessor. The assessed value increases to its pre-reduction level (escalated to the annual inflation rate of no more than two percent) following the year(s) for which the reduction is applied. The amendment further limits the amount of any *ad valorem* tax on real property to 1% of the full cash value except that additional taxes may be levied to pay (i) debt service on indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition; and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the school district or community college district, but only if certain accountability measures are included in the proposition.

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

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

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

Article XIII B

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

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by or for the State, exclusive of certain State subventions for the use and operation of local government, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation of an entity of local government include any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity and the proceeds of certain State subventions to that entity and refunds of taxes. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments.

Article XIII B includes a requirement pursuant to which fifty percent (50%) of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount which may be appropriated by the State in compliance with Article XIII B during that fiscal year and the fiscal year immediately following it shall be transferred and allocated, from a fund established for that purpose, pursuant to Article XVI of the State Constitution. In addition, fifty percent (50%) of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount which may be appropriated by the State in compliance with Article XIII B during that fiscal year and the fiscal year immediately following it shall be returned by revising tax rates or fee schedules within the next two subsequent fiscal years. Further, Article XIII B includes a requirement that all revenues received by an entity of government, other than the State, in a fiscal year and in the fiscal year immediately following it that exceed the amount which may be appropriated by that entity in compliance with Article XIII B during that fiscal year and the fiscal year immediately following it shall be returned by revising tax rates or fee schedules within the next two subsequent fiscal years.

As amended in June 1990, the appropriations limit for the County in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the County's option, either (i) the percentage change in California per capita personal income from the preceding fiscal year, or (ii) the percentage change in the local assessment roll from the preceding fiscal year for the jurisdiction due to the addition of local nonresidential new construction. Pursuant to the Revenue and Taxation Code, the State's Department of Finance annually transmits to each city and each county an estimate of the percentage change in the population of the city or the county.

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

The Board of Supervisors adopted the annual appropriation limit for Fiscal Year 2011-12 of approximately $3.9 billion. The limitation applies only to proceeds of taxes and therefore does not apply to service fees and charges, investment earnings on non-proceeds of taxes, fines, and revenue from the sale of property and taxes received from the State and federal governments that are tied to special programs. Based on the Fiscal Year 2011-12 Adopted Budget, the funds subject to limitation total approximately $1.3 billion (total General Operating Budget minus non-proceeds of taxes and debt service) and are approximately $2.6 billion below the Article XIII B limit.

Proposition 46

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

Proposition 62

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

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, was invalid without the required two-thirds voter approval. The decision did not address the question of whether or not it should be applied retroactively.

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

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

Proposition 218

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

Article XIII C requires that all new, extended, or increased local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the County require a majority vote of the electorate and taxes for specific purposes, even if deposited in the County's General Fund, require a two-thirds vote of the electorate. These voter approval requirements of Proposition 218 reduce the flexibility of the County to raise revenues through General Fund taxes, and no assurance can be given that the County will be able to impose, extend or increase such taxes in the future to meet increased expenditure requirements.

Article XIII C also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power is not limited by the terms of Proposition 218 to local taxes, assessments, fees or charges imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges.

The repeal of local taxes, assessments, fees or charges could be challenged as a violation of the prohibition against impairing contracts under the contract clause of the United States Constitution. Subsequent to the amendment of Article XIII C, the State Legislature approved SB 919 (the "Proposition 218 Omnibus Implementation Act"), which directed that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 6, 1998, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that are or will be deposited into the County's General Fund. Further, "fees" and "charges" are not defined in Article XIII C or Proposition 218 Omnibus Implementation Act, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as they do in Article XIII D, as described below. Accordingly, the scope of the initiative power under Article XIII C could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

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

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

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

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

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

Proposition 1A

Proposition 1A ("Proposition 1A"), proposed by the Legislature as a Senate Constitutional Amendment in connection with the 2004-05 Budget Act and approved by California voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature. Proposition 1A provides that the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the VLF rate below 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates. The State's ability to initiate future exchanges and shifts of funds will be limited by Proposition 22. See " – Proposition 22" below.

Proposition 22

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

Proposition 22 prohibits the State from borrowing sales taxes or excise taxes on motor vehicle fuels or changing the allocations of those taxes among local government except pursuant to specified procedures involving public notices and hearings. In addition, Proposition 22 requires that the State apply the formula setting forth the allocation of State fuel tax revenues to local agencies revert to the formula in effect on June 30, 2009. The LAO anticipates that Proposition 22 will require the State to adopt alternative actions to address its fiscal and policy objectives, particularly with respect to short-term cash flow need. The County does not believe that the adoption of Proposition 22 will have a significant impact on its revenues and expenditures during Fiscal Year 2012-13.

Proposition 26

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

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

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

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

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

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D, Proposition 111, Proposition 1A, Proposition 62, Proposition 22, and Proposition 26 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, further affecting revenues of the County or the County's ability to expend revenues. The nature and impact of these measures cannot be predicted by the County.

STATE OF CALIFORNIA BUDGET INFORMATION AND FEDERAL STIMULUS INFORMATION

State of California Budget Information

The following information concerning the State's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. Information about the State Budget is regularly available at various State-maintained websites. Text of the State budget may be found at the Department of Finance website, www.dof ca.gov, under the heading "California Budget." An impartial analysis of the State's budget is posted by the Legislative Analyst's Office (the "LAO") at www.lao.ca.gov. In addition, certain State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov and the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System, emma.msrb.org. The information referred to on the website of the State Treasurer is prepared by the State and not by the County or the Underwriters, and the County and the Underwriters take no responsibility for the continued accuracy of the internet address of the State Treasurer or for the accuracy, if any, or timeliness of information posted there, and such information is not incorporated herein by these references.

State Budget for Fiscal Year 2011-12

2011-12 State Budget Act. On June 30, 2011, the Governor signed the 2011 State Budget Act for Fiscal Year 2011-12 (the "2011-12 State Budget Act") to address a then-projected $26.6 billion deficit through June 30, 2012. After accounting for budgetary actions adopted by the State Legislature, higher than expected revenues and updated expenditure projections, the 2011-12 State Budget Act projected that the State's structural deficit had been reduced to less than $5 billion annually. The 2011-12 State Budget Act estimated Fiscal Year 2011-12 revenues and transfers of $88.5 billion, total expenditures of $85.9 billion and a year-end surplus of $1.3 billion (net of the negative $1.2 billion prior-year State General Fund balance). The 2011-12 State Budget Act allocated the then-projected surplus to the reserve for the liquidation of encumbrances ($770 million) and the special fund for economic uncertainties ($543 million).

The 2011-12 State Budget Act authorized approximately $601.0 million in funding reductions in the areas of higher education, health and human services and public safety, beginning in January 2012, if the State's Director of Finance estimated that the State's revenues for Fiscal Year 2011-12 would be less than $87,452,500,000, but were at least $86,452,500,000. If the State's Director of Finance estimated that revenues for Fiscal Year 2011-12 would be less than $86,452,500,000, the 2011-12 State Budget Act authorized an additional $1.86 billion in education reductions including, among other things, the reductions described in paragraph (5) below. The State's Director of Finance was required to make a determination whether the State's revenues meet or exceed such levels by December 15, 2011. See " – Fiscal Projections of the Legislative Analyst's Office and the Department of Finance" herein.

Certain of the features of the 2011-12 State Budget Act which could affect counties in the State included the following:

1. The 2011-12 State Budget Act included the Governor's realignment proposal set forth in the 2011-12 Proposed State Budget and the May Revision to the Fiscal Year 2011-12 Proposed State Budget. The 2011-12 State Budget Act funded realignment by dedicating 1.0625 cents of the existing sales tax rate to generate a projected $5.1 billion for the 2011 Local Revenue Fund and by redirecting Vehicle License Fee ("VLF") revenues to generate $453.4 million. The Local Revenue Fund included accounts for Trial Court Security, Local Community Corrections, Local Law Enforcement Services, Mental Health, District Attorney and Public Defender, Juvenile Justice, and Health and Human Services, and a Reserve Account. The 2011-12 State Budget Act estimated that $300 million in VLF revenues would be shifted from departmental support costs to local public safety programs.

2. In connection with the Governor's realignment proposal, the State advanced funds to counties for administration and grants for certain health and human services programs expected to be realigned as of July 1, 2012. The 2011-12 State Budget Act authorized the State to repay itself for such July 2011 advances with payments from the realignment fund.

3. The 2011-12 State Budget Act realigned public safety to require local supervision of certain low-level offenders. The 2011-12 State Budget Act established a Community Corrections Grant Program in order to reduce overcrowding in State prisons. Pursuant to the 2011-12 State Budget Act certain lower-level offenders were sentenced, housed, supervised and treated locally. Such lower-level offenders were supervised by local law enforcement upon release from State prison. The 2011-12 State Budget Act authorized counties to contract with public community correctional facilities to house county jail inmates.

4. In connection with the Governor's realignment plan, the 2011-12 State Budget Act approved a Voluntary Alternative Redevelopment Program ("VARP"), pursuant to which redevelopment agencies could continue to operate provided that their respective establishing cities or counties agree to provide $1.7 billion in payments to K-12 schools. If the establishing cities or counties did not agree to make payments to K-12 schools, the related redevelopment agency would be required to cease operations pursuant to Assembly Bill X1 26 and any property tax revenues that remain after payment of such redevelopment agency's outstanding debt service obligations and allowable administrative costs were to be distributed to cities, counties, special districts, and K-14 schools.

5. The 2011-12 State Budget Act provided $98.6 million from the Mental Health Services Fund to county mental health services on a one-time basis for mental health services to special education students. On-going responsibility for these services, including out-of-home residential services, was realigned to school districts. The Governor has stated that schools districts may contract with counties to provide services using Proposition 63 funds, but school districts would be responsible for any costs exceeding this amount.

Fiscal Projections of the Legislative Analyst's Office and the Department of Finance. On November 16, 2011, the Legislative Analyst's Office released a publication entitled "The 2012-13 Budget: California's Fiscal Outlook" (the "2012-13 LAO Fiscal Outlook"). The 2012-13 LAO Fiscal Outlook indicated that, based upon the LAO's projections, General Fund revenues and transfers for Fiscal Year 2011-12 will be $3.7 billion less than the amount assumed in the 2011-12 State Budget Act. The LAO also projected that the net effect of the lower revenue projection, implementation of trigger reductions, and expected inability of the State to achieve approximately $1.2 billion of other budget actions will contribute to the State to ending Fiscal Year 2011-12 with a $3 billion General Fund deficit.

On December 13, 2011, the Department of Finance released its "2011-12 Revenue Forecast/Determination Pursuant to Chapter 41, Statutes of 2011" (the "DOF Revenue Forecast"). According to the DOF Revenue Forecast, the Department of Finance's updated revenue estimate for Fiscal Year 2011-12 was $86.2 billion, which was approximately $2.2 billion lower than the revenue specified in the 2011-12 State Budget Act and $1.5 billion higher than the LAO's November 2011 revenue forecast. Pursuant to the 2011-12 State Budget Act, which provides that the higher of the LAO's November 2011 revenue forecast and the Department of Finance's December 2011 revenue forecast would be used to determine trigger reductions, the Department of Finance's estimate served as the basis for approximately $981 million in reductions and adjustments. See "State Budget for Fiscal Year 2011-12 – 2011-12 State Budget Act" herein for a description of previously approved trigger reductions.

State Budget for Fiscal Year 2012-13

Fiscal Year 2012-13 Proposed State Budget. On January 5, 2012, Governor Brown released his 2012-13 Proposed Budget (the "Fiscal Year 2012-13 Proposed State Budget"), which estimated that, without corrective action, the State would end Fiscal Year 2012-13 with a $9.2 billion deficit consisting of a $4.1 billion State General Fund deficit through the end of Fiscal Year 2011-12 (rather than the $1.5 billion reserve balance assumed in the 2011-12 State Budget Act) and a $5.1 billion excess of expenditures over revenues for Fiscal Year 2012-13. The Fiscal Year 2012-13 Proposed State Budget proposes $10.3 billion in expenditure reductions and increased revenues (including a temporary increase in income and sales taxes proposed for the November 2012 ballot (the "2012 Tax Initiative")) to balance the State's budget for Fiscal Year 2012-13 and to rebuild a reserve. Assuming the passage of the 2012 Tax Initiative, the Fiscal Year 2012-13 Proposed State Budget estimated Fiscal Year 2012-13 revenues and transfers of $95.4 billion, total expenditures of $92.6 billion and a year-end surplus of $1.9 billion (net of the negative $985 million prior-year State General Fund balance). The Fiscal Year 2012-13 Proposed State Budget proposed to allocate the projected surplus to the reserve for the liquidation of encumbrances ($719 million) and the special fund for economic uncertainties ($1.1 billion).

The Fiscal Year 2012-13 Proposed State Budget relied in part on passage of the 2012 Tax Initiative, pursuant to which the personal income tax rates for certain high income earners would increase for five years (2012 through 2016) and State sales and use tax would increase by one-half percent for four years (2013 through 2016). The Fiscal Year 2012-13 Proposed State Budget projected that 2012 Tax Initiative, if approved, would generate approximately $6.9 billion through Fiscal Year 2012-13 and generate billions of dollars per year until its expiration. The taxes would be deposited into the State's General Fund to pay for Proposition 98 school funding obligations and certain State programs. In the event the Governor's proposed ballot proposition fails to pass, the Fiscal Year 2012-13 Proposed State Budget specified approximately $5.4 billion in expenditure reductions in, among other things, education (accounting for 90% of the targeted reductions) and judicial branch appropriations. The Governor noted that the implementation of many of the proposals contained in the Fiscal Year 2012-13 Proposed State Budget would require additional time before savings are accrued and additional expenditure reductions may be needed.

Certain of the features of the Fiscal Year 2012-13 Proposed State Budget which could affect counties in the State included the following:

1. The Governor proposed that the State repeal, suspend or modify the terms of many State mandates upon school districts and local governments, which is estimated to reduce the State's General Fund expenditures by approximately $828 million. In addition, Fiscal Year 2012-13 Proposed State Budget proposed to repeal certain of the mandates that have been suspended for the past two years or more, which would result in a decrease of approximately $728.8 million of General Fund spending. Further, the Fiscal Year 2012-13 Proposed State Budget proposed to decrease General Fund spending by $99.5 million by deferring the Fiscal Year 2012-13 payment for mandate costs incurred prior to Fiscal Year 2004-05.

2. The Fiscal Year 2012-13 Proposed State Budget continued the realignment plans set forth in the 2011-12 State Budget Act with respect to public safety, including the shift of various public safety programs and the supervision of lower level offenders from the State to local governments. In addition, the Fiscal Year 2012-13 Proposed State Budget proposed to shift full responsibility for all juvenile offenders to counties and fund such shift by providing to counties a one-time $10 million State General Fund allocation in Fiscal Year 2011-12. The Fiscal Year 2012-13 Proposed State Budget also proposed to allocate to counties revenues from a 1.0625 percent sales tax rate and approximately $460 million in Vehicle License Fee revenues in Fiscal Year 2012-13. Further, the 2012 Tax Initiative would constitutionally dedicate to counties the revenues earmarked for realignment in the 2011-12 State Budget Act.

3. The Fiscal Year 2012-13 Proposed State Budget proposed to restructure the California Work Opportunity and Responsibility to Kids program to, among other changes, limit the provision of employment services and child care to 24 months for families not fully meeting work participation requirements, and to create a separate child maintenance program to continue income support to children whose parents are not eligible for cash aid. The Governor estimated that, if approved, this proposal will reduce General Fund expenditures by $1.4 billion.

4. The Fiscal Year 2012-13 Proposed State Budget proposed to shift certain individuals eligible for both Medi-Cal and Medicare services from fee-for-service to managed care plans. Such shift is proposed to begin with eight to ten counties on January 1, 2013, with the rest of the counties in the State shifting within the following few years. The Fiscal Year 2012-13 Proposed State Budget projected that the shift will achieve ongoing savings for the State General Fund of $1 billion beginning in Fiscal Year 2013-14. The Fiscal Year 2012-13 Proposed State Budget also assumed net savings for the State General Fund of $679 million in Fiscal Year 2012-13 mainly due to a payment deferral to all Medi-Cal providers.

5. In California Redevelopment Association et al. v. Matosantos et al., the California Supreme Court upheld Assembly Bill 26 of the 2010-11 First Extraordinary Session, which led to the dissolution of all redevelopment agencies within the State on February 1, 2012. Revenues that would have been directed to the redevelopment agencies are applied to make pass-through payments (i.e., payments that such entities would have received under prior law) to local agencies and to successor agencies for

retirement of the debts and certain administrative costs of the redevelopment agencies. The Fiscal Year 2012-13 Proposed State Budget projected that the elimination of redevelopment agencies will provide additional property tax revenue in the amount of $1.05 billion for K-14 schools, $340 million for counties, and $220 million for cities and $170 million for special districts.

LAO Analysis of the 2012-13 Proposed State Budget. On January 11, 2012, the LAO released a report entitled "The 2012-13 Budget: Overview of the Governor's Budget" (the "2012 LAO Budget Overview"), which provides an analysis by the LAO of the Fiscal Year 2012-13 Proposed State Budget. The 2012 LAO Budget Overview stated that the Governor has made a good-faith effort in revenue and economic forecasting despite the many uncertainties involved in projecting the State's recovery from the current economic downturn. Nevertheless, the LAO's revenue estimates for Fiscal Years 2011-12, 2012 13, and subsequent years currently were lower than the Governor's estimates and the LAO's estimates of revenues from the Governor's 2012 Tax Initiative were significantly lower than those of the Governor's. In reviewing the Governor's major proposals, the 2012 LAO Budget Overview stated that the Governor's proposals for restructuring the school finance system, community college categorical funding and education mandates and his proposals for reducing social services and child care program funding merit consideration. The 2012 LAO Budget Overview also stated that the Governor's 2012 Tax Initiative would increase the State budget's dependence on the volatile income tax payments by the State's wealthiest individuals and the trigger reductions proposed therein would create significant uncertainty for schools, community colleges, and universities in Fiscal Year 2012-13 if implemented. The 2012 LAO Budget Overview concluded that if the State chose either of the Governor's two paths (i.e., the multiyear tax increases and significant reductions in social services and subsidized child care programs or the trigger reductions largely relating to schools), the State budget would come closer to being balanced over the next several years.

Governor's Revised 2012 Tax Initiative. On March 14, 2012, the Governor announced that he would combine the Governor's 2012 Tax Initiative with an initiative proposed by the California Federation of Teachers to place the "Schools and Local Public Safety Protection Act" (the "Governor's Revised 2012 Tax Initiative") on the November 2012 ballot. If approved, the Governor's Revised 2012 Tax Initiative would temporarily increase maximum marginal personal income tax rates for individuals, heads of households and joint filers above 9.3 percent by creating three additional tax brackets of 10.3 percent, 11.3 percent and 12.3 percent. The LAO projected that the increased personal income tax rates would affect approximately 1 percent of personal income tax filers in the State due to the high income threshold. If approved, the Governor's Revised 2012 Tax Initiative would be in effect from the 2012 tax year to the 2018 tax year. In addition, the Governor's Revised 2012 Tax Initiative would temporarily increase the State's sales and use tax rate by 0.25 percent from 2013 to 2016. On March 16, 2012, the LAO released its review of the Governor's Revised 2012 Tax Initiative. The LAO projected that revenues attributable to the Governor's 2012 Tax Initiative will be less than the Governor's $9 billion estimate.

May Revision to the Fiscal Year 2012-13 Proposed State Budget. On May 14, 2012, the Governor released the May Revision to the Fiscal Year 2012-13 Proposed State Budget (the "May Revision"), which estimated that the State's budgetary shortfall for Fiscal Year 2012-13 has increased to $15.7 billion as a result of reduced revenue forecasts, increases in school funding and unfavorable litigation outcomes and determinations by the federal government. The May Revision proposed $16.7 billion in budgetary actions in Fiscal Years 2011-12 and 2012-13 to address the projected budgetary shortfall and provide for a reserve of $1.0 billion at the end of Fiscal Year 2012-13. The May Revision proposed to address the State's deficit through additional spending reductions (including the use of local reserves to reduce State General Fund costs for local trial courts on a one-time basis, reductions to hospital and nursing home funding and reductions in IHSS hours), implementation of the temporary tax increases set forth in the Governor's Revised 2012 Tax Initiative and use of various transfers, loans and repayment extensions. Assuming adoption of the proposals set forth in the May Revision and the approval of the Governor's Revised 2012 Tax Initiative, the Governor estimated that the State would end Fiscal Year 2011-12 with revenues and transfers of $86.809 billion, total expenditures of $86.500 billion and a year-end deficit of $2.535 billion, which includes a $2.844 billion prior-year State General Fund deficit and an allocation of $719 million to the reserve for the liquidation of encumbrances. The May Revision projected Fiscal Year 2012-13 revenues and transfers of $95.689 billion, total expenditures of $91.387 billion and a year-end surplus of $1.767 billion (net of the $2.535 billion deficit from Fiscal Year 2011-12), of which $719 million would be reserved for the liquidation of encumbrances and $1.048 billion would be deposited in a reserve for economic uncertainties.

The May Revision also set forth $6.1 billion in trigger cuts that would go into effect on January 1, 2013 should the Governor's Revised 2012 Tax Initiative fail to pass, including reduced funding for schools, community colleges and other higher education institutions, and reduced funding for a variety of public safety programs. The May Revision further stated that potential cost increases associated with actions to reduce the federal deficit, federal government and court decisions, the pace of the economic recovery, an aging population and rising health care costs, among other things, threaten the ability of the State to achieve and maintain a balanced budget over the long-term.

Features of the May Revision affecting counties in general included, but are not limited to, the following:

1. The May Revision updated funding allocations with respect to State and local realignment responsibilities on a program-by-program basis with updated caseload information. In addition, the May Revision proposed trailer bill provisions to create a permanent funding structure for the realignment of State and local government responsibilities. In connection therewith, counties would be allowed to maintain realignment subaccounts from which they would have flexibility to address spending priorities and manage federal funds and requirements.

2. The May Revision revised the juvenile justice proposal set forth in the Fiscal Year 2012-13 Proposed State Budget to maintain the Division of Juvenile Justice as an available placement option for youthful offenders and proposed policies related to operational efficiency and cost reductions. In addition, the May Revision proposes to implement a new fee structure pursuant to which the State will charge counties $24,000 per year for each offender committed by a juvenile court to the Division of Juvenile Justice.

3. The May Revision included $1.2 billion in additional spending reductions to health and human services, for a total of $8.3 billion total proposed cuts for Fiscal Year 2012-13. The proposals included phasing-in the Coordinated Care Initiative and delaying implementation from January 1, 2013 to March 1, 2013, reducing total authorized IHSS hours by seven percent across the board, eliminating domestic and related services to IHSS consumers living with other adults who are not IHSS participants, reducing supplemental payments to private hospitals, eliminating public hospital grants and eliminating increases to managed care plans for supplemental payments to designated public hospitals, shifting 875,000 Healthy Families Program participants to Medi-Cal starting in October 2012, redesigning CalWORKs to provide a track for those entering the welfare-to-work program that would be operational beginning in October 2012 (CalWORKS Basic) and a track for those who maintain unsubsidized employment at specified levels (CalWORKs Plus), and changes and reductions for subsidized child care programs.

4. In connection with the State's budget for Fiscal Year 2010-11, the State's gasoline tax was replaced with an excise tax, the revenues from which are not restricted by the State Constitution. The May Revision proposed an appropriation of $708.5 million to counties and cities to backfill revenues previously attributable to Proposition 42. Counties were estimated to receive approximately $354 million.

The May Revision also proposed to deposit approximately $312 million from the excise tax revenues in the State's General Fund from the Highway Users Tax Account, which would correspond to the revenues from the new gas tax collected on gasoline used for off-highway vehicles since the enactment of the swap.

5. The May Revision included trailer bill language to provide $500 million of additional lease revenue bond financing authority for the acquisition, design and construction of local facilities to help counties manage their offender population. The authority would augment the $1.2 billion of lease revenue bond financing authority authorized by Assembly Bill 900 in connection with the local Jail Construction Financing Program.

6. In connection with the dissolution of redevelopment agencies pursuant to ABx1 26 and the related California Supreme Court decision in California Redevelopment Association v. Matosantos, the May Revision proposed legislation to create a framework for successor agencies to transfer cash assets not obligated or reserved for legally authorized purposes to cities, counties, special districts and K-14 schools in Fiscal Year 2012-13.

LAO Analysis of the May Revision. On May 18, 2012, the LAO released an analysis of the May Revision entitled "The 2012-13 Budget: Overview of the May Revision" (the "LAO May Revision Overview"). The LAO Revision May Overview stated that the economic and revenue forecasts included in the May Revision are reasonable, but noted that the Governor's projected revenues for fiscal years after Fiscal Year 2012-13 are higher than those projected by the LAO (ranging from $1.3 billion to $4 billion higher through Fiscal Year 2015-16). In addition, the LAO stated that the Governor's estimate of former redevelopment agencies' liquid assets available for distribution is subject to considerable uncertainty due to, among other things, lawsuits that will delay distribution of funds and the amount of assets that have been spent or are contractually committed to third parties. Further, the LAO recommended that the State Legislature consider an alternative financing plan for the Proposition 98 minimum guarantee rather than the Governor's proposal set forth in the May Revision to achieve additional budget balancing solutions. According to the LAO, the State should address two key budgetary goals: (1) retiring the accumulated deficit of recent years, which the Governor's administration presently estimates to be $7.6 billion (which may be addressed through one-time actions) and (2) making additional progress toward addressing the State's ongoing annual operating, or structural, deficit, which the LAO estimated to be approximately $10 billion, through realistic and ongoing budget actions. The LAO also stated that given current forecasting challenges, the adoption of realistic budgetary actions, including realistic trigger cuts, is particularly important if the State is to continue making progress toward eliminating the ongoing structural deficit.

2012-13 State Budget Act. On June 27, 2012, the State Budget Act for Fiscal Year 2012-13 (the "2012 13 State Budget Act") was adopted to address a then-projected $16.6 billion deficit through June 30, 2013. The 2012 13 State Budget Act estimated Fiscal Year 2012-13 revenues and transfers of $95.89 billion, total expenditures of $91.34 billion and a year-end surplus of $1.67 billion (net of the negative $2.88 billion prior-year State General Fund balance). The 2012-13 State Budget Act allocates $719 million of the projected surplus to the reserve for the liquidation of encumbrances and $948 million of the projected surplus to the special fund for economic uncertainties. The 2012-13 State Budget Act also sets forth $5.95 billion in trigger cuts that are scheduled to go into effect on January 1, 2013 should the Governor's Revised 2012 Tax Initiative fail to pass, including reduced funding for schools, community colleges and other higher education institutions, and reduced funding for a variety of public safety programs. The 2012-13 State Budget Act further states that under current projections and assuming voter approval of the Governor's Revised 2012 Tax Initiative, the State's budget for Fiscal Year 2012-13 will be balanced in an ongoing manner.

Features of the 2012-13 State Budget Act affecting counties in general include, but are not limited to, the following:

1. The 2012-13 State Budget Act suspends the county share of child support collections in Fiscal Year 2012-13. The 2012-13 State Budget Act projects the suspension will reduce State General Fund expenditures by approximately $31.9 million.

2. The 2012-13 State Budget Act continues the Governor's plan to modify the correctional system and realign responsibilities between the State and counties. The 2012-13 State Budget Act implements a new fee structure pursuant to which the State will charge counties $24,000 per year for each offender committed by a juvenile court to the Division of Juvenile Justice.

3. The 2012-13 State Budget Act provides $500 million of additional lease revenue bond financing authority for the acquisition, design and construction of local facilities to assist counties in the management of their respective offender populations. The additional bond financing authority will be in addition to the $1.2 billion of lease revenue bond financing authority provided by Assembly Bill 900 (2007) for two phases of the Local Jail Construction Financing Program.

4. The 2012-13 State Budget Act creates a process pursuant to which the State will determine how the liquid assets of redevelopment agencies that were dissolved pursuant to ABx1 26 should have been shifted to their successor agencies when they were dissolved. Pursuant to this process, loans from cities and counties to their redevelopment agencies currently ineligible for repayment would be deemed eligible for repayment beginning in Fiscal Year 2013-14. In addition, land and other physical assets that are not needed for enforceable obligations of the former redevelopment agencies may be transferred by the successor agency to the city or county that created the redevelopment agency and used for economic development. Upon the transfer, the receiving city or county will not be required to compensate the affected taxing entities.

5. The 2012-13 State Budget Act creates a one-time process pursuant to which taxing entities may be able to recapture property tax revenue that, due to the timing of the Supreme Court's ruling in California Redevelopment Association v. Matosantos and inconsistent interpretations of the law, such taxing entities did not receive in Fiscal Year 2011-12. The successor agencies are required to remit these amounts to the related county auditor-controller by July 12, 2012 and the county auditor-controller will be required to distribute these amounts to the affected taxing entities by July 16, 2012.

6. The 2012-13 State Budget Act continues the Governor's plan to modify or suspend mandates upon local agencies from the State. The 2012-13 State Budget Act suspends various mandates for Fiscal Year 2012 13, with the exception of certain mandates relating to law enforcement and property taxes. The Governor estimates that this suspension will reduce State General Fund expenditures by approximately $728.8 million. The 2012-13 State Budget Act proposes to suspend these mandates in Fiscal Years 2013-14 and 2014-15. In addition, the 2012-13 State Budget Act defers approximately $99.5 million due to local agencies for payment for mandate costs incurred prior to Fiscal Year 2004-05.

Future State Budgets

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

The County cannot predict the extent of the budgetary problems the State will encounter in this Fiscal Year or in any future fiscal years, and, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the County cannot predict the final outcome of current and future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the County has no control. See "County Financial Information – County's 2011-12 Adopted Budget and the Operational Plan" herein.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

San Diego County is the southernmost major metropolitan area in the State. San Diego County covers 4,261 square miles, extending 75 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange counties form the northern boundary. San Diego County is approximately the size of the State of Connecticut.

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

San Diego County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence.

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

The San Diego Convention Center includes 2.6 million total gross square feet and plans are in progress to expand the Convention Center into the nearby bayfront area. The Convention Center generated approximately $1.4 billion in fiscal year 2010-11 in total economic impact (direct and indirect spending).

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

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

The County is the delivery system for federal, state and local programs. The County provides a wide range of services to its residents including: (1) regional services such as courts, probation, medical examiner, jails, elections and public health; (2) health, welfare and human services such as mental health, senior citizen and child welfare services; (3) basic local services such as planning, parks, libraries and Sheriff's patrol to the unincorporated area, and law enforcement and libraries by contract to incorporated cities; and (4) infrastructure such as roads, waste disposal and flood control to the unincorporated area of the County. For information on County governance, see "THE COUNTY – GENERAL" herein.

Population

There are 18 incorporated cities in San Diego County, and several unincorporated communities. Table 22 below sets forth the population in San Diego County, the State and the United States for the years 2003 to 2012.

TABLE 22
POPULATION ESTIMATES
(In Thousands)
(Calendar Years 2003-2012)

Year	San Diego County[(1)]	Percent Change	State of California[(1)]	Percent Change	United States[(2)]	Percent Change
2003	2,927	1.28%	35,164	1.26%	290,326	0.88%
2004	2,954	0.90	35,571	1.16	293,046	0.94
2005	2,967	0.44	35,869	0.84	295,753	0.92
2006	2,976	0.33	36,116	0.69	298,593	0.96
2007	2,998	0.74	36,400	0.78	301,580	1.00
2008	3,033	1.14	36,704	0.84	304,375	0.93
2009	3,064	1.05	36,967	0.71	307,007	0.86
2010	3,092	0.89	37,224	0.70	309,330	0.76
2011	3,116	0.78	37,428	0.55	311,592	0.73
2012	3,143	0.89	37,679	0.67	314,446	0.91

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

(1) As of January 1 of the year shown. Reflects revised estimates as of September 2011.

(2) As of July 1 of the year shown. Data for 2002 through 2009 reflect estimates as of December 2009. Data for 2010 and 2011 reflect estimates as of May 2012. Data for 2012 reflects projected estimate as of September 24, 2012.

Employment

Table 23 below sets forth information regarding the size of the civilian labor force, employment and unemployment rates for San Diego County, the State and the United States for 2007 through 2011.

TABLE 23
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
ANNUAL AVERAGES 2007-2011(1)
By Place of Residence
(In Thousands)

	2007	**2008**	**2009**	**2010**	**2011**
San Diego County					
Labor Force	1,517.6	1,548.2	1,554.2	1,572.6	1,583.8
Employment	1,448.5	1,455.6	1,405.0	1,407.1	1,426.1
Unemployment	69.1	92.7	149.2	165.5	157.7
Unemployment Rate	4.6%	6.0%	9.6%	10.5%	10.0%
State of California					
Labor Force	17,921.0	18,203.1	18,208.3	18,316.4	18,384.9
Employment	16,960.7	16,890.0	16,144.5	16,051.5	16,226.6
Unemployment	960.3	1,313.1	2,063.9	2,264.9	2,158.3
Unemployment Rate	5.4%	7.2%	11.3%	12.4%	11.7%
United States					
Labor Force	153,124.0	154,286.5	154,142.0	153,889.0	153,616.8
Employment	146,046.3	145,362.5	139,877.5	139,064.0	139,869.3
Unemployment	7,077.5	8,924.3	14,264.5	14,825.0	13,747.5
Unemployment Rate	4.6%	5.8%	9.3%	9.7%	9.0%

Sources: County and State Data – California Employment Development Department; National Data – U.S. Department of Labor, Bureau of Labor Statistics.
(1) National Data is Seasonally Adjusted. County and State Data is not Seasonally Adjusted.

The State of California Employment Development Department, Labor Market Information Division (the "EDD"), preliminarily estimates that, on a seasonally unadjusted basis, the civilian labor force in the County in August 2012 was 1,603,800, of which approximately 143,900 persons were unemployed. Based on preliminary estimates of the EDD as of September 24, 2012, the County's unemployment rate in August 2012 of 9.0%, on a seasonally unadjusted basis, was below that of the State at 10.4%.

Table 24 below sets forth the annual average employment within San Diego County by employment sector, other than farm industries, for 2007 through 2011. In 2011, the government sector became the largest non-farm employment sector in San Diego County, representing approximately 18.5% of all non-farm employment.

TABLE 24
SAN DIEGO COUNTY
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES 2007-2011
(In Thousands)

	2007	2008	2009	2010	2011
Employment Sector					
Mining and Logging	0.4	0.4	0.4	0.4	0.4
Construction	87.0	76.1	61.1	55.3	55.2
Manufacturing	102.5	102.8	95.3	92.9	92.8
Trade, Transportation and Utilities	222.3	215.9	199.6	197.3	199.0
Information	31.3	31.4	28.2	25.1	24.0
Financial Activities	80.3	75.2	69.8	67.2	66.8
Professional and Business Services	223.2	222.3	206.8	207.7	211.5
Educational and Health Services	129.5	137.3	144.3	145.5	149.1
Leisure and Hospitality	161.8	164.0	154.8	154.8	156.9
Other Services	48.3	48.4	46.8	46.2	47.1
Government	222.4	225.1	224.5	230.4	228.4
Total[(1)]	1,308.8	1,298.7	1,231.4	1,222.8	1,231.2

Source: California Employment Development Department, March 2011 Benchmark.
(1) Reflects independent rounding.

Largest Employers

Table 25 below sets forth the ten largest employers in the County as of August 10, 2011.

TABLE 25
SAN DIEGO COUNTY
Ten Largest Employers
(As of August 1, 2011)

Employer	Description	Number of local employees
U.S. Department of Defense	Departments of the Army, Navy and Air Force	136,664
Federal Government	Administration of federal functions, services, agencies	46,300
State of California	Administration of state functions, services, agencies	45,500
UC San Diego	Higher education, research, health care	27,393
County of San Diego	Municipal, regional government services	15,109
Sharp HealthCare	Health care, hospitals, medical groups, health services and health plans	14,969
Scripps Health	Hospitals, medical offices, clinics and home health services	13,830
San Diego Unified School District	Public education	13,730
Qualcomm Inc.	Develops and delivers digital wireless communications products and services	10,509
City of San Diego	Municipal government public agency	10,211

Source: San Diego Business Journal Book of Lists (2012).

Regional Economy

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

TABLE 26
SAN DIEGO COUNTY
GROSS DOMESTIC PRODUCT
2007-2011

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

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; National University System Institute for Policy Research; reflects data as of July 2010.

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

(1) Estimate.

(2) Forecast.

Economic activity and population growth in the local economy are closely related. Helping to sustain San Diego County's economy is the performance of three basic industries of the region, which consist of manufacturing, the military, and tourism. The U.S. Department of Defense contributes approximately $10 billion annually to the local economy, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States.

Building Activity

Building permit valuation for both residential and non-residential construction in San Diego County in 2010 increased relative to 2009 levels by approximately 12%. Between 2009 and 2010, new single family housing unit permits increased by 24% while new multiple family housing unit permits decreased by 7%.

Table 27 below sets forth the annual total building permit valuation and the annual new housing permit total from 2007 through March 2012.

TABLE 27
COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
2007-2012
(In Thousands)

	2007	2008	2009	2010	2011	2012[1]
Valuation:						
Residential	$1,852,381	$1,339,245	$ 878,700	$ 973,856	N/A[2]	N/A[2]
Non-Residential	1,416,823	1,061,802	583,969	659,150	N/A[2]	N/A[2]
Total	$3,269,204	$2,401,047	$ 1,462,669	$ 1,633,006	N/A[2]	N/A[2]
New Housing Units:						
Single Family	3,503	2,352	1,786	2,221	2,242	173
Multiple Family	3,942	2,802	1,204	1,121	3,038	272
Total	7,445	5,154	2,990	3,342	5,280	445

Source: Construction Industry Research Board (2007-10); California Homebuilding Foundation (2011-12).
(1) Data from January 1, 2012 through March 31, 2012.
(2) Data not available.

Commercial Activity

Table 28 below sets forth information regarding taxable sales in San Diego County for calendar years 2004-2008. Table 29 below sets forth the taxable sales in the County for calendar years 2009 and 2010. Due to a revision in the business categories used by the Board of Equalization, the data for calendar years 2007, 2008 and 2009 are not directly comparable to the data for prior years, with calendar years 2009 and 2010 requiring a substantial change in presentation.

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

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

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

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

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

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

TABLE 29
SAN DIEGO COUNTY
TAXABLE SALES
Calendar Years 2009 and 2010

Type of Business	2009	2010
Retail and Food Services:		
Motor Vehicle and Parts Dealers	$ 4,196,256	$ 4,486,375
Furniture & Home Furnishings Stores	823,551	835,433
Electronics & Appliance Stores	1,200,897	1,266,563
Building Materials and Garden Equipment and Supplies	1,841,740	1,945,310
Food and Beverage Stores	1,934,812	1,943,969
Health & Personal Care Stores	732,221	789,760
Gasoline Stations	3,153,090	3,663,149
Clothing and Clothing Accessories Stores	2,560,683	2,769,897
Sporting Goods, Hobby, Book & Music Stores	989,236	995,179
General Merchandise Stores	4,254,037	4,381,526
Miscellaneous Store Retailers	1,405,774	1,384,312
Food Services and Drinking Places	4,717,292	4,873,578
Nonstore Retailers	148,931	140,437
Total Retail and Food Services	$27,958,518	$29,475,489
All Other Outlets	11,770,139	$12,148,147
Totals All Outlets	$39,728,657	$41,623,636

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

Personal Income

Table 30 below sets forth the median household income for San Diego County, the State, and the United States between 2006 and 2011.

