DAC Bond®

NEW ISSUE BOOK-ENTRY ONLY | **RATINGS:**
Moody's: Aa3
Taxable (Federal) | **Standard & Poor's: AA**
Tax-Exempt (State of California) | **Fitch : AA**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the County, interest on the Series 2008A Bonds is exempt from State of California personal income taxes. Interest on the Series 2008A Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Bond Counsel expresses no opinion regarding any federal or other state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008A Bonds. See "Tax Matters" herein.

$343,515,000
COUNTY OF SAN DIEGO
TAXABLE PENSION OBLIGATION BONDS
SERIES 2008A

Dated: Date of Delivery | **Due:** August 15, as shown on inside cover page

The County of San Diego (the "County") is issuing its Taxable Pension Obligation Bonds, Series 2008A (the "Series 2008A Bonds") in an aggregate principal amount of $343,515,000 pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3, Division 2, Title 5 of the Government Code of the State of California (the "Refunding Law") and an Amended and Restated Trust Agreement (the "Amended and Restated Trust Agreement"), as supplemented by that certain 2008 First Supplemental Trust Agreement (the "2008 Supplemental" and, together with the Amended and Restated Trust Agreement, the "Trust Agreement"), each dated as of August 1, 2008, by and between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Concurrently with the issuance of the Series 2008A Bonds, the County will issue its Taxable Pension Obligation Bonds, Series 2008B (Variable Rate Demand Obligations) (the "Series 2008B Bonds") in an aggregate principal amount of $100,000,000 pursuant to the Refunding Law and the Trust Agreement. The issuance of the Series 2008A Bonds is contingent upon the issuance of the Series 2008B Bonds.

Proceeds of the Series 2008A Bonds, together with proceeds of the Series 2008B Bonds and other moneys available therefor, will be used to refund all of the County's outstanding Taxable Pension Obligation Bonds, Series 2002B (Auction Rate Securities) (the "Refunded Bonds") and pay certain costs of issuance relating to the Series 2008A Bonds. The Refunded Bonds were issued to refund a portion of the County's statutory obligation to provide retirement compensation pursuant to the County Employees Retirement Law of 1937, as amended, and a portion of the County's then-outstanding taxable pension obligation bonds. Subsequent to the issuance of the Series 2008A Bonds and the refunding described herein, the Series 2008A Bonds will be payable on a parity with the County's other outstanding taxable pension obligation bonds, including the Series 2008B Bonds, and any additional obligations which may be issued or incurred by the County under the Trust Agreement in the future. See "Plan of Financing" and "Security and Sources of Payment for the Series 2008A Bonds" herein.

The Series 2008A Bonds will accrue interest from their date of delivery and interest thereon will be payable on February 15 and August 15 of each year, commencing on February 15, 2009. The Series 2008A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. See "The Series 2008A Bonds – General" herein and Appendix C – "Summary of Certain Provisions of the Trust Agreement" attached hereto.

The Series 2008A Bonds are available in denominations of $5,000 and any integral multiple thereof. The Series 2008A Bonds will be delivered in fully registered form only, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2008A Bonds. Ownership interests in the Series 2008A Bonds may be purchased in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2008A Bonds purchased. Payments of principal and interest on the Series 2008A Bonds will be payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2008A Bonds, as more fully described herein. See "The Series 2008A Bonds – General" and Appendix E – "Book-Entry Only System and Global Clearance Procedures" herein.

The Series 2008A Bonds are subject to optional and mandatory redemption as described herein. See "The Series 2008A Bonds" herein.

The obligations of the County under the Series 2008A Bonds, including the obligation to make all payments of interest and principal when due, are obligations of the County imposed by law and are absolute and unconditional, without any right of set-off or counterclaim. The Series 2008A Bonds do not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation. Neither the Series 2008A Bonds nor the obligation of the County to make payments on the Series 2008A Bonds constitute an indebtedness of the County, the State, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. Pursuant to Section 31584 of the Retirement Law, the Board of Supervisors of the County is obligated to make appropriations to pay the unfunded accrued actuarial liability which is evidenced by the Series 2008A Bonds, and the Auditor-Controller of the County shall transfer from any money available in any fund in the County treasury the sums specified if the Board of Supervisors of the County fails to make such appropriation.

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 2008A Bonds will be offered when, as and if executed, delivered, and received by the Underwriters, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel to the County, and certain other conditions. Certain legal matters will be passed upon for the County by the County Counsel and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California. It is anticipated that the Series 2008A Bonds in definitive form will be available for delivery to DTC in New York, New York, or through the Euroclear System and Clearstream, Luxembourg in Europe on or about August 7, 2008.

Citi | **Morgan Stanley & Co. Incorporated**

De La Rosa & Co.

Dated: July 30, 2008

MATURITY SCHEDULE

$343,515,000
County of San Diego
Taxable Pension Obligation Bonds
Series 2008A Bonds

$103,415,000 Serial Series 2008A Bonds

Maturity (August 15)	Principal Amount	Interest Rate	Price	CUSIP†
2009	$ 8,580,000	3.331%	100%	797398DY7
2010	7,565,000	4.011	100	797398DZ4
2011	6,430,000	4.576	100	797398EA8
2012	5,395,000	4.926	100	797398EB6
2013	4,135,000	5.176	100	797398EC4
2014	5,645,000	5.428	100	797398ED2
2015	4,325,000	5.528	100	797398EE0
2016	20,990,000	5.648	100	797398EF7
2017	20,490,000	5.728	100	797398EG5
2018	19,860,000	5.748	100	797398EH3

$240,100,000 6.029% Term Bond due August 15, 2026 – Price 100% – CUSIP†: 797398EJ9

COUNTY OF SAN DIEGO, STATE OF CALIFORNIA

BOARD OF SUPERVISORS

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

COUNTY OFFICIALS

Walter F. Ekard, *Chief Administrative Officer*
Dan McAllister, *Treasurer-Tax Collector*
Donald F. Steuer, *Chief Financial Officer*
Tracy M. Sandoval, *Auditor-Controller*
John J. Sansone, *County Counsel*

SPECIAL SERVICES

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

Trustee and Escrow Bank
The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

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

Verification Agent
Grant Thornton LLP
Minneapolis, Minnesota

No dealer, broker, salesperson or other person has been authorized by the County or the Underwriters to give any information or to make any representations in connection with the offer or sale of the Series 2008A Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the County or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Series 2008A Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale in such jurisdiction.

This Official Statement is not to be construed as a contract with the purchasers or owners of the Series 2008A Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the County or the Underwriters. The information and expression of 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 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 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 2008A Bonds, the Underwriters may over allot or effect transactions which stabilize or maintain the market price of such Series 2008A Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Series 2008A Bonds to certain dealers and dealer banks and banks acting as agents at prices lower than the public offering price stated on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriters.

TABLE OF CONTENTS

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$343,515,000
COUNTY OF SAN DIEGO
TAXABLE PENSION OBLIGATION BONDS
SERIES 2008A

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Series 2008A Bonds being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given such terms under the Trust Agreement. See Appendix C – "Summary of Certain Provisions of the Trust Agreement - Definitions."

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 Taxable Pension Obligation Bonds, Series 2008A (the "Series 2008A Bonds") issued by the County of San Diego (the "County"), in an aggregate principal amount of $343,515,000. The Series 2008A Bonds will be issued pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3, Division 2, Title 5 of the Government Code of the State of California (the "Refunding Law") and an Amended and Restated Trust Agreement (the "Amended and Restated Trust Agreement"), as supplemented by that certain 2008 First Supplemental Trust Agreement (the "2008 Supplemental" and, together with the Amended and Restated Trust Agreement, the "Trust Agreement"), each dated as of August 1, 2008, by and between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). Concurrently with the issuance of the Series 2008A Bonds, the County will issue its Taxable Pension Obligation Bonds, Series 2008B (Variable Rate Demand Obligations) (the "Series 2008B Bonds") in an aggregate principal amount of $100,000,000 pursuant to the Refunding Law and the Trust Agreement. The issuance of the Series 2008A Bonds is contingent on the issuance of the Series 2008B Bonds.

Proceeds of the Series 2008A Bonds, together with proceeds of the Series 2008B Bonds and other moneys available therefor, will be used to refund all of the County's outstanding Taxable Pension Obligation Bonds, Series 2002B (Auction Rate Securities) (the "Refunded Bonds") and pay certain costs of issuance relating to the Series 2008A Bonds. The Refunded Bonds were issued to refund a portion of the County's statutory obligation to provide retirement compensation pursuant to the County Employees Retirement Law of 1937, as amended, and a portion of the County's then-outstanding taxable pension obligation bonds. Subsequent to the issuance of the Series 2008A Bonds and the refunding described herein, the Series 2008A Bonds will be payable on a parity with the County's other outstanding taxable pension obligation bonds, including the Series 2008B Bonds, and any additional obligations which may be issued or incurred by the County under the Trust Agreement in the future. See "Plan of Financing" and "Security and Sources of Payment for the Series 2008A Bonds" herein.

The County

The County, incorporated in 1850, is the southernmost major metropolitan area in the State of California and covers 4,255 square miles. The County population in 2008 is estimated to be 3,146,274, making it the second largest county in California. The County's Fiscal Year 2008-09 Proposed Operational Plan is approximately $5.15 billion, approximately $3.7 billion of which relates to the County's General Fund budget. The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, and a considerable defense-related presence. For financial, economic and demographic information about the County, see Appendix A hereto.

Security and Sources of Payment for the Series 2008A Bonds

The obligation of the County to make payments with respect to the Pension Obligation Bonds (herein defined) is an absolute and unconditional obligation of the County imposed upon the County by law and enforceable against the County pursuant to the County Employees Retirement Law of 1937 (the "Retirement Law"). Pursuant to Section 31584 of the Retirement Law, the Board of Supervisors of the County is obligated to make appropriations to pay the unfunded accrued actuarial liability which is evidenced by the Series 2008A Bonds, and the Auditor-Controller of the County (the "County Auditor") shall transfer from any money available in any fund in the County treasury the sums specified if the Board of Supervisors of the County fails to make such appropriation. The Trust Agreement provides that the County shall deposit or cause to be deposited with the Trustee the amount of the County's anticipated obligations on the Series 2008A Bonds and any other bonds issued pursuant to the Amended and Restated Trust Agreement for each Fiscal Year within 30 days of the commencement of such Fiscal Year, as more particularly described therein. See Appendix C – "Summary of Certain Provisions of the Trust Agreement – Funds and Accounts – Bond Fund; Deposits to Bond Fund."

Subsequent to the issuance of the Series 2008A Bonds and the refunding described herein, the Series 2008A Bonds will be secured on a parity with the County's other outstanding taxable pension bonds, consisting of the County's Taxable Pension Obligation Bonds, Series 2002A, currently outstanding in the principal amount of $132,215,000, Taxable Pension Obligation Bonds, Series 2004A, currently outstanding in the principal amount of $223,095,000, Taxable Pension Obligation Bonds, Series 2004B, currently outstanding in the principal amount of $147,825,000, Taxable Pension Obligation Bonds, Series 2004C, with a final maturity value of $100,170,000, the Series 2008B Bonds and any additional bonds which hereafter may be issued under the Trust Agreement (collectively, the "Pension Obligation Bonds"). See "Plan of Financing" and "Security and Sources of Payment for the Series 2008A Bonds" herein.

THE OBLIGATIONS OF THE COUNTY UNDER THE SERIES 2008A BONDS, INCLUDING THE OBLIGATION TO MAKE ALL PAYMENTS OF INTEREST AND PRINCIPAL WHEN DUE, ARE OBLIGATIONS OF THE COUNTY IMPOSED BY LAW AND ARE ABSOLUTE AND UNCONDITIONAL, WITHOUT ANY RIGHT OF SET-OFF OR COUNTERCLAIM. THE SERIES 2008A BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE SERIES 2008A BONDS NOR THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS ON THE SERIES 2008A BONDS CONSTITUTE AN INDEBTEDNESS OF THE COUNTY, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

THE ASSETS OF THE SAN DIEGO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION (THE "ASSOCIATION") DO NOT SECURE AND ARE NOT AVAILABLE TO PAY PRINCIPAL OF OR INTEREST ON THE SERIES 2008A BONDS.

Series 2008A Bonds

The Series 2008A Bonds will accrue interest from their date of delivery and interest thereon will be payable on February 15 and August 15 of each year, commencing on February 15, 2009 (each an "Interest Payment Date"). The Series 2008A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. See "The Series 2008A Bonds – General" herein and Appendix C – "Summary of Certain Provisions of the Trust Agreement" attached hereto.

Series 2008A Bonds are available in denominations of $5,000 and any integral multiple thereof. The Series 2008A Bonds will be delivered in fully registered form only, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Series 2008A Bonds. Ownership interests in the Series 2008A Bonds may be purchased in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2008A Bonds purchased. Payments of principal and interest on the Series 2008A Bonds will be payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2008A Bonds, as more fully described herein. See "The Series 2008A Bonds – General" and Appendix E – "Book-Entry Only System and Global Clearance Procedures" herein.

The Series 2008A Bonds are subject to optional and mandatory redemption as described herein. See "The Series 2008A Bonds – Redemption of Series 2008A Bonds" and "– Redemption Procedures" herein.

Tax Matters

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the County ("Bond Counsel"), interest on the Series 2008A Bonds is exempt from State of California personal income taxes. Interest on the Series 2008A Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel expresses no opinion regarding any federal or other state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008A Bonds. See "Tax Matters" herein.

Continuing Disclosure

The County has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with the Rule. See "Continuing Disclosure" herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

Forward-Looking Statements

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

Miscellaneous

The description herein of the Trust Agreement and any other agreements relating to the Series 2008A Bonds are qualified in their entirety by reference to such documents, and the descriptions herein of the Series 2008A Bonds are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See Appendix C – "Summary of Certain Provisions of the Trust Agreement" herein. Copies of the documents are on file and available for inspection at the principal corporate trust office of the Trustee at The Bank of New York Mellon Trust Company, N.A., 700 South Flower, Suite 500, Los Angeles, California 90017; Attention: Corporate Trust Department. All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Trust Agreement. See Appendix C – "Summary of Certain Provisions of the Trust Agreement" for definitions of certain words and terms used but not otherwise defined herein.

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

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

PLAN OF FINANCING

Proceeds of the Series 2008A Bonds, together with proceeds of the Series 2008B Bonds and other moneys available therefor, will be used to refund on August 15, 2008 all of the Refunded Bonds, consisting of the County's Taxable Pension Obligation Bonds, Series 2002B (Auction Rate Securities) currently outstanding in the aggregate principal amount of $485,125,000, and pay certain costs of issuance relating to the Series 2008A Bonds. Proceeds of the sale of the Series 2008A Bonds, together with other funds available therefor, will be deposited with The Bank of New York Mellon Trust Company, N.A., as escrow bank (the "Escrow Bank"), pursuant to the terms of an Escrow Agreement, dated as of August 1, 2008 (the "Escrow Agreement"). The amounts deposited with the Escrow Bank pursuant to the terms of the Escrow Agreement will be invested in Federal Securities (as defined in the Trust Agreement) or held in cash such that the amounts deposited, together with interest earnings thereon, if any, will be sufficient to pay the principal of and interest on or redemption price of, the Refunded Bonds. The Refunded Bonds were issued to refund a portion of the County's statutory obligation to provide retirement compensation pursuant to the County Employees Retirement Law of 1937, as amended, and a portion of the County's then outstanding taxable pension obligation bonds.

In connection with the redemption in full of the Refunded Bonds, the County intends to terminate the two interest rate swap agreements relating to the hedged portion of the Refunded Bonds and pay for any termination payments incurred in connection therewith with available moneys of the County.

APPLICATION OF PROCEEDS OF THE SERIES 2008A BONDS AND SERIES 2008B BONDS

The proceeds of the Series 2008A Bonds, together with proceeds of the Series 2008B Bonds and other moneys available therefor, are expected to be applied approximately as set forth below:

Sources:	
Principal Amount of Series 2008A Bonds	$343,515,000.00
Principal Amount of Series 2008B Bonds	100,000,000.00
County Contribution	61,194,575.80
Transfer from Debt Service Fund for Refunded Bonds	16,159,028.71
Total Sources	$520,868,604.51
Uses:	
Prepayment of Refunded Bonds	$495,770,086.42
Termination of Swap Agreements and Related Costs[1]	21,991,000.00
Costs of Issuance[2]	3,107,518.09
Total Uses	$520,868,604.51

(1) Includes $4,796,424.20 in accrued interest due under the Swap Agreements.
(2) Includes fees of Bond Counsel, the Financial Advisor, the Trustee, Underwriters' discount, rating agency fees, initial fees of the Liquidity Facility Provider, fees of the broker-dealer and auction agent for the Refunded Bonds, printing costs, and certain miscellaneous expenses.

THE SERIES 2008A BONDS

General

The Series 2008A Bonds will be delivered in fully registered form only, and, when issued, will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Series 2008A Bonds. Ownership interests in the Series 2008A Bonds may be purchased in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2008A Bonds purchased. Payments of principal and interest on the Series 2008A Bonds will be payable by the Trustee to DTC, which is obligated in turn to remit such principal and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Series 2008A Bonds, as more fully described herein. See "The Series 2008A Bonds – General" and Appendix E – "Book-Entry Only System and Global Clearance Procedures" herein.

The Series 2008A Bonds will accrue interest from their date of delivery and are available in denominations of $5,000 and any integral multiple of $5,000 in excess thereof. Interest on the Series 2008A Bonds will be payable on the applicable Interest Payment Date, which is February 15 and August 15 of each year, commencing on February 15, 2009. The Series 2008A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the Series 2008A Bonds shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

The Series 2008A Bonds shall bear interest from the Interest Payment Date next preceding the date of registration thereof, unless such date of registration is after a Record Date and on or prior to an Interest Payment Date, in which event they shall bear interest from such Interest Payment Date, or unless such date of registration is prior to the Initial Interest Payment Date, in which event they shall bear interest from the date of their delivery; provided, however, that if at the time of registration of any Series 2008A Bond interest is then in default on the Outstanding Series 2008A Bonds, such Series 2008A Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on the Outstanding Series 2008A Bonds. Payment of interest on the Series 2008A Bonds due on or before the maturity or prior redemption thereof shall be made to the person whose name appears in the Series 2008A Bonds registration books kept by the Trustee as the registered owner thereof as of the close of business on the Record Date immediately preceding an Interest Payment Date, such interest to be paid by check mailed on the

Interest Payment Date by first class mail to such registered owner at the address as it appears in such books except that in the case of an Holder of one million dollars ($1,000,000) or greater in aggregate principal amount of Outstanding Series 2008A Bonds, such payment shall, at such Holder's written request, provided by such Holder prior to the fifteenth (15th) day of the month preceding such Interest Payment Date, be made by wire transfer of immediately available funds in accordance with written instructions provided by such Holder; any such written request shall remain in effect until rescinded in writing by the Holder.

Redemption of Series 2008A Bonds

Optional Redemption of Series 2008A Bonds. The Series 2008A Bonds are subject to redemption prior to their maturity, at the option of the County, from any source available for such purpose, in whole or in part on any date (in such maturities as are designated to the Trustee by the County no later than 45 days prior to the redemption date or, if the County fails to designate such maturities, on a proportional basis among maturities) at a redemption price equal to the greater of: (i) 100 percent of the principal amount of the Series 2008A Bonds to be redeemed; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on the Series 2008A Bonds to be redeemed (exclusive of interest accrued to the date fixed for redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 12.5 basis points, plus in each case, accrued and unpaid interest on the Series 2008A Bonds being redeemed to the date fixed for redemption, with such redemption price to be calculated by the Designated Investment Banker.

"Treasury Rate" means, with respect to any redemption date for a particular Series 2008A Bond, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

"Comparable Treasury Issue" means, with respect to any redemption date for a particular Series 2008A Bond, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the Series 2008A Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series 2008A Bonds to be redeemed.

"Comparable Treasury Price" means, with respect to any redemption date for a particular Series 2008A Bond, (1) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the County.

"Reference Treasury Dealer" means Citigroup Global Markets Inc. and their respective successors and three other firms, specified by the County from time to time, that are primary U.S. Government securities dealers in the City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the County shall substitute another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Series 2008A Bond, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

Mandatory Sinking Fund Redemption. The Series 2008A Bonds maturing on August 15, 2026 (the "2008A Term Bonds") are subject to mandatory sinking fund redemption prior to maturity *pro rata* (based on the respective principal amounts then scheduled to be redeemed on each remaining redemption date) among holders of the 2008A Term Bonds, at a redemption price equal to the principal amount of such Series 2008A Bonds to be redeemed, plus accrued interest with respect thereto to the redemption date, on August 15 of each year, commencing on August 15, 2019 in the principal amounts and on the redemption dates set forth below, without premium:

Sinking Fund Redemption Date (August 15)	Principal Amount to be Redeemed
2019	$19,140,000
2020	18,360,000
2021	17,395,000
2022	16,215,000
2023	15,015,000
2024	13,605,000
2025	75,220,000
2026 (Maturity)	65,150,000

The Trustee will effect each mandatory sinking fund redemption of the 2008A Term Bonds by redeeming from each person who is the registered owner of a 2008A Term Bond to be redeemed on the Record Date immediately preceding a redemption date on a *pro rata* basis. "*Pro rata*" means, in connection with any mandatory sinking fund redemption, with respect to the allocation of amounts to the payment of sinking fund installments required to be made on 2008A Term Bonds of any maturity, the application of a fraction to such amounts, the numerator of which is equal to the amount of such 2008A Term Bonds of such maturity held by a holder of 2008A Term Bonds of such maturity, and the denominator of which is equal to the total amount of such 2008A Term Bonds of such maturity then outstanding, prior to such date of redemption, and then rounding the product down to the next lower integral multiple of $5,000. The Trustee will apply, to the extent possible, any remaining amount of a sinking fund installment to redeem $5,000 units of such Series 2008A Bonds and will select, by lot, the units to be redeemed from all such 2008A Term Bond registered owners, which selection shall be conclusive.