TABLE 30
MEDIAN HOUSEHOLD INCOME[1]
2006 through 2011

Year	San Diego County	California	United States
2006	$59,591	$56,645	$48,451
2007	61,794	59,948	50,740
2008	63,026	61,021	52,029
2009	60,231	58,931	50,221
2010	59,923	57,708	50,046
2011	59,477	57,287	50,502

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

Foreclosures; Notices of Loan Default

The number of foreclosures and notice of loan defaults issued in San Diego County increased between calendar years 2008 and 2009, and has since declined. For the three calendar years from 2005 through 2007, an average 23.0% of notices of loan default resulted in foreclosures and an average of 2.2% of all deeds recorded were foreclosures. The percentage of notices of loan default resulting in foreclosures has increased in subsequent years and was 55.27% in 2011; the percentage of total deeds recorded that were foreclosures was 10.19% in 2011, down from 16.94% in 2008.The number of defaults and foreclosures have been attributed mainly to the prevalence of subprime home mortgage loans, which generally include a higher rate of interest than prime loans to compensate for the perceived increased credit risk of the borrower. The defaults and foreclosures on home mortgages have been offset by a variety of economic factors, including the growth in and diversification of the regional economy (see "Economic and Demographic Information – Regional Economy" herein.

Table 31 below sets forth information relating to notices of defaults and foreclosures in San Diego County for failure to pay mortgages from 2003 through August 31, 2012.

TABLE 31
NOTICES OF DEFAULT AND FORECLOSURES
Calendar Years 2003 through August 31, 2012

Calendar Year	Notices of Default	Foreclosures
2003	5,167	566
2004	4,260	553
2005	5,080	559
2006	10,294	2,065
2007	22,194	8,416
2008	34,069	19,577
2009	38,308	15,487
2010	24,835	13,467
2011	22,101	12,216
2012(1)	12,334	5,059

Source: County of San Diego Assessor/Recorder/County Clerk.
(1) Year-to-date figure as of August 31, 2012.

Transportation

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

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

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

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

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

Visitor and Convention Activity

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

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately $7.08 billion in 2010, according to an estimate by the San Diego Convention and Visitors Bureau (the "Visitors Bureau"), an increase of approximately 120 million, or 1.7%, from the prior year. San Diego County hosted 64 conventions and trade shows in 2010, attended by approximately 543,931 delegates.

Education

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

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

Among the institutions of higher education offering bachelors and graduate programs in metropolitan San Diego are San Diego State University, the University of California, San Diego, National University, the University of San Diego, Point Loma Nazarene University, California State University – San Marcos, Alliant International University, the University of Phoenix, Thomas Jefferson School of Law and California Western School of Law.

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APPENDIX B

COUNTY OF SAN DIEGO AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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MGO Certified Public Accountants.

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of San Diego, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of San Diego, California (County), as of and for the year ended June 30, 2011, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the First 5 Commission of San Diego (Commission), the discretely presented component unit, as of and for the year ended June 30, 2011. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Commission is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 31 to the financial statements, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2011, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying introductory section, the combining and individual fund information and other supplementary information section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund information and other supplementary information section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

San Diego, California
November 17, 2011

This section of the County of San Diego's (County) Comprehensive Annual Financial Report provides a narrative overview and analysis of the basic financial activities of the County as of and for the year ended June 30, 2011.

The intent of the information presented here, in conjunction with the Letter of Transmittal is to provide the reader with a clearer picture of the County's overall financial status. Unless otherwise indicated, all amounts in this section are expressed in thousands of dollars.

Financial Highlights

- The assets of the County exceeded liabilities at the close of the fiscal year 2011 by $3.82 billion (net assets). Of this amount, $2.84 billion is invested in capital assets, net of related debt; $530 million is restricted for specific purposes (restricted net assets); and the remaining portion represents unrestricted net assets of $454 million.
- Total net assets increased by $193.2 million. For governmental activities, capital assets and current and other assets increased by $87.9 million and $99.8 million, respectively, while other liabilities increased by $36.9 million, offset by a $41.6 million decrease in long-term liabilities. For business-type activities, capital assets and current and other assets decreased by $1.8 million and $3.9 million, respectively, while long-term and other liabilities decreased by $6.5 million.
- General revenues for governmental activities were $1.05 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for $884 million or 84%; while other taxes, sales and uses taxes, investment earnings and other general revenues accounted for $165 million or 16%.
- Program revenues for governmental activities were $2.73 billion. Of this amount, $2.21 billion or 81% was attributable to operating grants and contributions while charges for services accounted for $488 million or 18%.
- The total expenses for governmental activities were $3.58 billion. Public assistance accounted for $1.19 billion or 33%, while public protection accounted for $1.13 billion or 32% of this amount. Additionally, health and sanitation accounted for $722 million or 20%.

Overview of the Financial Statements

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

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

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

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

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

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

Fund financial statements are groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements.

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

The County maintains individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund, Public Safety Special Revenue Fund and the Tobacco Endowment Special Revenue Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the combining and individual fund information and other supplementary information section in this report.

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

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

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

The County's *internal service funds* are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in the combining and individual fund information and other supplementary information section in this report.

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

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

Required supplementary information (RSI) is also presented. It provides budgetary comparisons for the General Fund, Public Safety Special Revenue Fund and the Tobacco Endowment Special Revenue Fund (all major funds) in separate Schedules of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual.

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

Government-wide Financial Analysis

Table 1

Net Assets

June 30, 2011 and 2010 (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
ASSETS						
Current and other assets	$ 3,089,529	2,989,720	91,194	95,076	3,180,723	3,084,796
Capital assets	3,056,863	2,968,953	164,834	166,654	3,221,697	3,135,607
Total assets	6,146,392	5,958,673	256,028	261,730	6,402,420	6,220,403
LIABILITIES						
Long-term liabilities	2,073,708	2,115,347	1,994	2,269	2,075,702	2,117,616
Other liabilities	502,471	465,533	1,164	7,362	503,635	472,895
Total liabilities	2,576,179	2,580,880	3,158	9,631	2,579,337	2,590,511
NET ASSETS						
Invested in capital assets, net of related debt	2,675,240	2,595,105	163,268	164,845	2,838,508	2,759,950
Restricted	529,808	247,585			529,808	247,585
Unrestricted	365,165	535,103	89,602	87,254	454,767	622,357
Total net assets	$ 3,570,213	3,377,793	252,870	252,099	3,823,083	3,629,892

Analysis of Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by $3.82 billion at the close of fiscal year 2011 an increase of $193.2 million or 5.3% over fiscal year 2010. This included an increase of $115 million in the County's restricted and unrestricted net assets (a 13% increase over fiscal year 2010) and an increase of $79 million in capital assets, net of related debt (a 3% increase over fiscal year 2010).

The aforementioned increase of $193.2 million in net assets was composed of the following changes in total assets and liabilities:

- Total assets increased by $182 million. This included an increase of $96 million in current and other assets and an $86 million increase in capital assets. The $96 million increase in current and other assets was primarily attributable to an increase in cash and investments (including restricted and unrestricted cash and investments with fiscal agents) of $79 million, an increase of $66 million in receivables, net (excluding property taxes), a $46 million decrease in property taxes receivables, net, and a $3 million decrease in other assets. The $79 million increase in cash is principally due to the $66 million increase in receivables, net (excluding property taxes), a $46 million decrease in property taxes receivables, net, a $16 million decrease in accounts payable, a $3 million increase in accrued payroll, a $44 million increase in unearned revenue (explained below), all of which have the net effect of increasing cash; and also includes a $21 million increase due to a new highway user tax revenue source (streets and highways code section 2103), a $14 million increase in Proposition 172 monies; and, $33 million in other sundry cash related activities. The $66 million increase in receivables, net is principally due to an increase of $70 million in amounts due from other governments, coupled with a $4 million increase in loans receivable, offset by an $8 million decrease in other accounts receivables. The $46 million decrease in property taxes receivables, net was principally attributable to a decrease in delinquent secured taxes. The increase in capital assets was due in part to $51.6 million of construction costs for the County Operations Center Phase 1A and donated assets of $12 million.
- Total liabilities decreased by $11 million. This included an increase in other liabilities of $31 million and a decrease in long-term liabilities of $42 million. The increase in other liabilities of $31 million was primarily due to a $44 million increase in unearned revenue due to the result of delays in securing contracts related to the Mental Health Services Act, coupled with a $16 million decrease in accounts payable ($38 million vendors, offset by $22 million due to other government agencies), and a $3 million increase in accrued payroll. The decrease of $42 million in long-term liabilities was mainly due to a $57 million decrease in long-term debt (see Long-Term Liabilities discussion), coupled with a net $15 million increase in other long-term liabilities (including a $17 million increase in claims and judgments offset by a $2 million decrease in compensated absences).

The largest portion of the County's net assets (74%) reflects its investment of $2.84 billion in capital assets, net of related debt (which includes: land, infrastructure, buildings, software and equipment; less any related outstanding debt used to acquire those assets). The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the County's net assets, i.e. restricted net assets equaled $530 million and represents resources that are subject to external restrictions on how they may be used. External restrictions include those imposed by grantors, contributors, laws and/or regulations of other governments. The remaining portion of the County's net assets includes $454 million in unrestricted net assets.

Table 2

Changes in Net Assets

For the years ended June 30, 2011 and 2010 (In Thousands)

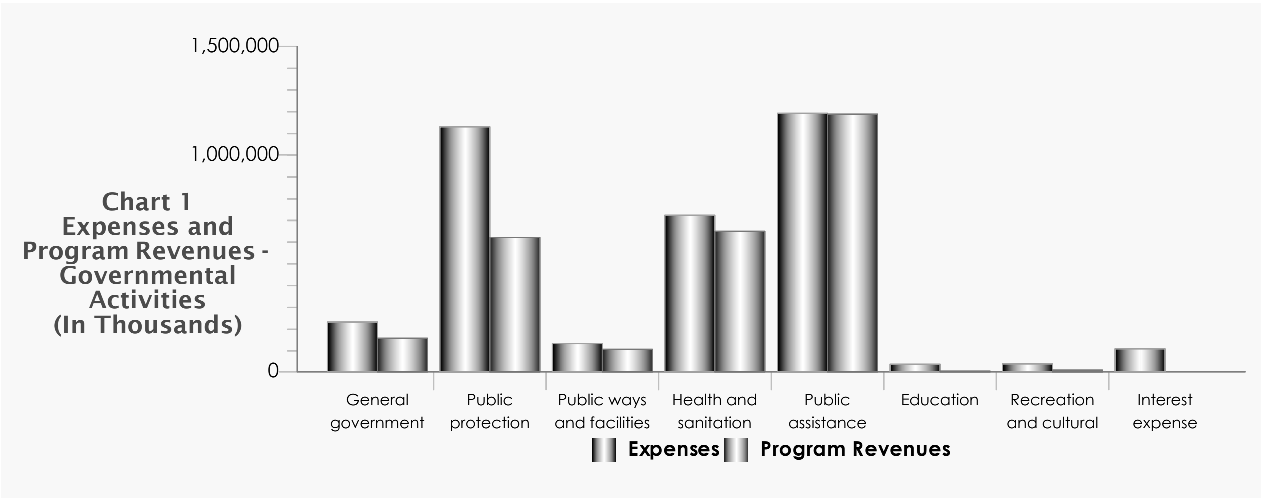
	Governmental Activities		Business-Type Activities		Total	
	2011	2010 (1)	2011	2010	2011	2010
Revenues:						
Program Revenues						
Charges for services	$ 488,065	475,190	38,241	35,738	526,306	510,928
Operating grants and contributions	2,211,946	2,162,770	1,544	15,330	2,213,490	2,178,100
Capital grants and contributions	25,329	33,246			25,329	33,246
General Revenues						
Property taxes	580,570	593,553			580,570	593,553
Other taxes	16,207	15,991			16,207	15,991
Property taxes in lieu of vehicle license fees	303,625	308,842			303,625	308,842
Sales and use taxes	22,457	20,576			22,457	20,576
Investment earnings	22,024	30,941	582	1,046	22,606	31,987
Other	104,260	85,693	7	18	104,267	85,711
Total revenues	3,774,483	3,726,802	40,374	52,132	3,814,857	3,778,934
Expenses:						
Governmental Activities:						
General government	229,767	304,305			229,767	304,305
Public protection	1,128,967	1,091,910			1,128,967	1,091,910
Public ways and facilities	130,239	131,982			130,239	131,982
Health and sanitation	721,939	681,448			721,939	681,448
Public assistance	1,191,559	1,171,603			1,191,559	1,171,603
Education	35,734	39,165			35,734	39,165
Recreation and cultural	36,699	33,629			36,699	33,629
Interest expense	106,381	111,942			106,381	111,942
Business-type Activities:						
Airport			12,876	12,389	12,876	12,389
Sanitation districts			21,699	18,831	21,699	18,831
Wastewater management			5,806	5,523	5,806	5,523
Total expenses	3,581,285	3,565,984	40,381	36,743	3,621,666	3,602,727
Changes in net assets before transfers	193,198	160,818	(7)	15,389	193,191	176,207
Transfers	(778)	345	778	(345)		
Change in net assets	192,420	161,163	771	15,044	193,191	176,207
Net assets at beginning of year	3,377,793	3,216,630	252,099	237,055	3,629,892	3,453,685
Net assets at end of year	$ 3,570,213	3,377,793	252,870	252,099	3,823,083	3,629,892

(1) Note: 2010 Adjustments for Comparative Purposes

Certain fiscal year 2010 balances were adjusted to conform to the proper current year presentation as a result of the reclassification of Sheriff law enforcement services provided to the courts. As a result, adjustments were made to **Table 2**, 2010 as follows: Charges for services were increased by $29.821 million coupled with a $29.821 million decrease to Operating grants and contributions.

Analysis of Changes in Net Assets

At June 30, 2011, changes in net assets before transfers (revenues minus expenses) equaled $193.2 million, a $17 million or 9.6% increase from the previous year. Principal revenue sources contributing to the change in net assets were operating grants and contributions of $2.21 billion and taxes of $884 million (including: property taxes and property taxes in lieu of vehicle license fees.) These revenue categories accounted for 81% of total revenues. Principal expenses were in the following areas: public assistance, $1.19 billion; public protection, $1.13 billion; and health and sanitation, $722 million. These expense categories accounted for 84% of total expenses.



Governmental activities

At the end of fiscal year 2011, total revenues for the governmental activities were $3.77 billion, while total expenses were $3.58 billion. Governmental activities increased the County's net assets by $192.4 million, accounting for 99% of the total increase in net assets (Business-type activities accounted for the remaining 1%, $.8 million).

Expenses:

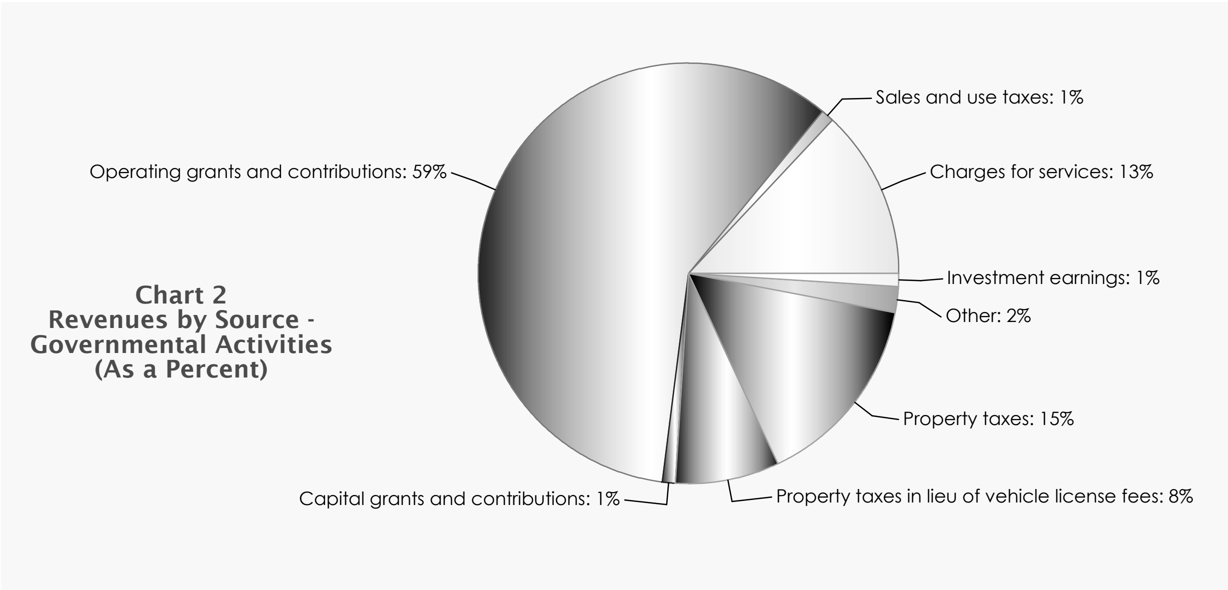
Total expenses for governmental activities were $3.58 billion, an increase of $15 million or .4% ($21 million increase in functional expenses and $6 million decrease in interest expense). Public assistance was the largest functional expense (33%), followed by public protection (32%) and health and sanitation (20%).

As noted below, the $21 million increase in functional expenses was made up of an $80 million decrease and $101 million in increases:

The $80 million decrease in functional expenses was mainly due to the decrease in the loss on disposal of assets as compared to fiscal year 2010, principally due to the fiscal year 2010 transfer of various court facilities from the County to the State. Senate Bill 1732, Court Facilities Legislation, the Trial Court Facility Act, and Assembly Bill 1491, Court Facilities Transfer Deadline Extension, provided for the transfer of the responsibility and in some instances, the title deed, from the County to the State to provide necessary and suitable court facilities. This transfer resulted in the removal of these buildings from the County's financial records. County financial responsibility for facility maintenance costs for courts' space will continue as a statutorily required County facility payment.

The $101 million increase in functional expenses consisted of:

- $29 million in overall salaries and benefit costs due to a two percent negotiated wage increase for most employees in fiscal year 2010-11;
- $60 million in contracted services increases of $18 million in various health related contracts, $16 million for the implementation of the Oracle Financial system and related consulting services, $10 million in fire protection services contracts, $9 million in CalWorks contracts providing temporary financial assistance and employment focused services to families with minor children who have income and property below the State maximum limits for their family size, $9 million in mental health related contracts, $2 million in services for inmate welfare service contracts; offset by a $4 million decrease in contracted services for housing and community development;
- $4 million in other operating expenses for institutional services;
- $4 million in materials; and
- $4 million in utilities expenses.



Revenues:

Total revenues for governmental activities were $3.77 billion, an increase of 1.3% or $48 million from the previous year. This increase consisted of increases in program revenue of $54 million coupled with a $6 million decrease in general revenues as follows:

The $54 million increase in program revenue was chiefly due to increases of $121 million and decreases of $67 million noted below:

Increases in program revenues of $121 million were principally composed of the following:

- $24 million in operating grants and contributions resulting from an increase in federal case counts for the CalWORKs program;
- $18 million in operating grants and contributions for Proposition 63 Mental Health Services Act state aid;
- $16 million in operating grants and contributions from the following federal programs: $7 million in Special Education Grants to States, (passed through to the County), $5 million in Homeland Security Grant Program, $2 million in Immunization Grants, and, $2 million in Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers;
- $16 million increase in operating grants and contributions from federal health and human services substance abuse prevention and treatment revenue;
- $14 million in operating grants and contributions for state Proposition 172 revenues;
- $11 million in operating grants and contributions as a result of Southwest Border Prosecution Initiative federal funding;
- $11 million in operating grants and contributions resulting from federal health care coverage initiative revenue;
- $9 million in operating grants and contributions as a result of state aid reimbursement senate bill 90 revenues; and,
- $2 million in charges for services consisting of reimbursements to the County for Sheriff's law enforcement services provided to the courts.

Decreases in program revenue of $67 million were attributable to:

- $31 million in operating grants and contributions for State Proposition 1B revenues;
- $14 million in operating grants and contributions for federal Short Doyle Medi-cal revenues due to lower client enrollment;
- $12 million in operating grants and contributions from State transportation 1/2% sales taxes; and,
- $10 million in capital grants and contributions primarily consisting of donated assets.

General revenues decreased overall by approximately $6 million. This decrease was the result of increases of $21 million and decreases of $27 million noted below.

Increases in general revenues of $21 million were mainly due to the following:

- $19 million increase in other revenue primarily due to: $6 million for additional treatment costs not funded by the Federal Individuals with Disabilities Education Act (IDEA), paid directly by the San Diego County Office of Education, $5 million of Firestorm 2007 insurance proceeds used to reimburse costs associated with the capital renewal of San Pasqual Academy following the fires in 2007. (This money helped to fund 30 buildings on the campus including residence facilities and administrative facilities and related infrastructure such as roads), $5 million of new funding for the defense of indigent criminal cases administered by County Counsel, and $3 million in donations for the renovation of the San Diego Downtown Law Library, and,
- $2 million increase in sales and use taxes.

Decreases in general revenues of $27 million were primarily due to the following:

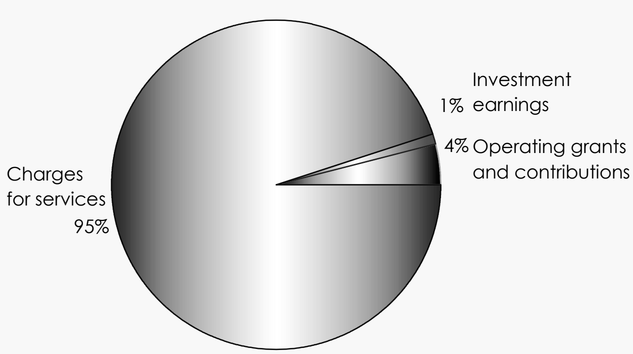
- $13 million decrease in property taxes due in part to a 1.7% decrease in secured assessed values;
- $9 million decrease in investment earnings due to the 37% decrease in annualized interest rates earned by the County Treasury Pool; and,
- $5 million in decrease in property taxes in lieu of vehicle license fees.

The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown in **Chart 2**, operating grants and contributions of $2.21 billion accounted for 59%, the largest share of this revenue. These monies are received from parties outside the County and are generally restricted to one or more specific programs. Examples of operating grants and contributions include State and Federal revenue for public assistance programs and health and sanitation programs.

Property taxes and property taxes in lieu of vehicle license fees are not shown by program, but are effectively used to support program activities county-wide. Combined, these general revenues equaled $884 million and accounted for 23% of governmental activities. Additionally, charges for services were $488 million and accounted for 13% of revenues applicable to governmental activities.

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

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



Business-type Activities:

Business-type activities, which are exclusively comprised of enterprise funds, are intended to recover all or a significant portion of their costs through user fees and charges. As shown in **Chart 3**, charges for services represent $38 million or 95%, while operating grants and contributions ($1.5 million) and investment earnings ($0.5 million) represent 4% and 1% of total revenues respectively.

Net assets of business-type activities increased by $.8 million or 0.3%. This net increase primarily included the following:

- $1.8 million decrease in capital assets principally due to the completion of various airport projects and improvements, resulting in a corresponding increase in accumulated depreciation;
- $3.9 million decrease in current and other assets due to: i) a $7 million decrease in airport receivables, chiefly as a result of aid received from the Federal Aviation Administration for improvements to the McClellan-Palomar airport; and, ii) a $4 million increase in pooled cash and investments; and
- $6.5 million decrease in long-term and other liabilities, principally due to decreases in accounts payable.

Financial Analysis of County Funds

The County uses fund accounting to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds:

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of major governmental funds reported by the County include the General Fund, the Public Safety Special Revenue Fund and the Tobacco Endowment Special Revenue Fund. Nonmajor governmental funds include special revenue funds, debt service funds, and capital projects funds.

At June 30, 2011, the County's governmental funds had combined ending fund balances of $2.24 billion, an increase of $48.8 million in comparison to the prior fiscal year. Of the total June 30, 2011 amount, $612.81 million constituted unassigned fund balance, which is available for spending at the County's discretion. $40.6 million of fund balance is assigned, $982.7 million is committed, $587.7 is restricted, and $16.4 million is nonspendable. (Please refer to Note 1 in the notes to the financial statements for more details regarding fund balance classifications.)

Governmental revenues overall totaled $3.74 billion representing a 1% increase. Governmental expenditures totaled $3.69 billion, a 1.3% decrease from the fiscal year ended June 30, 2010.

General Fund:

The General Fund is the chief operating fund of the County. At the end of fiscal year 2011, its unassigned fund balance was $612.81 million, while total fund balance was $1.39 billion, an increase of $174 million from fiscal year 2010.

This $174 million increase in fund balance was composed of $265 million in increases and $91 million in decreases as follows:

Increases to fund balance of $265 million were composed of:

- $55 million decrease in pension obligation bond payments charged to departments attributable to a decrease in pension obligation bond required debt service payments;
- $50 million one-time transfer to the General Fund to close out the remaining activities of the Housing and Community Development Fund. (The Housing and Community Development Fund is no longer in operation);
- $25 million increase in federal grant revenues as follows: $7 million in Special Education Grants to States (passed through to the County), $5 million in Home Investment Partnerships Program, $5 million in Special Programs for the Aging Title III, Part C Nutrition Services, $5 million in Homeland Security Grant Program, and, $3 million in Community Development Block Grants/Entitlement Grants;
- $24 million decrease in transfers out attributable to one-time fiscal year 2010 pay down of 2008B variable rate Pension Obligation Bonds;
- $24 million increase in CalWorks program revenues;
- $18 million increase in Proposition 63 Mental Health Services Act state aid;
- $16 million increase in federal health and human services substance abuse prevention and treatment revenue;
- $11 million increase in federal health care coverage initiative revenue;
- $11 million increase in federal Southwest Border Prosecution Initiative program revenues;
- $9 million increase in state aid reimbursement senate bill 90 revenues;
- $6 million increase in other revenue is related to the additional mental treatment cost reimbursement paid by the San Diego County Office of Education;
- $6 million increase in Medi-Cal reimbursements due to an increase in Medi-Cal eligible patients along with an increase in Supplemental Plan Amendment revenue accruals;
- $5 million increase in recording fees; and,
- $5 million decrease in capital outlay expenditures.

Decreases to fund balance of $91 million were composed of:

- $62 million increase in contracted services expenditures made up of: $18 million increase in various health related contracts, $16 million for the implementation of the Oracle Financial system and related consulting services, $10 million in fire protection services contracts, $9 million in mental health related contracts, and, $9 million in CalWorks contracts providing temporary financial assistance and employment focused services to families with minor children who have income and property below State maximum limits for their family size; and
- $29 million increase in overall salaries and benefits due to a two percent negotiated wage increase for most employees in fiscal year 2010-11.

Public Safety Special Revenue Fund:

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

As of June 30, 2011, the total (restricted) fund balance in the Public Safety Special Revenue Fund was $21.7 million, a $16.9 million increase from the previous fiscal year. This increase was mainly due to a $13.4 million increase in Prop 172 revenues due to improvements in the local economy; offset by a $2.3 million decrease in transfers of these monies to the General Fund in fiscal year 2011.

Tobacco Endowment Special Revenue Fund:

This special revenue fund is used to account for the $411 million the County received from the Tobacco Asset Securitization Corporation (Corporation) related to the sale of 25 years of tobacco settlement revenue in fiscal year 2002; and an additional $123 million the County received from the Corporation resulting from the issuance of the San Diego County Tobacco Asset Securitization Corporation refunding bonds in fiscal year 2006. At the end of fiscal year 2011, fund balance was $393 million, a decrease of $19.7 million from fiscal year 2010, principally due to investment income of $4.7 million offset by $24.2 million in transfers out to the General Fund for the support of health related program expenditures.

Other Governmental Funds:

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

As of the end of fiscal year 2011, the fund balances of the other governmental funds totaled $432 million, a net decrease of $123 million from the prior year. This $123 million net decrease consisted of $9.5 million in increases, offset by decreases of $132.5 million as follows:

$9.5 million increase to Other Governmental Funds' fund balance:

- $5.5 million increase in the Capital Outlay Fund's fund balance chiefly attributable to a $13 million net increase in monies transferred in from the General Fund to fund various capital projects consisting of a $10 million increase in various capital outlay projects' funding, a $7 million increase in multiple species conservation program funding offset by $3 million and $1 million decreases in justice facility project and library project funding, respectively; coupled with an overall $8 million increase in capital project capital outlay expenditures.

- $4 million increase to the Road Fund's fund balance due to the introduction of a new $21 million highway user tax revenue source (streets and highways code section 2103), the decrease of $11 million in capital outlay expenditures due to the project close out of Valley Center North and major Right of Way acquisitions for South Santa Fe during fiscal year 2010, a decrease of $2 million in operating transfers out attributable to a decline in charges to departments for pension obligation bond payments due to a reduction in pension obligation bond required debt service payments, an increase of $2 million on sale of capital assets, offset by the decrease of $32 million in Proposition 1B monies.

$132.5 million decrease to Other Governmental Funds' fund balance:

- $50 million decrease to the Housing and Community Development Special Revenue Fund's fund balance due to the one-time $50 million transfer to the General Fund to close out the remaining activities of the Housing and Community Development Fund. The Housing and Community Development Fund is no longer in operation.
- $10 million decrease to the Edgemoor Development Fund's fund balance principally attributable to a $9 million transfer out to reimburse the General Fund for annual Edgemoor facility debt service payments.
- $64 million decrease to the San Diego Regional Building Authority Capital Projects Fund's fund balance mainly due to $54.5 million incurred in capital outlay expenditures related to the ongoing construction of the County Operations Center; coupled with a $9.5 million incurred in minor equipment expenditures.
- $8.5 million decrease to the San Diego Regional Building Authority Debt Service Fund's fund balance chiefly due to activities associated with the issuance of the 2011 Metropolitan Transit System Towers Refunding Certificates of Participation including a $22 million payment to the refunded bond escrow agent, offset by a $19.3 million in refunding bonds issued, and a $1.2 million issuance premium; coupled with a $7 million payment of debt related interest.

Proprietary Funds:

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The nonmajor enterprise funds and the internal service funds are combined into single, aggregated presentations in the proprietary fund financial statements. Individual proprietary fund data is presented in the combining financial statements/schedules and supplemental information section of this report.

Enterprise Funds:

See previous discussion above regarding Business-type activities.

Internal Service Funds:

Net Assets of the internal service funds (ISF) totaled $103 million, a net decrease of $10 million from the prior year. This $10 million net decrease consisted of $7 million in increases, offset by decreases of $17 million as follows:

$7 million increases to internal service funds' net assets:

- $3 million increase in Facilities Management Fund's net assets mainly attributable to a $7.4 million decrease in operating revenue coupled with a decrease in operating expenses offset by a $1.15 increase in grants, a $400 thousand increase in capital contributions and an $800 thousand increase in transfers out.
- $3 million increase in Information Technology Fund's net assets chiefly due to transfers in from the General Fund for various information technology activities.
- $1 million increase in Fleet Services Fund's net assets chiefly due to transfers in from the General Fund for various fleet services activities.

$17 million decreases to internal service funds' net assets:

- $9 million decrease Employee Benefits Fund's net assets due to a $6 million increase in claims and judgments coupled with a $3 million decrease in charges for services.
- $8 million decrease in Public Liability Fund's net assets mainly due to a $10 million increase in claims and judgments offset by a $1 million decrease in operating revenues.

Fiduciary Funds:

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

Investment Trust Funds:

These funds were established for the purpose of reporting pooled and specific investments. The Investment Trust Funds' net assets totaled $3.43 billion, an increase of $285 million, from the previous year. This increase was substantially due to contributions to investments of $6.123 billion coupled with investment earnings of $19 million, offset by distributions from investments of $5.857 billion.

Agency Funds*:*

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

General Fund Budgetary Highlights

The County's final budget differs from the original budget (see Notes to required supplementary information) in that it contains supplemental appropriations approved during the fiscal year for various programs and projects, as well as transfers of appropriations, budget corrections, re-budgets, and account reclassifications. For the fiscal year ended June 30, 2011 net expenditure appropriations increased by $36.3 million and appropriations for transfers-out decreased by $2.3 million for a net increase of $34 million.

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

- $12.4 million appropriation increase in the Housing and Community Development General Fund Department. The functions of the Housing and Community Development (HCD) Special Revenue Fund were transferred to the HCD General Fund department resulting in the dissolution of the HCD Special Revenue fund.
- $9.7 million of appropriations were cancelled in the Office of the Public Defender due to the loss of funding from the State of California Administrative Office of the Courts to provide Dependency Representation services.
- $9.1 million in various departments including Office of Emergency Services, Sheriff Department, Health and Human Services Agency, Department of Planning and Land Use, Department of General Services for emergency planning, the continued development of a disaster preparedness exercise program, equipment purchases, regional projects and grant administration due to the award of a Homeland Security Grant.
- $8.8 million in the Sheriff Department to increase coordination and enhance local law enforcement presence along the border based on grant funds from the federal Department of Homeland Security.
- $3.5 million for the Sheriff's Rancho San Diego Station capital project based on Public Safety Group's Fund Balance available. The new Rancho Sand Diego Sheriff Station will be located on a vacant County owned parcel and will be approximately 20,000- 25,000 square feet.

Actual revenues fell short of the final budgeted amounts by $113.7 million, while actual expenditures were less than the budgeted amount by $472.0 million. The combination of the revenue and expenditure shortfalls resulted in a revenue/ expenditure operating variance of $358.3 million. Other financing sources and uses of funds resulted in a net sources versus uses variance from budget of $345.5 million and there was no variance in the increase to the nonspendable inventories. These combined amounts resulted in a variance in the net change in fund balance of $703.8 million.

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

Salaries and Benefits:

The final budget over expenditure variance across all functions in this category was $62.7 million. A significant portion of these savings were in the Public Safety Group and the Health and Human Services Agency but also in the Land Use and Environment Group, Community Services Group and Finance and General Government Group from lower than budgeted salaries and employee benefit costs due to staff turnover and department management of vacancies.

Health and Human Services Agency Programs:

Funded by a combination of State, federal, and County revenues, most Health and Human Services Agency programs are carried out in the functional areas of health and sanitation and public assistance, with final budget over expenditure variances of $60.1 million and $79.6 million, respectively. Overall, these expenditure variances primarily resulted from a lower demand for services than budgeted levels in the following areas:

- Un-awarded Mental Health Services Act and Alcohol and Drug Services contracts;
- Lower than anticipated growth trends in In-Home Supportive Services Individual Provider costs;
- Lower than anticipated service levels in Early Periodic Screening, Diagnosis and Treatment and MediCal;
- State funding reductions in contracts for Immunization services; and,
- Bio-terrorism emergency appropriation savings.

Delayed expenditures:

Many County projects, such as maintenance and information technology, take place over more than one fiscal year. However, at inception they are budgeted at full expected cost, resulting in budgeted over expenditure variances that are rebudgeted in the new fiscal year. For example:

- A positive expenditure variance of approximately $41.3 million due to delays in the Integrated Property Tax System procurement process.
- Department of Public Works rebudgeted $5.4 million of one-time funding for the Woodside Avenue Drainage project in the community of Lakeside. These funds will be used for construction costs for culvert installation.

Management and Contingency Appropriations:

The County annually sets up management and contingency appropriations based on both ongoing general purpose revenues and prior years' fund balance for a variety of one-time capital and operating expenditures as well as potential emergencies. Unexpended Management and Contingency Reserve appropriations resulted in budget over actual variances of $29.2 million and $20 million, respectively. Note that the Management Reserves are included within various functional activities.

Capital Assets and Commitments

Capital Assets

At June 30, 2011, the County's capital assets for both governmental and business-type activities were $3.06 billion and $165 million, respectively, net of accumulated depreciation/ amortization. Investment in capital assets includes land, construction in progress, buildings and improvements, infrastructure (including roads, bridges, flood channels, and traffic signals), equipment, software and easements. Significant increases to capital assets in fiscal year 2011 included:

Governmental Activities:

- $51.6 million towards construction at the County Operations Center Phase 1A. Total project costs are estimated at $179.5 million.
- $40.2 million towards the construction and improvement of County maintained roads, bridges and other road related infrastructure.
- $19.8 million towards construction at the County Operations Center Phase 1B. Total project costs are estimated at $119.8 million
- 17.9 million towards the construction of various miscellaneous capital outlay fund projects
- $9.2 million towards various land acquisitions.
- $9.1 million in land donations
- $6.1 million towards the construction of the Medical Examiner Building at the County Operation Center in Kearny Mesa. Total project costs are estimated at $68.7 million.
- $5.9 million towards park improvements
- $5.8 million towards the construction of the Ramona Branch Library. Total project costs are estimated at $12.1 million
- $4.4 million towards construction of the San Pasqual Academy Residences. Total project costs are estimated at $9.1 million.
- $3.9 million towards development of various software applications.
- $3.4 million towards the construction of the Fallbrook Branch Library. Total project costs are estimated at $10.6 million.
- $2.4 million towards purchase of software licenses.
- $2 million in infrastructure donated by developers.

Business-type Activities:

- $2.6 million towards improvements at various Sanitation Districts.

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

Capital Commitments:

As of June 30, 2011, capital commitments included the following:

Governmental Activities:

- $100.6 million for the construction of: the County Operations Center, South Santa Fe Ave., roadway assets replacements, San Pasqual Academy Housing, Women's Detention Facility, Spring Valley traffic Signal, Jamacha Boulevard, and purchase of license agreements and upgrade of Oracle Enterprise Resources.

Business-type Activities:

- $750 thousand for construction of Rancho Del Campo Wastewater.

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

Long-Term Liabilities

Governmental Activities:

At June 30, 2011, the County's governmental activities had outstanding long-term liabilities of $2.07 billion.

Of this amount, approximately $1.82 billion pertained to long-term debt outstanding. Principal debt issuances included: $841 million in taxable pension obligation bonds; $575 million in Tobacco Settlement Asset-Backed Bonds; and $392 million in certificates of participation (COPs) and lease revenue bonds (LRBs).

Other long-term liabilities included $136 million in claims and judgments; $98 million in compensated absences; $20 million for landfill closure and postclosure costs and $212 thousand in capital leases.

During fiscal year 2011, the County's total principal amount of COPs and lease revenue bonds, other bonds, and loans for governmental activities decreased by $56.631 million.

The $56.631 million decrease was due to the following increases and decreases:

Increases to debt were $33.631 million and included:

- $19.260 million of fixed rate serial certificates of participation issued by the San Diego Regional Building Authority to advance refund $22.115 million of outstanding 2001 Metropolitan Transit System Towers Refunding Certificates of Participation;
- $655 thousand of California Energy Conservation loans;
- $4.320 million of principal was accreted (added) to the outstanding Tobacco Settlement Asset-Backed Bonds' Capital Appreciation Bonds principal balances outstanding;
- $3.591 million of principal was accreted (added) to the outstanding Taxable Pension Obligation Bonds' principal balances outstanding; and,
- $5.805 million due to the effects of arbitrage, unamortized issuance premiums, unamortized issuance discounts, and unamortized deferred amounts on refundings.