Credit for Non-Mandatory Redemption. The requirements for mandatory sinking fund redemption of the Series 2008A Bonds are subject, however, to the provision that any partial, optional redemption of Series 2008A Bonds shall reduce the mandatory sinking fund redemption requirements described under the caption "– Mandatory Sinking Fund Redemption" above. In the event of a partial, optional redemption of Series 2008A Bonds, the Series 2008A Bonds so redeemed shall be credited by the Trustee at 100% of the principal amount thereof against future mandatory sinking fund redemption requirements described above on a pro-rata basis.

Redemption Procedures

Notice of Redemption. Notice of any redemption of Series 2008A Bonds shall be given by the Trustee by first-class mail, not less than thirty (30) nor more than sixty (60) days prior to the redemption date to the respective Holders of the Series 2008A Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. In addition, notice of redemption shall also be sent to the Rating Agencies, to all municipal registered Securities Depositories and to at least two of the NRMSIRs, no later than simultaneously with the mailing of notices described in the preceding sentence; provided, that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of such Series 2008A Bonds. Each notice of redemption shall state the date of such notice, the redemption price, if any, the name and appropriate address of the Trustee, the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the Series 2008A Bonds of such maturity, to be redeemed and, in the case of Series 2008A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such redemption.

If notice of redemption has been duly given pursuant to the Trust Agreement and money for the payment of the redemption price of the Series 2008A Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice Series 2008A Bonds so called for redemption shall become due and payable, and from and after the redemption date so designated interest on such Series 2008A Bonds shall cease to accrue, and the Holders of such Series 2008A Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

The County may rescind any optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Series 2008A Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Trust Agreement. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Selection of Series 2008A Bonds to be Redeemed. In the case of any redemption in part of the Series 2008A Bonds, the Series 2008A Bonds to be redeemed shall be selected by the Trustee, subject to any requirements described in this paragraph. If less than all the Series 2008A Bonds of a maturity shall be called for redemption, the particular Series 2008A Bonds of such maturity to be redeemed shall be selected by the Trustee, in such manner as the Trustee in its discretion may deem fair and appropriate consistent with the requirements described in the last paragraph under the caption "Redemption of the Series 2008A Bonds – Mandatory Sinking Fund Redemption".

At its option, to be exercised on or before the 45th day next preceding any mandatory sinking fund redemption date for Series 2008A Bonds, the County may deliver to the Trustee for cancellation Series 2008A Bonds of the appropriate maturity in any aggregate principal amount which have been purchased by the County in the open market. Each Series 2008A Bond so delivered shall be credited by the Trustee at 100% of the principal amount thereof against the mandatory sinking fund redemption requirement for Series 2008A Bonds on such mandatory redemption date; and any excess of such amount shall be credited against future mandatory sinking fund redemption requirements on a pro-rata basis.

Partially Redeemed. Upon surrender of any Series 2008A Bond redeemed in part only, the Trustee shall execute and deliver to the Holder thereof, at the expense of the County, a new Series 2008A Bond or Series 2008A Bonds of Authorized Denominations then applicable, equal in aggregate principal amount to the unpaid portion of the Series 2008A Bond surrendered and of the same interest rate and the same maturity.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) with respect to the Series 2008A Bonds so called for redemption shall have been duly provided, such Series 2008A Bonds so called shall cease to be entitled to any benefit under the Trust Agreement other than the right to receive payment of the principal, interest accrued to the redemption date, and premium, if any, and no interest shall accrue with respect thereto from and after the redemption date specified in the notice of such redemption. If such funds shall not be so available on the redemption date, interest with respect to such Series 2008A Bonds or portions thereof shall continue accrue until paid at the same rate as it would have accrued had they not been called for redemption.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2008A BONDS

General

Pursuant to the Retirement Law, the Board of Supervisors is obligated to appropriate and make payments to the Association for certain amounts arising as a result of retirement benefits accruing to members of the Association. The obligation of the County to make payments with respect to the Pension Obligation Bonds is an absolute and unconditional obligation of the County imposed upon the County by law and enforceable against the County pursuant to the Retirement Law. Pursuant to Section 31584 of the Retirement Law, the Board of Supervisors of the County is obligated to make appropriations to pay the unfunded accrued actuarial liability which is evidenced by the Series 2008A Bonds, and the County Auditor shall transfer from any money available in any fund in the County treasury the sums specified if the Board of Supervisors of the County fails to make such appropriation. The Trust Agreement provides that the County shall deposit or cause to be deposited with the Trustee the amount of the County's anticipated obligations on the Series 2008A Bonds and any other bonds issued pursuant to the Amended and Restated Trust Agreement for each Fiscal Year within 30 days of the commencement of such Fiscal Year, as more particularly described therein. See Appendix C – "Summary of Certain Provisions of the Trust Agreement – Funds and Accounts – Bond Fund; Deposits to Bond Fund."

THE OBLIGATIONS OF THE COUNTY UNDER THE SERIES 2008A BONDS, INCLUDING THE OBLIGATION TO MAKE ALL PAYMENTS OF INTEREST AND PRINCIPAL WHEN DUE, ARE OBLIGATIONS OF THE COUNTY IMPOSED BY LAW AND ARE ABSOLUTE AND UNCONDITIONAL, WITHOUT ANY RIGHT OF SET-OFF OR COUNTERCLAIM. THE SERIES 2008A BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. NEITHER THE SERIES 2008A BONDS NOR THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS ON THE SERIES 2008A BONDS CONSTITUTE AN INDEBTEDNESS OF THE COUNTY, THE STATE, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Subsequent to the issuance of the Series 2008A Bonds and the refunding described herein, the Series 2008A Bonds will be secured on a parity with the County's other outstanding taxable pension bonds, including the Series 2008B Bonds, and any additional bonds which hereafter may be issued under the Trust Agreement. The Trust Agreement provides that the County reserves the right to enter into one or more other agreements or indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes. See Appendix C – "Summary of Certain Provisions of the Trust Agreement" herein.

THE ASSOCIATION'S ASSETS DO NOT SECURE AND ARE NOT AVAILABLE TO PAY PRINCIPAL OF OR INTEREST ON THE SERIES 2008A BONDS.

Fiscal Year Debt Service on Outstanding Pension Obligation Bonds

The following table sets forth the debt service obligations in each fiscal year for the outstanding pension obligation bonds of the County. For information on other County debt service obligations and other information regarding the General Fund of the County, see Appendix A – "County of San Diego Financial, Economic and Demographic Information" attached hereto.

COUNTY OF SAN DIEGO
Outstanding Pension Obligation Bonds Fiscal Year Debt Service
(as of August 7, 2008)

Fiscal Year (Ending June 30)	Series 2002 Bonds Debt Service[(1)]	Series 2004 Bonds Debt Service	Series 2008A Bonds Debt Service	Series 2008B Bonds Debt Service[(2)]	Total
2009	$20,385,142.50	$31,366,960.01	$10,384,448.87	$ 3,699,927.18	$65,836,478.56
2010	20,434,752.50	32,650,701.26	28,322,214.96	4,627,859.33	86,035,528.05
2011	20,437,074.50	33,960,701.26	27,012,598.98	4,627,859.33	86,038,234.07
2012	20,435,531.50	35,320,701.26	25,578,764.50	4,701,737.64	86,036,734.90
2013	20,438,747.75	36,715,701.26	24,263,767.25	4,622,328.09	86,040,544.35
2014	20,438,346.00	38,210,701.26	22,763,874.60	4,627,859.33	86,040,781.19
2015	17,656,526.50	39,741,424.39	24,013,655.50	4,627,859.33	86,039,465.72
2016	17,656,442.50	41,337,147.52	22,420,907.20	4,623,874.62	86,038,371.84
2017	-	42,965,098.77	38,373,606.60	4,699,978.37	86,038,683.74
2018	-	44,717,295.89	36,694,015.40	4,627,859.33	86,039,170.62
2019	-	46,507,149.26	34,906,405.40	4,627,859.33	86,041,413.99
2020	-	48,369,669.14	33,038,653.70	4,624,725.58	86,033,048.42
2021	-	50,283,425.39	31,128,216.20	4,622,328.09	86,033,969.68
2022	-	52,322,690.89	29,085,381.73	4,627,859.33	86,035,931.95
2023	-	54,439,051.26	26,892,208.28	4,705,722.35	86,036,981.89
2024	-	56,663,518.76	24,750,779.93	4,623,874.62	86,038,173.31
2025	-	58,942,023.76	22,478,030.03	4,621,477.13	86,041,530.92
2026	-	-	81,415,400.40	4,627,859.33	86,043,259.73
2027	-	-	67,113,946.75	18,934,950.29	86,048,897.04
2028	-	-	-	86,054,586.94	86,054,586.94

Source: County of San Diego.

(1) Excludes (i) the Series 2002 Bonds that will be refunded in connection with the issuance of the Series 2008A Bonds and the Series 2008B Bonds and (ii) debt service for the Series 2002B1–B4 Bonds due on August 15, 2008 and accrued interest on the Swap Agreements and auction agent and broker-dealer fees relating thereto in the aggregate amount of $16,159,028.71. See "Plan of Financing" and "Application of Proceeds of the Series 2008A Bonds and the Series 2008B Bonds" herein.

(2) The Series 2008B Bonds will initially bear interest at a variable rate. Such interest rate is assumed to be 4.61%, which is based on the historical 10-year average one-month London Interbank Offered Rate plus liquidity and remarketing fees.

VALIDATION

On November 10, 1993, the County, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure and Government Code Sections 53511 and 53589.5, filed a complaint in the Superior Court of the State of California for the County of San Diego seeking judicial validation of the proceedings and transactions relating to the issuance of the Debentures, the Prior Bonds and any future series of bonds, including the Series 2008A Bonds, to be issued by the County in connection therewith and certain other matters. On December 16, 1993, the court entered a default judgment to the effect, among other things, that the Pension Obligations Bonds are valid, legal and binding obligations of the County and in conformity with all applicable provisions of law. In issuing the opinion as to the validity of the Series 2008A Bonds, Bond Counsel will rely upon the entry of the foregoing default judgment.

TAX MATTERS

General

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the County, interest on the Series 2008A Bonds is exempt from State of California personal income taxes. Interest on the Series 2008A Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code.

Bond Counsel expresses no opinion regarding any federal or other state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008A Bonds. The proposed form of opinion of Bond Counsel is contained in Appendix D – "Form of Bond Counsel Approving Opinion" attached hereto.

The following is a summary of certain of the United States federal income tax consequences of the ownership of the Series 2008A Bonds as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Code, as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the Series 2008A Bonds generally and does not purport to furnish information in the level of detail or with the investor's specific tax circumstances that would be provided by an investor's own tax advisor. For example, it generally is addressed only to original purchasers of the Series 2008A Bonds that are "U.S. holders" (as defined below), deals only with Series 2008A Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to holders that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax-exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, FASITs, S corporations, persons that hold Series 2008A Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in a holder of Series 2008A Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a beneficial owner of a Series 2008A Bond. A "non-U.S. investor" is a holder (or beneficial owner) of a Series 2008A Bond that is not a U.S. Person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof (except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

Tax Status of the Series 2008A Bonds

The Series 2008A Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the holder as it is paid (or, if the holder is an accrual method taxpayer, as it is accrued) as interest.

Holders of the Series 2008A Bonds that allocate a basis in the Series 2008A Bonds that is greater than the principal amount of the Series 2008A Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under section 171 of the Code.

If a holder purchases the Series 2008A Bonds for an amount that is less than the principal amount of the Series 2008A Bonds, and such difference is not considered to be de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Series 2008A Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Although the Series 2008A Bonds are expected to trade “flat,” that is, without a specific allocation to accrued interest, for federal income tax purposes, a portion of the amount realized on sale attributed to the Series 2008A Bonds will be treated as accrued interest and thus will be taxed as ordinary income to the seller (and will not be subject to tax in the hands of the buyer).

Sale and Exchange of the Series 2008A Bonds

Upon a sale or exchange of a Series 2008A Bond, a holder generally will recognize gain or loss on the Series 2008A Bonds equal to the difference between the amount realized on the sale and its adjusted tax basis in such Series 2008A Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the Series 2008A Bond not yet taken into income will be ordinary). The adjusted basis of the holder in a Series 2008A Bond will (in general) equal its original purchase price decreased by any principal payments received on the Series 2008A Bond. In general, if the Series 2008A Bond is held for longer than one year, any gain or loss would be long term capital gain or loss, and capital losses are subject to certain limitations.

Defeasance

Defeasance of any Series 2008A Bond may result in a reissuance thereof, in which event a holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder’s adjusted tax basis in the Series 2008A Bond.

Foreign Investors

Distributions on the Series 2008A Bonds to a non-U.S. holder that has no connection with the United States other than holding its Series 2008A Bond generally will be made free of withholding tax, as long as the holder has complied with certain tax identification and certification requirements.

Circular 230

Investors are urged to obtain independent tax advice based upon their particular circumstances. The tax discussion above was not intended or written to be used, and cannot be used, for the purposes of avoiding taxpayer penalties. The advice was written to support the promotion or marketing of the Series 2008A Bonds.

ERISA CONSIDERATIONS

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

The Underwriters, as a result of their own activities or because of the activities of an affiliate, may be considered “disqualified persons” within the meaning of ERISA or “parties in interest” within the meaning of the Code, with respect to certain employee benefit plans. Prohibited transactions within the meaning of Section 406 of ERISA and Section 4975 of the Code may arise if Series 2008A Bonds are acquired by a Plan with respect to which the Underwriters, or any of their respective affiliates, are “disqualified persons” or "parties in interest." Certain exemptions from the prohibited transaction rules could be applicable, however, depending in part upon the type of Plan fiduciary making the decision to acquire a Series 2008A Bond and the circumstances under which such decision is made. Included among these exemptions are those regarding securities purchased during the existence of an underwriting, investments by insurance company separate accounts, investments by insurance company general accounts, investments by bank collective investment funds, transactions effected by a "qualified professional asset manager," and transactions affected by an "in-house asset manager." Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. In order to ensure that no prohibited transaction under ERISA and the Code will take place in connection with the acquisition of a Series 2008A Bond by or on behalf of a Plan, each prospective purchaser of a Series 2008A Bond who is a Plan or is acquiring on behalf of a Plan will be required to represent that either (i) no prohibited transactions under ERISA and the Code will occur in connection with the acquisition of such Series 2008A Bond or (ii) the acquisition of such Series 2008A Bond is subject to a statutory or administrative exemption.

Any Plan fiduciary which proposes to cause a Plan to purchase Series 2008A Bonds should consult with its counsel with respect to the potential applicability of ERISA and the Code to such investments and whether any exemption would be applicable and determine on its own whether all conditions have been satisfied. Moreover, each Plan fiduciary should determine whether, under the general fiduciary standards of investment prudence and diversification, an investment in the Series 2008A Bonds is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, issuance, sale and delivery by the County of the Series 2008A Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Bond Counsel, and certain other conditions. A complete copy of the proposed form of approving opinion of Bond Counsel is contained in Appendix D attached hereto. Certain legal matters will be passed upon for the County by the County Counsel and for the Underwriters by their counsel, Hawkins Delafield & Wood LLP, Los Angeles, California.

FINANCIAL STATEMENTS

The general purpose financial statements of the County, pertinent sections of which are included in Appendix B to this Official Statement, have been audited by Macias Gini & O'Connell LLP ("Macias"), certified public accountants and management consultants, as stated in their report appearing in Appendix B. Macias has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Macias with respect to any event subsequent to its report dated December 17, 2007.

LITIGATION

No litigation is pending or threatened concerning the validity of the Series 2008A Bonds. The County is not aware of any litigation pending or, to the best knowledge of the County, threatened questioning the political existence of the County or contesting the County's ability to issue and pay the Series 2008A Bonds.

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

VERIFICATION OF MATHEMATICAL ACCURACY

Grant Thornton LLP, independent accountants, upon delivery of the Series 2008A Bonds and the Series 2008B Bonds, will deliver a report on the mathematical accuracy of certain computations, contained in schedules provided to them relating to the sufficiency of the amounts deposited with the Escrow Bank to refund the Refunded Bonds on the redemption date. The report of Grant Thornton LLP will include the statement that the scope of their engagement is limited to verifying the mathematical accuracy of the computations contained in such schedules provided to them, and that they have no obligation to update their report because of events occurring, or data or information coming to their attention, subsequent to the date of their report.

RATINGS

Standard & Poor's, a division of the McGraw-Hill Companies, Inc. ("S&P"), Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings ("Fitch") have assigned ratings of "AA", "Aa3" and "AA", respectively, to the Series 2008A Bonds. Such ratings reflect only the views of such organizations and explanations of the significance of such ratings may be obtained only from the organizations at: Standard and Poor's Ratings Services, 55 Water Street, New York, New York 10041, telephone number (212) 438-2000; Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007-2796, telephone number (212) 553-0317; 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 2008A Bonds.

UNDERWRITING

The Series 2008A Bonds are being purchased by the underwriters set forth on the cover page of this Official Statement (the "Underwriters"). Pursuant to the Purchase Contract for the Series 2008A Bonds, the Underwriters have agreed to purchase the Series 2008A Bonds at a purchase price of $341,994,273.80 (consisting of the aggregate principal amount of the Series 2008A Bonds of $343,515,000.00, less an underwriters' discount of $1,520,726.20). The Purchase Contract for the Series 2008A Bonds provides that the Underwriters will purchase all of the Series 2008A Bonds, if any are purchased. The initial public offering price of the Series 2008A Bonds set forth on the inside cover page may be changed without notice by the Underwriters. The issuance of the Series 2008A Bonds is contingent upon the issuance of the Series 2008B Bonds.

FINANCIAL ADVISOR

Gardner, Underwood & Bacon LLC, Los Angeles, California served as Financial Advisor to the County in connection with the issuance of the Series 2008A Bonds. Gardner, Underwood & Bacon LLC is an independent financial advisory firm and is not engaged in the business of underwriting municipal bonds or other securities. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

CONTINUING DISCLOSURE

Material Events Undertaking

Pursuant to a Continuing Disclosure Agreement (the "Disclosure Agreement") with Digital Assurance Certification, L.L.C. ("DAC"), the County has agreed to provide, or cause to be provided, with respect to each fiscal year of the County, commencing with Fiscal Year 2007-08, by no later than eight months after the end of the respective fiscal year, to each Repository the audited financial statements, if available, or unaudited financial statements, and the annual financial information and operating data with respect to the County, for each fiscal year of the County, as described in Appendix A – "County of San Diego Financial, Economic and Demographic Information" attached hereto. In addition, the County has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the County to be material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on the debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the security; (7) modifications to rights of security holders; (8) bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the securities; and (11) rating changes. These covenants have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5).

Additional Information

The County agreed to provide, or cause to be provided, to each Repository, Annual Reports, including its Financial Statements with respect to each fiscal year of the County in connection with the issuance of certain of its outstanding debt obligations. The Annual Report for Fiscal Year 2001-02 with respect to the County's Taxable Pension Obligation Bonds, Series 2002, including financial statements, was not submitted by the required deadline. In addition, the County did not provide financial statements with respect to Fiscal Years 2001-02 and 2002-03 for its outstanding obligations which are identified in the following table when it filed its Annual Reports by their respective required filing dates, most of which are December 27 and the latest of which is January 26 of each year, because the County's financial statements were not available by such dates. The County filed notices of failure to provide required annual financial information as required by the Rule for each of these instances. The County subsequently provided to each Repository its unaudited and audited financial statements with respect to these fiscal years for these Annual Reports. The County has otherwise 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 or notices of material events.

Copies of the County's Annual Reports and notices of material event filings are available at DAC's website, *www.dacbond.com*. The information presented there is not incorporated by reference in this Official Statement and should not be relied upon in making an investment decision with respect to the Series 2008A Bonds.

Obligations for which the County Failed to Timely File Complete Annual Reports in
Fiscal Years 2001-02 and 2002-03

$737,340,000 County of San Diego Taxable Pension Obligation Bonds, Series 2002
$26,060,000 Certificates of Participation (2002 Motorola Refunding)[(1)]
$40,000,000 Certificates of Participation (2001 MTS Tower Refunding)
$51,620,000 Certificates of Participation (2000 Information Technology System Financing)
$15,010,000 Certificates of Participation (1999 East Mesa Refunding)
$73,115,000 Certificates of Participation (1998 Downtown Courthouse Refunding)
$80,675,000 Certificates of Participation (1997 Central Jail Refunding)
$28,035,000 Certificates of Participation (1997 Master Refunding)
$37,580,000 Certificates of Participation (1996 North County Regional Center Expansion and East County Courthouse Detention Facility Conversion)
$52,230,000 Certificates of Participation (1996 Regional Communication System)
Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B
$21,755,000 Reassessment District No. 97-1 (4-S Ranch) Limited Obligation Improvement Bonds
$5,100,000 Redevelopment Agency of the County of San Diego Revenue Bonds, Series 1995 (Gillespie Field Project)

(1) The continuing disclosure obligation requirement for the Annual Report for this obligation began for Fiscal Year 2002-03. Accordingly, the County was late with respect to this Annual Report only for Fiscal Year 2002-03.