Decreases to debt were $90.262 million and included:

- $22.115 to advance refund the outstanding 2001 Metropolitan Transit System Towers Refunding Certificates of Participation referred to above; and,
- $68.147 million in principal debt service payments.

Business-type Activities:

Long-term liabilities for business-type activities totaled $1.994 million and consisted of $1.566 million for capital loans and $428 thousand for compensated absences.

Long-term liabilities for business-type activities decreased by $275 thousand. This was due to a combination of $243 thousand in debt service payments on capital loans and a net decrease of $32 thousand in compensated absences.

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

Credit Ratings

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

Table 3

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

The County's ratings on its lease financings and its pension obligation bonds were reaffirmed in 2011. While Standard and Poor's affirmed its ratings on the County's remaining outstanding debt, and AAA County issuer credit rating, it lowered its ratings on the outstanding subordinate obligations of the Tobacco Securitization Authority of Southern California: Tobacco Settlement Asset-Backed Bonds (TSAB) - Series 2006B First Subordinate (BBB- to BB-), TSAB Series C Second Subordinate (BB+ to B+) and TSAB Series 2006D Third Subordinate (BB- to B-).

In reaffirming the County's ratings, all three rating agencies referenced the County's strong financial management practices in the face of economic challenges. In its analysis dated July 19, 2011, Moody's Investors Service states, "the County's long-term ratings are based on its sizable tax base and resident socioeconomic profile. The County's economy has experienced challenges in the recent recession but nonetheless remains large and diverse. The County's ratings also incorporate its sound financial position and strong, conservative financial management."

Economic Factors and Next Year's Budget and Rates

- The fiscal year 2012 General Fund adopted budget utilizes as funding sources for one-time expenditures $210.1 million out of $612.814 million in unassigned fund balance and $5.9 million out of $514.739 million committed fund balance.
- The fiscal year 2012 General Fund adopted budget contains total appropriations of $3.74 billion. This is an increase of $3.8 million or 0.1% from the fiscal year 2011 General Fund adopted budget. A number of risk factors continue to be tracked closely: the state of the economy, which is suffering from high unemployment, a struggling real estate market and consumer spending weakness, and the State of California's projected budget imbalances for fiscal years 2013, 2014 and beyond.
- The U.S. economy's revised Gross Domestic Product (GDP) for 2010 showed an increase of 3.0% compared to a decline of 3.5% in 2009, a 0.3% decline in 2008 after a 1.9% gain in 2007. GDP is expected to grow in 2011, with a current growth projection of 1.5%, and GDP growth for 2012 is forecasted to be 1.4%.
- California's economy has been negatively impacted by the same financial market, housing and real estate, employment and personal income trends experienced at the national level. In 2010, key indicators of California's economy showed mixed results. Payroll employment declined by 1.4%, real personal income improved by 1.7%, and adjusted taxable sales is estimated to have grown by 1.8%. California's 2011 economy is expected to show continued gradual improvement with payroll employment expected to improve by 1.1%, real personal income is expected to increase by 2.3%, and taxable sales is expected to increase by 1.7%.
- The State's budget outlook continues to be strained, with the slow pace of economic recovery contributing significantly to the ongoing structural imbalance between revenues and expenditures. In fiscal year 2012, the State of California's adopted budget also realigned various criminal justice, mental health and social service programs, representing a long term change in state and county responsibilities.
- San Diego certainly shared the pain of the recession along with the rest of Southern California. 2011 continues to be another unsettled year for our region's economy with unemployment still above 10%. San Diego's index of leading economic indicators has trended higher since April 2009, despite recent weakness, indicating gradual economic

improvement overall. While the pace of the economic recovery has remained slow, 2012 should see continued signs of improvement for the region.

- The state of the economy plays a significant role in the County's ability to provide core services and the mix of other services sought by the public. There continues to be an increased demand for public assistance, while at the same time the State and local resources available to fund those services are not able to keep pace with the demand. The real estate market slump has continued to impact the County's general purpose revenue (GPR), although GPR is expected to increase marginally in fiscal year 2012 from fiscal year 2011. GPR is relied upon to fund local discretionary services, as well as to fund the County's share of costs for services that are provided in partnership with the State and federal government.

As discussed below, the County's GPR is projected to increase by 1.1% (with budgeted revenue of $964.4 million in fiscal year 2012 compared to $954.4 million budgeted in fiscal year 2011).

- The largest source of general purpose revenue is property taxes ($505.8 million budgeted in fiscal year 2012), representing 52.4% of the total. For the last eleven years, property tax growth has been high (6.1% average annual growth) due to the County's overall stable economy and healthy real estate market. In 2012, property taxes are budgeted to increase by $8.2 million, or 1.7%, from the 2011 budget. The budgeted property tax revenue factors in the current soft commercial and residential real estate conditions as evidenced by the continued low but improving level of building permits; marginally declining median price of homes; the continued relatively high level of foreclosures; and the gradual improvement in total deeds recorded. Current property taxes consist of three components: current secured property taxes, current supplemental property taxes, and current unsecured property taxes.
- The budgeted amount of current secured property tax revenues ($487.1 million) assumes a net local assessed secured property value decline of 0.5% from the actual local assessed secured property value figure for 2011, and makes certain assumptions regarding the County's share of countywide property tax revenues, the delinquency rate, and the amount of tax roll corrections and refunds on prior year assessments. The actual change in the net local assessed secured property value was better than assumed for the fiscal year 2012 budget, increasing by 0.5%. Consequently, the actual current secured property tax revenues in fiscal year 2012 will likely come in higher than budget. In fiscal year 2013, the projected amount of revenues from current secured property taxes assumes no growth in local assessed secured property values.
- Current supplemental property taxes ($1.9 million budgeted in fiscal year 2012) are derived from net increases to the tax roll from either new construction or changes in ownership that occur subsequent to the January 1 lien date and are, therefore, more difficult to predict. The slowdown in new construction and the decline in real estate prices have been acutely felt in supplemental property tax revenues. In many change of ownership transactions, instead of a property owner being billed for an additional amount of property tax because the value of the property after the transaction is higher than the value as of the lien date, the property owner receives a refund because the value is lower than it was on the lien date. In fiscal year 2006, supplemental refunds countywide totaled $4.0 million. They increased to $6.2 million in fiscal year 2007, increased to $15.0 million in 2008, and increased again to $38.3 million in 2009. Supplemental refunds exceeded $21.6 million in fiscal year 2010 and dropped to $15.3 million in 2011. They are anticipated to decline gradually in fiscal year 2012. Current supplemental property tax revenues were $29.5 million in fiscal year 2006. They dropped to $23.4 million in fiscal year 2007, to $14.0 million in fiscal year 2008, to $2.4 million in 2009, and to $1.9 million in 2010. In fiscal year 2011, current supplemental property tax revenues were $3.9 million. The Adopted Operational Plan assumes that this weakness will continue through the next two fiscal years.
- Current unsecured property tax revenues ($16.8 million budgeted in fiscal year 2012) are forecasted based on trends and available information at the time the budget is developed. A decline of 3.2% is budgeted for fiscal year 2012 over the fiscal year 2011 adopted budget.
- Property taxes in lieu of vehicle license fees (VLF) comprises 31.3% (an estimated $302.2 million) of budgeted general purpose revenue in fiscal year 2012. This revenue source was established by the State in fiscal year 2005 to replace the previous distribution of vehicle license fees to local governments. Growth in this revenue source is based on the growth in the County's gross taxable assessed value. The certified rate of increase for 2012 is 0.33%. Similar to current secured property tax revenue, no growth is expected for fiscal year 2013.
- Teeter revenues represent 3.4% (an estimated $32.9 million) of budgeted general purpose revenue. In fiscal year 1994, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the Revenue and Taxation Code of the State of California (also known as the "Teeter Plan"). Under this plan, the County advances funds to these entities to cover the unpaid (delinquent) taxes (the "Teetered Taxes"). The County's general fund benefits from this plan by being entitled to future collections of penalties and interest that are also due once the delinquent taxes are paid. A legal requirement of the Teeter Plan requires the County to maintain a tax loss reserve fund to cover losses that may occur if delinquent taxes are not paid and the property goes into default and is sold for less than the outstanding taxes and assessments. Throughout the year, all interest and penalties collected on Teetered secured and supplemental property taxes are first deposited into the Teeter Tax Loss Reserve Fund. Any excess amounts above 25% of the total delinquent secured taxes and assessments may be transferred to the general fund. For fiscal year 2012,

collections from previous years' receivables are budgeted to decrease by $4.8 million based on the size of the outstanding annual receivables and based on anticipated collection trends and market conditions. In fiscal year 2012, excess amounts from the Teeter Tax Loss Reserve Fund decrease from the $21.5 million that was budgeted in fiscal year 2011 to $19.0 million budgeted in fiscal year 2012, based on the change in the expected level of Teetered taxes. These revenues are expected to decrease by $1.2 million in fiscal year 2013.

- Sales and use tax revenue and in lieu local sales and use tax ($21.7 million in fiscal year 2012) represents about 2.3% of budgeted general purpose revenue. These revenues are derived from taxable sales by retailers who sell or rent tangible personal property in unincorporated areas of the county or from use taxes from consumers who purchase tangible personal property from out of state. Use taxes are also imposed on the storage, use, lease or other consumption of tangible personal property at any time a sales tax has not been paid by the retailer. The growth in this funding source is generally impacted by population growth, new retail business formation and consumer spending trends. The in lieu local sales and use tax revenue replaces regular sales and use tax revenue with monies transferred from the Educational Revenue Augmentation Fund (ERAF) under the provisions of AB7 X1, one of the 2004 State budget bills. This legislation enabled the State to redirect one-quarter cent of the local sales and use tax to the state to repay up to $15 billion in bonds authorized by Proposition 57 (March 2004) to help the State refinance its past debt. In turn, the redirected local sales and use tax revenues are replaced on a dollar-for-dollar basis with countywide property tax revenues shifted back from the ERAF. This funding mechanism is known as the "triple flip."
- Sales and Use Tax revenue grew moderately from fiscal year 2006 through fiscal year 2008 in concert with population growth and new retail business formation in the unincorporated area. However, the recent economic volatility, housing market declines, and unemployment trends have impacted retail sales at the statewide, southern California and San Diego regional levels. Sales tax revenues improved in all four quarters of 2010 compared to 2009 and this trend has continued into 2011. The amount of budgeted revenue in fiscal year 2012 is approximately $1.7 million (8.5%) above the fiscal year 2011 budgeted revenue. Growth of $0.4 million or 2.0% is projected for fiscal year 2013.
- Intergovernmental Revenue ($40.8 million budgeted in fiscal year 2012) is approximately 4.2% of the total GPR in fiscal year 2012 and represents funding the County receives from various intergovernmental sources including Redevelopment Agencies, the City of San Diego (pursuant to a Memorandum Of Understanding related to the County's Central Jail), the federal government (Payments in Lieu of Taxes (PILT) for tax-exempt federal lands administered by the Bureau of Land Management, the National Park Service, and the U.S. Fish and Wildlife Service), and the State of California (reimbursement to the County for the Homeowner's Property Tax Relief (HOPTR) program). The largest portion of this funding is from redevelopment agencies based on the provisions of Article 16, Section 16 of the California Constitution, and Health and Safety Code Section 33670 which provides for the division of certain portions of property tax revenues between redevelopment projects and other taxing agencies. The amount of budgeted revenue in fiscal year 2012 is approximately $5.2 million (14.6%) above the fiscal year 2011 budgeted revenue. The anticipated increase in Aid from Redevelopment Agencies is primarily associated with additional funding from the Redevelopment Agency of the City of San Diego, Centre City Redevelopment Project. Pursuant to an agreement, the County will receive a percentage increase of total tax increment generated in the project are upon meeting certain tax increment thresholds. Growth of $0.2 million or 0.4% is projected for fiscal year 2013.
- Other revenues budgeted for fiscal year 2012 total $61.0 million, and comprise 6.3% of budgeted general purpose revenue. The fiscal year 2012 amount represents a 3.2% or $1.9 million increase over the fiscal year 2011 Adopted Budget total. Various revenue sources make up this category including Real Property Transfer Tax (RPTT), interest on deposits, fines, fees and forfeitures, prior year property taxes, penalty and cost delinquency taxes, franchise revenue, cable and video licenses and other miscellaneous revenues.

The County's Operational Plan for fiscal year 2012 and for fiscal year 2013 can be found on the internet at http://www.sdcounty.ca.gov/auditor/budinfo.html.

Requests for Information

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

Basic Financial Statements

STATEMENT OF NET ASSETS

June 30, 2011 (In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	First 5 Commission Fund
ASSETS				
Pooled cash and investments	$ 1,869,417	82,420	1,951,837	128,251
Cash with fiscal agents	20		20	
Investments with fiscal agents	383,774		383,774	36,086
Receivables, net	579,090	5,808	584,898	6,326
Property taxes receivables, net	150,621		150,621	
Internal balances	(2,965)	2,965		
Inventories	12,904	1	12,905	
Deposits with others	15		15	
Prepaid items	379		379	2
Deferred charges	13,396		13,396	
Restricted assets:				
Cash with fiscal agents	490		490	1,288
Investments with fiscal agents	68,082		68,082	
Lease receivable	14,306		14,306	
Capital assets:				
Land, easements and construction in progress	485,857	24,152	510,009	
Other capital assets, net of accumulated depreciation/ amortization	2,571,006	140,682	2,711,688	
Total assets	6,146,392	256,028	6,402,420	171,953
LIABILITIES				
Accounts payable	162,900	896	163,796	102,532
Accrued payroll	43,338	219	43,557	
Accrued interest	25,473		25,473	
Unearned revenue	270,760	49	270,809	
Non-current liabilities:				
Due within one year	144,090	430	144,520	55
Due in more than one year	1,929,618	1,564	1,931,182	19
Total liabilities	2,576,179	3,158	2,579,337	102,606
NET ASSETS				
Invested in capital assets, net of related debt	2,675,240	163,268	2,838,508	
Restricted for:				
Creditors - Capital projects	24,550		24,550	
Grantors - Housing assistance	76,504		76,504	
Donations	3,363		3,363	
Laws or regulations of other governments:				
Future road improvements	121,180		121,180	
Maintenance, operation and construction of criminal justice facilities and courthouses	24,411		24,411	
Defray administrative costs, other general restrictions	16,208		16,208	
Teeter tax loss	22,264		22,264	
Mental health	27,603		27,603	
Vector control	13,227		13,227	
Fingerprinting equipment purchase and operation	8,526		8,526	
Improvement and maintenance of recorded document systems	14,300		14,300	
Housing repairs and improvements	164		164	
Other purposes	177,508		177,508	
First 5 Commission				69,347
Unrestricted	365,165	89,602	454,767	
Total net assets	$ 3,570,213	252,870	3,823,083	69,347

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

STATEMENT OF ACTIVITIES

For the year ended June 30, 2011 (In Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
					Primary Government			Component Unit
Functions/Programs:	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	First 5 Commission Fund
Governmental Activities:								
General government	$ 229,767	92,085	40,043	22,822	(74,817)		(74,817)	
Public protection	1,128,967	235,913	383,097	40	(509,917)		(509,917)	
Public ways and facilities	130,239	21,022	80,672	2,074	(26,471)		(26,471)	
Health and sanitation	721,939	111,300	536,949		(73,690)		(73,690)	
Public assistance	1,191,559	19,105	1,168,204		(4,250)		(4,250)	
Education	35,734	1,064	2,337	393	(31,940)		(31,940)	
Recreation and cultural	36,699	7,576	644		(28,479)		(28,479)	
Interest expense	106,381				(106,381)		(106,381)	
Total governmental activities	3,581,285	488,065	2,211,946	25,329	(855,945)		(855,945)	
Business-type activities:								
Airport	12,876	11,301	1,513			(62)	(62)	
Sanitation Districts	21,699	20,431				(1,268)	(1,268)	
Wastewater Management	5,806	6,509	31			734	734	
Total business-type activities	40,381	38,241	1,544			(596)	(596)	
Total primary government	3,621,666	526,306	2,213,490	25,329	(855,945)	(596)	(856,541)	
Component Unit:								
First 5 Commission	$ 144,550		35,289					(109,261)

Continued

STATEMENT OF ACTIVITIES

For the year ended June 30, 2011 (In Thousands)

(Continued)	Net (Expense) Revenue and Changes in Net Assets			
	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	First 5 Commission Fund
Changes in net assets:				
Net (expense) revenue	$ (855,945)	(596)	(856,541)	(109,261)
General revenues				
Taxes:				
Property taxes	580,570		580,570	
Other taxes	16,207		16,207	
Property taxes in lieu of vehicle license fees	303,625		303,625	
Sales and use taxes	22,457		22,457	
Total general tax revenues	922,859		922,859	
Investment earnings	22,024	582	22,606	1,958
Other	104,260	7	104,267	
Total general revenues	1,049,143	589	1,049,732	1,958
Transfers	(778)	778		
Total general revenues and transfers	1,048,365	1,367	1,049,732	1,958
Change in net assets	192,420	771	193,191	(107,303)
Net assets at beginning of year	3,377,793	252,099	3,629,892	176,650
Net assets at end of year	$ 3,570,213	252,870	3,823,083	69,347

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

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011 (In Thousands)

	General Fund	Public Safety Fund	Tobacco Endowment Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Pooled cash and investments	$ 1,286,610	4,712	4,935	382,299	1,678,556
Cash with fiscal agents	20				20
Investments with fiscal agents	2		383,772		383,774
Receivables, net	465,866	36,214	4,873	68,272	575,225
Property taxes receivables, net	149,980			641	150,621
Due from other funds	34,625			21,545	56,170
Inventories	10,187			1,385	11,572
Deposits with others				15	15
Prepaid items	48			331	379
Restricted assets:					
Cash with fiscal agents	156			334	490
Investments with fiscal agents				68,082	68,082
Lease receivable	6,299			8,007	14,306
Total assets	1,953,793	40,926	393,580	550,911	2,939,210
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	101,157			33,007	134,164
Accrued payroll	39,890			2,363	42,253
Due to other funds	36,813	19,237	967	19,707	76,724
Deferred revenues	128,164			47,438	175,602
Unearned revenue	253,389			16,870	270,259
Total liabilities	559,413	19,237	967	119,385	699,002
Fund Balances					
Nonspendable:					
Not in spendable form:					
Loans, due from other funds and prepaids	1,070			3,748	4,818
Inventories and deposits with others	10,187			1,400	11,587
Restricted for:					
Creditors - Debt service				77,454	77,454
Creditors - Capital projects				24,550	24,550
Grantors - Housing assistance	55,338			21,166	76,504
Donations	3,363				3,363
Laws or regulations of other governments:					
Future road improvements				118,781	118,781
Maintenance, operation and construction of criminal justice facilities and courthouses	24,411				24,411
Fund purpose		21,689		87,127	108,816
Other purposes	131,844			21,963	153,807
Committed to:					
Realignment health, mental health and social services	69,297				69,297
Unforeseen catastrophic events	55,500				55,500
Capital projects' funding	353,165			6,971	360,136
Health			392,613		392,613
Other purposes	36,777			68,366	105,143
Assigned to:					
Other purposes	40,614				40,614
Unassigned	612,814				612,814
Total fund balances	1,394,380	21,689	392,613	431,526	2,240,208
Total liabilities and fund balances	$ 1,953,793	40,926	393,580	550,911	2,939,210

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2011
(In Thousands)

Total fund balances - governmental funds	$	2,240,208
Capital assets used in governmental activities (excluding internal service funds) are not current financial resources and, therefore, are not reported in the balance sheet. This amount represents capital assets net of accumulated depreciation.		2,995,149
Unamortized issuance costs - bonds, notes and loans payable deferred charges (to be amortized over the life of the debt).		13,396
Accrued interest on long-term debt.		(25,469)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds and recognized as revenue in the statement of activities.		175,602
Long-term liabilities, including bonds, notes, and loans payable, are not due and payable in the current period and, therefore, are not reported in the balance sheet.		(1,931,002)
Internal service funds are used by management to charge the costs of information technology, vehicle operations and maintenance, employee benefits, public liability, road and communications services, materials and supplies (purchasing), and facilities services to individual funds; to make loans for start-up services for new and existing county service districts; and for the financing of clothing and personal sundry items for persons institutionalized at various county facilities. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		102,329
Net assets of governmental activities	$	3,570,213

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended June 30, 2011 (In Thousands)

	General Fund	Public Safety Fund	Tobacco Endowment Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 894,222			40,515	934,737
Licenses, permits and franchise fees	42,643			8,501	51,144
Fines, forfeitures and penalties	51,826			2,441	54,267
Revenue from use of money and property	24,479		4,709	10,357	39,545
Aid from other governmental agencies:					
State	904,749	202,809		84,843	1,192,401
Federal	818,217			126,951	945,168
Other	57,874			14,197	72,071
Charges for current services	320,966			38,273	359,239
Other revenue	51,542			38,944	90,486
Total revenues	3,166,518	202,809	4,709	365,022	3,739,058
Expenditures:					
Current:					
General government	209,293		171	13,826	223,290
Public protection	1,079,836			8,541	1,088,377
Public ways and facilities	5,543			56,424	61,967
Health and sanitation	671,276			42,746	714,022
Public assistance	1,055,530			129,102	1,184,632
Education	957			33,642	34,599
Recreation and cultural	30,637			2,417	33,054
Capital outlay	21,965			164,377	186,342
Debt service:					
Principal	26,735			37,281	64,016
Interest and fiscal charges	15,044			82,246	97,290
Bond issuance costs				349	349
Payment to refunded bond escrow agent				3,437	3,437
Total expenditures	3,116,816		171	574,388	3,691,375
Excess (deficiency) of revenues over (under) expenditures	49,702	202,809	4,538	(209,366)	47,683
Other financing sources (uses):					
Sale of capital assets	414			2,259	2,673
Issuance of bonds and loans:					
Premium on issuance of refunding bonds				1,237	1,237
Refunding bonds issued				19,260	19,260
Payment to refunded bond escrow agent				(18,774)	(18,774)
Transfers in	274,448			152,163	426,611
Transfers out	(151,061)	(185,919)	(24,200)	(69,347)	(430,527)
Total other financing sources (uses)	123,801	(185,919)	(24,200)	86,798	480
Net change in fund balances	173,503	16,890	(19,662)	(122,568)	48,163
Fund balances at beginning of year	1,220,108	4,799	412,275	554,221	2,191,403
Increase (decrease) in					
Nonspendable inventories	769			(127)	642
Fund balances at end of year	$ 1,394,380	21,689	392,613	431,526	2,240,208

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2011

(In Thousands)

Net change in fund balances - total governmental funds	$	48,163
Governmental funds accrue property tax revenue which is deemed collectible within 60 days. However, for the statement of activities the total amount estimated to ultimately be collected is accrued.		(11,878)
Revenues that do not provide current financial resources are not reported as revenues in the funds (deferred revenue) but are recognized as revenue in the statement of activities.		11,643
Adjustment to nonspendable inventories.		642
Change in accounting estimate for closure and postclosure costs - (public protection function) - San Marcos Landfill.		492
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		83,607
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.		11,616
The issuance of long-term debt (e.g. bonds, notes, and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		69,678
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(11,507)
Internal service funds are used by management to charge the costs of centralized services to individual funds. The net revenue (or expense) of internal service funds is reported within governmental activities.		(10,036)
Change in net assets - governmental activities	$	192,420

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011 (In Thousands)

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
ASSETS		
Current assets:		
Pooled cash and investments	$ 82,420	190,861
Receivables, net	5,808	3,865
Due from other funds	259	22,871
Inventories	1	1,332
Total current assets	88,488	218,929
Noncurrent assets:		
Due from other funds	3,363	60
Capital assets:		
Land	11,565	
Construction in progress	12,587	
Buildings and improvements	114,787	
Equipment	1,169	133,183
Software		67,137
Road infrastructure	6,445	
Sewer infrastructure	85,764	
Accumulated depreciation/amortization	(67,483)	(138,606)
Total noncurrent assets	168,197	61,774
Total assets	256,685	280,703
LIABILITIES		
Current liabilities:		
Accounts payable	896	28,736
Accrued payroll	219	1,085
Accrued interest		4
Due to other funds	1,055	4,944
Unearned revenue	49	501
Loans payable	254	855
Capital lease payable		27
Compensated absences	176	938
Claims and judgments		36,352
Total current liabilities	2,649	73,442
Noncurrent liabilities:		
Loans payable	1,312	3,766
Capital lease payable		185
Compensated absences	252	1,336
Claims and judgments		99,247
Total noncurrent liabilities	1,564	104,534
Total liabilities	4,213	177,976
NET ASSETS		
Invested in capital assets, net of related debt	163,268	61,502
Unrestricted net assets	89,204	41,225
Total net assets	$ 252,472	102,727

Reconciliation between net assets - enterprise funds and net assets of business-type activities as reported in the government-wide statement of net assets	
Total net assets	$ 252,472
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	398
Net assets of business-type activities	$ 252,870

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

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

For the Year Ended June 30, 2011 (In Thousands)

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
Operating revenues:		
Charges for current services	$ 38,241	300,321
Other revenue	7	4,764
Total operating revenues	38,248	305,085
Operating expenses:		
Salaries and employee benefits	7,043	35,342
Repairs and maintenance	6,982	30,225
Equipment rental	991	1,054
Sewage processing	13,517	
Contracted services	4,151	151,279
Depreciation/amortization	5,377	15,899
Utilities	249	21,457
Cost of material		5,818
Claims and judgments		47,657
Fuel	2	11,614
Other	1,845	5,478
Total operating expenses	40,157	325,823
Operating income (loss)	(1,909)	(20,738)
Nonoperating revenues (expenses):		
Grants	1,544	6,315
Investment earnings	582	810
Interest expense	(102)	(325)
Gain (loss) on disposal of assets	(29)	265
Total nonoperating revenues (expenses)	1,995	7,065
Income (loss) before capital contributions and transfers	86	(13,673)
Capital contributions		406
Transfers in	1,109	6,759
Transfers out	(331)	(3,621)
Change in net assets	864	(10,129)
Net assets (deficits) at beginning of year	251,608	112,856
Net assets (deficits) at end of year	$ 252,472	102,727

Reconciliation between changes in net assets - enterprise funds and changes in net assets of business-type activities as reported in the government-wide statement of activities	
Change in net assets	$ 864
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	(93)
Change in net assets of business-type activities	$ 771

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended June 30, 2011 (In Thousands)

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
Cash flows from operating activities:		
Cash received from customers	$ 31,586	12,052
Cash received from other funds	6,885	302,922
Cash payments to suppliers	(27,396)	(226,614)
Cash payments to employees	(7,055)	(35,193)
Cash payments to other funds	(1,010)	(13,566)
Cash paid for claims and judgments		(30,157)
Net cash provided (used) by operating activities	3,010	9,444
Cash flows from noncapital financing activities:		
Operating grants	9,173	7,055
Transfers from other funds	1,109	6,759
Transfers to other funds	(331)	(3,621)
Payments received on advances to other funds		47
Principal paid on long-term debt		(767)
Interest paid on long-term debt		(275)
Proceeds from loans		655
Net cash provided (used) by noncapital financing activities	9,951	9,853
Cash flows from capital and related financing activities:		
Capital contributions		3
Acquisition of capital assets	(9,121)	(9,433)
Proceeds from sale of assets		834
Principal paid on long-term debt	(243)	
Principal paid on capital lease		(30)
Interest paid on long-term debt	(102)	(36)
Interest paid on capital lease		(14)
Net cash provided (used) by capital and related financing activities	(9,466)	(8,676)
Cash flows from investing activities:		
Investment earnings	628	872
Net increase (decrease) in cash and cash equivalents	4,123	11,493
Cash and cash equivalents - beginning of year	78,297	179,368
Cash and cash equivalents - end of year	82,420	190,861
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	(1,909)	(20,738)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Decrease (increase) in accounts receivables	(121)	(2,613)
Decrease (increase) in due from other funds	7	8,457
Decrease (increase) in inventory	(1)	18
Increase (decrease) in accounts payable	(695)	(9,135)
Increase (decrease) in accrued payroll	20	118
Increase (decrease) in due to other funds	352	4
Increase (decrease) in unearned revenue	12	(140)
Increase (decrease) in compensated absences	(32)	74
Increase (decrease) in claims and judgments		17,500
Depreciation/amortization	5,377	15,899
Total adjustments	4,919	30,182
Net cash provided (used) by operating activities	3,010	9,444
Non-cash investing and capital financing activities:		
Capital acquisitions included in accounts payable	441	440
Governmental contributions of capital assets	$	403

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011 (In Thousands)

	Investment Trust Funds	Agency Funds
ASSETS		
Pooled cash and investments	$ 3,425,355	355,515
Cash with fiscal agents		1,325
Investments with fiscal agents	353	
Receivables:		
Accounts receivable		3,144
Investment earnings receivable	5,243	7,354
Total assets	3,430,951	367,338
LIABILITIES		
Accounts payable		21,763
Warrants outstanding		191,227
Accrued payroll		33
Due to other governments		154,315
Total liabilities		367,338
NET ASSETS		
Held in trust for pool participants	3,430,597	
Held in trust for individual investment accounts	354	
Total held in trust	$ 3,430,951	

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

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the Year Ended June 30, 2011 (In Thousands)

	Investment Trust Funds
ADDITIONS	
Contributions:	
Contributions to investments	$ 6,122,777
Total contributions	6,122,777
Investment earnings:	
Net increase (decrease) in fair value of investments	(5,467)
Investment earnings	24,913
Total investment earnings	19,446
Total additions	6,142,223
DEDUCTIONS	
Distributions from investments	5,856,824
Total deductions	5,856,824
Change in net assets	285,399
Net assets at beginning of year	3,145,552
Net assets at end of year	$ 3,430,951

Contents - Notes to the Financial Statements

NOTE 1
Summary of Significant Accounting Policies

The Reporting Entity

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

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

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

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

A discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County.

Blended Component Units

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

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

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

County Service Area Districts (CSAD) - The CSADs were established to provide authorized services such as road, park, fire protection and ambulance to specific areas in the County. They are financed by ad valorem property taxes in the area benefited or by special assessments levied on specific properties. The CSADs are reported as *special revenue funds*.

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

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

San Diego County Housing Authority (SDCHA) - The *SDCHA* was established to provide decent housing in a suitable environment for individuals who cannot afford standard private housing. Contracts with the U.S. Department of Housing and Urban Development provide the major funding sources. *SDCHA* is reported as a *special revenue fund*.

San Diego County Redevelopment Agency (SDCRA) - *SDCRA* was established to provide a method of eliminating slums and blighted areas, improving housing, expanding employment opportunities, and providing an environment for the social, economic and psychological growth, and well-being of all citizens of the County. *SDCRA* financial activities are reported in a *special revenue fund* and a *debt service fund*.

Sanitation Districts (SD) - The *SDs* were established to construct, operate and maintain reliable and sustainable sanitary sewer systems. Revenue sources include charges to property owners and grants. The *SDs* are reported as *enterprise funds*.

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

San Diego County Capital Asset Leasing Corporation (SANCAL) - *SANCAL* was established to finance the acquisition of County buildings and equipment. It is a nonprofit corporation governed by a five-member Board of Directors, which is appointed by the CoSD Board. *SANCAL* financial activities are reported in a *debt service fund*.

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

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

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

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

The Tobacco Securitization Joint Powers Authority of Southern California (TSJPA) - The *TSJPA* was created by a joint exercise of powers agreement between the County and the County of Sacramento pursuant to Government Code Sections 6500 et seq. The *TSJPA*'s purpose is to finance a loan to the San Diego County Tobacco Asset Securitization Corporation (the Corporation) via the sale of tobacco asset-backed bonds. The *Corporation* in turn uses the loan proceeds to purchase the County's future tobacco settlement revenues under a purchase and sale agreement. The *TSJPA* is administered by a Board of Directors consisting of three members, two members who are appointed by the CoSD Board and the third member is appointed by the Sacramento County Board of Supervisors. The *TSJPA* is reported as a *special revenue fund*.

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

Discrete Component Unit

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

The Commission is discretely presented because its Board is not substantively the same as the County's and it does not provide services entirely or almost entirely to the County. A separately issued financial report can be obtained by writing to The First 5 Commission, 1495 Pacific Highway, Suite 201, (MS-A211), San Diego, CA, 92101-6466.

Financial Reporting Structure

Basic Financial Statements

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

Government-Wide Financial Statements

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, interfund services provided and used are not eliminated in the process of consolidation. All internal balances in the statement of net assets have been eliminated, with the exception of those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the primary government total column. The statement of activities presents function revenue and expenses of governmental activities and business-type activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. In the statement of activities, internal service funds' revenue and expenses related to interfund services have been eliminated. Revenue and expenses related to services provided to external customers have not been eliminated and are presented within governmental activities.

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

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

Fund Financial Statements

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

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

The County reports the following major governmental funds:

The *General Fund* is the County's primary operating fund. It accounts for and reports all financial resources of the County not accounted for and reported in another fund. Revenues are primarily derived from taxes; licenses, permits and franchises; fines, forfeitures and penalties; use of money and property; intergovernmental revenues; charges for services; and other revenues. Expenditures are expended for functions of general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and cultural activities. Expenditures also include capital outlay and debt service.

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

The *Tobacco Endowment Special Revenue Fund* accounts for tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. According to Board of Supervisors Policy E-14, tobacco settlement monies are to be used for healthcare-based programs.

The County reports the following additional funds and fund types:

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

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

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

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

Assets, Liabilities, and Net Assets or Fund Balance

Cash and Investments

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

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

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

Receivables and Payables

The major receivables for governmental and business-type activities are taxes, due from other governmental agencies and loans. All property taxes and accounts receivable are shown net of an allowance for uncollectibles ($10.597 million and $1.369 million, respectively). Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

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

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

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

County Leased Property

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

Inventories and Prepaid Items

Inventories include both inventories on hand for sale and consumable inventories. Inventories are valued at average cost. They are accounted for as expenditures at the time of purchase and reported in governmental funds as an asset with an offsetting nonspendable amount. Proprietary fund types are carried at average cost and are expended when consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements, with expenditures recorded when consumed. Inventories and prepaid items recorded in the governmental funds do not reflect current appropriable resources and thus, an equivalent portion of fund balance is reported as nonspendable.

Deferred Charges

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

Capital Assets

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

Infrastructure assets include roads, bridges and sewers.

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

Table 1

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

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

Table 2

Estimated Useful Lives	
Buildings and improvements	10-50 years
Infrastructure	10-50 years
Equipment	5-20 years
Software	3-10 years

Deferred and Unearned Revenue

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

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

Lease Obligations

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

Long-Term Obligations

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

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

Debt may be issued at par (face) value, with a premium (applicable to debt issued in excess of face value) or at a discount (applicable to debt issued at amounts less than the face value). Occasionally, the County also refunds some of its existing debt. When this occurs, the difference between the funds required to retire (reacquisition price of) the refunded debt and the net carrying amount of refunded debt results in a deferred amount on refunding.

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

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued and premiums are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

Employees' Compensated Absences

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

Accumulated leave benefits including vacation, sick leave, and compensatory time worked are recorded in the government-wide statement of net assets. Amounts recorded as accumulated leave benefits include the employer's share of Social Security and Medicare taxes. These amounts would not be expected to be liquidated from expendable available financial resources, but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

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

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

All County employees who have completed at least five years of continuous service in the County retirement system, and have a sick leave balance of at least one hundred hours, may convert, at retirement, all or a portion of their sick leave balance to retirement service credits on a hour-for-hour basis. The conversion of these balances to retirement service credits is included in the County's actuarial accrued liability, as part of the annual actuarial valuation which includes assumptions regarding employee terminations, retirement, death, etc.

General Budget Policies

An operating budget is adopted each fiscal year by the Board of Supervisors for the governmental funds. The annual resolution adopts the budget at the object level of expenditures within departments. Annual budgets are not required to be adopted for the Tobacco Securitization Joint Special Revenue Fund; and the Debt Service and Capital Projects Funds (other governmental funds). Please refer to the notes to required supplementary information for more details regarding the County's general budget policies.

Fund Balance

In the fund financial statements, governmental funds report fund balance in classifications that comprise a hierarchy based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. These classifications include: nonspendable;

restricted; and the unrestricted classifications of committed, assigned and unassigned. When both restricted and unrestricted resources are available for use, fund balance is generally depleted by restricted resources first, followed by unrestricted resources in the following order: committed, assigned and unassigned. The fund balance classifications are defined as follows:

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

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

Committed fund balance - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority (the Board of Supervisors). Those committed amounts cannot be used for any other purpose unless the County removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The Board of Supervisors establishes, modifies or rescinds fund balance commitments by passage of an ordinance, resolution, or by taking actions via minute orders. This is accomplished through adoption of the County's operational plan and subsequent budget amendments that occur throughout the year as necessary.

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

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

Net Assets

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

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

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

Indirect Costs

County indirect costs are allocated to benefiting departments and are included in the program expense reported for individual functions and activities. Cost allocations are based on the annual *County-wide Cost Allocation Plan* which is prepared in accordance with Federal Office of Management and Budget Circular A-87.

Use of Estimates

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 2

Reconciliation of Government-Wide and Fund Financial Statements

Balance Sheet/Net Assets

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

Table 3

Governmental Funds Balance Sheet / Government-Wide Statement of Net Assets Reconciliation At June 30, 2011

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this $(1,931,002) difference are as follows:			
Bonds, notes and loans payable			
Certificates of participation and lease revenue bonds		$	(392,100)
Taxable pension obligation bonds			(841,337)
Tobacco settlement asset-backed bonds			(575,482)
San Diego County Redevelopment Agency revenue refunding bonds			(14,280)
Loans - non-internal service funds			(2,541)
Subtotal			(1,825,740)
Unamortized issuance premiums			(14,793)
Unamortized issuance discounts (to be amortized as interest expense)			15,055
Unamortized deferred amounts on refundings:			
Beginning balance - Unamortized deferred amounts on refundings	16,502		
Remaining unamortized cost of issuance on refunded debt	371		
Remaining unamortized premium on refunded debt	(778)		
Deferred amount on refunding attributable to reacquisition price of new debt in excess of outstanding debt refunded	96		
Amortization of deferred amount on refunding (as shown on **Table 4**)	(5,364)		
Ending balance - Unamortized deferred amounts on refundings (to be amortized as interest expense)			10,827
Arbitrage			(220)
Compensated absences (excluding Internal Service Funds)			(95,706)
Landfill closure and postclosure - San Marcos landfill			(20,425)
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities		$	(1,931,002)
Internal Service Funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. The details of this $102,329 difference are as follows:			
Net assets of the internal service funds		$	102,727
Less: Internal payable representing charges in excess of cost to business-type activities - prior years			(491)
Add: Internal payable representing charges in excess of cost to business-type activities - current year			93
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities		$	102,329

(Amounts Expressed in Thousands Unless Otherwise Noted)

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

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

Table 4

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities Reconciliation For the Year Ended June 30, 2011

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this $83,607 difference are as follows:		
Capital outlay	$	186,342
Depreciation/amortization expense		(102,735)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	83,607
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets. The details of this $11,616 difference are as follows:		
The proceeds from the sale of capital assets provide current financial resources but have no effect on net assets	$	(2,673)
The gain on the disposal of capital assets does not affect current financial resources but increases net assets		2,699
Donations of assets to the County do not provide current financial resources but resources increase net assets		11,590
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	11,616
The issuance of long-term debt (e.g. bonds, notes, and loans) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this $69,678 difference are as follows:		
Debt issued or incurred:		
Refunding bonds issued	$	(19,260)
Plus: Premiums		(1,237)
Less: Issuance costs		349
Payment to refunded bond escrow agent		22,211
Principal repayments		64,016
Accreted interest paid		3,364
Arbitrage		235
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	69,678
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The details of this $(11,507) difference are as follows:		
Compensated absences	$	2,060
Accrued interest		817
Accretion of capital appreciation bonds		(7,911)
Amortization of premiums		1,165
Amortization of discounts		(1,071)
Amortization of deferred amounts on refundings		(5,364)
Amortization of issuance costs		(1,203)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(11,507)
Internal Service Funds. The net revenue of certain activities of internal service funds is reported with governmental activities. The details of this $(10,036) difference are as follows:		
Change in net assets of the internal service funds	$	(10,129)
Add: Gain from charges to business activities		93
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$	(10,036)

NOTE 3
Deposits and Investments

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

The Pool is a County sponsored "external investment pool" wherein moneys of the County and other legally separate external entities, which are not part of the County Reporting Entity, are commingled (pooled) and invested on the participants' behalf.