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 2008A Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in affairs in the County since the date hereof.

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

COUNTY OF SAN DIEGO

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

APPENDIX A

COUNTY OF SAN DIEGO FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION

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 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary. The County is approximately the geographic size of the State of Connecticut. The County's Fiscal Year 2008-09 Proposed Operational Plan is approximately $5.15 billion, approximately $3.7 billion of which relates to the County's General Fund budget.

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

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

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

County of San Diego Employees

Table 1 below sets forth the number of County employees for the years 1999 through 2008:

TABLE 1

TOTAL COUNTY EMPLOYEES[1]

Year	Total Employees
1999	16,390
2000	16,617
2001	17,057
2002	18,208
2003	17,835
2004	16,949
2005	16,418
2006	16,195
2007	16,471
2008	16,365

Source: The County.
(1) Excludes temporary employees of the County.

County employees are represented by eight unions representing 25 bargaining units. The unions represent approximately 88% of the County's approximately 16,365 employees and include the Deputy Sheriffs' Association of San Diego County; Deputy District Attorneys Association; San Diego County Probation Officers' Association SEIU, Local 221, CLC; District Attorney Investigators Association; Service Employees International Union, Local 221, CLC; San Diego Deputy County Counsels Association; Public Defender Association of San Diego County, and the San Diego County Supervising Probation Officers' Association. The County has labor agreements with all unions effective through June 18, 2009. The remaining employees are unrepresented.

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 General Fund budgets for Fiscal Years 2006-07 and 2007-08, proposed General Fund budget for Fiscal Year 2008-09, 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 based on the California consumer price index. In the event of declining property value caused by substantial damage, destruction, economic or other factors, Article XIIIA of the State Constitution allows the assessed value to be reduced temporarily to reflect the lower market value. For the definition of full cash value and more information on property tax limitations and adjustments, see "Constitutional and Statutory Limitations on Taxes, Revenues and Appropriations – Article XIIIA" herein.

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year. The value review may result in the reinstatement of the indexed base value after a temporary reduction or it may result in a reduction in value. Taxpayers in the County also may appeal the determination of the County Assessor with respect to the assessed value of their property. Through June 26, 2008 of Fiscal Year 2007-08, the County Assessor has received 13,121 appeals with respect to 15,799 affected parcels. Table 2 below sets forth the number of appeals received by the County Assessor and the corresponding number of affected parcels since 1993. See "Economic and Demographic Information - Foreclosures; Notices of Loan Default" herein.

TABLE 2

ASSESSMENT APPEALS
Fiscal Years 1992-93 through 2007-08

Year	Applications	Parcels
1993	11,631	19,203
1994	20,776	29,624
1995	26,871	37,015
1996	25,941	34,046
1997	18,773	22,724
1998	22,577	25,170
1999	4,594	6,070
2000	5,374	6,994
2001	2,900	3,885
2002	2,954	4,029
2003	3,074	3,666
2004	2,700	3,035
2005	2,573	3,932
2006	2,486	2,752
2007	3,334	3,601
2008(1)	13,121	15,799

Source: County Assessor
(1) Through June 26, 2008.

Ad Valorem Property Taxation

Table 3 below sets forth the assessed valuation of property within the County subject to taxation for Fiscal Years 1999-00 through 2008-09:

TABLE 3

ASSESSED VALUATION OF PROPERTY SUBJECT TO AD VALOREM TAXATION
Fiscal Years 1999-00 through 2008-09
(In Thousands)

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Valuation	Exemption(1)	Net Assessed Valuation for Tax Purposes(2)
1999-00	$ 70,120,054	$105,048,079	$10,221,397	$185,389,530	$4,840,799	$180,548,731
2000-01	76,745,341	112,696,091	11,598,968	201,040,400	5,322,920	195,717,480
2001-02	84,852,228	122,629,979	12,675,787	220,157,994	5,674,325	214,483,669
2002-03	93,104,455	133,459,423	11,773,210	238,337,088	5,474,711	232,862,377
2003-04	103,818,122	145,973,945	11,949,627	261,741,694	6,742,042	254,999,652
2004-05	117,332,258	159,013,240	11,804,416	288,149,914	7,332,153	280,817,761
2005-06	137,276,347	175,791,219	12,807,092	325,874,658	7,916,172	317,958,485
2006-07	158,460,301	192,889,631	13,201,802	364,551,734	8,553,542	355,998,192
2007-08	176,074,513	208,732,483	13,916,210	398,723,206	9,427,705	389,295,500
2008-09	184,573,765	217,641,565	14,496,587	416,711,917	10,336,971	406,374,945

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

Table 4 below sets forth the approximate tax levied against the ten largest taxpayers in the County for Fiscal Year 2007-08. These tax payments represent approximately 3.2% of the total secured property tax levied by the County for Fiscal Year 2007-08, which amount is $4,364,915,835.

TABLE 4

TEN LARGEST TAXPAYERS
Fiscal Year 2007-08

Property Owners	Business Area	Approximate Tax
San Diego Gas & Electric Company	Gas and Electric Utility	$47,514,704
Southern California Edison Co.	Electric Utility	19,670,452
Irvine Co.	Real Estate	17,213,176
Qualcomm Inc.	Telecommunication	12,972,228
Kilroy Realty LP	Real Estate	10,159,045
Pacific Bell Telephone Company	Telecommunication	9,317,128
Host San Diego Hotel LLC	Real Estate	7,386,453
San Diego Family Housing LLC	Real Estate	5,684,618
Camp Pendleton & Quantico Housing	Real Estate	5,611,937
Genentech Inc	Biotechnology	5,527,862

Source: County of San Diego Auditor and Controller.

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

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

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

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

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

Secured Tax Rolls Statistics

Table 5 below sets forth information relating to the County's secured tax roll and assessed value of property since Fiscal Year 1998-99 and an estimate for the Fiscal Year ending on June 30, 2008.

TABLE 5

SECURED TAX ROLL STATISTICS
Fiscal Years 1998-99 through 2007-08

Fiscal Year	Total Bills	Total Assessed Value[1]	Total Tax Amount[2]	Delinquent Tax Bills	Delinquent Tax Amount[3]	Delinquent Tax Amount as Percent of Total Tax Amount
1998-99	831,497	$160,102,387,349	$1,791,871,717	33,484	$ 32,513,581	1.60%
1999-00	842,959	176,113,891,329	1,962,926,237	36,820	39,059,369	1.70
2000-01	857,777	191,194,756,333	2,126,737,380	33,817	38,805,254	1.82
2001-02	871,191	209,281,264,375	2,335,927,431	31,198	39,156,006	1.68
2002-03	885,452	227,376,419,310	2,552,212,549	29,769	39,156,463	1.53
2003-04	898,222	250,071,362,845	2,831,188,116	30,244	41,183,548	1.45
2004-05	912,850	276,651,738,142	3,141,818,961	38,065	49,379,983	1.57
2005-06	934,416	313,592,785,425	3,565,874,923	46,386	70,146,925	1.97
2006-07	954,808	350,431,485,633	3,964,281,859	54,013	111,504,199	2.81
2007-08[4]	968,699	385,014,085,589	4,364,915,835	63,000	144,000,000	3.30

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

Liens and Redemption

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

Financial Statements

Table 6 below sets forth the audited General Fund Balance Sheet for Fiscal Year ended June 30, 2006 and for Fiscal Year ended June 30, 2007. Table 7 below sets forth the audited General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for Fiscal Years 2003-04 through 2006-07.

TABLE 6

COUNTY OF SAN DIEGO
GENERAL FUND BALANCE SHEET
June 30, 2006 and June 30, 2007
(In Thousands)

ASSETS	(Audited) 2006[3]	(Audited) 2007[3]
Pooled Cash and Investments	$ 643,375	$ 936,658
Cash with Fiscal Agents	33,079	33
Investments With Fiscal Agents	2	2
Property Taxes Receivables, net	119,117	157,936
Receivables, net	296,144	265,425
Due from Other Funds[1]	109,157	97,033
Prepaid Items	350	5,509
Advances to Other Funds	906	884
Inventories	8,636	7,048
Restricted Assets - Cash with Fiscal Agents	--	185
Restricted Assets – Investments with Fiscal Agents[2]	250,000	221,026
TOTAL ASSETS	$1,460,766	$1,691,739
LIABILITIES		
Accounts Payable	$ 99,083	$ 88,038
Accrued Payroll	23,345	23,885
Amount Due for Tax and Revenue Anticipation Notes[2]	250,000	220,000
Due to Other Funds[1]	21,739	27,889
Deferred Revenues	98,185	107,702
Unearned Revenue	69,529	69,143
TOTAL LIABILITIES	$ 561,881	$ 536,657
FUND BALANCES		
Reserved for Encumbrances	$ 141,596	$ 212,090
Reserved for Notes Receivable and Advances	7,161	--
Reserved for Loans, Advances and Prepaids	--	12,523
Reserved for Inactive Landfill Maintenance	2,276	
Reserved for Landfill Closure Costs	--	1,446
Reserved for Inventories	8,636	7,048
Reserved for Other Purposes	113,267	177,137
Unreserved:		
Designated for Subsequent Years' Expenditures	190,490	182,499
Designated for landfill postclosure and inactive landfill maintenance	12	--
Designated for landfill postclosure and landfill closure costs	--	910
Undesignated	435,447	561,429
TOTAL FUND BALANCES	$ 898,885	$1,155,082
TOTAL LIABILITIES AND FUND BALANCES	$1,460,766	$1,691,739

Source: County of San Diego Auditor and Controller.

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

(2) Includes the tax and revenue anticipation notes outstanding at June 30, 2006 and June 30, 2007. The tax and revenue anticipation notes for Fiscal Year 2005-06 matured in July 2006. The amount of tax and revenue anticipation notes outstanding as of June 30, 2007, together with investment earnings received in connection therewith, is reflected above. Consistent with National Council on Governmental Accounting Interpretation No. 9, the liability for tax and revenue anticipation notes outstanding at June 30 is displayed in the General Fund and offset by a corresponding asset recorded as Restricted Assets-Investments with Fiscal Agents representing the pledged amounts.

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

TABLE 7

COUNTY OF SAN DIEGO
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For Fiscal Years 2003-04 through 2006-07
(In Thousands)

	(Audited) 2003-04	(Audited) 2004-05	(Audited) 2005-06	(Audited) 2006-07
Revenues:				
Taxes[1]	$ 457,062	$ 671,850	$ 791,241	$ 842,396
Licenses, Permits and Franchise Fees	31,233	32,015	31,847	33,752
Fines, Forfeitures and Penalties	40,363	51,000	56,177	55,248
Revenue From Use of Money and Property	12,721	29,308	43,757	51,894
Aid From Other Governmental Agencies:				
State[1]	649,829	511,830	578,736	851,309
Federal	588,815	620,477	660,976	704,440
Other	57,442	60,415	88,210	92,769
Charges for Current Services	246,381	254,585	271,448	269,282
Other Revenue	32,058	38,057	25,668	33,227
Total Revenues	$2,115,904	$2,269,537	$2,548,060	$2,934,317
Expenditures:				
Current:				
General Government[2]	$ 207,600	$ 204,566	$ 188,223	$ 224,261
Public Protection[2]	1,172,110	928,375	1,001,110	1,059,826
Public Ways and Facilities[2]	23,983	4,348	1,974	1,369
Health and Sanitation[2]	552,035	499,471	517,837	539,954
Public Assistance[2]	948,165	858,487	901,122	928,234
Education[2]	5,798	597	820	1,157
Recreation and Cultural[2]	23,709	18,300	21,375	24,509
Capital Outlay[3]	--	17,928	18,590	17,190
Debt service:				
Interest and Fiscal Charges	5,776	12,310	12,368	10,843
Total Expenditures	$2,939,176	$2,544,382	$2,663,419	$2,807,343
Excess (Deficiency) of Revenues over (under) Expenditures	($ 823,272)	($ 274,845)	($ 115,359)	$ 126,974
Other financing sources (uses):				
Sale of Capital Assets	$ 7	$ --	$ 12,241	$ 130
Long Term Debt Proceeds[2]	454,113	--	--	--
Transfers In[4]	483,333	568,677	486,203	283,535
Transfers Out[5]	(162,035)	(179,228)	(151,503)	(152,854)
Total Other Financing Sources (Uses)	$ 775,418	$ 389,449	$ 346,941	$ 130,811
Net Change in Fund Balance	($ 47,854)	$ 114,604	$ 231,582	$ 257,785
Fund Balances at Beginning of Year	598,661	551,000	667,458	898,885
Increase (Decrease) in Reserve for Inventories	193	1,854	(155)	(1,588)
Fund Balances at End of Year	$ 551,000	$ 667,458	$ 898,885	$1,155,082

(Table continued from prior page.)

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Source: Comprehensive Annual Financial Report of the County.

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

(2) The respective amounts in 2003-04 reflect the issuance of 2004 Pension Obligation Bonds in June 2004. The proceeds of these Pension Obligation Bonds were deposited with the San Diego County Retirement Association and were accounted for in Fiscal Year 2003-04 as having been expended by each of the seven functional areas noted based on the payrolls attributable to these functional areas.

(3) In Fiscal Year 2003-04 expenditures for Capital Outlay were included in the functional categories set forth under the caption "Current" above.

(4) In Fiscal Years 2003-04 and 2004-05, revenues from the Public Safety Augmentation Sales Tax (Proposition 172), Health and Social Services' Realignment monies and the tobacco securitization proceeds were recognized in the Special Revenue funds and treated as operating transfers when moved to the General Fund to reimburse expenses incurred. These three sources accounted for substantially all of the transfers in for Fiscal Years 2003-04 and 2004-05. In Fiscal Year 2005-06, Health and Social Services' Realignment monies were received directly into the General Fund and reflected as aid from the State rather than transfers in from other financing sources. In Fiscal Years 2005-06 and 2006-07, revenues from the Public Safety Augmentation Sales Tax (Proposition 172) and the tobacco securitization proceeds were recognized in the Special Revenue funds and treated as operating transfers when moved to the General Fund to reimburse expenses incurred.

(5) Essentially represents contributions to the Pension Obligation Bonds fund, annual base rent payments to SANCAL (defined herein), contributions to capital funds for General Fund projects, County contributions to the Library fund, and the In-Home Supportive Services ("IHSS") Public Authority fund. Additionally, in Fiscal Year 2004-2005 contributions were made to the Pension Obligation Bonds fund related to the economic defeasance of the 1994 Pension Obligation Bonds.

General Fund Budget

The Board of Supervisors is required by State law to adopt a balanced annual budget no later than August 30 of each year. The County General Fund finances the legally authorized activities of the County not provided for in other restricted funds. General Fund revenues are derived from such sources as taxes, licenses, permits and franchises, fines, forfeitures and penalties, use of money and property, aid from other governmental agencies, charges for current services and other revenue. General Fund expenditures and encumbrances are classified by the functions of public safety, health and human services, land use and environment, community services, finance and general government and other. Increases in the aggregate appropriations based on actual or anticipated increases in available financing can be made after the final budget has been adopted upon approval by a four-fifths vote of the Board of Supervisors.

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

2007-08 Budget and Financial Position of the County

The Fiscal Year 2007-08 Adopted Budget (the "2007-08 Adopted Budget") for the County's General Fund included expenditures of approximately $3.5 billion and revenues and other financing sources of approximately $3.5 billion. In accordance with the normal practice of the County, the 2007-08 Adopted Budget has been adjusted to reflect carry-over appropriations from the prior fiscal year and program needs not included in the 2007-08 Adopted Budget. As of March 31, 2008, the County's Fiscal Year 2007-08 General Fund Amended Budget (the "2007-08 Amended Budget") included appropriations of $3.89 billion and revenues and other financing sources of $3.89 billion. As of March 31, 2008, as reported in the Fiscal Year 2007-08 Third Quarter Operational Plan Status Report and Budget Adjustments (the "Third Quarter Report") to be heard by the Board of Supervisors on May 13, 2008, which was based on the first nine months of Fiscal Year 2007-08, the County projects that its General Fund expenditures for Fiscal Year 2007-08 will be below the 2007-08 Amended Budget by $267.4 million and its General Fund revenues and other financing sources will be below the 2007-08 Amended Budget by $102.8 million. The net variance is a projected savings to the County's General Fund of $164.6 million, which will be added to any remaining unreserved and undesignated General Fund Balance as of June 30, 2008.

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

- $43.9 million in appropriation savings from lower than budgeted salaries and employee benefit costs due to turnover and ongoing recruitment challenges in select classifications.

- $140.3 million in appropriation savings in services and supplies across the County. In the Health and Human Services Agency, savings are projected in contracted services (e.g., in Behavioral Health Services for savings in un-awarded Mental Health Services Act ("MHSA") Community Support & Services contracts and delays in the start-up of these contracts, savings in Integrated Services for Homeless Adults with Mental Illness, savings in Early Periodic Screening, Diagnosis and Treatment services), delays in contract implementation for SB 1448 (the Coverage Initiative), in emergency appropriations for bioterrorism, and in Information Technology related transition savings. In the Community Services Group, appropriation savings are anticipated due to a decrease in Sample Ballot printing and savings in minor equipment costs. Savings in the Land Use and Environment Group Department of Environmental Health is due to controlled spending in the Land and Water Quality Division to offset a revenue shortfall from a decrease in plan check projects, and savings in the Department of Planning and Land Use is due to projected savings in consultant services related to the General Plan Update, the Fire Safety and Fuels Reduction Program, the Multiple Species Conservation Program ("MSCP") and overflow contracts for discretionary permit processing. Finally, appropriations in Finance-Other set aside for economic uncertainty are anticipated to be unspent through the end of Fiscal Year 2007-08.

- $50.3 million in appropriation savings in other charges primarily reflects lower than budgeted caseloads and aid payments (e.g., for Child Care payments, CalWORKS, Welfare to Work, and General Relief payments and in County Child Welfare Services for savings in aid payments for Severely Emotionally Disturbed, Foster Care, Aid to Adoptive Parents, and KinGap based on revised estimates of caseload levels, growth trends, and unit cost per case). In addition, savings resulted from lower than budgeted TRANs borrowing costs.

- $4.8 million in appropriation savings in capital assets equipment primarily reflects the decision not to purchase additional voting units for the 2008 Election cycle.

- $2.2 million in appropriation savings primarily from reduced operating transfers out to the In–Home Supportive Services ("IHSS") Public Authority due to timely abatements received for health benefits, and in the General Fund Contribution to Purchasing ISF due to a reduction in the operating transfer out for the records management division.

- $17.0 million in contingency reserves that are projected to be unspent at year-end.

- $9.9 million in management reserves that are projected to be unspent across the groups at year-end.

The projected revenue under-realization to budget consists of positive and negative variances. A negative revenue variance to budget of $138.9 million is primarily in intergovernmental revenues and is largely the result of expenditure savings in caseload driven programs mentioned above, but the negative variance is also due to Proposition 172 sales tax revenues that are below the budgeted amount by $21.9 million as well as a drop in AB2890 Recovered Costs in charges for current services. A positive revenue variance of $22.7 million is expected in the following categories: taxes current property ($5.3 million), taxes other than current secured ($10.4 million), revenue from use of money and property ($4.8 million), and in miscellaneous revenue ($2.2 million).

Table 8 below sets forth the expenditures and revenues and other financing sources of the County's General Fund for Fiscal Year 2007-08 compared to Fiscal Year 2006-07. For Fiscal Year 2006-07, both the Adopted and final Amended Budgets are shown. For Fiscal Year 2007-08, the table sets forth the Adopted Budget, the Amended Budget as of March 31, 2008, the projected expenditures and revenues and other financing sources as reported in the Third Quarter Report, and the variance between the projected actual amounts and those contained in the 2007-08 Amended Budget. For Fiscal Year 2008-09, the table sets forth the Proposed Budget.