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

A separately issued annual financial report for the Pool can be obtained from the Treasurer-Tax Collector at 1600 Pacific Highway, Room 162, San Diego, California, 92101 and can also be accessed at http:// www.sdtreastax.com.

Total pooled cash and investments totaled $5,860,958 consisting of: $5,856,303 investments in the County pool; $3.007 million in demand deposits; $1.125 million of collections in transit; and, $523 thousand in imprest cash.

Deposits

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

Federal Depository Insurance (FDIC) is available for funds deposited at any one financial institution up to a maximum of $250,000 for demand deposits, time and savings deposits. The aforementioned Government Code and Pool Policy require that depositories collateralize public funds with securities having a market value of at least 10% in excess of the total amount of the deposits. These securities shall be placed in the institution's pooled collateral account and monitored by the State Treasurer of California or a mutually agreed upon third party custodian bank.

Custodial Credit Risk - Deposits

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

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

California Government Code Section 53652 et. seq. requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law. At June 30, 2011, the County's deposits were not exposed to custodial credit risk as these deposits were either covered by FDIC insurance or collateralized with securities held by a named agent depository as noted below:

a. Cash in banks is defined as short-term, highly liquid deposits with an original maturity of three months or less. At year-end, the carrying amount of the Investment Pool's deposits was $3.007 million, and the bank balance at June 30, 2011 was $6.92 million, consisting of demand deposits with various financial institutions. The difference between the carrying amount and the bank balance includes temporary reconciling items such as cash on hand, outstanding checks, and deposits in transit. Of the bank balance, $431 thousand was covered by federal deposit insurance and $6.489 million was collateralized with securities held by a named agent depository on behalf of the Investment Pool as required by California Government Code Section 53656. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

b. The carrying amount of demand deposits with Fiscal Agents (outside of the Pool) was $1.835 million and the bank balance per various financial institutions was $2.308 million. Of the total bank balance, $540 thousand was covered by federal deposit insurance and $1.768 million was collateralized by a named agent depository.

Investments

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

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

Investments in the Investment Pool are stated at fair value. Securities, which are traded on a national exchange, are valued at the last reported sales price at current exchange rates. The fair value of investments is determined monthly and is provided by the custodian bank. Repurchase agreements and institutional money market funds are carried at portfolio book value (carrying cost). Open-end institutional money market funds are not categorized as to custodial credit risk because the investment in these funds is not evidenced by specific securities. All purchases of investments are accounted for on a trade-date basis. Unrealized gains or losses of securities are determined by taking the difference between amortized cost and the fair value of investments. Realized gains and losses on investments that were held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

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

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

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

Interest Rate Risk - Investments

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

Declines in the fair value of investments are managed by limiting the length of the maturity of securities. In general, the maximum maturity allowed is five years unless the Board has granted express authority either specifically or as part of an investment program. The policy related to the maturity structure of the Investment Pool requires at least 25 percent of securities to mature within 90 days, and at least 50 percent of securities to mature within one year. In addition, the Investment Pool limits the maximum effective duration of the portfolio to 18 months. As of June 30, 2011, the Investment Pool was in full compliance with its own more restrictive Investment Policy, and therefore was also in compliance with California Government Code. Actual weighted average days to maturity by investment type is presented in **Table 7**.

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

Credit Risk - Investments

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

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

Table 5

S & P Investment Rating

	Investment Pool	Investments with Fiscal Agents
Overall credit rating	AAAf/S1	
Short-term		A-1
Long-term		A

Concentration of Credit Risk - Investments

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

The Investment Policy limits the amount of exposure to any one single issuer to the percentages listed in **Table 9**. As noted in **Table 9**, the Investment Pool’s Investment Policy is more restrictive, in most cases, than the California Government Code. As of June 30, 2011, all Pool investments were in compliance with State law and with the Investment Policy.

The Investment Pool's investment in the securities of the Federal Home Loan Mortgage Corporation (FHLMC) and Federal National Mortgage Association (FNMA) are issued by agencies that remain under conservatorship by the Director of the Federal Housing Agency. The U.S. government does not guarantee, directly or indirectly, the securities of the FHLMC, Federal Home Loan Bank (FHLB), FNMA, or Federal Farm Credit Bank (FFCB). The Investment Pool's investments in FHLMC, FHLB, FNMA and FFCB securities as of June 30, 2011 comprised 15%, 9%, 24%, and 8% of the total County Investment Pool's investments, respectively.

(Amounts Expressed in Thousands Unless Otherwise Noted)

No general policies have been established to limit the amount of exposure to any one single issuer, however, moneys held by trustees on behalf of the County may generally only be invested in permitted investments specified in trustee or indenture agreements. Instruments in any one issuer that represent 5% or more of the County investments with fiscal agents by individual major fund or nonmajor funds in the aggregate at June 30, 2011 are shown in **Table 6**.

Table 6

Concentration of Credit Risk - Investment With Fiscal Agents

Issuer	Tobacco Endowment Fund	Percent	Nonmajor Governmental Funds	Percent
BlackRock MuniFund	$ 25,970	7		
Abbey National North America LLC			$ 34,152	50
Federal national mortgage association			15,055	22
Federated treasury obligation			14,069	21

Custodial Credit Risk - Investments

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

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

Foreign Currency Risk - Investments

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

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

Table 7

Pooled Investments At June 30, 2011

	Fair Value	Amortized Cost	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
US government agencies:							
Federal home loan mortgage corporation notes	$ 874,677	872,216	0.12% - 5.50%	7/11 - 3/16	399	AAA	14.94%
Federal home loan bank notes	554,345	550,692	0.25% - 5.75%	8/11 - 3/16	936	AAA	9.47%
Federal national mortgage association notes	1,407,919	1,404,907	0.11% - 5.00%	9/11 - 5/16	763	AAA	24.04%
Federal farm credit bank notes	768,243	767,404	0.20% - 4.45%	8/11 - 11/15	385	AAA	13.12%
US treasury notes	284,271	275,417	1.00% - 4.88%	7/11 - 11/15	647	AAA	4.85%
Commercial paper	1,411,418	1,411,569	0.02% - 0.18%	7/11 - 8/11	17	A-1/A-1+	24.10%
Corporate medium-term notes	25,770	25,177	4.38% - 5.88%	2/12 - 3/12	237	AA+	0.44%
Repurchase agreements collateralized by:							
Government securities	774	774	0.05%	7/11	1	N/A	0.01%
Money market mutual funds	58,585	58,585	0.01%	7/11	17	AAA	1.00%
Certificates of deposit	435,161	435,161	0.11% - 1.00%	7/11 - 5/12	47	N/A	7.43%
Bond funds	35,140	35,000	0.53%	1/13	577	AA	0.60%
Total investments	$ 5,856,303	5,836,902			425		100.00%

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 8

Investments with Fiscal Agents At June 30, 2011

	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
County investments with fiscal agents						
Unrestricted:						
Fixed income tax exempt bonds	$ 5,019	0% - 5.13%	9/12 - 8/22	3394	A	1.11%
Fixed income tax exempt bonds	3,494	0.00%	9/11	63	A-	0.77%
Fixed income tax exempt bonds	22,528	0% - 5.25%	8/12 - 7/33	5645	A+	4.99%
Fixed income tax exempt bonds	55,531	4% - 6.50%	7/11 - 12/28	1697	AA	12.29%
Fixed income tax exempt bonds	22,749	4.50% - 5.75%	5/15 - 11/28	3489	AA-	5.03%
Fixed income tax exempt bonds	66,343	4% - 5.50%	7/11 - 1/34	3678	AA+	14.68%
Fixed income tax exempt bonds	128,166	0% - 8.95%	7/11 - 10/33	4196	AAA	28.36%
Fixed income tax exempt bonds	2,510	5.75%	11/11	6713	BBB+	0.56%
Fixed income tax exempt bonds	51,464	4% - 7.38%	11/11 - 06/41	2663	NR	11.39%
MuniFunds	25,970	0.00%	08/11	34	AAA	5.75%
Subtotal	383,774					
Restricted:						
Federal national mortgage association notes	15,055	2.75% - 4.63%	2/14 - 10/14	1031	AAA	3.33%
Federal national mortgage association strip	1,854	0.00%	7/11	15	NA	0.41%
Federal home loan mortgage corporation strip	269	0.00%	7/11	18	NR	0.06%
Commercial paper	34,152	0.00%	8/11	60	A-1+	7.56%
Money market funds	16,752	0% - 02%	8/11	36 - 54	AAA/A-1+	3.71%
Subtotal	68,082					
Total County investments with fiscal agents	451,856					100.00%
External specific investments:						
Federal home loan bank notes	353	4.88%	6/12	344	AAA	100.00%
Total external specific investments	353					100.00%
Total investments with fiscal agents	$ 452,209					

Table 9

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

	Maximum Maturity		Maximum % of Portfolio		Maximum % with One Issuer		Minimum Rating	
Investment Type	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy	Gov. Code	Pool Policy
US Treasury obligations	5 years	5 years	None	None	None	None	None	None
Agency obligations	5 years	5 years	None	None	None	25%	None	None
Local agency obligations	5 years	5 years	None	15%	None	10%	None	A
Bankers' acceptances	180 days	180 days	40%	40%	30%	5%	None	A-1
Commercial paper (1)	270 days	270 days	40%	40%	10%	5%	A	A
Certificates of deposit	5 years	5 years	30%	30%	30%	5%	None	A
Repurchase agreements	1 year	1 year	None	40%	None	(2)	None	None
Reverse repurchase agreements	92 days	92 days	20%	20%	None	10%	None	None
Corporate medium-term notes	5 years	5 years	30%	30%	30%	5%	A	A
Money market mutual funds	N/A	N/A	20%	15%	10%	10%	AAAf	AAAf
Bond funds	N/A	N/A	None	2.5%	None	2.5%	None	None
Pass-through securities (3)	5 years	5 years	20%	20%	None	5%	A/AA	A/AA

(1) Government code Section 53635 (a) (1-2) specifies percentage limitations for this security type for county investment pools.

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

(3) Rating of “A” required for issuer, if rated; and rating of “AA” required for issue.

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 4
Restricted Assets

Restricted assets include monies or other resources required to be set aside to repay principal and interest under debt covenants; and to comply with other legal or contractual requirements. For fiscal year 2011 restricted assets were as follows:

Table 10

Restricted Assets

Fund		Legal or Contractual Requirements	Debt Covenants
General Fund	$	156 $	6,299
Nonmajor Governmental Funds			
Housing Authority Special Revenue Fund		580	
Tobacco Securitization Joint Special Revenue Fund			47,065
Pension Obligation Bonds Debt Service Fund			2
Redevelopment Agency Debt Service Fund			1,155
San Diego Regional Building Authority Debt Service Fund			22,837
SANCAL Debt Service Fund			4,784

NOTE 5
Receivables

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

Due from Other Governmental Agencies - Governmental activities - $61.496 million.

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

Loans - Governmental activities- $68.477 million

This amount includes: $40.374 million in housing rehabilitation loan programs for low-income or special need residents, loans for low income housing downpayments, and redevelopment agencies; and $28.103 million in community development block grant loans.

Loans- Business-type activities- $3.559 million

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

Table 11

Receivables
Primary Government and Discretely Presented Component Unit
At June 30, 2011

		Accounts	Investment Income	Due From Other Government Agencies	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:									
General Fund	$	4,981	1,937	403,715	56,458	144	467,235	(1,369)	465,866
Public Safety Special Revenue Fund				36,214			36,214		36,214
Tobacco Endowment Fund			4,873				4,873		4,873
Other Governmental Funds		18,254	959	36,870	12,019	170	68,272		68,272
Internal Service Funds		2,364	221	1,271		9	3,865		3,865
Total governmental activities	$	25,599	7,990	478,070	68,477	323	580,459	(1,369)	579,090
Business-type activities:									
Enterprise Funds	$	395	111	1,743	3,559		5,808		5,808
Component Unit:									
First 5 Commission	$		527	5,760		39	6,326		6,326

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 6
County Property on Lease to Others

The County's blended component unit - SDRBA has a direct financing lease with the San Miguel Consolidated Fire Protection District (District) for two District fire stations. Additionally, the County has a sublease of a share of the Metropolitan Transit System (MTS) Towers. The share of the County's property under the MTS Towers' sub lease is an estimated $12.74 million in structures and improvements with accumulated depreciation of $5.76 million at June 30, 2011. The lease revenue received by the SDRBA and the County for the year ended June 30, 2011 was approximately $864 thousand and $891 thousand, respectively.

The County also has noncancelable operating leases for certain properties which are not material to the County's governmental operations. Additionally, the Airport Enterprise Fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires. The Airport Enterprise Fund's property under operating leases includes an estimated $2.46 million in land at June 30, 2011.

Lease revenue from noncancelable operating leases for the year ended June 30, 2011 was approximately $16.7 million. Future minimum lease payments to be received under the direct financing and noncancelable operating leases are noted in **Table 12**.

Table 12

Lease Revenue
County Property Leased To Others

Fiscal Year	Direct Financing Leases	Operating Leases
2012	$ 1,621	$ 16,725
2013	1,640	16,132
2014	1,626	15,370
2015	1,637	11,055
2016	1,624	9,602
2017-2021	6,158	42,049
2022-2026		37,633
2027-2031		35,306
2032-2036		26,814
2037-2041		16,560
2042-2046		10,680
2047-2051		6,829
2052-2056		4,934
2057-2061		1,614
2062-2064		393
Total	$ 14,306	$ 251,696

NOTE 7
Capital Assets

Changes in Capital Assets

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

Table 13

Capital Assets - Governmental Activities

	Beginning Balance at July 1, 2010	Increases	Decreases	Ending Balance at June 30, 2011
Capital assets, not being depreciated/amortized:				
Land	$ 322,085	19,678	(71)	$ 341,692
Easements	4,581	1,059		5,640
Construction in progress	236,436	127,098	(225,009)	138,525
Total capital assets, not being depreciated/ amortized	563,102	147,835	(225,080)	485,857
Capital assets, being depreciated/amortized:				
Buildings and improvements	1,147,962	213,661	(4,107)	1,357,516
Software	74,833	8,757	(400)	83,190
Equipment	241,205	19,729	(9,584)	251,350
Road infrastructure	2,417,546	36,982		2,454,528
Bridge infrastructure	60,781	6,253	(6)	67,028
Total capital assets, being depreciated/amortized	3,942,327	285,382	(14,097)	4,213,612
Less accumulated depreciation/amortization for:				
Buildings and improvements	(328,367)	(23,845)	3,755	(348,457)
Software	(61,829)	(5,569)	233	(67,165)
Equipment	(130,561)	(21,552)	8,516	(143,597)
Road infrastructure	(999,123)	(66,494)		(1,065,617)
Bridge infrastructure	(16,596)	(1,174)		(17,770)
Total accumulated depreciation/amortization	(1,536,476)	(118,634)	12,504	(1,642,606)
Total capital assets, being depreciated/amortized, net	2,405,851	166,748	(1,593)	2,571,006
Governmental activities capital assets, net	$ 2,968,953	314,583	(226,673)	$ 3,056,863

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 14

Capital Assets - Business-type Activities

	Beginning Balance at July 1, 2010	Increases	Decreases	Ending Balance at June 30, 2011
Capital assets, not being depreciated:				
Land	$ 11,565			$ 11,565
Construction in progress	21,186	3,533	(12,132)	12,587
Total capital assets, not being depreciated	32,751	3,533	(12,132)	24,152
Capital assets, being depreciated:				
Buildings and improvements (1)	102,942	11,845		114,787
Equipment (1)	1,239	124	(194)	1,169
Road infrastructure	6,362	83		6,445
Sewer infrastructure	85,632	132		85,764
Total capital assets, being depreciated	196,175	12,184	(194)	208,165
Less accumulated depreciation for:				
Buildings and improvements (1)	(27,412)	(3,500)		(30,912)
Equipment (1)	(1,057)	(33)	166	(924)
Road infrastructure	(27)	(167)		(194)
Sewer infrastructure	(33,776)	(1,677)		(35,453)
Total accumulated depreciation	(62,272)	(5,377)	166	(67,483)
Total capital assets, being depreciated, net	133,903	6,807	(28)	140,682
Business-type activities capital assets, net	$ 166,654	10,340	(12,160)	$ 164,834

(1) Beginning balances recast to present $68 thousand of Buildings and Improvements formerly reported as Equipment.

Depreciation/Amortization

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

Table 15

Depreciation/Amortization Expense - Governmental Activities

General government	$	2,815
Public protection		22,154
Public ways and facilities		66,945
Health and sanitation		5,709
Public assistance		1,193
Education		795
Recreation and cultural		3,124
Internal Service Funds		15,899
Total	$	118,634

Table 16

Depreciation Expense - Business-type Activities

Airport Fund	$	3,595
Sanitation Districts Fund		1,765
Wastewater Management Fund		17
Total	$	5,377

Capital and Other Commitments

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is used in the governmental funds. Encumbrances outstanding at year end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years. Encumbered amounts for specific purposes for which amounts have not been previously restricted, committed, or assigned are included within committed or assigned fund balance, as appropriate. At June 30, 2011, the County General Fund's outstanding encumbrances totaled $399.793 million while the Public Safety Fund's outstanding encumbrances totaled $3.605 million. Non-major governmental funds' outstanding encumbrances totaled $31.240 million.

At June 30, 2011, major contracts entered into for structures and improvements and other commitments within governmental and business-type activities were as follows:

Table 17

Capital Commitments At June 30, 2011

		Remaining Commitments
Governmental Activities		
Other Governmental Funds:		
Construction of County Operations Center	$	58,082
Construction of South Santa Fe Ave.		10,987
Upgrade of Oracle Enterprise Resources		10,664
Construction of Roadway Asset replacement		3,752
Construction of Jamacha Blvd.		3,647
Construction of San Pasqual Academy Housing		3,547
Construction of Women's Detention Facility		2,495
Acquisition of Automated Fingerprinting Identification System		2,420
Construction of Spring Valley Traffic Signal		2,261
Acquisition of Records MGT & Field Reprinting Software		1,605
Acquisition of Software AG License Agreement		1,091
Subtotal		100,551
Business-type Activities		
Enterprise Funds:		
Construction of Rancho Del Campo Wastewater Treatment		750
Subtotal		750
Total	$	101,301

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 8
Interfund Balances

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

Table 18

Interfund Balances
At June 30, 2011

DUE TO	DUE FROM: General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	$	19,237	967	10,156	93	4,172	$ 34,625
Nonmajor Governmental	16,345			4,521	645	34	21,545
Nonmajor Enterprise	32			3,366	224		3,622
Internal Service	20,436			1,664	93	738	22,931
Total	$ 36,813	19,237	967	19,707	1,055	4,944	$ 82,723

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

a. $1.022 million is due to the General Fund from the Redevelopment Agency Special Revenue Fund (Upper San Diego River Project) as a result of a loan to provide funding for Project improvements. $929 thousand of this balance is not scheduled to be collected in the subsequent year.

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

c. $98 thousand is due to the Special District Loans Internal Service Fund from the County Service District Special Revenue Funds as a result of a loan to improve and maintain County roads. Loan repayments are made from property tax collections. $60 thousand of the balance is not scheduled to be collected in the subsequent year.

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

NOTE 9
Interfund Transfers

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

Table 19

Transfers In/Transfers Out
At June 30, 2011

TRANSFERS IN	TRANSFERS OUT: General Fund	Public Safety	Tobacco Endowment	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
General Fund	$	185,919	24,200	63,612		717	$ 274,448
Nonmajor Governmental	143,299			5,629	331	2,904	152,163
Nonmajor Enterprise	1,059			50			1,109
Internal Service	6,703			56			6,759
Total	$ 151,061	185,919	24,200	69,347	331	3,621	$ 434,479

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

Transfers made in fiscal year 2011 for purposes other than those described above included a one-time $49.878 million transfer to the General Fund to close out the remaining activities of the Housing and Community Development Fund. The Housing and Community Development Fund is no longer in operation.

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 10
Payables

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

Table 20
Payables At June 30, 2011

	Vendors	Due to Other Government Agencies	Other	Total Payables
Governmental Activities:				
General Fund	$ 56,804	39,586	4,767	$ 101,157
Other Governmental Funds	30,602	1,625	780	33,007
Internal Service Funds	27,592	1,144		28,736
Total governmental activities	$ 114,998	42,355	5,547	$ 162,900
Business-type activities:				
Enterprise Funds	$ 894	1	1	$ 896
Component Unit:				
First 5 Commission	$ 4,682	97,673	177	$ 102,532

NOTE 11
Short-Term Obligations

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

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

Table 21
Short-Term Obligations

	Beginning Balance at July 1, 2010	Issued	Redeemed	Ending Balance at June 30, 2011
Tax and revenue anticipation notes	$	140,000	140,000	$

NOTE 12
Lease Obligations

Operating Leases

Real Property

The County has obligations under long-term operating lease agreements through fiscal year 2022 (**Table 22**). The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County operations. The total rental expense for all real property leases for the year ended June 30, 2011 was approximately $31.35 million, including $22.9 million for non-cancelable leases.

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

Table 22
Lease Commitments - Real Property

Fiscal Year	Minimum Lease Payments
2012	$ 21,616
2013	15,556
2014	12,486
2015	8,600
2016	5,876
2017-2021	17,455
2022	1,644
Total	$ 83,233

Personal Property

The County has also entered into operating leases for personal property, a large portion of which represents duplicating and heavy duty construction equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 2011, was approximately $2.3 million.

Capital Lease

Minimum Lease Payments

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

Table 23
Capital Leases - Future Minimum Lease Payments

Fiscal Year	Amount
2012	$ 37
2013	40
2014	40
2015	40
2016	40
2017-2018	54
Total minimum lease payments	251
Less: Amount representing interest	(39)
Net lease payments	$ 212

(Amounts Expressed in Thousands Unless Otherwise Noted)

Book Value

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

Table 24

Capital Leases - Book Value
At June 30, 2011

Capital Lease Property	Original Cost	Accumulated Amortization	Net Book Value
Equipment	$ 310	111	199
Total	$ 310	111	199

The accumulated amortization of this capital leased asset was $111 thousand as of June 30, 2011, and is included in the Internal Service Funds' depreciation/amortization of $15.899 million in **Table 15**.

NOTE 13
Long-Term Debt
Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs)

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

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

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

In May 2011, the San Diego Regional Building Authority (SDRBA) issued $19.260 million of fixed rate serial certificates of participation titled, 2011 MTS Tower Refunding (the "Certificates"). These certificates have maturity dates beginning on November 1, 2011 with a final maturity of November 1, 2019. Each maturity date carries a different fixed interest rate beginning in November 2011 at a fixed rate of 1 percent with fixed rates ranging to 5 percent.

These Certificates were issued with a premium of $1.237 million. The $20.497 million in proceeds of the Certificates along with $3.437 million of funds held by the 2001 MTS Refunding trustee (trustee) were distributed as follows: 1) $22.211 million (consisting of $18.774 million of new Certificate proceeds plus $3.437 million of funds held by the trustee) was transferred to an escrow agent to advance refund the entire $22.115 million 2001 Metropolitan Transit System Towers Refunding Certificates of Participation outstanding and to pay future interest payments; 2) $1.359 million to fund a Certificate reserve fund; 3) $364 thousand was set aside to pay certain costs of issuance.

The $22.211 million transfer referred to above was placed in an irrevocable trust with an escrow agent to provide for the payment of the remaining principal and interest due on the 2001 MTS COPs. As a result, the 2001 MTS COPs are considered legally defeased and the liability for those certificates has been removed from the government-wide statement of net assets governmental activities' liabilities due within one year and due in more than one year.

This advance refunding will result in reducing the County's principal and interest payments by $2.754 million over the next 9 years to obtain an economic gain of $2.142 million (i.e. difference between the present values of the debt service payments on the refunded debt and the refunding debt). The interest on the Certificates is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Details of COPs and LRBs outstanding at June 30, 2011 are as follows:

Table 25

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

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2011
1993 Master Refunding COP	$ 203,400	2.50 - 5.625%	2013	$ 7,400
2003 San Miguel Consolidated Fire Protection District Refunding LRB	10,005	2.00 - 5.00%	2020	6,450
2005 Edgemoor Project COP	83,510	3.00 - 5.00%	2030	74,265
2005 Regional Communications System Refunding COP	28,885	3.00 - 5.00%	2019	13,455
2005 North & East Justice Facilities Refunding COP	28,210	3.25 - 5.00%	2020	19,915
2006 Edgemoor Completion Project COP	42,390	4.00 - 5.00%	2030	39,790
2009 Series A COC and Annex Project LRB	136,885	3.00 - 5.50%	2036	136,885
2009 Justice Facilities Refunding of 1998 Courthouse COP	32,640	2.00 - 5.00%	2023	29,130
2009 Justice Facilities Refunding of 1997 Central Jail COP	48,300	2.00 - 5.00%	2026	45,550
2011 Metropolitan Transit System Towers Refunding COP	19,260	1.00 - 5.00%	2020	19,260
Total	$ 633,485			$ 392,100

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

Table 26

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

Fiscal Year	Principal	Interest	Total
2012	$ 23,795	17,820	$ 41,615
2013	24,720	16,875	41,595
2014	19,425	16,095	35,520
2015	18,675	15,324	33,999
2016	19,405	14,508	33,913
2017-2021	97,950	58,539	156,489
2022-2026	80,260	37,883	118,143
2027-2031	65,550	19,534	85,084
2032-2036	42,320	6,115	48,435
Subtotal	$ 392,100	202,693	$ 594,793
Add:			
Arbitrage	220		
Unamortized issuance premium	14,793		
Less:			
Unamortized deferred amounts on refundings	(4,717)		
Total	$ 402,396		

Taxable Pension Obligation Bonds (POBs)

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

Details of POBs outstanding at June 30, 2011 are as follows:

Table 27

Taxable Pension Obligation Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2011
2002 Series A	$ 132,215	3.88 - 4.95%	2016	$ 86,225
2004 Series A	241,360	3.28 - 5.86%	2023	212,870
2004 Series B1-2	147,825	5.91%	2025	147,825
2004 Series C CABs	64,928	4.66 - 5.76%	2016	75,410
2004 Series C Unaccreted Interest CABs				(8,363)
2008 Series A	343,515	3.33 - 6.03%	2027	327,370
Total	$ 929,843			$ 841,337

(Amounts Expressed in Thousands Unless Otherwise Noted)

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

Table 28

Taxable Pension Obligation Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Unaccreted Appreciation	Interest	Total
2012	$ 37,545	3,053	43,391	$ 83,989
2013	33,215	2,386	42,313	77,914
2014	33,042	1,575	41,233	75,850
2015	38,240	1,202	39,556	78,998
2016	32,755	147	38,380	71,282
2017-2021	249,735		151,853	401,588
2022-2026	334,975		64,541	399,516
2027-2028	65,150		491	65,641
Subtotal	$ 824,657	8,363	421,758	$1,254,778
Add:				
Accreted appreciation through June 30, 2011	26,879			
Less:				
Accreted appreciation paid through fiscal year 2011	(5,830)			
Less:				
Accreted appreciation to be paid in fiscal year 2012	(4,369)			
Subtotal	841,337			
Less:				
Unamortized deferred amounts on refundings	(1,685)			
Total	$ 839,652			

Tobacco Settlement Asset-Backed Bonds (TSAB)

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

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

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

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

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

Details of TSAB outstanding at June 30, 2011 are as follows:

Table 29

Tobacco Settlement Asset-Backed Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2011
Series 2006A Senior Current Interest Bonds	$ 534,610	4.75 - 5.125%	2018-2031	$ 507,150
Series 2006B CABs	19,770	6.25%	2032	95,035
2006B unaccreted appreciation CABs				(67,997)
Series 2006C CABs	8,686	6.40%	2033	47,590
2006C unaccreted appreciation CABs				(35,624)
Series 2006D CABs	20,565	7.10%	2036	154,993
2006D unaccreted appreciation CABs				(125,665)
Total	$ 583,631			$ 575,482

(Amounts Expressed in Thousands Unless Otherwise Noted)

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

Table 30

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

Fiscal Year	Principal	Unaccreted Appreciation	Interest	Total
2012	$ 10,360	4,613	25,401	$ 40,374
2013	11,265	4,926	24,905	41,096
2014	12,195	5,260	24,366	41,821
2015	13,165	5,617	23,783	42,565
2016	14,245	5,998	23,154	43,397
2017-2021	100,660	36,674	103,370	240,704
2022-2026	149,410	50,938	73,228	273,576
2027-2031	205,686	70,540	29,352	305,578
2032-2036	39,185	44,721		83,906
Subtotal	$ 556,171	229,287	327,559	$ 1,113,017
Add:				
Accreted appreciation through June 30, 2011	19,311			
Subtotal	575,482			
Less:				
Unamortized issuance discount	(15,018)			
Unamortized deferred amounts on refundings	(4,425)			
Total	$ 556,039			

TSAB pledged revenue for the year ended June 30, 2011 was as follows:

Table 31

Tobacco Settlement Asset-Backed Bonds - Pledged Revenues

			Fiscal Year 2011	
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2006 Tobacco Settlement Asset-Backed Bonds	2036	$ 1,132,328	$ 28,579	$ 26,818

San Diego County Redevelopment Agency (CRA) Revenue Refunding Bonds

In December 2005, the San Diego County Redevelopment Agency (CRA) issued $16 million Revenue Refunding Bonds Series 2005A that mature in fiscal year 2033. The CRA has pledged property tax increment revenues generated within the Gillespie Field Project Area to pay for the bonds. Gillespie Field Airport revenues may also be used to fund debt service payments if there are insufficient property tax increment revenues to cover a particular fiscal year's debt service requirement. Bonds are also payable from funds held under the indenture, including earnings on such funds.

CRA revenue refunding bonds outstanding at June 30, 2011 were the following:

Table 32

CRA Revenue Refunding Bonds

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2011
Revenue Refunding Bonds Series 2005A	$ 16,000	3.65 - 5.75%	2033	$ 14,280
Total	$ 16,000			$ 14,280

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

Table 33

CRA Revenue Refunding Bonds - Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2012	$ 375	766	$ 1,141
2013	395	748	1,143
2014	415	728	1,143
2015	430	708	1,138
2016	455	686	1,141
2017-2021	2,635	3,046	5,681
2022-2026	3,405	2,247	5,652
2027-2031	4,475	1,138	5,613
2032-2033	1,695	91	1,786
Total	$ 14,280	10,158	$ 24,438
Less:			
Unamortized issuance discount	(37)		
Total	$ 14,243		

CRA pledged revenue for the year ended June 30, 2011 was as follows:

Table 34

CRA Revenue Refunding Bonds - Pledged Revenues

			Fiscal Year 2011	
Debt Pledged	Final Maturity Date	Pledged Revenue To Maturity	Debt Principal & Interest Paid	Pledged Revenue Received
Series 2005A Revenue Refunding Bonds	2033	$ 24,438	$ 1,143	$ 1,063

Loans - Governmental Activities

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

As of June 30, 2011, the County has received $2.565 million from the California Energy Commission (CEC Loan 3) from an existing authorized loan amount of $3 million. The loan amount of $2.565 million represents costs to fund multiple energy efficient projects in County facilities incurred as of the authorized date of completion of June 30, 2010. Semi-annual interest and principal payments will be made in twenty equal installments at a fixed interest rate of 4.50% with the first loan repayment having occurred on December 22, 2010 and every June 22 and December 22 thereafter.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Details of loans outstanding at June 30, 2011 for governmental activities are as follows:

Table 35

Loans - Governmental Activities

Issuance	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2011
Loans - non internal service funds (ISF)				
Firebird Manor	$ 4,486	1.00%	2028	$ 2,541
Total loans - non-ISF	4,486			2,541
Loans - ISF				
California Energy Comm Loan 1 (Facilities ISF)	1,977	4.00%	2015	769
California Energy Comm Loan 2 (Facilities ISF)	3,001	3.95%	2016	1,511
California Energy Comm Loan 3 (Facilities ISF)	2,565	4.50%	2018	2,341
Total loans - ISF	7,543			4,621
Total	$ 12,029			$ 7,162

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

Table 36

Loans - Governmental Activities Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2012	$ 994	212	$ 1,206
2013	1,034	174	1,208
2014	1,071	136	1,207
2015	993	95	1,088
2016	493	65	558
2017-2021	1,491	126	1,617
2022-2026	784	38	822
2027-2028	302	4	306
Total	$ 7,162	850	$ 8,012

Loans - Business-Type Activities

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

Details of loans outstanding at June 30, 2011 for business-type activities are as follows:

Table 37

Loans - Business-type Activities

Loan	Original Amount	Interest Rate	Final Maturity Date	Outstanding Balance at June 30, 2011
2001 Airport Development Loan - Ramona Sewer Line	$ 2,388	5.63%	2017	$ 1,043
2001 Airport Development Loan - Ramona Control Tower	1,196	5.63%	2017	523
Total	$ 3,584			$ 1,566

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

Table 38

Loans - Business-type Activities Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest	Total
2012	$ 254	88	$ 342
2013	267	74	341
2014	279	59	338
2015	292	43	335
2016	304	27	331
2017	170	10	180
Total	$ 1,566	301	$ 1,867

Prior Year Defeasance of Long-Term Debt

In prior years, the County defeased TSAB by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligation. Accordingly, the trust account assets and the liability for the defeased obligation are not included in the County's financial statements. At June 30, 2011, $412.535 million of bonds were legally defeased and remain outstanding.

Arbitrage

In compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, the County performed arbitrage rebate calculations via a third party to determine probable amounts due to the Federal government. At June 30, 2011, $220 of arbitrage rebate liability has been included in the statement of net assets.

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 14
Changes in Long-Term Liabilities

Long-term liability activities for the year ended June 30, 2011 were as follows:

Table 39

Changes in Long-Term Liabilities

	Beginning Balance at July 1, 2010	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2011	Amounts Due Within One Year
Governmental Activities:						
COPs, bonds & loans						
Certificates of participation and lease revenue bonds	$ 422,260	19,260	(49,420)		392,100	$ 23,795
Taxable pension obligation bonds	874,336		(36,590)	3,591	841,337	37,545
Tobacco settlement asset-backed bonds	574,157		(2,995)	4,320	575,482	10,360
CRA revenue refunding bonds	14,640		(360)		14,280	375
Loans - non-internal service funds	2,671		(130)		2,541	139
Loans - internal service funds (ISF)	4,733	655	(767)		4,621	855
Arbitrage	455	220	(455)		220	220
Unamortized issuance premiums	15,499	1,237	(1,943)		14,793	1,139
Unamortized issuance discounts	(16,126)		1,071		(15,055)	(1,071)
Unamortized deferred amounts on refundings	(16,502)	(49)	5,724		(10,827)	(4,931)
Total COPs, bonds & loans	1,876,123	21,323	(85,865)	7,911	1,819,492	68,426
Other long-term liabilities:						
Capital Leases - ISF	$ 242		(30)		212	$ 27
Claims and judgments - ISF	118,099	47,657	(30,157)		135,599	36,352
Compensated absences -non-ISF	97,766	66,930	(68,990)		95,706	37,708
Compensated absences - ISF	2,200	1,704	(1,630)		2,274	938
Landfill closure and postclosure	20,917		(492)		20,425	639
Total Other long-term liabilities	239,224	116,291	(101,299)		254,216	75,664
Total Governmental Activities	$ 2,115,347	137,614	(187,164)	7,911	2,073,708	$ 144,090
Business-type activities:						
Loans	$ 1,809		(243)		1,566	$ 254
Compensated absences	460	321	(353)		428	176
Total Business-type Activities	$ 2,269	321	(596)		1,994	$ 430

NOTE 15
Funds Used to Liquidate Liabilities

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

Table 40

Liquidated Liabilities

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

NOTE 16
Reassessment District Improvement Bonds

In July of 1991, the County issued $28.804 million of 4-S Ranch bonds to finance the acquisition and construction of various public improvements required for the development of land located in north San Diego County west of Interstate 15 and the community of Rancho Bernardo. In July of 1997 the 4-S Ranch bonds were refunded. The County Treasurer-Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated to pay for any special assessment bonds. Special assessment debt is solely the obligation of various separate governmental agencies. The County has covenanted to initiate judicial foreclosure in the event of a delinquency in the payment of reassessments. The amount of the 4-S Ranch special assessment debt outstanding for which the County is a fiduciary is $3.885 million at June 30, 2011.

NOTE 17
Conduit Debt Obligations

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

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

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

As of June 30, 2011, the aggregate conduit debt principal amount outstanding was $323.176 million.

NOTE 18
Landfill Site Closure and Postclosure Care Costs

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

The projected landfill closure and postclosure care liability at June 30, 2011 for the San Marcos Landfill was $20.425 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2011 dollars and is subject to change as a result of such factors including but not limited to: inflation; deflation; advancements in technology; and amendments to laws and regulations.

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

As of June 30, 2011, $24.885 million has been spent on closure costs, including revegetation. As part of final closure requirements, the County was required to vegetate the cover surface of the landfill. As of June 30, 2011 the work was substantially complete, however, $835 thousand of net assets of the government-wide statement of net assets has been restricted for potential remaining closure costs of the San Marcos Landfill until the Notice of Completion is considered final by all interested entities.