TABLE 8

COMPARISON OF GENERAL FUND ADOPTED AND AMENDED BUDGET FOR FISCAL YEAR 2006-07, ADOPTED AND AMENDED BUDGET AND PROJECTED RESULTS FOR FISCAL YEAR 2007-08 AND PROPOSED BUDGET FOR FISCAL YEAR 2008-09 (In Thousands)

	2006-07 Adopted Budget	2006-07 Amended Budget[1]	2007-08 Adopted Budget	2007-08 Amended Budget[2]	Projected Year End Results[2]	Variance From Adjusted Budget[3]	2008-09 Proposed Budget[4]
EXPENDITURES							
Public Safety	$1,053,618	$1,141,052	$1,096,476	$1,167,833	$1,144,215	$ 23,618	$1,128,747
Health and Human Services	1,581,047	1,607,680	1,677,329	1,700,962	1,586,172	114,790	1,762,290
Land Use and Environment	154,858	191,465	143,750	218,182	202,534	15,648	143,907
Community Services	48,964	90,806	70,399	87,300	66,132	21,168	58,391
Finance and General Government and Other	430,986	555,979	512,944	701,533	626,380	75,153	546,135
Contingency Reserve and Designations	20,000	20,000	20,000	17,000	0	17,000	20,294
Total Expenditures[5]	$3,289,473	$3,606,982	$3,520,898	$3,892,810	$3,625,433	$ 267,377	$3,659,764
REVENUES							
Current Property Taxes	$ 499,278	$ 499,278	$ 511,393	$ 511,393	$ 516,719	$ 5,326	$ 543,062
Taxes Other Than Current Property Taxes	357,482	357,481	390,776	390,776	401,180	10,404	413,378
Licenses, Permits and Franchises	34,361	34,361	35,993	35,993	34,660	(1,333)	37,216
Fines, Forfeitures and Penalties	49,942	50,975	52,534	54,796	54,180	(616)	50,719
Use of Money and Property	25,725	25,873	34,265	34,265	39,055	4,790	31,298
Aid from Other Government Agencies	1,662,838	1,731,779	1,731,653	1,800,901	1,699,121	(101,780)	1,795,314
Charges for Current Services	261,307	269,944	277,643	278,420	261,527	(16,893)	281,652
Miscellaneous Revenues and Other Financing Sources	290,082	306,180	306,280	307,071	290,962	(16,109)	303,566
Total Revenues[5]	$3,181,014	$3,275,871	$3,340,537	$3,413,615	$3,297,404	$($116,211)	$3,456,205
Estimated Use of Unreserved and Designated Fund Balance	$ 2,614	$ 2,614	$ 57,020	$ 57,020	$ 57,020	$ 0	$ 201
Estimated Use of Unreserved and Undesignated Fund Balance	105,845	171,871	123,339	182,903	196,292	13,389	203,358
Estimated Use of Fund Balance Reserved for Encumbrances	0	156,626	0	239,272	239,272	0	0
Total Resources Utilized[5]	$3,289,473	$3,606,982	$3,520,896	$3,892,810	$3,789,988	$ 102,823	$3,659,764
Net Savings from the 2006-07 Adjusted Budget	—				$164,555	$164,555	

Source: County of San Diego Auditor and Controller

(1) This amount reflects expenditures and revenues included in the 2006-07 Adopted Budget, as amended and adjusted to include all budgeted appropriations and revenues as of June 30, 2007.

(2) These amounts reflect, as of March 31, 2008, the amended budget and projections of the expenditures and revenues of the County's General Fund for Fiscal Year 2007-08, respectively.

(3) These amounts reflect the difference between the budgeted expenditures, revenues and other financing sources of the County's General Fund in the 2007-08 Amended Budget as of March 31, 2008 and the projected expenditures, revenues and other financing sources of the County's General Fund for Fiscal Year 2007-08. Amounts without parentheses indicate a variance favorable to the County's General Fund. Amounts with parentheses indicate a variance unfavorable to the County's General Fund.

(4) This amount reflects expenditures and revenues included in the 2008-09 Proposed Budget. On July 22, 2008, the Board of Supervisors adopted the County's budget for Fiscal Year 2008-09. The adopted budget for Fiscal Year 2008-09 is comprised of the 2008-09 Proposed Budget, as modified by the Chief Administrative Officer's Fiscal Years 2008-09 and 2009-10 Proposed Operational Plan Change Letter described under "County Financial Information – County's 2008-09 Proposed Budget and the Operational Plan – Changes to County's 2008-09 Proposed Budget and the Operational Plan" herein. The adopted budget for the General Fund is $19.7 million higher than the proposed budget for the General Fund. The funding sources for the increase include $11.4 million in fund balance and $8.3 million in external funding sources.

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

The unreserved and undesignated portion of the General Fund Balance as of June 30, 2007 was $561.4 million. See the table entitled "General Fund Balance Sheet" herein for a description of the fund balance of the General Fund for the Fiscal Years ending June 30, 2006 and June 30, 2007, respectively. Included in the 2007-08 Adopted Budget were appropriations based on the unreserved and undesignated portion of the General Fund Balance of approximately $123.3 million. Accordingly, the available unreserved and undesignated portion of the General Fund Balance was reduced to $438.1 million. The General Fund balance was used as the funding source for various one-time or project specific purposes in the 2007-08 Adopted Budget, including Death Penalty Indigent Defense, Mobile Tablet computers for Child Advocacy Investigators, Vehicles in the Public Defender and Alternate Public Defender departments, facility maintenance needs, Business Process Reengineering efforts throughout the County, furniture, fixtures and equipment for Edgemoor Skilled Nursing Facility ("Edgemoor"), CalWIN projects, General Plan 2020/Zoning Ordinance Support, various capital projects, Whaley Compound Americans with Disabilities Act access, Los Penasquitos Adobe ADA access, County Administration Center Waterfront development project, various Ranger Housing improvements, North County Animal Shelter enhancements, various library enhancements, support for the enterprise-wide Documentum document management system, the February 2008 Special Presidential Primary, funding for future year Contribution to Trial Court undesignated fee payments, management reserves, Enterprise Resource Planning one-time costs, one-time technology projects, community projects grants, and conversion of a fund balance designation to a general reserve.

Subsequently, the Board of Supervisors approved the appropriation of an additional $50.5 million in unreserved and undesignated General Fund Balance for various items, including employee incentive compensation payments, District Attorney information technology equipment, support for probation juvenile law realignment, Lemon Grove station equipment and training, Edgemoor increased design and construction costs, Alpine Forest Conservation Initiative Lands Evaluation Plan, Firestorm 2007 Public Works erosion control, Firestorm 2007 Recovery and debris removal, Otay Valley Regional Trail Improvements, Rainbow Creek Watershed analysis, stormwater tracking best management practices, Agriculture Weights and Measures test meter vehicle, Farm and Home Advisor various support needs, KIVA Citizen Initial Deployment support, wireless personal computers for field inspector staff in the Department of Planning and Land Use, salary and benefit support in the Department of Planning and Land Use to offset the cost of Board-approved fee waivers as a result of the Harris, Witch and Rice Fires, Animal Services equipment and cages, County Operations Center ("COC") and Annex Redevelopment conceptual site plan, phasing and cost estimate support. The Board of Supervisors also approved the designation of fund balance for Environmental Health in the amount of $0.6 million, the decrease of the Sheriff's fund balance designation of $2.0 million and the establishment of appropriations in Contributions to Capital for the completion of environmental documentation and the commencement of the programming/design phase for a new women's detention facility. The total of these actual adjustments reduced the available unreserved and undesignated fund balance to $387.0 million.

In the Second Quarter Operational Plan Status Report presented to the Board of Supervisors on February 26, 2008, an additional $3.752 million in fund balance was used to establish appropriations in the Land Use and Environment Group departments, including funding in Farm and Home advisor for unforeseen costs, additional erosion control services and supplies support in Public Works, Geographical Information Systems scanning and data conversion needs, permit program temporary extra help support, stormwater management plans support, audio upgrades in the Department of Planning and Land Use, watershed clean-up events, and for the implementation of a document management system in the Department of Planning and Land Use. In other actions, the Board of Supervisors approved the establishment of appropriations for a Business Case Management System, Ramona and Fallbrook Library projects, and additional support for COC and Annex Redevelopment interim site planning, design and project administration for a combined total of $23.1 million. The Board of Supervisors also approved the decrease of the Environmental Health designation by $0.62 million and the establishment of appropriations in Environmental Health based on the release of the designation. The total of these actual or anticipated adjustments reduced the available unreserved and undesignated fund balance to $360.1 million.

In the Third Quarter Report that was presented to the Board of Supervisors on May 13, 2008, an additional $15.4 million in fund balance was approved to establish appropriations in Public Safety to offset the loss of Proposition 172 revenues impacted by the general economic slowdown, establish additional appropriations in the Office of Emergency Services for costs related to response and recovery efforts associated with the October 2007 Firestorm, establish appropriations in Contributions to Trial Courts to mitigate declining Recording Document Fees Revenues supporting statutory requirements, support Business Case Management integration services in Agriculture, Weights and Measures, and other support needs in the Land Use and Environment Group, provide one-time support in the Assessor/Recorder County Clerk to offset declining AB2890 Recovered Cost revenue, and establish appropriations for Geographical Information Systems scanning and data conversion and support for the Spring Valley Community Center Expansion. In the Third Quarter report, the Board of Supervisors also approved the decrease of the Environmental Health designation by $0.3 million and the Board of Supervisors established appropriations in Environmental Health for data imaging based on the release of the designation and decreased the Department of Planning and Land Use designation by $0.6 million for the costs associated with building permits that were initially covered by the undesignated fund balance.

The use of fund balance is considered to be a one-time resource and the County adheres to its policy of not spending one-time resources on any on-going operational needs. The County projects that the General Fund expenditures will be $267.4 million less than budgeted in the 2007-08 Amended Budget and General Fund revenues will be $102.8 million less than budgeted in the 2007-08 Amended Budget for a net savings of $164.6 million. This projected positive variance would be added to any remaining unreserved and undesignated General Fund Balance as of June 30, 2008. Therefore, the County projects that if there were to be no further uses of available unreserved and undesignated General Fund Balance and no changes in net projected variances for 2007-08, the unreserved and undesignated portion of the General Fund Balance as of June 30, 2008 would be approximately $509.3 million (representing the $344.7 million remaining available fund balance plus the $164.6 million General Fund projected net savings), which would result in a decrease of approximately $52.1 million from the General Fund Balance as of June 30, 2008.

The County does not prepare any formal update of its General Fund Balance projections after the Third Quarter. The next formal update of the County's General Fund Balance will occur in connection with the audit of the basic financial statements of the County for the Fiscal Year ending June 30, 2008, which is expected to be completed by January 2009.

Vehicle License Fee

The Vehicle License Fee ("VLF") is an annual fee collected by the State for any vehicle subject to registration in California. Prior to the State's Fiscal Year 2004-05 budget, revenue from or equal to the VLF was appropriated by the State to cities and counties for use in health, mental health and social services programs pursuant to certain State statutory mandates and as general purpose revenue.