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 19
Fund Balance Policy - General Fund

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

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

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

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

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

At June 30, 2011, the fund balances restricted for laws or regulations of other governments: fund purpose are presented in **Table 41** as follows:

Table 41

Fund Balances Restricted for Laws or Regulations of Other Governments: Fund Purpose
At June 30, 2011

Fund Type:	Purpose		Amount
Major Fund			
Public Safety Fund	Public safety activities	$	21,689
Nonmajor Funds			
Special Revenue Funds			
Air Pollution Fund	Air pollution activities	$	13,223
Asset Forfeiture Program Fund	Law enforcement		9,416
County Library Fund	Library services		7,584
County Service District Funds	Road, park lighting maintenance, fire protection and ambulance services		18,153
Edgemoor Development Fund	Edgemoor development		2,015
Housing Authority Fund	Housing authority activities		13,792
In Home Supportive Services Public Authority Fund	In home supportive services		86
Inmate Welfare Program Fund	Benefit, education, and welfare of jail inmates		9,260
Lighting Maintenance District Fund	Street and road lighting maintenance		1,210
Other Special Districts Funds	Retracement or remonument surveys, improvements for grazing lands, wildlife propagation and aviation purposes capital improvements and repairs		676
Park Land Dedication Fund	Developing new or rehabilitating existing neighborhood or community park or recreational facilities		10,470
Redevelopment Agency Fund	Redevelopment activities		1,242
Total Nonmajor Funds (Special Revenue Funds)		$	87,127
Total Fund Balances Restricted for Laws or Regulations of Other Governments: Fund Purpose		$	108,816

(Amounts Expressed in Thousands Unless Otherwise Noted)

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

At June 30, 2011, the fund balances restricted for laws or regulations of other governments: other purposes are presented in **Table 42** as follows:

Table 42

Fund Balances Restricted for Laws or Regulations of Other Governments: Other Purposes
At June 30, 2011

Major Fund		
General Fund		
Teeter tax loss	$	22,264
Justice, health, social and other facilities		19,654
Defray administrative costs, other general restrictions		16,208
Improvement and maintenance of recorded document systems		14,300
Vector control		13,227
Mental health		16,793
Fingerprinting equipment purchase and operation		8,526
Sheriff automated warrant system		5,170
Public Defender defense of indigent cases		3,922
Emergency medical services, various construction costs		3,307
Domestic violence and child abuse prevention		2,905
Sheriff vehicle maintenance and replacement		1,501
Real estate fraud prosecution		1,464
Equipment replacement/system enhancement Caller ID Remote Access Network		1,163
Landfill closure costs		835
Administration, operation and conservation of trails, paths or other facilities for off-highway motor vehicles		504
Social Services child safety education		101
Total General Fund	$	131,844
Nonmajor Funds		
Special Revenue Funds		
Flood Control District Fund		
Flood control future drainage improvements	$	21,799
Housing Authority Fund		
Housing repairs and improvements		164
Total Special Revenue Funds	$	21,963
Total Fund Balances Restricted for Laws or Regulations of Other Governments: Other Purposes	$	153,807

NOTE 22
Fund Balances Committed to Other Purposes

At June 30, 2011, the fund balances committed to other purposes are presented in **Table 43** as follows:

Table 43

Fund Balances Committed To Other Purposes
At June 30, 2011

Major Fund		
General Fund		
Regional communication system infrastructure enhancements	$	15,221
Health based programs reducing adult/youth smoking		8,084
Sheriff Department future capital expenditures		4,000
Sheriff Department helicopter replacement		2,674
Registrar of Voters services		1,260
Future lease payments		1,250
Department of Environmental Health services		1,170
Landfill closure, postclosure and landfill maintenance		857
Department of Planning and Land Use services		659
Management of conduit financing programs		531
Registrar of Voters equipment acquisition		445
Future replacement of HHSA public health clinic		275
Assessor/Recorder/County Clerk services		111
Parks and Recreation land acquisition		84
South County Shelter capital improvements		60
Housing Authority future lease payments		41
Senior Volunteer Patrols Program in the unincorporated communities		38
Capital Improvement		12
Clerk of the Board services		5
Total General Fund	$	36,777
Nonmajor Funds		
Special Revenue Funds		
Inactive Wastesites Fund		
Landfill closure, postclosure and landfill maintenance	$	68,366
Total Special Revenue Funds	$	68,366
Total Fund Balances Committed to Other Purposes	$	105,143

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 23
Fund Balances Assigned to Other Purposes

At June 30, 2011, the fund balances assigned to other purposes are presented in **Table 44** as follows:

Table 44

Fund Balances Assigned to Other Purposes
At June 30, 2011

Major Fund		
General Fund		
Health, mental health and social services	$	10,503
Law enforcement, detention, legal and other protection services		8,476
Legislative and administrative services		7,186
Park and Recreation services		3,532
Planning, land use, agriculture, watershed and other public services		3,170
Assessor/Recorder/County Clerk services		2,633
Fire protection		2,304
Maintenance		1,307
Treasurer-Tax Collector services		945
Registrar of Voters services		280
Animal Services		278
Total General Fund	$	40,614

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

At June 30, 2011, the net assets restricted for laws or regulations of other governments: other purposes are presented in **Table 45** as follows:

Table 45

Net Assets Restricted for Laws or Regulations of Other Governments: Other Purposes
At June 30, 2011

Flood control future drainage improvements	$	21,799
Public safety activities		21,689
Justice, health, social and other facilities		19,654
Road, park lighting maintenance, fire protection and ambulance services		18,153
Housing Authority activities		13,792
Air pollution activities		13,223
Developing new or rehabilitating existing neighborhood or community park or recreational facilities		10,470
Law enforcement		9,416
Benefit, education, and welfare of jail inmates		9,260
Edgemoor development		8,382
Library services		7,584
Sheriff automated warrant system		5,170
Public Defender defense of indigent cases		3,922
Emergency medical services, various construction costs		3,307
Domestic violence and child abuse prevention		2,905
Sheriff vehicle maintenance and replacement		1,501
Real estate fraud prosecution		1,464
Redevelopment activities		1,242
Street and road lighting maintenance		1,210
Equipment replacement/system enhancement Caller ID Remote Access Network		1,163
Landfill closure costs		835
Retracement or remonument surveys, improvements for grazing lands, wildlife propagation and aviation purpose capital improvements and repairs		676
Administration, operation and conservation of trails, paths or other facilities for off-highway motor vehicles		504
Social services child safety education		101
In home supportive services		86
Total Net Assets Restricted for Laws or Regulations of Other Governments: Other Purposes	$	177,508

(Amounts Expressed in Thousands Unless Otherwise Noted)

NOTE 25
Risk Management

The County operates a Risk Management Program, whereby it is self-insured for general liability (California Government Code Section 990), medical malpractice (California Government Code Section 990.9), automobile liability (California Vehicle Code Section 16020(b)(4)) and workers' compensation (California Code of Regulations, Title 8, Section 15203.4). The County purchases insurance coverage for all risk property losses, government crime insurance, including employee dishonesty and faithful performance, airport comprehensive liability, and aircraft hull and liability insurance. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years.

The County's Employee Benefits and Public Liability Insurance Internal Service Funds (ISF) are used to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Actuarial evaluations were obtained which determine estimates of known and projected public liability and workers compensation claim liabilities. These evaluations include estimates for claims incurred but not reported; allocated and unallocated loss adjustment expenses; and amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims.

At June 30, 2011, these liabilities discounted for anticipated investment return (public liability of 1% and workers' compensation of 3%), totaled $135.6 million, including $29 million in public liability and $106.6 million in workers' compensation. Changes in the balances of claim liabilities for fiscal year 2011 and 2010 are shown below:

Table 46

Risk Management - Changes in Claim Liabilities

		2011		2010
Employee Benefits Fund				
Unpaid claims, July 1	$	94,973	$	88,563
Incurred claims		32,707		26,376
Claim payments		(21,117)		(19,966)
Unpaid claims, June 30	$	106,563	$	94,973
Public Liability Insurance Fund				
Unpaid claims, July 1	$	23,126	$	19,965
Incurred claims		14,950		4,175
Claim payments		(9,040)		(1,014)
Unpaid claims, June 30	$	29,036	$	23,126

NOTE 26
Contingencies

Litigation

The County has a potential liability of $15.7 million that could result if unfavorable final decisions are rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year.

Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $173.96 million in sick leave, holiday and compensatory time. With the exception of sick leave for eligible employees, these benefits are not payable to employees upon termination and are normally liquidated at year end or as employees elect to use their benefits per Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation have been recorded as liabilities in the appropriate proprietary funds and the statement of net assets.

Federal and State Programs

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

NOTE 27
Joint Ventures

The San Diego Geographic Information Source (SanGIS) was created in July 1997 as a joint powers agreement between the City of San Diego and the County of San Diego. SanGIS objectives are to create and maintain a geographic information system; marketing and licensing compiled digital geographic data and software; providing technical services; and publishing geographic and land related information for the City and the County, other public agencies, and the private sector. It is governed by a Board of Directors consisting of the Chief Operating Officer and the Chief Administrative Officer. SanGIS relies mostly on an annual budget of $1.3 million shared equally by the City and the County to supplement its operating revenues. In its latest report, SanGIS reported a decrease in net assets of $1 thousand and ending net assets of $149 thousand for the fiscal year ended June 30, 2010. The financial report may be obtained by writing to SanGIS at 5201 Ruffin Road, Suite E, San Diego CA 92123 or by calling (858) 874-7000 or by e-mail at webmaster@sangis.org.

The County is a participant with eighteen incorporated cities to operate the Unified San Diego County Emergency Services Organization for the purpose of providing regional planning and mutual assistance in the event of an emergency in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council (UDC) with one voting member from San Diego County Board of Supervisors who serves as Chair of the Council, and a representative from each of the 18 incorporated cities. The County of San Diego Office of Emergency Services (OES) serves as staff to the UDC. OES is a liaison between the incorporated cities, the State Office of Emergency Services, the Federal Emergency Management Agency, and the American

(Amounts Expressed in Thousands Unless Otherwise Noted)

Red Cross. A contractual agreement requires that the cities and the County provide the total required funding each year; one half from the cities and the other half from the County. In its latest report, the organization reported a decrease in net assets of $72 thousand and ending net assets of $306 thousand for the fiscal year ended June 30, 2010. Separate financial statements may be obtained from the Operational Area Emergency Operations Center, 5555 Overland Avenue, Suite 1911, San Diego CA 92123 or by calling (858) 565-3490.

The City of San Diego and the County of San Diego jointly formed a Consortium under the Workforce Investment Act of 1998 to provide regional employment and training services. The Consortium is governed by a five member board consisting of two members designated from the County Board of Supervisors, two members designated from the San Diego City Council and one member from the Board of Directors of United Way, a charitable organization. The board assigned the San Diego Workforce Partnership, Inc. as the grant recipient and the administrative entity to operate the San Diego Consortium. The City and the County agreed to share equally any debt or liability incurred with respect to State and Federal grants. For the year ended June 30, 2010, the Partnership reported an increase in net assets of $73 thousand and ending net assets of $182 thousand. Complete financial reports may be obtained by writing to the San Diego Workforce Partnership, 3910 University Avenue, Suite 400, San Diego CA 92105-1326 or by calling (619) 228-2900.

NOTE 28
Pension and Retiree Health Plans
Pension Plan
Plan Description

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

Funding Policy

The Retirement Act requires that County and member contributions be actuarially determined to provide a specific level of benefit. Contribution rates are expressed as a percentage of covered payroll and member rates vary according to age at entry, benefit tier level and certain negotiated contracts that provide for the County to pay a portion of members' contributions. California Government Code Section 31454 requires the Board of Supervisors to adjust the rates of the San Diego County employer and employee retirement contributions in accordance with the recommendations of the Board of Retirement of SDCERA.

The actuarially determined rates adopted by SDCERA established the average member contribution rate at 10.28% for all categories combined (General Tier I, General Tier A, General Tier B, Safety Tier A and Safety Tier B members) and set the employer contribution rate for all categories combined at 20.46%. However, the Board of Supervisors chose to adopt employer contribution rates at a level higher than the levels recommended by the actuary in order to accelerate the pay down of the unfunded actuarial accrued liability (UAAL) of the retirement fund and to help position the County and other member employers for an expected further increase in rates in Fiscal Year 2011-12. The average employer contribution rate for all categories combined adopted by the Board of Supervisors was 23.5%.

CoSD employer contributions to SDCERA-PP for the three years ended June 30, 2011, which equaled or exceeded the required contributions, were the following:

Table 47

CoSD Employer Contributions - SDCERA - PP

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2011	$ 186,979	$ 214,978	115.0%
2010	172,453	176,243	102.2%
2009	200,146	200,146	100.0%

Retiree Health Plan
Plan Description

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

Funding Policy

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

CoSD's employer contributions to SDCERA-RHP for the three years ended June 30, 2011, which equaled or exceeded the required contributions, were the following:

Table 48
COSD Employer Contributions - SDCERA-RHP

Fiscal Year Ended June 30	Annual Required Contribution (ARC)	Contributions Made	Percentage of ARC Contributed
2011	$ 16,239	$ 16,239	100.0%
2010	16,886	16,886	100.0%
2009	20,838	20,838	100.0%

SDCERA Financial Report

SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the SDCERA-PP and the SDCERA-RHP. The financial report may be obtained by writing to San Diego County Employees Retirement Association, 2275 Rio Bonito Way, Suite 200, San Diego, California 92108-1685 or by calling (619) 515-6800.

NOTE 29
Fund Deficit

Table 49
Fund Deficit
At June 30, 2011

Internal Service Fund:		
Employee Benefits Fund	$	(6,821)

The Employee Benefits Fund deficit of $6.8 million resulted from the accrual of the estimated liability and costs associated with the reported and unreported workers' compensation claims as prepared by an actuary for the reporting period ending June 30, 2011. The liability increased to $106.5 million from the prior year's estimate of $95.0 million. The County intends to reduce the deficit through increased premium rate charges to County departments by $1.7 million per year in excess of projected operating expenses beginning in fiscal year 2012.

NOTE 30
Subsequent Events

Tax and Revenue Anticipation Notes

In July 2011, the County issued tax and revenue anticipation notes (TRANS) totaling $50 million due June 29, 2012 at a coupon rate of 2.00% and a yield of 0.26%. Proceeds from the notes will be used to meet fiscal year 2012 cash flow requirements. Fiscal year 2012 unrestricted revenues collateralize the notes.

San Diego County Capital Asset Leasing Corporation - "County of San Diego Certificates of Participation (County Administration Center Waterfront Park)"

In August 2011, the San Diego County Capital Asset Leasing Corporation issued $32.665 million of fixed rate Certificate of Participation titled "County of San Diego Certificates of Participation (County Administration Center Waterfront Park (the Series 2011 Certificates)". The Series 2011 Certificates were issued at fixed interest rates ranging from 3.00% to 5.125% with maturity dates ranging from February 1, 2013 to February 1, 2042.

These Certificates were issued with a discount of $182 thousand. Certificate proceeds of $32.483 million along with the County's contribution of $14.2 million were distributed as follows: 1) $30.004 million was transferred to the construction fund used to pay construction costs on the County Administration Center Waterfront Park project; 2) $14.2 million was transferred to the County's capital project fund; 3) $2.094 million of proceeds were used to fund the Certificates' debt service reserve fund; 4) $151 thousand was used to pay the underwriter's discount; and 5) $234 thousand was set aside to pay certain costs of issuance.

NOTE 31
New Governmental Accounting Standards

Implementation Status

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).

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

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

The provisions of Statement No. 57 related to the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements for periods beginning after June 15, 2011.

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

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

Please refer to Note 1, "Summary of Significant Accounting Policies - Assets, Liabilities, and Net Assets or Fund Balance - Fund Balance"; and Notes 19 through 23.

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

This Statement provides for the following amendments:

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

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

Statement No. 31, is clarified to indicate that a 2a7-like pool, as described in Statement No. 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.

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

Statement No. 53 is amended to clarify that the net settlement characteristic of Statement No. 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance.

This statement is effective for the County's fiscal year ending June 30, 2011.

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

Under Analysis

The County is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

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

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

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

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

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

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

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34. T*he objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

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

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

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

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

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

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

Financial Accounting Standards Board (FASB) Statements and Interpretations

Accounting Principles Board Opinions

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

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

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

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

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

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

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

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

In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*

Some governments have entered into interest rate swap agreements and commodity swap agreements in which a swap counterparty, or the swap counterparty's credit support provider, commits or experiences either an act of default or a termination event as both are described in the swap agreement. Many of those governments have replaced their swap counterparty, or swap counterparty's credit support providers, either by amending existing swap agreements or by entering into new swap agreements. When these swap agreements have been reported as hedging instruments, questions have arisen regarding the application of the termination of hedge accounting provisions in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. Those provisions require a government to cease hedge accounting upon the termination of the hedging derivative instrument, resulting in the immediate recognition of the deferred outflows of resources or deferred inflows of resources as a component of investment income.

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

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

Required Supplementary Information

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

General Fund

For the Year Ended June 30, 2011 (In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Taxes	$ 880,811	880,811	894,222
Licenses, permits and franchise fees	40,189	40,189	42,643
Fines, forfeitures and penalties	58,133	58,773	51,826
Revenue from use of money and property	17,269	17,269	24,479
Aid from other governmental agencies:			
State	940,930	940,711	904,749
Federal	880,153	919,504	818,217
Other	99,507	58,460	57,874
Charges for current services	290,769	323,194	320,966
Other revenue	39,734	41,356	51,542
Total revenues	3,247,495	3,280,267	3,166,518
Expenditures:			
Current:			
General government:			
Assessor/recorder/county clerk - finance	34,166	34,155	32,368
Auditor and controller	26,691	26,794	23,781
Auditor and controller - information technology management services	6,031	5,917	4,813
Board of supervisors district #1	1,254	1,454	1,192
Board of supervisors district #2	1,256	1,256	1,137
Board of supervisors district #3	1,230	1,245	1,191
Board of supervisors district #4	1,174	1,374	1,211
Board of supervisors district #5	1,355	1,555	1,204
Board of supervisors general office	1,075	1,076	1,024
CAC major maintenance	1,138	1,138	624
Chief administrative office - legislative and administrative	4,330	4,330	3,991
Civil service commission	536	536	521
Clerk of the board of supervisors - legislative and administrative	3,037	3,037	2,898
Clerk of the board of supervisors - property management	3,292	3,389	2,836
Community enhancement	2,751	2,751	2,724
Community projects	6,847	6,219	5,509
Community services	8,892	7,905	2,519
County communications office	2,550	2,549	2,371
County counsel	21,877	21,877	20,438
County technology office	11,730	11,729	8,184
Countywide general expense	45,668	45,668	3,713
Finance and general government - legislative and administrative	3,517	3,516	
Finance and general government - other general	76,011	77,529	24,818
Health and human services - legislative and administrative	425	425	417
Human resources - other general government	4,343	4,343	4,114
Human resources - personnel	18,365	18,359	14,581
Land use and environment - legislative and administrative	4,075	4,524	3,791
Public safety - legislative and administrative	7,582	7,582	5,479
Registrar of voters	19,991	19,991	14,929
Treasurer-tax collector	19,705	19,705	16,915
Total general government	$ 340,894	341,928	209,293

Continued

See notes to required supplementary information.

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

General Fund

For the Year Ended June 30, 2011 (In Thousands)

(Continued)	Original Budget	Final Budget	Actual
Public protection:			
Agriculture weights and measures	$ 15,973	16,286	13,893
Agriculture weights and measures - sealer	3,012	2,975	3,002
Assessor/recorder/county clerk - other protection	18,687	18,675	14,839
Child support	48,878	48,878	45,826
Citizens law enforcement review board	538	538	484
Contributions for trial courts	72,113	72,113	70,263
Department of animal services	14,244	14,244	13,694
District attorney-judicial	136,730	140,560	128,912
Grand jury	578	578	529
LAFCO administration	342	342	342
Medical examiner	8,304	8,422	7,996
Office of emergency services	8,698	12,718	6,452
Planning and land use - fire protection	30,534	2,762	2,681
Planning and land use - other protection	32,630	35,607	23,815
Probation - adult detention	2,824	2,824	3,111
Probation - detention and correction	107,157	106,610	100,141
Probation - juvenile detention	44,236	44,236	42,544
Probation - police protection	944	944	555
Public defender	74,560	65,284	61,960
Public safety - fire protection		28,745	15,241
Public works, flood control, soil and water, general	14,185	14,705	8,198
Public works, general - other protection	1,077	1,099	142
Sheriff - adult detention	191,089	189,387	177,769
Sheriff - other protection	2,586	1,604	1,359
Sheriff - police protection	352,980	371,863	336,088
Total public protection	1,182,899	1,201,999	1,079,836
Public ways and facilities:			
Public Works, dept of gen	4,752	4,953	4,171
Public works, general - public ways	2,151	2,026	1,372
Total public ways and facilities	6,903	6,979	5,543
Health and sanitation:			
Environmental health	49,330	49,426	36,278
Health and human services agency - drug and alcohol abuse services	44,591	44,591	38,096
Health and human services agency - health	105,038	104,975	99,454
Health and human services agency - health administration	53,875	53,388	33,414
Health and human services agency - medical care	143,453	165,354	166,717
Health and human services agency - mental health	326,555	326,555	297,107
Public works, general - sanitation	1,189	439	210
Total health and sanitation	724,031	744,728	671,276
Public assistance:			
Health and human services agency - other assistance	322,316	301,128	293,369
Health and human services agency - social administration	803,817	803,087	731,353
Health and human services agency - veterans' services	908	908	834
Housing authority	26,205	40,374	18,925
Probation - care of court wards	9,661	10,489	11,049
Total public assistance	1,162,907	1,155,986	1,055,530
Education:			
Agriculture weights and measures	934	940	957
Total education	934	940	957
Recreation and cultural:			
Parks and recreation	37,135	37,248	30,637
Total recreation and cultural	$ 37,135	37,248	30,637

Continued

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

General Fund

For the Year Ended June 30, 2011 (In Thousands)

(Continued)	Original Budget	Final Budget	Actual
Contingency reserve	$ 20,000	20,000	
Capital outlay	30,138	32,334	21,965
Debt service:			
Principal	26,765	26,765	26,735
Interest and fiscal charges	19,948	19,948	15,044
Total expenditures	3,552,554	3,588,855	3,116,816
Excess (deficiency) of revenues over (under) expenditures	(305,059)	(308,588)	49,702
Other financing sources (uses):			
Sale of capital assets			414
Transfers in	236,213	275,799	274,448
Transfers out	(499,790)	(497,481)	(151,061)
Total other financing sources (uses)	(263,577)	(221,682)	123,801
Net change in fund balances	(568,636)	(530,270)	173,503
Fund balances at beginning of year	1,220,108	1,220,108	1,220,108
Increase (decrease) in			
Nonspendable inventories		769	769
Fund balances at end of year	$ 651,472	690,607	1,394,380

See notes to required supplementary information.

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

Public Safety Fund

For the Year Ended June 30, 2011 (In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Aid from other governmental agencies:			
State	$ 185,919	185,919	202,809
Total revenues	185,919	185,919	202,809
Excess (deficiency) of revenues over (under) expenditures	185,919	185,919	202,809
Other financing sources (uses):			
Transfers out	(189,525)	(189,524)	(185,919)
Total other financing sources (uses)	(189,525)	(189,524)	(185,919)
Net change in fund balances	(3,606)	(3,605)	16,890
Fund balances at beginning of year	4,799	4,799	4,799
Fund balances at end of year	$ 1,193	1,194	21,689

See notes to required supplementary information.

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

Tobacco Endowment Fund

For the Year Ended June 30, 2011 (In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Revenue from use of money and property	$ 10,500	10,500	4,709
Total revenues	10,500	10,500	4,709
Expenditures:			
Current:			
General government:			
Tobacco settlement	3,300	3,300	171
Total general government	3,300	3,300	171
Total expenditures	3,300	3,300	171
Excess (deficiency) of revenues over (under) expenditures	7,200	7,200	4,538
Other financing sources (uses):			
Transfers out	(24,200)	(24,200)	(24,200)
Total other financing sources (uses)	(24,200)	(24,200)	(24,200)
Net change in fund balances	(17,000)	(17,000)	(19,662)
Fund balances at beginning of year	412,275	412,275	412,275
Fund balances at end of year	$ 395,275	395,275	392,613

See notes to required supplementary information.

Budgetary Information

General Budget Policies

An operating budget is adopted each fiscal year by the Board of Supervisors for the governmental funds. The annual resolution adopts the budget at the object level of expenditures within departments. Annual budgets are not required to be adopted for the Tobacco Securitization Joint Special Revenue Fund; and the Debt Service and Capital Projects Funds (other governmental funds). Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year with the approval of the Board of Supervisors.

Appropriations may also be adjusted during the year with the approval of the Board of Supervisors. Additionally, the Chief Financial Officer is authorized to approve certain transfers and revisions of appropriations within a department. Such adjustments are reflected in the final budgetary data. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

The schedule of revenues, expenditures, and changes in fund balance - budget and actual for the General Fund, Public Safety Fund and the Tobacco Endowment Fund that is presented as Required Supplementary Information was prepared in accordance with generally accepted accounting principles (GAAP).

The Original Budget consists of the adopted budget plus the budget carried forward from the prior fiscal year. Accordingly, encumbrances that are subject to automatic re-appropriation are included as part of the original budget. The County adopts its budget subsequent to the start of the each new fiscal year by mid-August. The final budget includes the original budget plus amended budget changes occurring during the fiscal year.

The Actual column represents the actual amounts of revenue and expenditures reported on a GAAP basis which is the same basis that is used to present the aforementioned original and final budget.

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following summary discussion of selected provisions of the Site Lease, the Facility Lease, the Assignment Agreement and the Trust Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of the Series 2012 Certificates are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.

Definitions

"Additional Certificates" means the certificates of participation authorized by a Supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

"Additional Payments" means those amounts payable by the County under and pursuant to the Facility Lease as summarized herein under the caption "FACILITY LEASE - Rental Payments - Additional Payment."

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

"Annual Debt Service" means, for each Lease Year, an amount equal to the sum of all Base Rental Payments due in such Lease Year.

"Assignment Agreement" means that certain Assignment Agreement, dated as of August 1, 2011, by and between the Corporation and the Trustee, as it may from time to time be amended including, without limitation, as by that First Amendment to Assignment Agreement dated as of October 1, 2012, by and between the Corporation and the Trustee.

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

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

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

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

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

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

"Certificate, Statement, Written Request or Requisition of the Corporation or the County" means, respectively, a written certificate, statement, request or requisition signed in the name of the Corporation by its Chair, Vice Chair, Secretary or Assistant Secretary, or any other person designated and authorized to sign for the Corporation in writing to the Trustee, and with respect to the County means the Chief Financial Officer, the Auditor and Controller, the Treasurer-Tax Collector, the Chief Deputy Treasurer, the Chief Investment Officer, the Group Finance Director, the Debt Finance Manager or such other person as may be designated and authorized to sign for the County in writing to the Trustee. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

"Certificates" means, as appropriate to the context, the Series 2011 Certificates, the Series 2012 Certificates and/or any series of Additional Certificates.

"Closing Date" means October 24, 2012.

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

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

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

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

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

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

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

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

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the County and the Dissemination Agent dated the date of execution and delivery of the Series 2012 Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Corporation" means the San Diego County Capital Asset Leasing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

"Cost of Issuance Fund" means the fund by that name established in accordance with the Trust Agreement.

"Costs of Issuance" means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Site Lease, the Facility Lease, the Assignment Agreement, the Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees; financial advisor fees; title insurance fees; market study fees; legal fees and expenses of counsel with respect to the lease of the Leased Property; any computer and other expenses incurred in connection with the Certificates; the fees and expenses of the Trustee, including fees and expenses of its counsel; and other fees and expenses incurred in connection with the execution of the Certificates, to the extent such fees and expenses are approved by the County.

"County" means the County of San Diego, a political subdivision duly organized and existing under the Constitution and laws of the State of California.

"Defeasance Securities" means any of the following:

(1) Cash (insured at all times by the Federal Deposit Insurance Corporation),

(2) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

- U.S. treasury obligations;
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA); and
- State and Local Government Series

"DTC" means The Depository Trust Company, New York, New York, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for the Certificates including any such successor appointed pursuant to the Trust Agreement.

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

“Event of Default” means (1) with respect to any Event of Default under the Trust Agreement, any occurrence or event specified in and defined by the provisions of the Trust Agreement under the caption “Trust Agreement—Default and Limitations of Liability—Events of Default” below, and (2) with respect to any Event of Default under the Facility Lease, any occurrence or event specified in and defined by the provisions of the Facility Lease under the caption “Facility Lease—Default” below.

“Expiry Date” means February 1, 2042.

“Facility Lease” means the Facility Lease, dated as of August 1, 2011, by and between the County and the Corporation, as amended and supplemented by the First Amendment to Facility Lease, dated as of October 1, 2012, by and between the County and the Corporation, and as the same may be further amended or supplemented pursuant to the provisions thereof.

“Financial Newspaper” means *The Wall Street Journal* or *The Bond Buyer* or, if neither such newspaper is being regularly published, any other newspaper or journal publishing financial news and selected by the County that is printed in the English language, is customarily published on each Business Day and is circulated in Los Angeles, California and New York, New York.

“Fiscal Year” means the fiscal year of the County which, as of the Closing Date, is the period from July 1 to and including the following June 30.

“Fitch” means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the County by notice in writing to the Corporation and the Trustee.

“Hazardous Substances” means any substances, pollutants, wastes and contaminants now or hereafter included in such (or similar term) term under any federal state or local statute, ordinance, code or regulation now existing or hereafter enacted or amended.

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

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

“Insurance Policy” means a financial guaranty insurance policy issued by an Insurer insuring the payment when due of the principal and interest with respect to a Series of Certificates issued under the Trust Agreement. There is no Insurance Policy issued with respect to the Series 2011 Certificates and the Series 2012 Certificates.

“Insurer” means the issuer or issuers of a policy or policies of municipal bond insurance obtained by the County to insure the payment of principal of and interest on a Series of Certificates issued under the Trust Agreement, when due otherwise than by acceleration, and which, in fact, are at any time insuring such Series of Certificates. All consents, approvals or actions required by the Insurer shall mean the unanimous action of all Insurers if there is more than a single Insurer. There is no Insurer with respect to the Series 2011 Certificates and the Series 2012 Certificates.

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

"Interest Payment Date" means February 1, 2013 and each February 1 and August 1, thereafter.

"Leased Property" means the real property more particularly described in the Facility Lease (as the same may be changed from time to time by Removal or Substitution), together with the improvements thereon or to be located thereon.

"Lease Year" means the period from each August 1 to and including the following July 31 during the term of the Facility Lease; provided that the final Lease Year shall terminate on the expiration date of the Facility Lease.

"Mandatory Sinking Account Payment" means the principal amount of any Series 2011 Certificates and Series 2012 Certificates or Additional Certificates required to be paid on each Mandatory Sinking Account Payment Date pursuant to the terms of the Trust Agreement or any Supplemental Trust Agreement.

"Mandatory Sinking Account Payment Date," if applicable, means February 1 of each year set forth in the Trust Agreement, if any, and in any Supplemental Trust Agreement, established for the prepayment of Term Certificates.

"Maximum Annual Debt Service" means an amount equal to the largest Annual Debt Service for all future Lease Years beginning in the Lease Year in which the calculation is made.

"Moody's" means Moody's Investors Service, Inc. a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the County by notice in writing to the Corporation and the Trustee.

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

"**Outstanding**" when used as of any particular time with reference to Series 2011 Certificates, Series 2012 Certificates and Additional Certificates, means all Series 2011 Certificates, Series 2012 Certificates and Additional Certificates, including, but not limited to, the Certificates as described in the Trust Agreement, except:

(1) Series 2011 Certificates, Series 2012 Certificates and Additional Certificates previously canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Series 2011 Certificates, Series 2012 Certificates and Additional Certificates which pursuant to the Trust Agreement are not deemed outstanding;

(3) Series 2011 Certificates, Series 2012 Certificates and Additional Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and

(4) Series 2011 Certificates, Series 2012 Certificates and Additional Certificates in lieu of or in substitution for which other Series 2011 Certificates and Series 2012 Certificates or Additional Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

"**Owner**" means any person who shall be the registered owner of any Outstanding Certificate or Additional Certificate as indicated in the registration books of the Trustee.

"Permitted Encumbrances" means as of any particular time: (i) liens for general *ad valorem* taxes and assessments, if any, not then delinquent, or which the County may, pursuant to the Facility Lease permit to remain unpaid; (ii) the Assignment Agreement, as it may be amended from time to time; (iii) the Facility Lease as it may be amended from time to time; (iv) the Site Lease as it may be amended from time to time; (v) the Trust Agreement, as it may be amended from time to time; (vi) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the date of recordation of the Facility Lease in the office of the County Recorder of the County of San Diego; (viii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, established following the date of recordation of the Facility Lease and to which the Corporation and the County consent in writing and certify to the Trustee will not materially impair the interests of the Corporation or use of the Leased Property by the County; and (ix) subleases and assignments of the County which will not adversely affect the exclusion from gross income of interest payable with respect to the Certificates.

"**Permitted Investments**" means any of the following to the extent then permitted by applicable laws and any investment policies of the County:

(1) Defeasance Securities;

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

—Export-Import Bank;
—Rural Economic Community Development Administration;
—U.S. Maritime Administration;
—Small Business Administration;
—U.S. Department of Housing & Urban Development (PHAs);
—Federal Housing Administration; and
—Federal Financing Bank.

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

—Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC);

—Obligations of the Resolution Funding Corporation (REFCORP);

—Senior debt obligations of the Federal Home Loan Bank System; and

—Senior debt obligations of other Government Sponsored Agencies.

(4) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar

days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).

(5) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase.

(6) Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;

(7) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or

(B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in clause (2) of the definition of "Defeasance Securities" contained in the Trust Agreement, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal Obligations rated in the top two rating categories or higher by both Moody's and S&P;

(9) Investment Agreements rated in the top two rating categories or higher by Moody's or S&P (supported, as may be required, by appropriate opinions of counsel);

(10) Any investment authorized by California Government Code Section 53061;

(11) The Local Agency Investment Fund or similar pooled fund operated by or on behalf of the State of California and which is authorized to accept investments of moneys held in any of the funds or accounts established pursuant to the Trust Agreement;

(12) The San Diego County Investment Pool, managed by the Treasurer-Tax Collector of the County of San Diego, California; and

(13) Other forms of investments rated in the top two rating categories or higher by Moody's or S&P (supported, as may be required, by appropriate opinions of counsel).

Any references to long-term rating categories in the definition of "Permitted Investments" shall not take into account any plus or minus sign or numerical modifiers.

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

"**Principal Corporate Trust Office**" means the corporate trust office of the Trustee at the address set forth in the Trust Agreement, except for purposes of payment, registration, transfer, exchange and surrender of Certificates, means the corporate trust office of the Trustee in Los Angeles, California, or such other office specified by the Trustee.

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

"**Principal Payment**" means the principal amount of Certificates required to be paid on each Principal Payment Date.

"**Principal Payment Date**" means February 1 of each year, commencing February 1, 2013.

"Project" means, as appropriate, the 2011 Project, the 2012 Project and/or any Additional Project. The term "2011 Project" means the public facilities described in the Facility Lease, dated as of August 1, 2011, by and between the County and the Corporation. The term "2012 Project" means the public facilities described in the First Amendment to Facility Lease, dated as of October 1, 2012, by and between the County and the Corporation. The term "Additional Project" means, to the extent identified by the County as such, the public facilities to be acquired and constructed with the proceeds of Additional Certificates.

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

"**Record Date**" means the close of business on the 15th day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

"Removal" means the release of all or a portion of the Leased Property from the leasehold of the Facility Lease and the Site Lease as provided in the Facility Lease.

"Rental Payments" means, collectively, the Base Rental Payments and the Additional Payments as provided in each respective Facility Lease.

"**Representation Letter**" means the Letter of Representations from the County and the Trustee to DTC, or any successor securities depository for the Certificates, in which the County and the Trustee make certain representations with respect to the Certificates, the payment with respect thereto and delivery of notices with respect thereto.

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

"**Reserve Fund Credit Facility**" shall mean a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in the Reserve Fund in lieu of or in partial substitution for cash or securities on deposit therein.

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

“**S&P**” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the County by notice in writing to the Corporation and the Trustee.

“Series”, when used with reference to any Series 2011 Certificates and Series 2012 Certificates or Additional Certificates, means all of the Series 2011 Certificates, the Series 2012 Certificates or Additional Certificates executed and delivered on original issuance and identified pursuant to the Trust Agreement or a Supplemental Trust Agreement authorizing such Series 2011 Certificates and Series 2012 Certificates or Additional Certificates as a separate Series of Certificates.

“Series 2011 Certificates” means the County of San Diego Certificates of Participation (County Administration Center Waterfront Park) executed and delivered by the Trustee pursuant to the Trust Agreement.

“Series 2012 Certificates” means the County of San Diego Certificates of Participation (2012 Cedar and Kettner Development Project) executed and delivered by the Trustee pursuant to the Trust Agreement.

“Site Lease” means that certain Site Lease executed and entered into as of August 1, 2011, by and between the County and the Corporation, as originally executed and entered into and as it may from time to time be amended.

“**Substitution**” means the release of all or a portion of the Leased Property from the leasehold of the Facility Lease and of the Site Lease, and the lease of substituted real property and improvements under the Facility Lease and under the Site Lease as provided in the Facility Lease.

“**Supplemental Trust Agreement**” means an agreement amending or supplementing the terms of the Trust Agreement entered into pursuant to the terms thereof.

“**Tax Certificate**” means that tax certificate executed by the County at the time of execution and delivery of the Series 2012 Certificates relating to the requirements of Section 148 of the Code, as such certificate may be amended or supplemented.

“**Term Certificates**” means any Series 2011 Certificates and Series 2012 Certificates or Additional Certificates which are subject to prepayment prior to their stated maturity dates from Mandatory Sinking Account Payments.

“**Trust Agreement**” means the Trust Agreement by and among the Trustee, the County and the Corporation, dated as of August 1, 2011, by and among the Trustee, the Corporation and the County, as amended and supplemented by the First Supplemental Trust Agreement, dated as of October 1, 2012, by and among the Trustee, the Corporation and the County, and as the same may be further amended or supplemented pursuant to the provisions thereof.

“**Trustee**” means Zions First National Bank, a national banking association duly organized and existing under and by virtue of the laws of the United States of America and having a principal corporate trust office located at Los Angeles, California, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

FACILITY LEASE

The Leased Property

Lease of the Leased Property. The Corporation leases to the County, and the County rents and hires from the Corporation, the Leased Property on the conditions and terms set forth in the Facility Lease. The County agrees and covenants that during the term of the Facility Lease, except as provided in the Facility Lease, it will use the Leased Property for public purposes so as to afford the public the benefits contemplated by the Facility Lease and so as to permit the Corporation to carry out its agreements and covenants contained in the Facility Lease and in the Trust Agreement, and the County further agrees and covenants that during the term of the Facility Lease that it will not abandon or vacate the Leased Property.

Quiet Enjoyment. The parties to the Facility Lease mutually covenant that the County, so long as it observes and performs the agreements, conditions, covenants and terms required to be observed or performed by it contained in the Facility Lease and is not in default under the Facility Lease, shall at all times during the term of the Facility Lease peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the Corporation.

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

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

Liens. In the event the County shall at any time during the term of the Facility Lease cause any improvements to the Leased Property to be constructed or materials to be supplied in or upon or attached to the Leased Property, the County shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the County in, upon, about or relating to the Leased Property and shall keep the Leased Property free of any and all liens against the Leased Property or the Corporation's interest therein. In the event any such lien attaches to or is filed against the Leased Property or the Corporation's interest therein, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the County shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the County shall forthwith pay and discharge or cause to be paid and discharged such judgment. The County shall, to the maximum extent permitted by law, indemnify and hold the Corporation and its assignee and its directors, officers and employees harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the Leased Property or the Corporation's interest therein.

Substitution or Removal of Leased Property.

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

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

(1) A Certificate of the County containing a description of all or part of the Leased Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place;

(2) A Certificate of the County (A) stating that the annual fair rental value of the Leased Property after a Substitution or Removal, in each year during the remaining term of the Facility Lease, is at least equal to the maximum annual Base Rental Payments payable under the Facility Lease attributable to the Leased Property prior to said Substitution or Removal, as determined by the County on the basis of commercially reasonable evidence of the annual fair rental value of the Leased Property after said Substitution or Removal; and (B) demonstrating that the useful life of the Leased Property after Substitution or Removal equals or exceeds the remaining term of the Facility Lease;

(3) An Opinion of Counsel to the effect that the amendments to the Facility Lease and to the Site Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the County and the Corporation enforceable in accordance with their terms;

(4) (A) In the event of a Substitution, a policy of title insurance in an amount equal to the same proportion of the principal amount as the principal portion of the Base Rental Payments for the Substituted Property bears to the total principal portion of the Base Rental Payments payable under the Facility Lease, insuring the County's leasehold interest in the Substituted Property (except any portion thereof which is not real property) subject only to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates, and (B) in the event of a partial Removal, evidence that the title insurance in effect immediately prior thereto is not affected;

(5) In the event of a Substitution, an opinion of the County Counsel of the County to the effect that the exceptions, if any, contained in the title insurance policy referred to in (4) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the County for the purposes of leasing or using the Substituted Property;

(6) An Opinion of Counsel that the Substitution or Removal does not cause the interest with respect to the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates to be includable in gross income of the Owners thereof for federal income tax purposes; and

(7) Evidence that the County has complied with the covenants contained in the Facility Lease regarding insurance requirements with respect to the Substituted Property.

Term of the Facility Lease

Commencement of the Facility Lease. The Facility Lease is in effect as of the Closing Date and shall continue as amended, and the term of the Facility Lease shall end on the Expiry Date, unless such term is extended or sooner terminated as provided in the Facility Lease. If on the Expiry Date, the rental payable under the Facility Lease shall not be fully paid and all Series 2011 Certificates, Series 2012 Certificates and Additional Certificates shall not be fully paid and retired, or if the rental payable under the Facility Lease shall have been abated at any time and for any reason, then the term of the Facility Lease shall be extended until ten days after the rental payable under the Facility Lease shall be fully paid and all Series 2011 Certificates, Series 2012 Certificates and Additional Certificates shall be fully paid, except that the term of the Facility Lease shall in no event be extended beyond February 1, 2052. If prior to the Expiry Date, the rental payable under the Facility Lease shall be fully paid and all Series 2011 Certificates, Series 2012 Certificates and Additional Certificates shall have been fully paid, or deemed fully paid, in accordance with the Trust Agreement, the term of the Facility Lease shall end ten days thereafter or ten days after written notice by the County to the Corporation to the effect that the rental payable under the Facility Lease shall be fully paid and all Series 2011 Certificates, Series 2012 Certificates and Additional Certificates have been fully paid, whichever is earlier, and the Facility Lease shall thereupon terminate.

Use of Proceeds; Tax Covenants

Use of Proceeds. The parties to the Facility Lease agree that the proceeds of the Certificates, will be used to pay Construction Costs with respect to the Project, to fund the Reserve Fund and to pay the costs of executing and delivering the Certificates and incidental and related expenses.

Tax Covenants.

(a) The County will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest evidenced and represented by the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates pursuant to Section 103 of the Code, and specifically the County will not directly or indirectly use or make any use of the proceeds of the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates or any other funds of the County or take or omit to take any action that would cause the Series 2011 Certificates, the Series 2012 Certificates or any Additional Certificates to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code or "private activity bonds" subject to federal income taxation by reason of Section 141(a) of the Code or obligations subject to federal income taxation because they are "federally guaranteed" as provided in Section 149(b) of the Code; and to that end the County, with respect to the proceeds of the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates and such other funds, will comply with all requirements of such sections of the Code to the extent that such requirements are, at the time, applicable and in effect; *provided,* that if the County shall obtain an Opinion of Counsel to the effect that any action required under this section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest evidenced and represented by the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates pursuant to Section 103 of the Code, the County may rely conclusively on such opinion in complying with the provisions of the Facility Lease. In the event that at any time the County is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Trust Agreement or otherwise the County shall so instruct the Trustee in writing, and the Trustee shall take such action in accordance with such instructions.

(b) To the ends covenanted in this section, the County specifically agrees to ensure that the following requirements are met:

(1) The County will not invest or allow to be invested proceeds of the Series 2011 Certificates, the Series 2012 Certificates or any Additional Certificates at a yield in excess of the yield on the Series 2011 Certificates, the Series 2012 Certificates and such Additional Certificates, except to the extent allowed under the Tax Certificate.

(2) The County will rebate or cause to be rebated any amounts due to the federal government, as provided in the Tax Certificate.

Rental Payments

Rental Payments. The County agrees to pay to the Corporation, its successors or assigns, without deduction or offset of any kind, as rental for the use and occupancy of the Leased Property, the following amounts at the following times:

(a) *Base Rental Payments*. The County shall pay to the Corporation rental under the Facility Lease, for the use and occupancy of the Leased Property for each Lease Year or portion thereof, the Base Rental Payments, at the times and in the amounts set forth in the Facility Lease. Notwithstanding the dates designated as the Base Rental Payment Dates, all Base Rental Payments due in any Fiscal Year after June 30, 2012 shall be due and payable in one sum on July 5 of each year (the "Prepayment Amount"), commencing on July 5, 2012; provided that the Base Rental Payment with respect to the Series 2012 Certificates to be paid on February 1, 2013 shall be paid on February 1, 2013. If the term of the Facility Lease shall have been extended pursuant to the Facility Lease, Base Rental Payment installments shall continue to be payable on the Base Rental Payment Dates, continuing to and including the date of termination of the Facility Lease. Upon such extension of the Facility Lease, the County shall deliver to the Trustee a Certificate setting forth the extended rental payment schedule, which schedule shall establish the Base Rental Payments at an amount sufficient to pay all unpaid principal and interest on the Series 2011 Certificates and the Series 2012 Certificates.

(b) *Additional Payments*. The County shall also pay, as rental under the Facility Lease in addition to the Base Rental Payments, to the Corporation or the Trustee, as provided in the Facility Lease, such amounts ("Additional Payments") in each year as shall be required for the payment of all costs and expenses incurred by the Corporation in connection with the execution, performance or enforcement of the Facility Lease or the assignment of the Facility Lease, the Trust Agreement or the respective interests in the Leased Property and the lease of the Leased

Property by the Corporation to the County under the Facility Lease, including but not limited to all fees, costs and expenses and all administrative costs of the Corporation relating to the Leased Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Series 2011 Certificates, the Series 2012 Certificates or any Additional Certificates), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs of the Corporation or charges required to be paid by it to comply with the terms of the Series 2011 Certificates and the Series 2012 Certificates, any Additional Certificates or the Trust Agreement.

The foregoing Additional Payments shall be billed to the County by the appropriate party from time to time, together with a statement certifying that the amount billed has been incurred or paid for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed shall be paid by the County not later than the latest time as such amounts may be paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the County for such amounts.

The Corporation may enter into leases to finance facilities other than the Leased Property. The administrative costs of the Corporation shall be allocated among said facilities and the Leased Property, as hereinafter in this paragraph provided. Any taxes levied against the Corporation with respect to the Leased Property, the fees of the Trustee, and any other expenses directly attributable to the Leased Property shall be included in the Additional Payments payable under the Facility Lease. Any taxes levied against the Corporation with respect to real property other than the Leased Property, the fees of any trustee or paying agent under any resolution securing bonds of the Corporation or any trust agreement other than the Trust Agreement, and any other expenses directly attributable to any facilities other than the Leased Property shall not be included in the administrative costs of the Leased Property and shall not be paid from the Additional Payments payable under the Facility Lease. Any expenses of the Corporation not directly attributable to any particular project of the Corporation shall be equitably allocated among all such projects, including the Leased Property, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Corporation to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation. The Trustee may conclusively rely upon a Certificate of the Corporation in making any determination that costs are payable as Additional Payments under the Facility Lease, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Leased Property.

(c) *Consideration.*

(i) Such payments of Base Rental Payments for each Lease Year or portion thereof during the term of the Facility Lease shall constitute, together with Additional Payments, the total amount due for such Lease Year or portion thereof and shall be paid or payable by the County for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property. On the Closing Date, the County shall deliver a certificate to the Corporation and the Trustee, which shall set forth the annual fair rental value of the Leased Property. The parties to the Facility Lease have agreed and determined that the annual fair rental value of the Leased Property is not less than the maximum Base Rental Payments payable under the Facility Lease in any year. In making such determinations of annual fair rental value, consideration has been given to a variety of factors including the replacement costs of the existing improvements on the Leased Property, other obligations of the parties under the Facility Lease, the uses and purposes which may be served by the improvements on the Leased Property and the benefits therefrom which will accrue to the County and the general public.

(ii) The parties to the Facility Lease acknowledge that the Facility Lease may be amended from time to time to increase the Base Rental Payments payable under the Facility Lease so that Additional Certificates may be executed and delivered pursuant to the Facility Lease and the Trust Agreement. The proceeds of such Additional Certificates shall be used for any lawful purpose. Notwithstanding anything to the contrary contained in the Facility Lease, the Facility Lease may not be amended in a manner such that the sum of Base Rental Payments, including Base Rental Payments payable pursuant to such amendment, in any year is in excess of the annual fair rental value of the Leased Property and other land and improvements leased to the County under the Facility Lease.

(d) *Payment*; *Credit*. Each installment of Base Rental Payments payable under the Facility Lease shall be paid in lawful money of the United States of America to or upon the order of the Corporation at the principal corporate trust office of the Trustee in Los Angeles, California, or such other place as the Corporation shall designate. Any such installment of rental accruing under the Facility Lease which shall not be paid when due shall remain due and payable until received by the Trustee, except as provided in the Facility Lease, and to the extent permitted by law shall bear interest at the rate of ten percent per annum from the date when the same is due under the Facility Lease until the same shall be paid. Notwithstanding any dispute between the County and the Corporation, the County shall make all rental payments when due, without deduction or offset of any kind, and shall not withhold any rental payments pending the final resolution of any such dispute. In the event of a determination that the County was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, shall, at the option of the County, be credited against subsequent rental payments due under the Facility Lease or be refunded at the time of such determination. Amounts required to be deposited by the County with the Trustee pursuant to this paragraph on any date shall be reduced to the extent of available amounts on deposit on such date in the Base Rental Payment Fund, the Interest Fund or the Principal Fund. Any payment scheduled to be made on a date which is not a Business Day shall be made on the next succeeding Business Day.

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

Application of Base Rental Payments. All Base Rental Payments received shall be applied first to the interest components of the Base Rental Payments due under the Facility Lease, then to the principal components (including any prepayment premium components) of the Base Rental Payments due under the Facility Lease and thereafter to all Additional Payments due under the Facility Lease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Facility Lease.

Rental Abatement. Except to the extent of (a) amounts held by the Trustee in the Base Rental Payment Fund or in the Reserve Fund, (b) amounts received in respect of rental interruption insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Series 2011 Certificates and the Series 2012 Certificates, during any period in which, by reason of material damage, destruction, title defect, condemnation, there is substantial interference with the use and possession by the County of any portion of the Leased Property, rental payments due under the Facility Lease with respect to the Leased Property shall be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments, in which case rental payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or sublease any or all of the Leased Property or other rights under the Facility Lease, as permitted by the Facility Lease, for purposes of determining the annual fair rental value available to pay Base Rental Payments, annual fair rental value of the Leased Property shall first be allocated to the Facility Lease as provided in the Facility Lease. Any abatement of rental payments pursuant to the Facility Lease shall not be considered an Event of Default as defined in the Facility Lease. The County waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Facility Lease by virtue of any such interference and the Facility Lease shall continue in full force and effect. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

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

Prepayment of Base Rental Payments. The County may prepay, from eminent domain proceeds or net insurance proceeds received by it pursuant to the Facility Lease, all or any portion of the components of Base Rental Payments payable under the Facility Lease relating to any portion of the Leased Property then unpaid, in whole on any date, or in part on any date in integral multiples of an Authorized Denomination so that the aggregate annual amounts of principal components of Base Rental Payments payable under the Facility Lease represented by the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates which shall be payable after such prepayment date shall each be in an integral multiple of an Authorized Denomination and shall be as nearly proportional as practicable to the aggregate annual amounts of principal components of Base Rental Payments payable under the Facility Lease represented by the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates.

The County may prepay, from any source of available moneys pursuant to the terms of the Trust Agreement, all or any part (in an integral multiple of an Authorized Denomination) of the principal components of Base Rental Payments payable under the Facility Lease then unpaid so that the aggregate annual amounts of principal components of Base Rental Payments under the Facility Lease which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual amounts of principal components represented by the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates unpaid prior to the prepayment date, at a prepayment amount equal to the principal component prepaid plus accrued interest thereon to the date of prepayment plus any applicable premium.

Before making any prepayment pursuant to this section, at least 45 days before the prepayment date the County shall give written notice to the Corporation and the Trustee describing such event, specifying the order of Principal Payment Dates and specifying the date on which the prepayment will be made, which date shall be not less than 30 nor more than 60 days from the date such written notice is given to the Corporation and the Trustee.

Obligation to Make Base Rental Payments. The agreements and covenants on the part of the County contained in the Facility Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the agreements and covenants contained in the Facility Lease agreed to be carried out and performed by the County.

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

Additional Certificates. In addition to the Series 2011 Certificates and the Series 2012 Certificates to be executed and delivered under the Trust Agreement the County may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Certificates set forth in the Trust Agreement, enter into a Supplemental Trust Agreement to execute and deliver Additional Certificates on a parity with the Series 2011 Certificates, the Series 2012 Certificates and any previously executed and delivered Additional Certificates (unless otherwise provided in the related Supplemental Trust Agreement), the proceeds of which may be used for any lawful purpose by the County, as provided in the Supplemental Trust Agreement; provided that prior to or concurrently with the execution and delivery of the Additional Certificates, the County and the Corporation shall have entered into an amendment to the Facility Lease, providing for an increase in the Base Rental Payments to be made under the Facility Lease subject to the limitations set forth in the Facility Lease.

Maintenance; Taxes; Insurance and other Charges

Maintenance of the Leased Property by the County. The County agrees that, at all times during the term of the Facility Lease, it will, at its own cost and expense, maintain, preserve and keep, or cause to be maintained, preserve and kept, the Leased Property and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Corporation shall have no responsibility in any of these matters or for the making of additions or improvements to the Leased Property.

Taxes, Other Governmental Charges and Utility Charges. The parties to the Facility Lease contemplate that the Leased Property will be used for public purposes by the County and, therefore, that the Leased Property will be exempt from all taxes presently assessed and levied with respect to real and personal property, respectively. In the event that the use, possession or acquisition by the County or the Corporation of the Leased Property is found to be subject to taxation in any form, the County will pay during the term of the Facility Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property and any other property acquired by the County in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Leased Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Leased Property; *provided,* that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the County shall be obligated to pay only such installments as are accrued during such time as the Facility Lease is in effect.

Insurance. The County shall secure and maintain or cause to be secured and maintained at all time with insurers of recognized responsibility, all coverage on the Leased Property required by the Facility Lease. Such insurance shall consist of :

(1) A policy or policies of insurance against loss or damage to the Leased Property known as "all risk," including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the lesser of (i) the cumulative replacement values of the Leased Property and, in the case of a policy covering more than the Leased Property, as permitted by the next succeeding sentence, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the aggregate amount of the principal component of all then-remaining Base Rental Payments payable under the Facility Lease; *provided*, that the amount of coverage required by this sentence may be reduced to a smaller amount if an Insurance Consultant retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot, flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. Such insurance may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County which may be limited in an amount per occurrence in the aggregate to the amount required by the preceding sentence. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss (except for flood, in which case the deductible may not exceed $250,000 for any one loss). The County may obtain such coverage as a joint insured with one or more other public agencies located within or without the County of San Diego which may be limited in an amount per occurrence in the aggregate for all insureds as described in the first sentence of this paragraph (1) and which may be limited in a cumulative amount of claims during a 12-month period in the aggregate for all insureds in an amount not less than $500,000,000. Otherwise conforming policies satisfying the requirements of this paragraph (1) may provide that amounts payable as coverage under this paragraph (1) may be reduced by amounts payable under paragraph (3) for the same occurrence, and vice versa. The County is, however, under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake.

(2) In the event that such coverage is not included in paragraph (1) above, boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Leased Property in an amount not less than $75,000,000 per accident; *provided, however,* that the amount of coverage required by this sentence may be reduced to a smaller amount if an Insurance Consultant retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of loss or damage by steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Leased Property, a specified smaller amount is believed to be reasonable. Such insurance may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County which may be limited in amount to $75,000,000 per accident. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss. The County may obtain such coverage as a joint insured with one or more public agencies

located within or without the County of San Diego which may be limited in amount to $75,000,000 per accident. Otherwise conforming policies satisfying the requirements of this paragraph (2) may provide that amounts payable as coverage under this paragraph (2) may be reduced by amounts payable under paragraph (3) for the same occurrence, and *vice versa*.

(3) Rental interruption insurance to cover loss, total or partial, of the use of any part of the Leased Property as a result of any of the hazards covered by the insurance required pursuant to paragraph (1) or (2) above, as the case may be, in an amount sufficient at all times to pay the total rent payable under the Facility Lease for a period of not less than two years' Base Rental Payments for the Leased Property; provided that such rental interruption insurance may be included in the policy or policies provided pursuant to paragraph (1) or (2) without increasing the aggregate limits for coverage with respect to any hazard covered thereby. Such insurance also may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County. The County also may obtain an otherwise conforming policy required by this paragraph (3) as a joint insured with one or more other public agencies within or without the County of San Diego which may, with respect to any hazard, be limited in aggregate amount for all insureds to the amount of the policy or policies required pursuant to paragraph (1), (2) and (3) above, as the case may be, which insures against such hazard. Otherwise conforming policies satisfying the requirements of this paragraph (3) may provide that amounts payable as coverage under this paragraph (3) may be reduced by amounts payable under paragraph (1) or (2), as the case may be, for the same occurrence, and *vice versa*.

The County shall collect, adjust and receive all moneys which may become due and payable under any policies contemplated by paragraphs (1) and (2) above, and, may compromise any and all claims thereunder and shall transfer the net proceeds of such insurance as provided in the Facility Lease or in the Trust Agreement. The Trustee shall not be responsible for the sufficiency of any insurance required in the Facility Lease. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County.

Any insurance policy issued pursuant to paragraph (1), (2) and (3) above shall be so written or endorsed as to make losses, if any, payable to the County, the Corporation and the Trustee as their respective interests may appear and the net proceeds of the insurance required by paragraphs (1) or (2) above shall be applied as provided in the Facility Lease. The net proceeds, if any, of the insurance policy described in paragraphs (1) and (2) above shall be payable to the County for deposit in the Insurance Proceeds and Condemnation Awards Fund. The net proceeds, if any, of the insurance policy described in paragraph (3) above shall be payable to the Trustee and deposited in the Base Rental Payment Fund. Each insurance policy provided for in the Facility Lease shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Corporation or the Trustee without first giving written notice thereof to the Corporation and the Trustee at least 30 days in advance of such intended cancellation or modification.

The County shall file a Certificate of the County with the Trustee not later than January 31 of each year certifying that the insurance policies required by the Facility Lease are in full force and effect and that the Corporation and/or the Trustee is named as a loss payee on each insurance policy which the Facility Lease requires to be so endorsed. The Trustee shall have no responsibility whatsoever for determining the adequacy of any insurance required under the Facility Lease.

<u>Advances</u>. In the event the County shall fail to maintain the full insurance coverage required by the Facility Lease or shall fail to keep the Leased Property in good repair and operating condition, the Corporation may (but shall be under no obligation to) purchase the required policies of insurance and pay

the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Corporation shall become Additional Payments, which amounts the County agrees to pay within 30 days of a written request therefor, together with interest thereon at the maximum rate allowed by law.

Title Insurance. The County covenants and agrees to deliver or cause to be delivered to the Trustee on the Closing Date a CLTA leasehold owner's policy or policies, or a commitment for such policy or policies, with respect to the Leased Property with liability in the aggregate amount equal to the principal component of all Base Rental Payments payable under the Facility Lease. Such policy or policies, when issued, shall name the Trustee as the insured and shall insure the leasehold estate of the County in the Leased Property subject only to such exceptions as do not materially affect the County's right to the use and occupancy of the Leased Property.

Damage, Destruction, Title Defect and Condemnation

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds. If prior to the termination of the term of the Facility Lease (a) the Leased Property or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty; or (b) title to, or the temporary use of, the Leased Property or any portion thereof or the estate of the County or the Corporation in the Leased Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the County and the Corporation will cause the net proceeds of any insurance claim or condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of the damaged, destroyed, defective or condemned portion of the Leased Property, and any balance of the net proceeds remaining after such work has been completed shall be paid to the County; *provided,* that the County, at its option and provided the proceeds of such insurance or condemnation award together with any other moneys then available for the purpose are at least sufficient to prepay the aggregate annual amounts of the principal and interest components of the Base Rental Payments due under the Facility Lease attributable to the portion of the Leased Property so destroyed, damaged, defective or condemned (determined by reference to the proportion which the annual fair rental value of the destroyed, damaged, defective or condemned portion thereof bears to the annual fair rental value of the Leased Property), may elect not to repair, reconstruct or replace the damaged, destroyed, defective or condemned portion of the Leased Property and thereupon shall cause said proceeds to be used for the prepayment of Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates pursuant to the provisions of the Trust Agreement. Notwithstanding any other provision in the Facility Lease, the County shall only prepay less than all of the principal component of the then-remaining Base Rental Payments if the annual fair rental value of the Leased Property after such damage, destruction, title defect or condemnation is at least equal to the aggregate annual amount of the principal and interest components of the Base Rental Payments not being prepaid.

In the event that the proceeds, if any, of said insurance or condemnation award are insufficient either to (i) repair, rebuild or replace the Leased Property so that the fair rental value of the Leased Property would be at least equal to the Base Rental Payments or (ii) to prepay all the Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates, both as provided in the preceding paragraph, then the County may, in its sole discretion, budget and appropriate an amount necessary, but in no event more than the net proceeds available from any insurance claim or condemnation award described in the Facility Lease, to effect such repair, rebuilding or replacement or prepayment; provided that the failure of the County to so budget and/or appropriate shall not be a breach of or default under the Facility Lease.

Disclaimer of Warranties; Vendor's Warranties; Use of the Leased Property

Disclaimer of Warranties. NEITHER THE TRUSTEE NOR THE CORPORATION MAKES ANY AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE LEASED PROPERTY, OR WARRANTY WITH RESPECT THERETO. THE COUNTY ACKNOWLEDGES THAT NEITHER THE TRUSTEE NOR THE CORPORATION IS A MANUFACTURER OF ANY PORTION OF THE LEASED PROPERTY OR A DEALER THEREIN, THAT THE COUNTY LEASES THE LEASED PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE COUNTY. In no event shall the Corporation or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Facility Lease or the existence, furnishing, functioning or the County's use of the Leased Property as provided by the Facility Lease.

Use of the Leased Property; Improvements. The County will not use, operate or maintain the Leased Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Facility Lease. The County shall provide all permits and licenses, if any, necessary for the use of the Leased Property. In addition, the County agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each portion of the Leased Property) with all laws of the jurisdictions in which its operations involving any portion of the Leased Property may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Leased Property; *provided,* that the County may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the County adversely affect the estate of the Corporation in and to the Leased Property or its interest or rights under the Facility Lease.

Assignment and Indemnification

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

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

Indemnification. The County shall, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the Corporation and the Trustee and their respective directors, officers and employees from and against any and all liability, obligations, losses, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses, penalties and interest arising out of or as the result of the entering into of the Facility Lease, the acquisition, construction, installation and use of the Leased Property and each portion thereof or any accident in connection with the operation, use, condition or possession of the Leased Property or any portion thereof resulting in damage to property or injury to or death to any person including, without limitation, any claim alleging latent and other defects, whether or not discoverable by the County or the Corporation; any claim arising out of the use, presence, storage, disposal or release of any Hazardous Substances on or about the Leased Property; any claim for patent, trademark or copyright infringement; and any claim arising out of strict liability in tort. The indemnification arising under the Facility Lease shall continue in full force and effect notwithstanding the full payment of all obligations under the Facility Lease or the termination of the Facility Lease for any reason. The County, the Trustee and the Corporation mutually agree to promptly give notice to each other of any claim or liability indemnified against by the Facility Lease following the learning thereof by such party.

Default

The following events shall be "Events of Default" under the Facility Lease and the terms "Event of Default" and "Default" shall mean, whenever they are used in the Facility Lease, any one or more of the following events:

(1) The County shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Facility Lease, provided, that the failure to deposit any Base Rental Payments abated pursuant to the Facility Lease shall not constitute an Event of Default;

(2) The County shall fail to pay any item of Additional Payments when the same shall become due and payable pursuant to the Facility Lease; or

(3) The County shall breach any other terms, covenants or conditions contained in the Facility Lease or in the Trust Agreement, and shall fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Corporation to the County; *provided, however,* that if the failure stated in the notice cannot be corrected within such period, then the Corporation shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the County within such period and is diligently pursued until the default is corrected.

Upon the happening of any of the Events of Default specified in the Facility Lease, it shall be lawful for the Corporation or its assignee, subject to the terms of the Facility Lease, to exercise any and all remedies available or granted to it pursuant to law or under the Facility Lease.

Upon the occurrence of an Event of Default, the Corporation or its assignee must thereafter maintain the Facility Lease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the Leased Property, regardless of whether or not the County has abandoned the Leased Property; **THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE FACILITY LEASE OR OTHERWISE**. In such event, the County shall remain liable and agrees to keep or perform all covenants and conditions in the Facility Lease contained to be kept or performed by the County and, to pay the rent to the end of the term of the Facility Lease and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Facility Lease for the payment of rent under the Facility Lease (without acceleration).

The Corporation expressly waives the right to receive any amount from the County pursuant to Section 1951.2(a)(3) of the California Civil Code.

In addition to any Event of Default resulting from breach by the County of any agreement, condition, covenant or term of the Facility Lease, if the County's interest in the Facility Lease or any part thereof assigned, sublet or transferred without the written consent of the Corporation (except as otherwise permitted by the Facility Lease), either voluntarily or by operation of law; or the County or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the County shall make a general or any assignment for the benefit of its creditors; or the County shall abandon or vacate the Leased Property or any portion thereof (except as permitted by the Facility Lease); then in each and every such case the County shall be deemed to be in default under the Facility Lease.

Neither the County nor the Corporation shall be in default in the performance of any of its obligations under the Facility Lease (except for the obligation to make Base Rental Payments pursuant to the Facility Lease) unless and until it shall have failed to perform such obligation within 30 days after notice by the County of the Corporation, as the case may be, to the other party properly specifying wherein it has failed to perform such obligation.

The County and Corporation and its successors and assigns shall honor the exclusive rights of the County to use the Leased Property.

Miscellaneous

Trustee as Third Party Beneficiary. The Trustee is designated a third party beneficiary under the Facility Lease for the purpose of enforcing any of the rights under the Facility Lease assigned to the Trustee under the Assignment Agreement.

Net Lease. It is the purpose and intent of the Corporation and the County that lease payments under the Facility Lease shall be absolutely net to the Corporation so that the Facility Lease shall yield to the Corporation the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Leased Property, and without counterclaim, deduction, defense, deferment or set-off by the County except as specifically otherwise provided in the Facility Lease. The Corporation shall not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability under the Facility Lease except as expressly set forth in the Facility Lease, and all costs, expenses and obligations of any kind relating to the maintenance and operation of the Leased Property which may arise or become due during the term of the Facility Lease shall be paid by the County.

Amendments. The Facility Lease may be amended in writing as may be mutually agreed by the Corporation and the County, subject to the written approval of the Trustee; *provided,* that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by the Owners of more than 50% in principal amount of the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates Outstanding, and provided further, that no such amendment shall (a) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each Certificate and Additional Certificate so affected, or (b) reduce the percentage of the principal amount of the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates Outstanding the consent of the Owners of which is required for the execution of any amendment of the Facility Lease.

The Facility Lease and the rights and obligations of the Corporation and the County under the Facility Lease may also be amended or supplemented at any time by an amendment of the Facility Lease or supplement to the Trust Agreement which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required by the Corporation or the County to be observed or performed in the Facility Lease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the County, or to surrender any right or power reserved in the Facility Lease to or conferred in the Facility Lease on the Corporation or the County, and which in either case shall not materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Facility Lease or in regard to questions arising under the Facility Lease which the Corporation or the County may deem desirable or necessary and not inconsistent with the Facility Lease, and which shall not materially adversely affect the interests of the Owners;

(c) to effect a Substitution or Removal in accordance with the Facility Lease;

(d) to facilitate the issuance of Additional Certificates as provided in the Facility Lease; or

(e) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners.

Discharge of County. Upon the payment of all Base Rental Payments and Additional Payments payable under the Facility Lease, all of the obligations of the County under the Facility Lease shall thereupon cease, terminate and become void and shall be discharged and satisfied; *provided, however,* if any Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates shall be deemed to have been paid by virtue of a deposit of Base Rental Payments under the Facility Lease pursuant to the Trust Agreement, then the obligation of the County under the Facility Lease to make Rental Payments under the Facility Lease shall continue in full force and effect until the Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates so deemed paid have in fact been paid, but such payments shall be made solely and exclusively from moneys and securities deposited with the Trustee as contemplated by the Trust Agreement, and that shall be the sole source of satisfaction of the County's obligation to make Base Rental Payments. The time period for giving notice by the County to the Corporation and the Trustee specified in the Facility Lease shall not apply incident to the payment to the Owners of all Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates in accordance with the Trust Agreement.

California Law. The Facility Lease shall be governed by and construed and interpreted in accordance with the laws of the State of California.

Insurer Deemed Owner. For the purpose of (i) the giving of consents to amendments to the Facility Lease, (ii) the giving of any other consent of the Owners under the Facility Lease, and (iii) the control and direction of all rights and remedies upon the occurrence of an Event of Default, the Insurer shall be deemed to be the sole Owner of the Certificates for so long as it has not failed to comply with its payment obligations under the Insurance Policy; *provided*, *however*, that, notwithstanding the foregoing, the Insurer shall not be deemed to be the Owner of the Certificates for any consent to an amendment to the Facility Lease that (a) extends the payment date of any Base Rental Payment, or reduces the interest, principal or prepayment premium component of any Base Rental Payment, or (b) reduces the percentage of the principal amount of the Series 2011 Certificates, the Series 2012 Certificates and Additional

Certificates Outstanding the consent of the Owners of which is required for the execution of any amendment of the Facility Lease.

SITE LEASE

Leased Property. The County leases to the Corporation and the Corporation rents and hires from the County, on the terms and conditions set forth in the Site Lease, the Leased Property.

Term.

(a) The Site Lease is in effect as of the Closing Date and the term of which shall end on the Expiry Date (as defined in the Facility Lease) unless such term is sooner terminated or is extended as provided in the Site Lease. If prior to the Expiry Date all Base Rental Payments under the Facility Lease shall have been paid, or provision therefor has been made in accordance with the Trust Agreement, the term of the Facility Lease shall end simultaneously therewith.

(b) If the Facility Lease is extended beyond the Expiry Date pursuant to the terms thereof, the Site Lease shall also be extended to the day following the date of termination of the Facility Lease.

Rent. The Corporation shall pay to the County an advance rent of $1.00, which, together with the execution and delivery of the Facility Lease, shall constitute full consideration for the Site Lease over its term. The Corporation waives any right that it may have under the laws of the State of California to receive a rebate of such rent in full or in part in the event there is a substantial interference with the use and right of possession by the Corporation of the Leased Property or portion thereof as a result of material damage, destruction or condemnation.

Purpose. The Corporation shall use the Leased Property solely for the purpose of subleasing the same to the County; *provided,* that in the event of default by the County under the Facility Lease, the Corporation may exercise the remedies provided in the Facility Lease.

Owner in Fee. The County covenants that it is the owner of the Leased Property free and clear of all liens, claims or encumbrances which affect marketability.

Assignments and Facility Lease. Unless the County shall be in default under the Facility Lease, the Corporation may not, without the prior written consent of the County, assign its rights under the Site Lease or sublet the Leased Property except that the County expressly approves and consents to the assignment and transfer of the Corporation's right, title and interest in the Site Lease to the Trustee pursuant to the Assignment Agreement.

Right of Entry. The County reserves the right for any of its duly authorized representatives to enter upon the Leased Property at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof.

Termination. The Corporation agrees, upon the termination of the Site Lease, to quit and surrender the Leased Property in the same good order and condition as the same was in at the time of commencement of the terms under the Site Lease, reasonable wear and tear excepted, and agrees that any permanent improvements to the Leased Property at the time of the termination of the Site Lease shall remain thereon and title thereto shall vest in the County.

Default. In the event the Corporation shall be in default in the performance of any obligation on its part to be performed under the terms of the Site Lease, which default continues for thirty (30) days following notice and demand for correction thereof to the Corporation, the County may exercise any and all remedies granted by law, except that no merger of the Site Lease and of the Facility Lease shall be deemed to occur as a result thereof; *provided,* that so long as the Certificates executed and delivered pursuant to the Trust Agreement are Outstanding, the County shall have no power to terminate the Site Lease by reason of any default on the part of the Corporation, if such termination would affect or impair any assignment of the Facility Lease then in effect between the Corporation and the Trustee that executes and delivers the Certificates.

Eminent Domain. In the event the whole or any portion of the Leased Property is taken by eminent domain proceedings, the interest of the Corporation shall be recognized and is determined to be the amount of the then unpaid Base Rental Payments payable under the Facility Lease, and the amount of the unpaid Additional Payments due under the Facility Lease, and the balance of the award, if any, shall be paid to the County.

Amendments. The Site Lease may be amended for the purposes and in the manner and under the circumstances described in connection with the amendment of the Facility Lease, as further described in the Facility Lease.

Governing Law. The Site Lease is made in the State of California under the Constitution and laws of the State of California and is to be so construed.

ASSIGNMENT AGREEMENT

Assignment. The Corporation, for good and valuable consideration, the receipt of which is acknowledged, does unconditionally grant, transfer and assign to the Trustee without recourse (a) all right, title and interest of the Corporation as lessee under the Site Lease; (b) all rights of the Corporation to receive the portion of Base Rental Payments scheduled to be paid by the County under and pursuant to the Facility Lease for the benefit of the Owners of the Certificates; (c) all rents, profits and products from the Leased Property to which the Corporation has any right or claim whatsoever under the Facility Lease; (d) the right to take all actions and give all consents under the Facility Lease; (e) the right of access more particularly described in the Facility Lease; and (f) any and all other rights and remedies of the Corporation in the Facility Lease as lessor thereunder for the purpose of (i) paying all sums due and owing to the Owners of the Certificates under the terms of the Trust Agreement, and (ii) performing and discharging each agreement, covenant and obligation of the County contained in the Facility Lease and in the Trust Agreement.

Acceptance. The Trustee accepts the foregoing assignment for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rental Payments payable under the Facility Lease shall be applied and all such rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

Payment of Rentals. Upon payment or provision for payment to the Trustee in full of all Base Rental Payments under the Facility Lease and of all other amounts, including any additional rental or other amounts owed by the County under the Facility Lease or the Trust Agreement, the Assignment Agreement shall become and be void and of no effect with respect to the Facility Lease and the Site Lease with respect to which such payments have been made and the Trustee shall execute any and all documents or certificates reasonably requested by the Corporation to evidence the termination of the Assignment Agreement with respect to the Facility Lease and the Site Lease with respect to which such payments have been made.

Governing Law. The Assignment Agreement is made in the State of California under the Constitution and laws of the State of California and is to be so construed.

TRUST AGREEMENT

Terms and Conditions of Certificates

Dating of Certificates. The Series 2012 Certificates shall be dated their date of delivery. Each Series 2012 Certificate shall represent interest from the Interest Payment Date to which interest has been paid or duly provided for next preceding its date of execution, unless such date of execution shall be (i) prior to the close of business on January 15, 2013, in which case such Series 2012 Certificate shall represent interest from its date of delivery, (ii) subsequent to a Record Date but before the related Interest Payment Date, in which case such Series 2012 Certificate shall represent interest from such Interest Payment Date, or (iii) an Interest Payment Date to which interest has been paid in full or duly provided for, in which case such Series 2012 Certificate shall represent interest from such date of execution; *provided*, *however*, that if, as shown by the records of the Trustee, interest shall be in default, each Series 2012 Certificate shall represent interest from the last Interest Payment Date to which such interest has been paid in full or duly provided for.

Method and Place of Payment. Except as otherwise provided in the Representation Letter, the interest represented by the Certificates shall be payable on each Interest Payment Date by check sent by first class mail by the Trustee to the respective Owners of the Certificates as of the Record Date for such Interest Payment Date at their addresses shown on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement. Payments of defaulted interest with respect to any Certificate shall be paid by check to the Owner as of a special record date to be fixed by the Trustee, notice of which special record date shall be given to the Owner of the Certificate not less than ten days prior thereto. The principal and premium, if any, represented by the Certificates shall be payable upon presentation and surrender thereof on maturity or on prepayment prior thereto at the Principal Corporate Trust Office of the Trustee.

The Owner of $1,000,000 or more in aggregate principal amount represented by the Certificates may request in writing that the Trustee pay the interest represented by such Certificates by wire transfer to an account in the United States of America and the Trustee shall comply with such request for all Interest Payment Dates following the 15th day after receipt of such request.

Transfer and Payment of Certificates; Exchange of Certificates. All Certificates may be presented for transfer by the Owner thereof, in person or by his attorney duly authorized in writing, at the Principal Corporate Trust Office of the Trustee, on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement, upon surrender of such Certificates for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form acceptable to the Trustee. The Trustee may treat the Owner of any Certificate as the absolute owner of such Certificate for all purposes, whether or not such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal represented by such Certificate shall be made only to such Owner, which payments shall be valid and effectual to satisfy and discharge the liability represented by such Certificate to the extent of the sum or sums so paid.

Whenever any Certificate or Certificates shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates representing the same principal amount in Authorized Denominations. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Certificates may be presented for exchange at the Principal Corporate Trust Office of the Trustee, for a like aggregate principal amount of Certificates of other Authorized Denominations. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

The Trustee shall not be required to transfer or exchange any Certificate during the period in which the Trustee is selecting Certificates for prepayment, nor shall the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

Certificate Registration Books. The Trustee will keep sufficient books for the registration and transfer of the Certificates, which books shall be available for inspection by the Corporation and the County at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Certificates on such books as provided in the Trust Agreement. The Trustee will, upon written request, make copies of the foregoing available to any Owner of at least five percent in aggregate principal amount of Outstanding Certificates or his agent duly authorized in writing.

Temporary Certificates. The Certificates may be initially delivered in temporary form exchangeable for definitive Certificates when ready for delivery, which temporary Certificates shall be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and shall contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Certificate shall be executed and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Certificates. If the Trustee executes and delivers temporary Certificates, it will execute definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered at the Principal Corporate Trust Office of the Trustee, in exchange for such definitive Certificates, and until so exchanged such temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates executed and delivered under the Trust Agreement.

Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate of like tenor, payment date in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate of like tenor, numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee shall require payment of a sum not exceeding the actual cost of preparing each new Certificate executed and delivered by it under the Trust Agreement and of the expenses which may be incurred by it under the Trust Agreement. Any Certificate executed and delivered under the provisions of the Trust Agreement in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement, and the Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of this paragraph, in lieu of executing and delivering a new Certificate for a Certificate which has been lost, destroyed or stolen and which has matured or will mature within 30 days after the Trustee has received all required indemnity and payments on account of a lost, destroyed or stolen Certificate, the Trustee may make payment of such Certificate to the Owner thereof if so instructed by the County.

Execution and Delivery of Additional Certificates. In addition to the Series 2011 Certificates and the Series 2012 Certificates, the County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners, provide for the execution and delivery of Additional Certificates representing additional Base Rental Payments. The Trustee may execute and deliver to or upon the request of the County such Additional Certificates, in such principal amount as shall reflect the additional principal components and interest components of the Base Rental Payments, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the County or the Corporation, but such Additional Certificates may only be executed and delivered upon compliance by the County with the provisions of the Trust Agreement and subject to the following specific conditions, which are made conditions precedent to the execution and delivery of any such Additional Certificates:

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

(b) Said Supplemental Trust Agreement shall provide that from such proceeds or other sources an amount shall be deposited in the Reserve Fund so that following such deposit there shall be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement;

(c) The Additional Certificates shall be payable as to principal only on a Principal Payment Date of each year in which principal components are due and shall be payable as to interest only on an Interest Payment Date of each year commencing with the first Interest Payment Date occurring after their date of execution and delivery;

(d) The interest with respect to the Additional Certificates shall be payable at a fixed rate;

(e) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding under the Trust Agreement or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement; and

(f) The Site Lease and the Facility Lease shall have been amended, to the extent necessary, so as to increase the Base Rental Payments payable by the County thereunder by an aggregate amount equal to the principal and interest represented by such Additional Certificates, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Certificates; *provided, however,* that no such amendment shall be made such that Base Rental Payments, including any such amendment, in any year shall be in excess of the annual fair rental value of the Leased Property, and evidence of the satisfaction of this condition shall be made by a Certificate of the County as required by the Trust Agreement.

Any Additional Certificates shall be on a parity with the Series 2011 Certificates, the Series 2012 Certificates and each Owner thereof shall have the same rights upon an Event of Default as the Owner of any other Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

The County shall cause to be given to each rating agency rating the Series 2011 Certificates and the Series 2012 Certificates, and the Insurer, if any, notice of any execution and delivery of Additional Certificates.

Proceedings for Authorization of Additional Certificates. Whenever the County and the Corporation shall determine to authorize the execution and delivery of any Additional Certificates pursuant to the Trust Agreement, the County, the Corporation and the Trustee shall enter into a Supplemental Trust Agreement without the consent of the Owners of any Certificates, providing for the execution and delivery of such Additional Certificates, specifying the maximum principal amount of such Additional Certificates and prescribing the terms and conditions of such Additional Certificates.

Such Supplemental Trust Agreement shall prescribe the form or forms of such Additional Certificates and, subject to the provisions of the Trust Agreement, shall provide for the distinctive designation, denominations, method of numbering, dates, Principal Payment Dates, interest rates, Interest Payment Dates, provisions for prepayment (if desired) and places of payment of principal and interest.

Before such Additional Certificates shall be executed and delivered, the County and the Corporation shall file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Counsel (which may rely upon the Certificate of the County required by the Trust Agreement and such other opinions and certificates as may be appropriate) substantially to the effect (1) that such Counsel has examined the Supplemental Trust Agreement and the amendment, if any, to the Site Lease and the Facility Lease required by the Trust Agreement; (2) that the execution and delivery of the Additional Certificates have been sufficiently and duly authorized by the County and the Corporation; (3) that said amendments to the Site Lease and the Facility Lease, and the Supplemental Trust Agreement, when duly executed by the County and the Corporation, will be valid and binding obligations of the County and the Corporation; (4) that said amendments to the Site Lease and the Facility Lease, have been duly authorized, executed and delivered and have been duly recorded; and (5) that the amendments to the Site Lease and the Facility Lease, do not adversely affect the tax-exempt status of interest evidenced by Outstanding Certificates;

(b) A Certificate of the County that the requirements of the Trust Agreement have been met, including a Certificate of the County as to the annual fair rental value of the Leased Property; which Certificate may assume the timely construction and completion of any project to be financed with the proceeds of Additional Certificates so long as the proceeds of Additional Certificates or other funds of the County have been deposited with the Trustee (i) in a construction fund, in an amount reasonably expected to be sufficient to provide for the construction costs of such project, and (ii) in the Interest Fund (including a capitalized interest account therein), in an amount sufficient to pay interest on the Additional Certificates for the period of time from their date of issuance until 6 months following the expected delivery date of a certificate of completion with respect to such project;

(c) Certified copies of the resolutions of the County and the Corporation, authorizing the execution of the amendments to the Site Lease and the Facility Lease, required by the Trust Agreement;

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

(e) Certified copies of the policies of insurance required by the Facility Lease, or certificates thereof, which shall evidence that the amounts of the insurance required under the Facility Lease, have been increased, if necessary, to cover the amount of such Additional Certificates; and

(f) A CLTA title insurance policy or other appropriate form of policy in the amount of the Additional Certificates of the type and with the endorsements described in the Facility Lease.

Upon the delivery to the Trustee of the foregoing instruments so as to permit the execution and delivery of the Additional Certificates in accordance with the Supplemental Trust Agreement then delivered to the Trustee, the Trustee shall execute and deliver said Additional Certificates, in the aggregate principal amount specified in such Supplemental Trust Agreement, to, or upon the request of, the County.

Funds

Reserve Fund.

(a) There is established in trust a special fund designated as the "Reserve Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. Moneys in the Reserve Fund shall be in the amount of the Reserve Fund Requirement and shall be used and withdrawn by the Trustee solely for the purposes set forth in the Trust Agreement.

(i) If, on any Interest Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Reserve Fund investment), the amount on deposit in the Interest Fund is insufficient to pay the interest due with respect to the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates on such Interest Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Interest Fund an amount sufficient to make up such deficiency.

(ii) If, on any Principal Payment Date or any Mandatory Sinking Account Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Reserve Fund investment), the amount on deposit in the Principal Fund is insufficient to pay the principal due with respect to the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates on such Principal Payment Date or Mandatory Sinking Account Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Principal Fund an amount sufficient to make up such deficiency.

(iii) Monies on deposit in the Reserve Fund shall be withdrawn and transferred by the Trustee to be applied for the final payment on the Series 2011 Certificates and Series 2012 Certificates and any Additional Certificates.

In the event of any withdrawal or transfer from the Reserve Fund, the Trustee shall, within five days thereafter, provide written notice to the County of the amount and the date of such transfer. If at any time the balance in the Reserve Fund shall be reduced below the Reserve Fund Requirement, the first of Base Rental Payments thereafter payable by the County under the Facility Lease and not needed to pay the interest and principal components of Base Rental Payments payable by the County under the Facility Lease to the Owners on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be used to increase the balance in the Reserve Fund to the Reserve Fund Requirement. If after the payment of principal and interest on any Interest Payment Date the balance in the Reserve Fund shall be in excess of the Reserve Fund Requirement the Trustee shall, upon Written Request of the County, transfer such excess first to the County for deposit in the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the County for deposit in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County relating to the Certificates and thereafter to the Principal Fund. At the termination of the Facility Lease in accordance with its terms, any balance remaining in the Reserve Fund shall be released and may be transferred to such other fund or account of the County, or otherwise used by the County for any other lawful purposes, as the County may direct in writing. For purposes of determining the amount on deposit in the Reserve Fund, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment.

(b) At the option of the County, one or more Reserve Fund Credit Facilities may be substituted for the funds held by the Trustee in the Reserve Fund such that the amount available to be drawn under such Reserve Fund Credit Facilities together with funds remaining in the Reserve Fund satisfies the Reserve Fund Requirement.

If the County exercises its option to substitute a Reserve Fund Credit Facility for all or a portion of the moneys held by the Trustee in the Reserve Fund, then such moneys, on or after the date that the Reserve Fund Credit Facility becomes effective, at the option of the County, shall be transferred (A) to the Base Rental Payment Fund and on each applicable Principal Payment Date a *pro rata* portion thereof shall be transferred to the Principal Fund and used to pay a portion of the principal with respect to the Certificates due on such Principal Payment Date, or (B) to a construction fund to be held by the County and used for capital projects of the County in accordance with the Tax Certificate. Neither the County nor the Trustee may invest such amounts transferred so as to produce a yield greater than the yield permitted under the Tax Certificate. In the event any Reserve Fund Credit Facility is scheduled to terminate prior to the final maturity date of the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates and such Reserve Fund Credit Facility is not extended, renewed or replaced with another Reserve Fund Credit Facility or with cash or Permitted Investments in the amount of such Reserve Fund Credit Facility, the Trustee shall draw on or make a claim under such Reserve Fund Credit Facility ten days prior to the date of such expiration in an amount equal to the lesser of (i) the maximum amount available thereunder or (ii) the Reserve Fund Requirement, in either case for deposit into the Reserve Fund.

In the event a Reserve Fund Credit Facility is substituted for all or a portion of the moneys held by the Trustee in the Reserve Fund pursuant to the terms of the Trust Agreement, then, notwithstanding any other provision of the Trust Agreement, (1) the Trustee shall draw upon the Reserve Fund Credit Facility for amounts which the terms of the Trust Agreement require to be transferred from the Reserve Fund; provided that the Trustee shall first draw upon any cash or Permitted Investments on deposit in the Reserve Fund before drawing upon any Reserve Fund Credit Facility, and thereafter shall draw upon all such Reserve Fund Credit Facilities on a *pro rata* basis, and (2) amounts required by the terms of the Trust Agreement to be deposited or transferred to the Reserve Fund (a) in the event the Reserve Fund Credit Facility has been drawn upon, shall be first paid to the provider of such Reserve Fund Credit Facility if the County has an outstanding reimbursement obligation to such provider resulting from such draw, which payment shall result in an increase in the amount then available under the Reserve Fund Credit Facility equal to such payment and (b) to the extent all such draws on Reserve Fund Credit Facilities have been paid, then, second, shall be transferred or deposited to the Reserve Fund in amount such that after giving effect to the deposit the amount on deposit in the Reserve Fund is equal to the Reserve Fund Requirement.

The County shall be permitted to make use of a Reserve Fund Credit Facility pursuant to the Trust Agreement at any time.

The term "substitution" as used above shall include such initial funding of the Reserve Fund Requirement by means of a Reserve Fund Credit Facility instead of by deposit of moneys, and shall not be read to mean that the County must first make an initial cash deposit in the Reserve Fund before invoking the provisions of the Trust Agreement relating to Reserve Fund Credit Facilities and satisfying the Reserve Fund Requirement by securing and implementing a Reserve Fund Credit Facility.

Cost of Issuance Fund. There is established in trust a special fund designated as the "Cost of Issuance Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. The moneys in the Costs of Issuance Fund shall be applied to the payment of Costs of Issuance of the Certificates, upon a Written Request of the County. All payments from the Costs of Issuance Fund shall be reflected in the Trustee's regular accounting statements. On or before six months after the execution and delivery of the Series 2011 Certificates, the Series 2012 Certificates or Additional Certificates, the Trustee shall transfer any amounts then remaining in the Cost of Issuance Fund first to the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then to the Reserve Fund to the extent the amount on deposit therein is less than the Reserve Fund Requirement, then to the Administrative Expense Fund to the extent that the amount on deposit therein is less than $20,000, and thereafter to the Base Rental Payment Fund.

Administrative Expense Fund.

(a) There is established in trust a special fund designated as the "Administrative Expense Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee.

(b) Amounts in the Administrative Expense Fund shall be paid out from time to time by the Trustee at the direction of the county for Administrative Fees and Expenses.

(c) Amounts in the Administrative Expense Fund in excess of $20,000 shall be transferred by the Trustee to the Base Rental Payment Fund.

Earnings Fund. There is established in trust a special fund designated as the "Earnings Fund," which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. The Trustee shall administer the Earnings Fund as provided in the Trust Agreement.

The Trustee shall establish and maintain in the Earnings Fund a separate account designated as the "Investment Earnings Account," and a separate account designated as the "Excess Earnings Account." All moneys in the Investment Earnings Account and the Excess Earnings Account shall be held by the Trustee in trust and shall be kept separate and apart from all other funds and money held by the Trustee. All investment earnings on the funds and accounts (other than the Excess Earnings Account) established under the Trust Agreement shall be deposited into the Investment Earnings Account. Amounts on deposit in the Investment Earnings Account shall be transferred to the Excess Earnings Account upon receipt by the Trustee of written instructions from the County given in accordance with the provisions of the Tax Certificate.

Transfers of amounts in the Investment Earnings Account or any amount on deposit in the Excess Earnings Account which the County determines and informs the Trustee in writing exceeds the amount required to be maintained therein pursuant to the provision of the Tax Certificate, shall be transferred on June 1 of each year or any other date or dates the County may direct, first, to the Reserve Fund so that following such deposit there shall be on deposit in the Reserve Fund an amount at least equal to the Reserve Fund Requirement, and then, for deposit in the Base Rental Payment Fund. Except as set forth in the proceeding sentence, amounts on deposit in the Excess Earnings Account shall only be applied to payments made to the United States in accordance with written instructions of the County.

Rental Payments

Pledge of Base Rental Payments and Additional Payments; Base Rental Payment Fund.

(a) There is established a special fund designated as the "Base Rental Payment Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds and moneys held by the Trustee. The County irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of its right, title and interest in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement (other than the Excess Earnings Account) subject to provisions of the Trust Agreement permitting the disbursement thereof for the purposes and on the conditions and terms set forth in the Trust Agreement, and in and to the Base Rental Payments, which shall be used for the punctual payment of the interest and principal represented by the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates and the Base Rental Payments shall not be used for any other purpose while any of the Series 2011 Certificates, the Series 2012 Certificates or Additional Certificates remain Outstanding. It is the intent of the parties to the Trust Agreement that the Corporation shall not have any right, title, in or to the Base Rental Payments. In the event, however, that it should be determined that the Corporation has any right, title or interest in or to the Base Rental Payments, then the Corporation irrevocably pledge and transfer to the Trustee, for the benefit of the Owners, all of such right, title and interest, which shall be used for the punctual payment of the interest and principal represented by the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates. These pledges shall constitute a first and exclusive lien on the funds established under the Trust Agreement and the Base Rental Payments in accordance with the terms of the Trust Agreement subject in all events to the power of the County to cause the execution and delivery of Additional Certificates pursuant to the Trust Agreement which shall be on a parity with the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates Outstanding.

(b) All Base Rental Payments shall be paid directly by the County to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation, as the case may be, with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments, the proceeds of rental interruption insurance and liquidated damages, if any, shall be deposited by the Trustee in the Base Rental Payment Fund and all amounts on deposit therein shall be held in trust by the Trustee, which fund the Trustee agrees to establish and maintain for the benefit of the Owners until all required Base Rental Payments are paid in full pursuant to the Facility Lease or until such date as the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates are no longer Outstanding; *provided, however,* and notwithstanding the foregoing, if the Trustee receives a Base Rental Payment amount in excess of the amount necessary to pay the amount due and owing on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date, as the case may be, after giving effect to the funds then on deposit in the Base Rental Payment Fund not needed for any other purpose under the Trust Agreement, and if the amount then in the Reserve Fund is at least equal to the Reserve Fund Requirement and there exists no Event of Default under the Trust Agreement, then amounts in the Base Rental Payment Fund not needed to make such payments may be utilized by the Trustee, as directed in writing by the County, to make any regular periodic payment due to provider of a Reserve Fund Credit Facility or a Reserve Fund investment which provides for such payments, if any, or for any other purpose.

Deposit of Base Rental Payments. Except as otherwise provided in the Trust Agreement, the Trustee shall deposit the amounts in the Base Rental Payment Fund at the time and in the priority and manner provided in the Trust Agreement in the following respective funds, each of which the Trustee agrees to establish and maintain until all required Base Rental Payments are paid in full pursuant to the Facility Lease or until such date as the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates are no longer Outstanding, and the moneys in each of such funds shall be disbursed only for the purposes and uses authorized in the Trust Agreement.

(a) *Interest Fund*. The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. Moneys in the Interest Fund shall be used by the Trustee for the purpose of paying the interest represented by the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates when due and payable.

(b) *Principal Fund*. The Trustee, on each Principal Payment Date and Mandatory Sinking Account Payment Date, shall deposit in the Principal Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. Monies in the Principal Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal represented by the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates when due and payable at maturity or upon earlier prepayment from Mandatory Sinking Account Payments.

(c) *Prepayment Fund*. The Trustee, on the prepayment date specified in the Written Request of the County filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Facility Lease, shall deposit in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Monies in the Prepayment Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal, premium, if any, and interest represented by the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates to be prepaid.

<u>Application of Insurance Proceeds and Condemnation Awards</u>. The Trustee shall not be responsible for the sufficiency of any insurance required by the Facility Lease and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County or the Corporation. Delivery to the Trustee of the schedule of insurance policies under the Facility Lease shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies.

Except as provided in the Trust Agreement, in the event of any damage to or destruction of any part of the Leased Property, caused by the perils covered by the policies of insurance required to be maintained by the County pursuant to the Facility Lease, the County and the Corporation shall cause the proceeds of such insurance (other than rental interruption insurance which is to be placed in the Base Rental Payment Fund) to be used in accordance with the Facility Lease. The Trustee shall hold said proceeds in a separate fund to be established and maintained by the Trustee and designated the "Insurance Proceeds and Condemnation Awards Fund." The Trustee shall only make disbursements from the Insurance Proceeds and Condemnation Awards Fund upon receipt of a Written Request of the County on behalf of the Corporation which (i) states with respect to each disbursement to be made: (A) the requisition number, (B) the name and address of the person, firm or authority to whom payment is due, (C) the amount to be disbursed, and (D) that each obligation therein has been properly incurred for the purpose of repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds and is a proper charge against the Insurance Proceeds and Condemnation Awards Fund and has not been the basis of any previous disbursement; (ii) specifies in reasonable detail the nature of the obligation; and (iii) is accompanied by a bill or statement of account for each obligation. Any balance of said proceeds not required for such repair, reconstruction or replacement as evidenced by a Certificate of the County to the effect that such repair, reconstruction or replacement has been completed and all amounts owing therefor have been paid or provision for the payment therefor has been made shall be transferred by the Trustee to Prepayment Fund and applied in the manner provided by the Trust Agreement. Alternatively, the County, at its option, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay all Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon shall cause said proceeds to be transferred to the Prepayment Fund and used for the prepayment of Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates pursuant to the Trust Agreement; provided, that if the County elects to so prepay the Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates, then the County shall make said election within 45 days after the damage to or destruction of the Leased Property. Notwithstanding any other provision in the Trust Agreement, the County shall only prepay less than all of the Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates if the annual fair rental value of the Leased Property after such damage, destruction or condemnation is at least equal to the aggregate annual amount of principal and interest represented by the Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates not being prepaid.

The proceeds of any award in eminent domain shall be transferred by the County to the Trustee for deposit in the Prepayment Fund and applied to the prepayment of Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates pursuant to the Trust Agreement.

Title Insurance. Proceeds of any policy of title insurance received by the County, the Corporation or the Trustee in respect of the Leased Property shall be applied and disbursed by the County, the Corporation or the Trustee as follows:

(a) If the County determines that the title defect giving rise to such proceeds has not materially affected the operation of the Leased Property and will not result in an abatement of Base Rental Payments payable by the County under the Facility Lease, such proceeds shall be deposited first in the Excess Earnings Account to the extent the amount on deposit therein is less than the Rebate Requirement, then in the Reserve Fund to the extent that the amount therein is less than the Reserve Fund Requirement, then in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County with respect to the Certificates, and thereafter amounts not required to be so deposited shall be remitted to the County and used for any lawful purpose thereof; or

(b) If any portion of the Leased Property has been affected by such title defect, and if the County determines that such title defect will result in an abatement of Base Rental Payments payable by the County under the Facility Lease, then the County, the Corporation or the Trustee shall immediately deposit such proceeds in the Prepayment Fund and such proceeds shall be applied to the prepayment of Series 2011 Certificates, Series 2012 Certificates and Additional Certificates in the manner provided in the Trust Agreement.

Covenants

Compliance with Trust Agreement. The Trustee will not execute or deliver any Series 2011 Certificates and Series 2012 Certificates or Additional Certificates in any manner other than in accordance with the provisions of the Trust Agreement, and neither of the County nor the Corporation will suffer or permit any default by them to occur under the Trust Agreement, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Trust Agreement required to be complied with, kept, observed and performed by them.

Compliance with Site Lease and Facility Lease. The County and the Corporation will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Site Lease and the Facility Lease required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Site Lease and the Facility Lease against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Trustee, the County and the Corporation will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. The County will keep the Leased Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Leased Property, and the Trustee at its option (after first giving the County ten days' written notice to comply therewith and failure of the County to take any necessary steps to defend against or to so comply within such ten-day period) may defend against any and all actions or proceedings in which the validity of the Trust Agreement is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; *provided, however,* that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its liability under the Trust Agreement to defend the validity of the Trust Agreement and to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Series 2011 Certificates and Series 2012 Certificates or Additional Certificates are Outstanding, neither the County nor the Corporation will create or suffer to be created any pledge of or lien on the Base Rental Payments other than as provided or permitted under the Trust Agreement.

Prosecution and Defense of Suits. The County will promptly take such action from time to time as may be necessary or proper, in its reasonable discretion, to remedy or cure any known cloud upon or defect in the title to the Leased Property or any portion thereof, whether now existing or hereafter developing, and will prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions made by it relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records shall be available for inspection by the County or the Corporation at reasonable hours, under reasonable conditions and with reasonable notice. The Trustee shall deliver a monthly accounting to the County; provided that the

Trustee shall not be obligated to report as to any fund or account that (a) has a balance of zero and (b) has not had any activity since the last reporting date.

Recordation and Filing. The Corporation will file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), as may be required by law in order to maintain the Site Lease, the Facility Lease, the Assignment Agreement and the Trust Agreement at all times as a security interest in the Base Rental Payments, all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to perfect, preserve and protect fully the security of the Owners and the rights and security interests of the Trustee, and the Corporation will do whatever else may be necessary or be reasonably required in order to perfect and continue the liens of the Site Lease, the Facility Lease, the Assignment Agreement and the Trust Agreement.

Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the County and the Corporation will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Trust Agreement or by the Assignment Agreement, the Facility Lease or the Site Lease.

Excess Earnings Account of the Earnings Fund; Tax Covenants. (a) The County shall establish and maintain with the Trustee an account separate from any other fund or account established and maintained under the Trust Agreement designated as the "Excess Earnings Account." There shall be deposited in the Excess Earnings Account such amounts set forth in a written direction from the County to the Trustee as the County determines are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Excess Earnings Account shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. The Trustee shall disburse such funds upon receipt of written direction from the County. Notwithstanding defeasance of the Series 2011 Certificates, the Series 2012 Certificates and the Additional Certificates pursuant to the Trust Agreement or anything to the contrary contained in the Trust Agreement, all amounts required to be deposited into or on deposit in the Excess Earnings Account shall be governed exclusively by the provisions of the Trust Agreement described under the caption "—Excess Earnings Account of the Earnings Fund; Tax Covenants" and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall have no duty or obligation to monitor the compliance by the County with the requirements of the Tax Certificate and shall be determined to have complied with its obligations with respect to the Excess Earnings Account if it follows the written directions of the County.

(b) Any funds remaining in the Excess Earnings Account after payment in full of all of the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates and after payment of any amounts described in the provisions of the Trust Agreement described under the caption "—Excess Earnings Account of the Earnings Fund; Tax Covenants", shall be transferred to the County to be used for any lawful purpose.

Continuing Disclosure. The County covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Trust Agreement, failure of the County to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of the participating underwriters or the Owners of at least 25% aggregate principal amount of Outstanding Certificates, shall) or any Owner or Beneficial Owner of Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under this paragraph; *provided*, that the Trustee shall only be required to take an action under this paragraph to the extent funds have been provided to it or it has been otherwise indemnified to its reasonable satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys.

Default and Limitations of Liability

Events of Default. The following events shall be Events of Default:

(a) default in the due and punctual payment of the principal of or premium, if any, on any Certificate or Additional Certificate when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for prepayment, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Certificate or Additional Certificate when and as such interest installment shall become due and payable;

(c) default by the County in the observance of any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the County and the Corporation by the Trustee, or to the County, the Corporation and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates at the time Outstanding; *provided, however,* that if such default can be remedied but not within such 30-day period and if the County has taken all action reasonably possible to remedy such default within such 30-day period, such default shall not become an Event of Default for so long as the County shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or

(d) an event of default shall have occurred and be continuing under the Facility Lease.

Action on Default. Subject to the Trust Agreement, in each and every case during the continuance of an Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount represented by the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates at the time Outstanding (subject to the provisions of the Trust Agreement) shall be entitled, upon notice in writing to the County and the Corporation to exercise any of the remedies granted to the County under the Site Lease, to the Corporation under the Facility Lease, and in addition, to take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the applicable remedies set forth in the Trust Agreement.

Other Remedies of the Trustee. The Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the County, the Corporation or any director, officer or employee thereof, and to compel the County or the Corporation or any such director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any default under the Trust Agreement to require the County and the Corporation to account as the trustee of an express trust.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Trust Agreement may be enforced and exercised from time to time and as often the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner or Owners, then subject to any adverse determination, the Trustee or such Owner or Owners and the County and the Corporation shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred upon or reserved to the Trustee in the Trust Agreement is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Corporation or the County to the Owners. Except as expressly provided in the Trust Agreement, the Corporation shall have no obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County of the other agreements and covenants required to be performed by it contained in the Facility Lease or in the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the County to the Owners. Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Facility Lease or in the Trust Agreement, the County shall not have any obligation or liability to the Owners with respect to the Trust Agreement or the preparation, execution, delivery or transfer of the Series 2011 Certificates, the Series 2012 Certificates or the disbursement of the Base Rental Payments by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

No Liability by the Trustee to the Owners. Except as expressly provided in the Trust Agreement, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County or the

Corporation of the other agreements and covenants required to be performed by them, respectively contained in the Site Lease or the Facility Lease or in the Trust Agreement.

Application of Amounts After Default. Notwithstanding anything to the contrary contained in the Trust Agreement, after a default by the County, all funds and accounts held by the Trustee and all payments received by the Trustee with respect to the rental of the Leased Property after a default by the County pursuant to the Facility Lease, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Facility Lease, shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

(a) to the payment of all amounts due the Trustee under the Trust Agreement; and

(b) to the payment of all amounts then due as interest with respect to the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates, and thereafter to the payment of all amounts due as principal with respect to the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates, in respect of which or for the benefit of which, money has been collected (other than Series 2011 Certificates and Series 2012 Certificates and any Additional Certificates which have matured or otherwise become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable with respect to such Series 2011 Certificates, Series 2012 Certificates and Additional Certificates.

Trustee May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Series 2011 Certificates, the Series 2012 Certificates and any Additional Certificates may be prosecuted and enforced by the Trustee without the possession of any of the Series 2011 Certificates, the Series 2012 Certificates or Additional Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Series 2011 Certificates, the Series 2012 Certificates or Additional Certificates in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Certificate or Additional Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless such Owner has previously given written notice to the Trustee of a continuing Event of Default; the Owners of not less than 25% in principal amount of the Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Agreement; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in principal amount of the Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates; it being understood and intended that no one or more Owners of Series 2011 Certificates, Series 2012 Certificates and Additional Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Series 2011 Certificates and Series 2012 Certificates or Additional Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal and ratable benefit of all the Owners of Series 2011 Certificates, Series 2012 Certificates and Additional Certificates. Nothing in the Trust Agreement contained shall, however, affect or impair the right of any Owner to enforce the payment of the principal component of or the prepayment price of and the interest component of the Base Rental Payments represented by any Certificate or Additional Certificate at and after the maturity or earlier prepayment.

The Trustee

Employment of the Trustee. The County and the Corporation appoint and employ the Trustee to receive, deposit and disburse the Rental Payments, to prepare, execute, deliver and transfer the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates and to perform the other functions contained in the Trust Agreement; all in the manner provided in the Trust Agreement and subject to the conditions and terms of the Trust Agreement. By executing and delivering the Trust Agreement, the Trustee accepts the appointment and employment referred to in the Trust Agreement and accepts the rights and obligations of the Trustee provided in the Trust Agreement, subject to the conditions and terms of the Trust Agreement. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

Duties, Removal and Resignation of the Trustee. The County and the Corporation may, by an instrument in writing and upon 30 days written notice remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount represented by the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates at the time Outstanding (or their attorneys duly authorized in writing), but any such successor Trustee shall be a bank with trust powers or trust company doing business and having a principal corporate trust office in California or New York, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars ($75,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Trust Agreement the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the County and the Corporation and by mailing notice, first class, postage prepaid, of such resignation to the Owners at their addresses appearing on the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement. Upon receiving such notice of resignation, the County and the Corporation shall promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the County and the Corporation do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the County, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

Compensation and Indemnification of the Trustee. The County shall from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Trust Agreement and reimburse the Trustee for all its advances and expenditures under the Trust Agreement, including but not limited to payments due any provider of a Reserve Fund Credit Facility or Reserve Fund investment which provides for such payments, advances to and fees and expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations under the Trust Agreement; *provided, however,* that the Trustee shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds or accounts established under the Trust Agreement or under the Facility Lease (except that such compensation or reimbursement may be made from the Cost of Issuance Fund to the extent provided in the Trust Agreement or as provided in the Trust Agreement). The Trustee may take whatever legal actions are lawfully available to it directly against the County or the Corporation. The rights of the Trustee under the Trust Agreement are in addition to the rights granted to the Trustee pursuant to the Facility Lease.

Except as otherwise expressly provided in the Trust Agreement, no provision of the Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Trust Agreement or in the exercise of any of its rights or powers under the Trust Agreement.

The County covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise and performance of its powers and duties under the Trust Agreement, including the costs of expenses of defending against any claim of liability including, without limitation, any claim arising out of the use, presence, storage, disposal or release of any Hazardous Substances on or about the Leased Property, but excluding any and all losses, expenses and liabilities which are due to the negligence or intentional misconduct of the Trustee, its officers, directors, agents or employees. Such indemnity shall survive the discharge of the Trust Agreement or the resignation or removal of the Trustee.

<u>Protection of the Trustee</u>. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, opinion, notice, request, requisition, resolution, direction, instruction, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Trust Agreement, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Certificate or Additional Certificate or to take any action at the request of any such person unless such Certificate or Additional Certificate shall be deposited with the Trustee or satisfactory evidence of the ownership of such Certificate or Additional Certificate shall be furnished to the Trustee. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Trust Agreement at the request or direction of any of the Owners of the Series 2011 Certificates, the Series 2012 Certificates or Additional Certificates pursuant to the Trust Agreement, unless such Owners shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee, against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the County or the Corporation, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Trust Agreement in good faith in accordance therewith. If requested by the County, counsel to the Trustee shall be of recognized national standing in the field of law relating to municipal bonds.

The Trustee shall not be responsible for the sufficiency or adequacy of the Series 2011 Certificates, the Series 2012 Certificates or any Additional Certificates, the Site Lease, the Facility Lease, or of the assignment made to it by the Assignment Agreement, or for statements made in the preliminary or final official statement relating to the Series 2011 Certificates, the Series 2012 Certificates or any Additional Certificates, or of the title to or value of the Leased Property.

The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Trust Agreement or an Event of Default under the Trust Agreement, except failure of any of the payments to be made to the Trustee required to be made under the Trust Agreement unless the Trustee shall be specifically notified in writing of such default or Event of Default by the County, the Corporation or by the Owners of not less than 25% in aggregate principal amount represented by the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates then Outstanding.

Whenever in the administration of its rights and obligations under the Trust Agreement the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Agreement) may be deemed to be conclusively proved and established by a Certificate of the County, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Trust Agreement upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Trust Agreement. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the County or the Corporation, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Corporation or the County as freely as if it were not the Trustee under the Trust Agreement.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Trust Agreement and perform any rights and obligations required of it under the Trust Agreement by or through agents, attorneys or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its rights and obligations under the Trust Agreement, and the Trustee shall not be answerable for the default or misconduct of any such agent, attorney or receiver selected by it with reasonable care. The Trustee shall not be liable for any error of judgment made by it in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be answerable for the exercise of any trusts or powers under the Trust Agreement or for anything whatsoever in connection with the funds established under the Trust Agreement, except only for its own willful misconduct or negligence.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of not less than a majority (or other percentage provided for in the Trust Agreement) in aggregate principal amount of the Certificates at the time Outstanding relating to the exercise of any right or remedy available to the Trustee under the Trust Agreement.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the County of the Leased Property. In no event shall the Trustee be liable for incidental, indirect, special or consequential damages in connection with or arising from the Facility Lease, the Site Lease or the Trust Agreement for the existence, furnishing or use of the Leased Property.

Every provision of the Trust Agreement, the Facility Lease, the Site Lease and the Assignment Agreement relating to the conduct or liability of the Trustee shall be subject to the provisions of the Trust Agreement.

In acting as Trustee under the Trust Agreement, the Trustee acts solely in its capacity as Trustee for the Owners and not in its individual or personal capacity, and all persons, including without limitation, the Owners, the County and the Corporation, having any claim against the Trustee shall look only to the funds and accounts held by the Trustee under the Trust Agreement for payment, except as otherwise specifically provided in the Trust Agreement. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

The recitals of facts, covenants and agreements in the Trust Agreement and in the Certificates shall be taken as statements, covenants and agreements of the County or the Corporation, as the case may be, and the Trustee assumes no responsibility for the correctness of the same.

Amendment of or Supplement to Trust Agreement

<u>Amendment or Supplement</u>. The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee under the Trust Agreement may be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates then Outstanding, exclusive of Series 2011 Certificates and Series 2012 Certificates and Additional Series 2011 Certificates and Series 2012 Certificates disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment or supplement shall (1) extend the Principal Payment Date of any Certificate or Additional Certificate or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby or reduce the amount of any Mandatory Sinking Account Payment without the prior written consent of the Owner of each Certificate and Additional Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement to the Trust Agreement without the prior written consent of the Owners of all Series 2011 Certificates and Series 2012 Certificates or Additional Certificates then Outstanding, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) modify any provision of the Trust Agreement expressly recognizing or granting rights in or to any Insurer in any manner which affects the rights of any Insurer under the Trust Agreement without its prior written assent thereto, or (5) amend the provisions of the Trust Agreement described by the provisions of the Trust Agreement described under the caption "—Amendment or Supplement" without the prior written consent of the Owners of all Series 2011 Certificates and Series 2012 Certificates or Additional Certificates then Outstanding.

The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee under the Trust Agreement may also be amended or supplemented at any time by an amendment of the Trust Agreement or supplement to the Trust Agreement which shall become binding upon execution, but without the written consents of any Owners, but only to the extent permitted by law and after receipt of an unqualified approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required to be observed or performed in the Trust Agreement by the County or the Corporation, or to surrender any right or power reserved in the Trust Agreement to or conferred in the Trust Agreement on the County or the Corporation, and which in either case shall not materially adversely affect the interests of the Owners; or

(b) to provide for additional or substitute Leased Property as may be requested from time to time by the County in accordance with the Facility Lease; or

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising under the Trust Agreement which the County or the Corporation may deem desirable or necessary and not inconsistent with the Trust Agreement, and which shall not materially adversely affect the interests of the Owners; or

(d) to provide for the execution and delivery of Additional Certificates in accordance with the Trust Agreement; or

(e) for any other reason, provided such amendment or supplement does not materially adversely affect the interests of the Owners, provided further that the County, the Corporation and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this subsection (e) have been met with respect to such amendment or supplement.

Disqualified Certificates. Series 2011 Certificates, Series 2012 Certificates and Additional Certificates actually known by the Trustee to be owned or held by or for the account of the County (but excluding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates held in any pension or retirement fund of the County) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates provided in the Trust Agreement, and shall not be entitled to consent to or take any other action provided in this section, and the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Trust Agreement shall be deemed effective, to reveal if the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates as to which such consent is given are disqualified as provided in this paragraph.

Endorsement or Replacement of Certificates After Amendment or Supplement. After the effective date of any action taken as provided in the Trust Agreement, the Trustee may determine that the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Certificate or Additional Certificate and presentation of such Certificate or Additional Certificate for such purpose at the Principal Corporate Trust Office of the Trustee a suitable notation as to such action shall be made on such Certificate or Additional Certificate. If the Trustee shall receive an Opinion of Counsel advising that new Series 2011 Certificates and Series 2012 Certificates or Additional Certificates modified to conform to such action are necessary, modified Series 2011 Certificates and Series 2012 Certificates or Additional Certificates shall be prepared, and in that case upon demand of the Owner of any Outstanding Series 2011 Certificates and Series 2012 Certificates or Additional Certificates such new Series 2011 Certificates and Series 2012 Certificates or Additional Certificates shall be exchanged at the Principal Corporate Trust Office of the Trustee, without cost to each Owner for Series 2011 Certificates and Series 2012 Certificates or Additional Certificates then Outstanding upon surrender of such Outstanding Series 2011 Certificates and Series 2012 Certificates or Additional Certificates.

Amendment by Mutual Consent. The amendment provisions of the Trust Agreement shall not prevent any Owner from accepting any amendment as to the particular Series 2011 Certificates and Series 2012 Certificates or Additional Certificates owned by him, provided that due notation thereof is made on such Series 2011 Certificates and Series 2012 Certificates or Additional Certificates.

Opinion of Counsel. In executing any amendment or supplement to the Trust Agreement, the Trustee may conclusively rely upon an Opinion of Counsel to the effect that all conditions precedent for the execution of an amendment or supplement to the Trust Agreement have been satisfied.

Defeasance

Discharge of Certificates and Trust Agreement. (a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates the interest and principal represented thereby at the times and in the manner stipulated therein, then such Owners shall cease to be entitled to the pledge of and lien on the Base Rental Payments as provided in the Trust Agreement, and all agreements and covenants of the County, the Corporation and the Trustee to such Owners under the Trust Agreement shall thereupon cease, terminate and become void and shall be discharged and satisfied.

(b) Any Outstanding Series 2011 Certificates and Series 2012 Certificates or Additional Certificates shall, prior to the maturity or prepayment date thereof, be deemed to have been paid within the meaning and with the effect expressed in the Trust Agreement if (i) in case said Series 2011 Certificates and Series 2012 Certificates or Additional Certificates are to be prepaid on any date prior to their maturity, the County shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the provisions of the Trust Agreement, notice of prepayment of such Series 2011 Certificates and Series 2012 Certificates or Additional Certificates on said prepayment date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities which are not callable or subject to prepayment prior to their respective maturity dates, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient (as verified by a report of an independent certified public accountant or other independent financial consultant), to pay when due the principal or prepayment price (if applicable) of, and interest due and to become due on, said Series 2011 Certificates and Series 2012 Certificates or Additional Certificates on and prior to the prepayment date or maturity date thereof, as the case may be, and (iii) in the event any of said Series 2011 Certificates and Series 2012 Certificates or Additional Certificates are not to be prepaid within the next succeeding 60 days, the County shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of prepayment is mailed pursuant to the Trust Agreement, a notice to the Owners of such Series 2011 Certificates and Series 2012 Certificates or Additional Certificates and to the securities depositories and information services specified in the Trust Agreement that the deposit required by (ii) above has been made with the Trustee and that said Series 2011 Certificates and Series 2012 Certificates or Additional Certificates are deemed to have been paid in accordance with the Trust Agreement and stating such maturity or prepayment dates upon which moneys are to be available for the payment of the principal or prepayment price (if applicable) of said Series 2011 Certificates and Series 2012 Certificates or Additional Certificates. Neither the securities nor moneys deposited with the Trustee pursuant to this paragraph nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or prepayment price (if applicable) of, and interest on said Series 2011 Certificates and Series 2012 Certificates or Additional Certificates; provided that Defeasance Securities deposited with the Trustee pursuant to this paragraph may be sold upon the written request of the County and the proceeds concurrently reinvested in other Defeasance Securities which satisfy the conditions of

(ii) above provided that the Trustee receives an Opinion of Counsel to the effect that such sale and reinvestment does not adversely affect the exclusion of interest on the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates from federal income taxes, and provided further that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the County, be reinvested in Defeasance Securities maturing at times and in amounts, together with the other moneys and payments with respect to securities then held by the Trustee pursuant to this paragraph, sufficient to pay when due the principal or prepayment price (if applicable) of, and interest to become due with respect to said Series 2011 Certificates and Series 2012 Certificates or Additional Certificates on and prior to such prepayment date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall, upon receipt by the Trustee of a Written Request of the County, be paid over to the County, as received by the Trustee, free and clear of any trust, lien or pledge. Nothing in this paragraph shall preclude prepayments pursuant to the Trust Agreement.

Any release under this subsection (b) shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under the Trust Agreement and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Trust Agreement created and the performance of its powers and duties under the Trust Agreement; provided however, that the Trustee shall have no right, title or interest in, or lien on, any moneys or securities deposited pursuant to the Trust Agreement.

(c) After the payment or deemed payment of all the interest and principal represented by all Outstanding Series 2011 Certificates, Series 2012 Certificates and Additional Certificates as provided in the Trust Agreement, the Trustee shall execute and deliver to the Corporation and the County all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Trust Agreement, and the Trustee shall pay over or deliver to the County all moneys or securities held by it pursuant to the Trust Agreement which are not required for the payment of the interest and principal represented by such Series 2011 Certificates, Series 2012 Certificates and Additional Certificates. Notwithstanding the discharge and satisfaction of the Trust Agreement, Owners of Series 2011 Certificates, Series 2012 Certificates and Additional Certificates shall thereafter be entitled to payments due under the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates pursuant to the Facility Lease, but only from amounts deposited pursuant to the Trust Agreement and from no other source.

<u>Unclaimed Moneys</u>. Anything contained in the Trust Agreement to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal and premium, if any, represented by any of the Series 2011 Certificates, the Series 2012 Certificates or Additional Certificates which remain unclaimed for two years after the date when the payments represented by such Series 2011 Certificates and Series 2012 Certificates or Additional Certificates have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal, and premium, if any, represented by such Series 2011 Certificates and Series 2012 Certificates or Additional Certificates have become payable, shall be repaid by the Trustee to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the County for the payment of the interest and principal and premium, if any, represented by such Series 2011 Certificates and Series 2012 Certificates or Additional Certificates; *provided, however,* that before being required to make any such payment to the County, the Trustee shall mail a notice to the Owner that such unclaimed funds shall be returned to the County within 30 days.

Miscellaneous

Benefits of Trust Agreement Limited to Parties. Nothing contained in the Trust Agreement, expressed or implied, is intended or shall be construed to confer upon, or to give or grant to, any person or entity other than the County, the Corporation, the Trustee and the Owners, any right, remedy or claim under or by reason of the Trust Agreement or any covenant, condition or stipulation of the Trust Agreement, and all covenants, stipulations, promises and agreements in the Trust Agreement contained by and on behalf of the County or the Corporation shall be for the sole and exclusive benefit of the County, the Corporation, the Trustee and the Owners.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Trust Agreement to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Certificate or Additional Certificate and the amount, payment date, number and date of owning the same may be proved by the books required to be kept by the Trustee pursuant to the provisions of the Trust Agreement.

Any declaration, consent, request or other instrument in writing of the Owner of any Certificate or Additional Certificate shall bind all future Owners of such Certificate or Additional Certificate with respect to anything done or suffered to be done by the County, the Corporation or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. Notwithstanding anything contained in the Trust Agreement to the contrary, no member, officer, employee or agent of the County, the Corporation or the Trustee shall be individually or personally liable for the payment of any moneys, including without limitation, the interest or principal represented by the Series 2011 Certificates, the Series 2012 Certificates and Additional Certificates, but nothing contained in the Trust Agreement shall relieve any member, officer, employee or agent of the County from the performance of any official duty provided by any applicable provisions of law or by the Site Lease, the Facility Lease or the Trust Agreement.

Acquisition of Certificates by County. All Series 2011 Certificates, Series 2012 Certificates and Additional Certificates acquired by the County, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Content of Certificates. Every Certificate of the County or Corporation with respect to compliance with any agreement, condition, covenant or term contained in the Trust Agreement shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or term and the definitions in the Trust Agreement relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or term has been complied with.

Any Certificate of the County or the Corporation may be based, insofar as it relates to legal matters, upon an Opinion of Counsel unless the person making or giving such certificate knows that the Opinion of Counsel with respect to the matters upon which his certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters, upon information with respect to which is in the possession of the County upon a representation by an officer or officers of the County, unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which his opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Publication for Successive Weeks. Any publication required to be made under the Trust Agreement for two successive weeks in a Financial Newspaper may be made in each instance upon any Business Day of the first week and need not be made on the same Business Day of any succeeding week or in the same Financial Newspaper for any subsequent publication, but may be made on different Business Days or in different Financial Newspapers, as the case may be.

Funds. Any fund required to be established and maintained in the Trust Agreement by the County or the Trustee may be established and maintained in the accounting records of the County or the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Certificates and the rights of the Owners. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Trust Agreement.

The County and the Trustee may commingle any of the moneys held by it under the Trust Agreement for investment purposes only; *provided, however,* that the County and the Trustee shall account separately for the moneys in each fund or account established pursuant to the Trust Agreement.

Investments. Any moneys held by the County in the funds and accounts established under the Trust Agreement shall be invested only in Permitted Investments. Any moneys held by the Trustee in the funds and accounts established under the Trust Agreement shall be invested by the Trustee upon the written request of the County Treasurer or the Chief Investment Officer of the County only in Permitted Investments. In the absence of such direction, moneys shall be invested by the Trustee solely in Permitted Investments set forth in clause (6) of the definition thereof. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with this paragraph. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. Any interest or profits on such investments in any funds and accounts (other than the Excess Earnings Account) established under the Trust Agreement shall be deposited in the Earnings Fund and are to be transferred as provided in the Trust Agreement. For purposes of determining the amount on deposit in any fund or account under the Trust Agreement, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment. Any Permitted Investments that are registrable securities shall be registered in the name of the Trustee, as trustee under the Trust Agreement.

California Law. The Trust Agreement shall be construed and governed in accordance with the laws of the State of California.

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APPENDIX D

BOOK-ENTRY SYSTEM

The information in this Appendix D concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC, and the Corporation, the County and the Underwriters take no responsibility for the completeness or accuracy thereof. The Corporation, the County and the Underwriters cannot and do 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 2012 Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2012 Certificates, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series 2012 Certificates, or that they will do so on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. 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.

1. The Depository Trust Company, New York, NY, will act as securities depository for the Series 2012 Certificates (the "Series 2012 Certificates"). The Series 2012 Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Series 2012 Certificates, each in the aggregate principal amount of such maturity of such issue, and will be deposited with DTC.

2. 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on this website is not incorporated herein by reference.

3. Purchases of Series 2012 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 Certificates on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written

confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2012 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2012 Certificates, except in the event that use of the book-entry system for the Series 2012 Certificates is discontinued.

4. To facilitate subsequent transfers, all Series 2012 Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2012 Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2012 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012 Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2012 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2012 Certificates, such as prepayments, defaults, and proposed amendments to the Series 2012 Certificate documents. For example, Beneficial Owners of Series 2012 Certificates may wish to ascertain that the nominee holding the Series 2012 Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Prepayment notices shall be sent to DTC. If less than all of the Series 2012 Certificates are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be prepaid.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2012 Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2012 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Prepayment proceeds, distributions, and other payments on the Series 2012 Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the County or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment proceeds, distributions, and other payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County, disbursement of such payments to Direct Participants will be the

responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. If applicable, a Beneficial Owner shall give notice to elect to have its Series 2012 Certificates purchased or tendered, through its Participant, to the County's designated agent, and shall effect delivery of such Series 2012 Certificates by causing the Direct Participant to transfer the Participant's interest in the Series 2012 Certificates, on DTC's records, to the County's designated agent. The requirement for physical delivery of Series 2012 Certificates in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2012 Certificates are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2012 Certificates to the DTC account of the County's designated agent.

10. DTC may discontinue providing its services as depository with respect to the Series 2012 Certificates at any time by giving reasonable notice to the County. Under such circumstances, in the event that a successor depository is not obtained, Series 2012 Certificates are required to be printed and delivered.

11. The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC and the requirements of the Trust Agreement with respect to certificated Series 2012 Certificates will apply.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

NONE OF THE CORPORATION, THE COUNTY, THE UNDERWRITERS OR 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 2012 CERTIFICATES FOR PREPAYMENT.

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APPENDIX E

FORM OF SPECIAL COUNSEL OPINION

Upon execution and delivery of the Series 2012 Certificates, Orrick, Herrington & Sutcliffe LLP, Special Counsel, proposes to render its final approving opinion with respect to the Series 2012 Certificates in substantially the following form:

[Date of Delivery]

County of San Diego
San Diego, California

County of San Diego
Certificates of Participation
(2012 Cedar and Kettner Development Project)
(Final Opinion)

Ladies and Gentlemen:

We have acted as special counsel to the County of San Diego (the "County") in connection with execution and delivery of County of San Diego Certificates of Participation (2012 Cedar and Kettner Development Project) evidencing principal in the aggregate amount of $29,335,000 (the "Certificates"), executed and delivered pursuant to a trust agreement, dated as of August 1, 2011, as amended and supplemented by a First Supplemental Trust Agreement, dated as of October 1, 2012 (as so amended and supplemented, the "Trust Agreement"), each by and among the County, the San Diego County Capital Asset Leasing Corporation (the "Corporation") and Zions First National Bank, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In such connection, we have reviewed the Trust Agreement, the Site Lease, the Facility Lease, the Tax Certificate executed by the County with respect to the Certificates (the "Tax Certificate") and the Assignment Agreement, opinions of counsel to the County, the Corporation and the Trustee, certificates of the County, the Corporation, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Site Lease, the Facility Lease, the Assignment Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest component of the Base Rental Payments to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Trust Agreement, the Site Lease, the Facility Lease, the Assignment Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, judicial reference, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the liens of the Site Lease, the Facility Lease or the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial of other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Trust Agreement, the Site Lease and the Facility Lease have been duly executed and delivered by, and constitute valid and binding obligations of the County.

2. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

3. The interest component of the Base Rental Payments paid by the County under the Facility Lease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest evidenced by, the Certificates.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement"), dated as of October 1, 2012, is executed and delivered by the County of San Diego, California (the "County") and Digital Assurance Certification, L.L.C., as exclusive Disclosure Dissemination Agent (the "Disclosure Dissemination Agent" or "DAC") for the benefit of the Holders (hereinafter defined) of the Certificates (hereinafter defined) and in order to provide certain continuing disclosure with respect to the Certificates in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule").

The services provided under this Disclosure Agreement solely relate to the execution of instructions received from the County through use of the DAC system and do not constitute "advice" within the meaning of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). DAC will not provide any advice or recommendation to the County or anyone on the County's behalf regarding the "issuance of municipal securities" or any "municipal financial product" as defined in the Act and nothing in this Disclosure Agreement shall be interpreted to the contrary.

SECTION 1. Definitions. Capitalized terms not otherwise defined in this Disclosure Agreement shall have the meaning assigned in the Rule or, to the extent not in conflict with the Rule, in the Official Statement (hereinafter defined). The capitalized terms shall have the following meanings:

"Annual Report" means an Annual Report described in and consistent with Section 3 of this Disclosure Agreement.

"Annual Filing Date" means the date, set in Sections 2(a) and 2(f), by which the Annual Report is to be filed with the MSRB.

"Annual Financial Information" means annual financial information as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(a) of this Disclosure Agreement.

"Audited Financial Statements" means the financial statements (if any) of the County for the prior fiscal year, certified by an independent auditor as prepared in accordance with generally accepted accounting principles or otherwise, as such term is used in paragraph (b)(5)(i) of the Rule and specified in Section 3(b) of this Disclosure Agreement.

"Certificates" means the certificates as listed on the attached Exhibit A, with the 9-digit CUSIP numbers relating thereto.

"Certification" means a written certification of compliance signed by the Disclosure Representative stating that the Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure delivered to the Disclosure Dissemination Agent is the Annual

Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure required to be submitted to the MSRB under this Disclosure Agreement. A Certification shall accompany each such document submitted to the Disclosure Dissemination Agent by the County and include the full name of the Certificates and the 9-digit CUSIP numbers for all Certificates to which the document applies.

"Disclosure Representative" means the Chief Financial Officer of the County or his or her designee, or such other person as the County shall designate in writing to the Disclosure Dissemination Agent from time to time as the person responsible for providing Information to the Disclosure Dissemination Agent.

"Disclosure Dissemination Agent" means Digital Assurance Certification, L.L.C, acting in its capacity as Disclosure Dissemination Agent hereunder, or any successor Disclosure Dissemination Agent designated in writing by the County pursuant to Section 9 hereof.

"Failure to File Event" means the County's failure to file an Annual Report on or before the Annual Filing Date.

"Force Majeure Event" means: (i) acts of God, war, or terrorist action; (ii) failure or shut-down of the Electronic Municipal Market Access system maintained by the MSRB; or (iii) to the extent beyond the Disclosure Dissemination Agent's reasonable control, interruptions in telecommunications or utilities services, failure, malfunction or error of any telecommunications, computer or other electrical, mechanical or technological application, service or system, computer virus, interruptions in Internet service or telephone service (including due to a virus, electrical delivery problem or similar occurrence) that affect Internet users generally, or in the local area in which the Disclosure Dissemination Agent or the MSRB is located, or acts of any government, regulatory or any other competent authority the effect of which is to prohibit the Disclosure Dissemination Agent from performance of its obligations under this Disclosure Agreement.

"Holder" means any person (a) having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries) or (b) treated as the owner of any Certificates for federal income tax purposes.

"Information" means, collectively, the Annual Reports, the Audited Financial Statements (if any), the Notice Event notices, the Failure to File Event notices, the Voluntary Event Disclosures and the Voluntary Financial Disclosures.

"MSRB" shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Notice Event" means any of the events enumerated in paragraph (b)(5)(i)(C) of the Rule and listed in Section 4(a) of this Disclosure Agreement.

"Obligated Person" means any person, including the County, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all, or part of the obligations on the Certificates (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities), as shown on Exhibit A.

"Official Statement" means that Official Statement prepared by the County in connection with the Certificates, as listed on Appendix A.

"Trustee" means the institution identified as such in the document under which the Certificates were executed and delivered.

"Voluntary Event Disclosure" means information of the category specified in any of subsections (e)(vi)(1) through (e)(vi)(11) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(a) of this Disclosure Agreement.

"Voluntary Financial Disclosure" means information of the category specified in any of subsections (e)(vii)(1) through (e)(vii)(9) of Section 2 of this Disclosure Agreement that is accompanied by a Certification of the Disclosure Representative containing the information prescribed by Section 7(b) of this Disclosure Agreement.

SECTION 2. Provision of Annual Reports.

(a) The County shall provide, annually, an electronic copy of the Annual Report and Certification to the Disclosure Dissemination Agent, together with a copy for the Trustee, not later than the Annual Filing Date. Promptly upon receipt of an electronic copy of the Annual Report and the Certification, the Disclosure Dissemination Agent shall provide an Annual Report to the MSRB not later than nine months after the end of each fiscal year of the County, commencing with the fiscal year ending June 30, 2012. Such date and each anniversary thereof is the Annual Filing Date. The Annual Report must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 3 of this Disclosure Agreement.

(b) If on the fifteenth (15th) day prior to the Annual Filing Date, the Disclosure Dissemination Agent has not received a copy of the Annual Report and Certification, the Disclosure Dissemination Agent shall contact the Disclosure Representative by telephone and in writing (which may be by e-mail) to remind the County of its undertaking to provide the Annual Report pursuant to Section 2(a). Upon such reminder, the Disclosure Representative shall either (i) provide the Disclosure Dissemination Agent with an electronic copy of the Annual Report and the Certification) no later than the Annual Filing Date, or (ii) instruct the Disclosure Dissemination Agent in writing that the County will not be able to file the Annual Report within the time required under this Disclosure Agreement, state the date by which the Annual Report for such year will be provided and instruct the Disclosure Dissemination Agent that a Failure to File

Event has occurred and to immediately send a notice to the MSRB in substantially the form attached as Exhibit B, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(c) If the Disclosure Dissemination Agent has not received an Annual Report and Certification by 6:00 p.m. Eastern time on Annual Filing Date (or, if such Annual Filing Date falls on a Saturday, Sunday or holiday, then the first business day thereafter) for the Annual Report, a Failure to File Event shall have occurred and the Issuer irrevocably directs the Disclosure Dissemination Agent to immediately send a notice to the MSRB in substantially the form attached as Exhibit B without reference to the anticipated filing date for the Annual Report, accompanied by a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1.

(d) If Audited Financial Statements of the County are prepared but not available prior to the Annual Filing Date, the County shall, when the Audited Financial Statements are available, provide in a timely manner an electronic copy to the Disclosure Dissemination Agent, accompanied by a Certification, together with a copy for the Trustee, for filing with the MSRB.

(e) The Disclosure Dissemination Agent shall:

(i) verify the filing specifications of the MSRB each year prior to the Annual Filing Date;

(ii) upon receipt, promptly file each Annual Report received under Sections 2(a) and 2(b) with the MSRB;

(iii) upon receipt, promptly file each Audited Financial Statement received under Section 2(d) with the MSRB;

(iv) upon receipt, promptly file the text of each Notice Event received under Sections 4(a) and 4(b)(ii) with the MSRB, identifying the Notice Event as instructed by the County pursuant to Section 4(a) or 4(b)(ii) (being any of the categories set forth below) when filing pursuant to Section 4(c) of this Disclosure Agreement:

1. "Principal and interest payment delinquencies;"

2. "Non-Payment related defaults, if material;"

3. "Unscheduled draws on debt service reserves reflecting financial difficulties;"

4. "Unscheduled draws on credit enhancements reflecting financial difficulties;"

5. "Substitution of credit or liquidity providers, or their failure to perform;"

6. “Adverse tax opinions, IRS notices or events affecting the tax status of the security;”

7. “Modifications to rights of securities holders, if material;”

8. “Certificate calls, if material;”

9. “Defeasances;”

10. “Release, substitution, or sale of property securing repayment of the securities, if material;”

11. “Rating changes;”

12. “Tender offers;”

13. “Bankruptcy, insolvency, receivership or similar event of the obligated person;”

14. “Merger, consolidation, or acquisition of the obligated person, if material;” and

15. “Appointment of a successor or additional trustee, or the change of name of a trustee, if material;”

(v) upon receipt (or irrevocable direction pursuant to Section 2(c) of this Disclosure Agreement, as applicable), promptly file a completed copy of Exhibit B to this Disclosure Agreement with the MSRB, identifying the filing as “Failure to provide annual financial information as required” when filing pursuant to Section 2(b)(ii) or Section 2(c) of this Disclosure Agreement;

(vi) upon receipt, promptly file the text of each Voluntary Event Disclosure received under Section 7(a) with the MSRB, identifying the Voluntary Event Disclosure as instructed by the County pursuant to Section 7(a) (being any of the categories set forth below) when filing pursuant to Section 7(a) of this Disclosure Agreement:

1. “amendment to continuing disclosure undertaking;”

2. “change in obligated person;”

3. “notice to investors pursuant to bond documents;”

4. “certain communications from the Internal Revenue Service;”

5. “secondary market purchases;”

6. “bid for auction rate or other securities;”

7. "capital or other financing plan;"

8. "litigation/enforcement action;"

9. "change of tender agent, remarketing agent, or other on-going party;"

10. "derivative or other similar transaction;" and

11. "other event-based disclosures;"

(vii) upon receipt, promptly file the text of each Voluntary Financial Disclosure received under Section 7(b) with the MSRB, identifying the Voluntary Financial Disclosure as instructed by the County pursuant to Section 7(b) (being any of the categories set forth below) when filing pursuant to Section 7(b) of this Disclosure Agreement:

1. "quarterly/monthly financial information;"

2. "change in fiscal year/timing of annual disclosure;"

3. "change in accounting standard;"

4. "interim/additional financial information/operating data;"

5. "budget;"

6. "investment/debt/financial policy;"

7. "information provided to rating agency, credit/liquidity provider or other third party;"

8. "consultant reports;" and

9. "other financial/operating data."

(viii) provide the County evidence of the filings of each of the above when made, which shall be by means of the DAC system, for so long as DAC is the Disclosure Dissemination Agent under this Disclosure Agreement.

(f) The County may adjust the Annual Filing Date upon change of its fiscal year by providing written notice of such change and the new Annual Filing Date to the Disclosure Dissemination Agent, Trustee (if any) and the MSRB, provided that the period between the existing Annual Filing Date and new Annual Filing Date shall not exceed one year.

(g) Any Information received by the Disclosure Dissemination Agent before 6:00 p.m. Eastern time on any business day that it is required to file with the MSRB pursuant to the terms of this Disclosure Agreement and that is accompanied by a Certification and all other information required by the terms of this Disclosure Agreement will be filed by the Disclosure

Dissemination Agent with the MSRB no later than 11:59 p.m. Eastern time on the same business day; provided, however, the Disclosure Dissemination Agent shall have no liability for any delay in filing with the MSRB if such delay is caused by a Force Majeure Event provided that the Disclosure Dissemination Agent uses reasonable efforts to make any such filing as soon as possible.

SECTION 3. Content of Annual Reports.

(a) Each Annual Report shall contain Annual Financial Information with respect to the County, including the information provided in the Official Statement in the tables with the following headings in the Appendix A to the Official Statement for the most current fiscal year available:

TOTAL COUNTY EMPLOYEES

ASSESSMENT APPEALS

ASSESSED VALUATION OF PROPERTY SUBJECT TO AD VALOREM TAXATION

TEN LARGEST TAXPAYERS

SECURED TAX ROLL STATISTICS

GENERAL FUND BALANCE SHEET

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND ADOPTED AND AMENDED BUDGETS

HISTORICAL FUNDING STATUS

TRANSFERS OF INVESTMENT EARNINGS TO NON-VALUATION RESERVES

HISTORICAL FUNDING STATUS FOR POST-RETIREMENT HEALTHCARE BENEFITS

PAYMENTS FOR POST-RETIREMENT HEALTHCARE BENEFITS

SUMMARY OF LONG-TERM BONDED OBLIGATIONS PAYABLE FROM THE GENERAL FUND

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

An update of the financial and operating data relating solely to the County contained under the heading "SAN DIEGO COUNTY INVESTMENT POOL" in the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the County or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The County shall clearly identify each such other document so included by reference.

(b) Audited Financial Statements prepared in accordance with generally accepted accounting principles ("GAAP") as described in the Official Statement will be included in the Annual Report. If audited financial statements are not available, then, unaudited financial statements, in a format similar to the financial statements contained in the final Official Statement, will be included in the Annual Report; and audited financial statements will be provided pursuant to Section 2(d).

Any or all of the items listed above may be included by specific reference from other documents, including official statements of debt issues with respect to which the County is an "obligated person" (as defined by the Rule), which have been previously filed with the MSRB or the Securities and Exchange Commission or available on the MSRB Internet Website. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The County will clearly identify each such document so incorporated by reference.

Any Annual Financial Information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

SECTION 4. Reporting of Notice Events.

(a) The occurrence of any of the following events, if material, with respect to the Certificates constitutes a Notice Event:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements relating to the Certificates reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates;

7. Modifications to rights of Certificate holders, if material;

8. Certificate calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the Certificates, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person;

    Note to subsection (a)(12) of this Section 4: For the purposes of the event described in subsection (a)(12) of this Section 4, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The County shall, in a timely manner not in excess of ten business days after its occurrence, notify the Disclosure Dissemination Agent in writing of the occurrence of a Notice Event. Such notice shall instruct the Disclosure Dissemination Agent to report the occurrence pursuant to subsection (c) and shall be accompanied by a Certification. Such notice or Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the County desires to make, contain the written authorization of the County for the Disclosure Dissemination Agent to disseminate such information, and identify the date the County desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(b) The Disclosure Dissemination Agent is under no obligation to notify the County or the Disclosure Representative of an event that may constitute a Notice Event. In the event the Disclosure Dissemination Agent so notifies the Disclosure Representative, the Disclosure Representative will within two business days of receipt of such notice (but in any event not later than the tenth business day after the occurrence of the Notice Event, if the County determines that a Notice Event has occurred), instruct the Disclosure Dissemination Agent that (i) a Notice Event has not occurred and no filing is to be made or (ii) a Notice Event has occurred and the Disclosure Dissemination Agent is to report the occurrence pursuant to subsection (c) of this Section 4, together with a Certification. Such Certification shall identify the Notice Event that has occurred (which shall be any of the categories set forth in Section 2(e)(iv) of this Disclosure Agreement), include the text of the disclosure that the County desires to make, contain the written authorization of the County for the Disclosure Dissemination Agent to disseminate such information, and identify the date the County desires for the Disclosure Dissemination Agent to disseminate the information (provided that such date is not later than the tenth business day after the occurrence of the Notice Event).

(c) If the Disclosure Dissemination Agent has been instructed by the County as prescribed in subsection (a) or (b)(ii) of this Section 4 to report the occurrence of a Notice Event, the Disclosure Dissemination Agent shall promptly file a notice of such occurrence with the MSRB in accordance with Section 2(e)(iv) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-1

SECTION 5. CUSIP Numbers. Whenever providing information to the Disclosure Dissemination Agent, including but not limited to Annual Reports, documents incorporated by reference to the Annual Reports, Audited Financial Statements, Notice Event notices, Failure to File Event notices, Voluntary Event Disclosures and Voluntary Financial Disclosures, the County shall indicate the full name of the Certificates and the 9-digit CUSIP numbers for the Certificates as to which the provided information relates.

SECTION 6. Additional Disclosure Obligations. The County acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the County, and that the duties and responsibilities of the Disclosure Dissemination Agent under this Disclosure Agreement do not extend to providing legal advice regarding such laws. The County acknowledges and understands that the duties of the Disclosure Dissemination Agent relate exclusively to execution of the mechanical tasks of disseminating information as described in this Disclosure Agreement.

SECTION 7. Voluntary Filing.

(a) The County may instruct the Disclosure Dissemination Agent to file a Voluntary Event Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Event Disclosure (which shall be any of the categories set forth in Section 2(e)(vi) of this Disclosure Agreement), include the text of the disclosure that the County desires to make, contain the written authorization of the County for the Disclosure Dissemination Agent to disseminate such information, and identify the date the County desires for the Disclosure Dissemination Agent to disseminate the information. If the

Disclosure Dissemination Agent has been instructed by the County as prescribed in this Section 7(a) to file a Voluntary Event Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Event Disclosure with the MSRB in accordance with Section 2(e)(vi) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The County may instruct the Disclosure Dissemination Agent to file a Voluntary Financial Disclosure with the MSRB from time to time pursuant to a Certification of the Disclosure Representative. Such Certification shall identify the Voluntary Financial Disclosure (which shall be any of the categories set forth in Section 2(e)(vii) of this Disclosure Agreement), include the text of the disclosure that the County desires to make, contain the written authorization of the County for the Disclosure Dissemination Agent to disseminate such information, and identify the date the County desires for the Disclosure Dissemination Agent to disseminate the information. If the Disclosure Dissemination Agent has been instructed by the County as prescribed in this Section 7(b) to file a Voluntary Financial Disclosure, the Disclosure Dissemination Agent shall promptly file such Voluntary Financial Disclosure with the MSRB in accordance with Section 2(e)(vii) hereof. This notice will be filed with a cover sheet completed by the Disclosure Dissemination Agent in the form set forth in Exhibit C-2.

(b) The parties hereto acknowledge that the County is not obligated pursuant to the terms of this Disclosure Agreement to file any Voluntary Event Disclosure pursuant to Section 7(a) hereof or any Voluntary Financial Disclosure pursuant to Section 7(b) hereof.

(c) Nothing in this Disclosure Agreement shall be deemed to prevent the County from disseminating any other information through the Disclosure Dissemination Agent using the means of dissemination set forth in this Disclosure Agreement or including any other information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure, in addition to that required by this Disclosure Agreement. If the County chooses to include any information in any Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure in addition to that which is specifically required by this Disclosure Agreement, the County shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report, Audited Financial Statements, Notice Event notice, Failure to File Event notice, Voluntary Event Disclosure or Voluntary Financial Disclosure.

SECTION 8. Termination of Reporting Obligation. The obligations of the County and the Disclosure Dissemination Agent under this Disclosure Agreement shall terminate with respect to the Certificates upon the legal defeasance, prior redemption or payment in full of all of the Certificates, when the County is no longer an obligated person with respect to the Certificates, or upon delivery by the Disclosure Representative to the Disclosure Dissemination Agent of an opinion of nationally recognized bond counsel to the effect that continuing disclosure is no longer required.

SECTION 9. Disclosure Dissemination Agent. The County has appointed Digital Assurance Certification, L.L.C. as exclusive Disclosure Dissemination Agent under this Disclosure Agreement. The County may, upon thirty days written notice to the Disclosure

Dissemination Agent and the Trustee, replace or appoint a successor Disclosure Dissemination Agent. Upon termination of DAC's services as Disclosure Dissemination Agent, whether by notice of the County or DAC, the County agrees to appoint a successor Disclosure Dissemination Agent or, alternately, agrees to assume all responsibilities of Disclosure Dissemination Agent under this Disclosure Agreement for the benefit of the Holders of the Certificates. Notwithstanding any replacement or appointment of a successor, the County shall remain liable until payment in full for any and all sums owed and payable to the Disclosure Dissemination Agent. The Disclosure Dissemination Agent may resign at any time by providing thirty days' prior written notice to the County.

SECTION 10. Remedies in Event of Default. In the event of a failure of the County or the Disclosure Dissemination Agent to comply with any provision of this Disclosure Agreement, the Holders' rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the parties' obligation under this Disclosure Agreement. Any failure by a party to perform in accordance with this Disclosure Agreement shall not constitute a default on the Certificates or under any other document relating to the Certificates, and all rights and remedies shall be limited to those expressly stated herein.

SECTION 11. Duties, Immunities and Liabilities of Disclosure Dissemination Agent.

(a) The Disclosure Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described herein shall be limited to the extent the County has provided such information to the Disclosure Dissemination Agent as required by this Disclosure Agreement. The Disclosure Dissemination Agent shall have no duty with respect to the content of any disclosures or notice made pursuant to the terms hereof. The Disclosure Dissemination Agent shall have no duty or obligation to review or verify any Information or any other information, disclosures or notices provided to it by the County and shall not be deemed to be acting in any fiduciary capacity for the County, the Holders of the Certificates or any other party. The Disclosure Dissemination Agent shall have no responsibility for the County's failure to report to the Disclosure Dissemination Agent a Notice Event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine, or liability for failing to determine, whether the County has complied with this Disclosure Agreement. The Disclosure Dissemination Agent may conclusively rely upon Certifications of the County at all times.

The obligations of the County under this Section shall survive resignation or removal of the Disclosure Dissemination Agent and defeasance, redemption or payment of the Certificates.

(b) The Disclosure Dissemination Agent may, from time to time, consult with legal counsel (either in-house or external) of its own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or its respective duties hereunder, and shall not incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. The reasonable fees and expenses of such counsel shall be payable by the County.

(c) All documents, reports, notices, statements, information and other materials provided to the MSRB under this Disclosure Agreement shall be provided in an electronic format and accompanied by identifying information as prescribed by the MSRB.

SECTION 12. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the County and the Disclosure Dissemination Agent may amend this Disclosure Agreement and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws acceptable to both the County and the Disclosure Dissemination Agent to the effect that such amendment or waiver does not materially impair the interests of Holders of the Certificates and would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule; provided neither the County or the Disclosure Dissemination Agent shall be obligated to agree to any amendment modifying their respective duties or obligations without their consent thereto.

Notwithstanding the preceding paragraph, the Disclosure Dissemination Agent shall have the right to adopt amendments to this Disclosure Agreement necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time by giving not less than 20 days written notice of the intent to do so together with a copy of the proposed amendment to the County. No such amendment shall become effective if the County shall, within 10 days following the giving of such notice, send a notice to the Disclosure Dissemination Agent in writing that it objects to such amendment.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the County, the Trustee of the Certificates, the Disclosure Dissemination Agent, the underwriter, and the Holders from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 14. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of California (other than with respect to conflicts of laws).

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

The Disclosure Dissemination Agent and the County have caused this Disclosure Agreement to be executed, on the date first written above, by their respective officers duly authorized.

DIGITAL ASSURANCE CERTIFICATION, L.L.C.,
as Disclosure Dissemination Agent

By: ______________________________________
Name: Paula Stuart
Title: Chief Executive Officer

COUNTY OF SAN DIEGO

By: ______________________________________
Name: Donald F. Steuer
Title: Chief Financial Officer

EXHIBIT A

NAME AND CUSIP NUMBERS OF CERTIFICATES

Name of Issue:	County of San Diego Certificates of Participation (2012 Cedar and Kettner Development Project)
Obligated Person(s):	County of San Diego
Date of Issuance:	October 24, 2012
Date of Official Statement:	October 9, 2012

CUSIP Numbers:	797391V63
	797391V71
	797391V89
	797391V97
	797391W21
	797391W39
	797391W47
	797391W54
	797391W62
	797391W70
	797391W88
	797391W96
	797391X20
	797391X38
	797391X46
	797391X53
	797391X61
	797391X79
	797391X87
	797391X95
	797391Y29

EXHIBIT B

NOTICE TO MSRB OF FAILURE TO FILE ANNUAL REPORT

Obligor:	County of San Diego
Name of Certificate Issue:	$29,335,000 County of San Diego Certificates of Participation (2012 Cedar and Kettner Development Project)
Date of Issuance:	October 24, 2012

NOTICE IS HEREBY GIVEN that the County has not provided an Annual Report with respect to the above-named Certificates as required by the Disclosure Agreement, dated as of October 1, 2012, between the County and Digital Assurance Certification, L.L.C., as Disclosure Dissemination Agent. The County has notified the Disclosure Dissemination Agent that it anticipates that the Annual Report will be filed by _____________.

Dated: ______________

Digital Assurance Certification, L.L.C., as
Disclosure Dissemination Agent, on behalf of the
County

____

cc: Chief Financial Officer, County of San Diego

EXHIBIT C-1
EVENT NOTICE COVER SHEET

This cover sheet and accompanying "event notice" will be sent to the MSRB, pursuant to Securities and Exchange Commission Rule 15c2-12(b)(5)(i)(C) and (D).

Issuer's and/or Other Obligated Person's Name: County of San Diego

Issuer's Six-Digit CUSIP Number:

____

____

or Nine-Digit CUSIP Number(s) of the Certificates to which this material event notice relates:

____

Number of pages of attached: _____

____ Description of Notice Events (Check One):

1.______"Principal and interest payment delinquencies;"
2.______"Non-Payment related defaults, if material;"
3.______"Unscheduled draws on debt service reserves reflecting financial difficulties;"
4.______"Unscheduled draws on credit enhancements reflecting financial difficulties;"
5.______"Substitution of credit or liquidity providers, or their failure to perform;"
6.______"Adverse tax opinions, IRS notices or events affecting the tax status of the security;"
7.______"Modifications to rights of securities holders, if material;"
8.______"Certificate calls, if material;"
9.______"Defeasances;"
10._____"Release, substitution, or sale of property securing repayment of the securities, if material;"
11._____"Rating changes;"
12._____"Tender offers;"
13._____"Bankruptcy, insolvency, receivership or similar event of the obligated person;"
14._____"Merger, consolidation, or acquisition of the obligated person, if material;" and
15._____"Appointment of a successor or additional trustee, or the change of name of a trustee, if material."

____ Failure to provide annual financial information as required

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

____

Name: ____________________ Title: ____________________

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

EXHIBIT C-2
VOLUNTARY EVENT DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary event disclosure" will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of October 1, 2012 between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

County of San Diego

Issuer's Six-Digit CUSIP Number:

____

____

or Nine-Digit CUSIP Number(s) of the Certificates to which this notice relates:

____

Number of pages attached: _____

____ Description of Voluntary Event Disclosure (Check One):

1.______"amendment to continuing disclosure undertaking;"
2.______"change in obligated person;"
3.______"notice to investors pursuant to Certificate documents;"
4.______"certain communications from the Internal Revenue Service;"
5.______"secondary market purchases;"
6.______"bid for auction rate or other securities;"
7.______"capital or other financing plan;"
8.______"litigation/enforcement action;"
9.______"change of tender agent, remarketing agent, or other on-going party;"
10._____"derivative or other similar transaction;" and
11._____"other event-based disclosures."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

____

Name: ______________________________ Title: ______________________________

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

EXHIBIT C-3
VOLUNTARY FINANCIAL DISCLOSURE COVER SHEET

This cover sheet and accompanying "voluntary financial disclosure" will be sent to the MSRB, pursuant to the Disclosure Dissemination Agent Agreement dated as of October 1, 2012 between the Issuer and DAC.

Issuer's and/or Other Obligated Person's Name:

County of San Diego

Issuer's Six-Digit CUSIP Number:

____

____

or Nine-Digit CUSIP Number(s) of the Certificates to which this notice relates:

____

Number of pages attached: _____

____ Description of Voluntary Financial Disclosure (Check One):

1.______"quarterly/monthly financial information;"
2.______"change in fiscal year/timing of annual disclosure;"
3.______"change in accounting standard;"
4.______"interim/additional financial information/operating data;"
5.______"budget;"
6.______"investment/debt/financial policy;"
7.______"information provided to rating agency, credit/liquidity provider or other third party;"
8.______"consultant reports;" and
9.______"other financial/operating data."

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature:

____

Name: ______________________________ Title: ______________________________

Digital Assurance Certification, L.L.C.
390 N. Orange Avenue
Suite 1750
Orlando, FL 32801
407-515-1100

Date:

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COUNTY OF SAN DIEGO • Certificates of Participation (2012 Cedar and Kettner Development Project)

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