Cities' and counties', including the County's, share of VLF general purpose revenues was eliminated by the State's Fiscal Year 2004-05 budget and replaced with money shifted from the Educational Revenue Augmentation Fund (the "ERAF"). The ERAF was a fund originally created by the State in Fiscal Year 1992-93 to deposit certain prescribed amounts of property tax to be shifted from local governmental agencies to local schools. Beginning in Fiscal Year 2004-05, the State directed that certain amounts be shifted (the "ERAF Shift") from the ERAF and deposited in the VLF Property Tax

Compensation Fund (the "VLF Property Tax Compensation Fund"). In Fiscal Year 2004-05, the State established initial allocations from the VLF Property Tax Compensation Fund to cities and counties, including the County, which amounts replaced the previous distribution of VLF to local governments. The State provided for an allocation from the VLF Property Tax Compensation Fund in Fiscal Year 2005-06 based on a formula that takes into account adjusted actual allocations for Fiscal Year 2004-05 and the increase in gross taxable assessed value of property within the County. The County has continued to receive VLF revenues from the State for health, mental health and social services programs. Pursuant to the implementing legislation, revenue levels are now based on the growth in gross taxable assessed value, which is assumed to be 5.8% for Fiscal Year 2008-09 based on a combined projected unsecured and local secured assessed value growth. The actual amount of Property Tax in Lieu of VLF revenues received in Fiscal Year 2007-08 exceeded the budgeted amount, so on a budget to budget basis, the projected amount for Fiscal Year 2008-09 represents an 8.0% growth over Fiscal Year 2007-08.

Impact of 2007 Fires to the County

In October 2007, several simultaneous wildfires burned approximately 369,000 acres in San Diego County or about 13% of the County's total land mass, causing loss of life and extensive damage to public and private property, including the destruction of an estimated 1,600 homes; 800 outbuildings; 253 structures; 239 vehicles; and 2 commercial properties.

The County appropriated approximately $52.0 million for response and recovery efforts, including private property debris removal, costs associated with permit fees, erosion control and operating the local assistance centers for the first few weeks after the fires. These appropriations were comprised of $3.0 million from the County's Contingency Reserve, $13.9 million from County General Fund fund balance and $35.1 million from the State Office of Emergency Services. The County is seeking reimbursement for the general fund costs associated with the 2007 fires from federal and State sources, as well as the applicable private property insurance companies, but no guarantee can be made that such reimbursement will occur. Although the County has not included any reimbursement as part of its projected fund balance as of June 30, 2008 or as a revenue or other financing source for Fiscal Year 2008-09, the County has received, as of June 2008, an insurance advance in the amount of $4.4 million for damages, clean-up and debris removal to structures, personal property and vehicles, and rental expenses for temporary structures and equipment destroyed or damaged in the 2007 fires. Additionally as of June 2008 the County has received $4.6 million from federal and State sources to offset County costs related to various fire related projects including emergency protective services, call-center organization, and probation emergency assistance and $21.0 million in advances and $1.8 million in reimbursements associated with debris removal.

County's 2008-09 Proposed Budget and the Operational Plan

Proposed Operational Plans

The County annually prepares a two-year operational plan, the most recent of which was proposed to the County's Board on May 13, 2008 (the "Proposed Operational Plan"). Once approved by the County's Board, the first year of the Operational Plan is the Proposed County Budget for the 2008-09 Fiscal Year (the "2008-09 Proposed Budget") and the second year will represent a projection of the revenues and expenditures of the County for Fiscal Year 2009-10.

The County's Proposed Budget for the County General Fund for Fiscal Year 2008-09 is approximately $3.7 billion, with proposed Total Appropriations of approximately $3.7 billion, proposed Total Revenues of approximately $3.5 billion, and total estimated use of the Unreserved and Designated Fund Balance and the Unreserved and Undesignated Fund Balance of approximately $0.2 million and

$203.4 million, respectively. See table entitled "COMPARISON OF GENERAL FUND ADOPTED AND AMENDED BUDGET FOR FISCAL YEAR 2006-07, ADOPTED AND AMENDED BUDGET AND PROJECTED RESULTS FOR FISCAL YEAR 2007-08 AND PROPOSED BUDGET FOR FISCAL YEAR 2008-09" herein for a summary of the County's 2008-09 Proposed Budget.

Summary of General Fund Financing Sources

In the Proposed Operational Plan, General Fund Financing Sources total $3.7 billion for Fiscal Year 2008-09, a $138.9 million or 3.9% increase from Fiscal Year 2007-08. They are expected to decrease by $84.3 million or 2.3% in Fiscal Year 2009-10. In comparison, the Fiscal Year 2007-08 budget was 7% above the prior year, while the previous five fiscal years saw an average annual growth rate of 5.5%. The 3.9% increase for Fiscal Year 2008-09 reflects the general constriction in the economy and estimates of available program revenues. General Fund Financing Sources can be categorized as one of three types: Program Revenues, General Purpose Revenues, or Fund Balance (including reserve/designation decreases).

Program Revenues. Program Revenues are expected to total approximately $2.44 billion in Fiscal Year 2008-09 and $2.46 billion in Fiscal Year 2009-10. These revenues make up 66.7% of General Fund Financing Sources in Fiscal Year 2008-09, 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 2.7% over the Fiscal Year 2007-08 Adopted Budget compared to an average annual growth for the last five years of 3.7%. HHSA manages 67% of the program revenues; Public Safety Group manages 24%; and the balance is managed across the other areas of the county.

General Purpose Revenues. General Purpose Revenues, which are expected to total approximately $1.014 billion in Fiscal Year 2008-09 and $1.055 billion in Fiscal Year 2009-10, comprise approximately 27.7% of General Fund Financing Sources. The revenues come from property taxes, property tax in lieu of VLF, sales taxes (and property tax in lieu of sales tax), real property transfer tax, and miscellaneous other sources. They may be used for any purpose that is a legal expenditure of County funds. The Board of Supervisors, therefore, has the greatest flexibility in allocating these revenues.

The growth in these revenues is principally affected by the local and State economies. In fact, over 85% of general purpose revenues is tied to activity in the real estate market. While the growth in General Purpose Revenues ("GPR") averaged 6.2% annually from Fiscal Year 1999-00 through Fiscal Year 2005-06, the budgeted growth for Fiscal Year 2006-07 was 25.7% ($185.3 million) over the Fiscal Year 2005-06 adopted budget. This growth was due to unique circumstances related to the restoration of property tax that was shifted to schools under a two-year agreement with the State, a sizeable adjustment to the Property Tax In Lieu of Vehicle License Fees by the State of California, and strong growth in supplemental property taxes combined with a change in the distribution formula that shifted more supplemental taxes to the County as a result of the property-tax-in-lieu-of-VLF legislation. Growth in Fiscal Year 2007-08 was budgeted at 6.3%, closer to the historic average. For Fiscal Year 2008-09, GPR growth is projected to be 5.3% ($51.1 million) above the Fiscal Year 2007-08 Adopted Operational Plan. The projected growth rate for Fiscal Year 2009-10 is expected to decelerate further to 4.0% ($40.7 million).

Use of Fund Balance. Use of Fund Balance, including reserve/designation decreases, which is expected to total approximately $203.6 million in Fiscal Year 2008-09 and $56.8 million in Fiscal Year 2009-10, represents 5.6% of General Fund Financing Sources in Fiscal Year 2008-09. This resource is used for one-time expenses, not for the support of ongoing operations. This compares with $180.4 million in uses of fund balance in the Fiscal Year 2007-08 Adopted Budget, which equaled 5.1% of total General Fund Financing Sources.

In the Proposed Operational Plan, a portion of the projected General Fund Balance is proposed to be used as the funding source for various one-time or project specific purposes such as potential costs related to death penalty indigent defense cases, potential retroactive costs associated with County Medical Services, one-time capital needs for the volunteer fire protection districts via the Fire Protection and Emergency Medical Services Grant Program, Business Process Reengineering projects, furniture, fixtures and equipment and transition costs associated with the new Edgemoor, major maintenance projects, emergency communication plan exercises, purchase of two HIV mobile clinic vehicles, General Plan Update/Zoning Ordinance project costs, fund balance designations for the Registrar of Voters for low revenue election years and for replacement equipment, purchase of minor equipment, such as telephone equipment, and 120 mobile computers for Facilities Management, Board Letter business process reengineering costs, asbestos abatement in the County Administration Center Recorder's Office, various information technology projects. Other potential costs include master plans for Valle de Oro and Sweetwater Drainage projects, County matching funds for Woodside Avenue drainage project, various capital projects, including: MSCP, North Central Public Health Clinic replacement, Lincoln Acres Library and Community Center building replacement, office relocation necessitated by the COC and COC Annex redevelopment project, and Sweetwater Regional Park Campground improvement. The balance is proposed to be used for grants provided to community organizations and management reserves.

Summary of Total Appropriations

Appropriations total approximately $5.15 billion for Fiscal Year 2008-09 in the Proposed Operational Plan and $4.74 billion for Fiscal Year 2009-10. This is an increase of $418.2 million or 8.8% from the Fiscal Year 2007-08 Adopted Operational Plan. Appropriations for the General Fund are approximately $3.7 billion, which constitutes 71.1% of the total appropriations of the County.

The Proposed Operational Plan includes increased appropriations in Public Safety, Health and Human Services, Finance and General Government, and the Capital Program and decreased appropriations for Land Use and Environment, Community Services, and Finance-Other. The Health and Human Services Agency, at $1.8 billion, continues to be the largest share of the budget at 34.9%, followed by the Public Safety Group at $1.4 billion, or 26.7%.

Public Safety Group. The Proposed Operational Plan reflects a proposed net increase to the budget for the Public Safety group of 0.8% or $11.2 million over the Fiscal Year 2007-08 Adopted Operational Plan. Additional resources are budgeted to address the safety of wards and staff in juvenile institutions, to implement SB81, Juvenile Justice Realignment Act, supported by State block grant funds, for the prosecution of crime, for law enforcement services, to address the autopsy caseload of the Medical Examiner, to address increases in operating costs, including County self insurance costs, a transfer from the Health and Human Services Agency of a contract for medical services to juvenile detainees, and for negotiated wage and benefit adjustments. Overall cost increases are partially offset by expenditure reductions due to a decrease in transfers of funds received from Proposition 172 sales tax revenues and decreases to align expenditures with available revenues in the Department of Child Support Services.

Health and Human Services Agency. The Proposed Operational Plan reflects a proposed net increase to the budget for the Health and Human Services Agency of 5.0% or $85.5 million from the Fiscal Year 2007-08 Adopted Operational Plan. Proposed increases reflect negotiated wage and benefits adjustments, growth in IHSS, expansion in mental health services associated with the MHSA, one-time dollars for Business Process Reengineering Projects, an increase in Management Reserves, and appropriations to cover transitional costs with the opening of the new Edgemoor in early 2009. Offsetting decreases include the transfer to the Public Safety Group of the oversight of a contract with California Forensic Medical Group for medical services to juvenile detainees.

Land Use and Environment Group. The Proposed Operational Plan reflects a proposed net decrease to the budget for the Land Use and Environment Group of 2.0% or $7.5 million from the Fiscal Year 2007-08 Adopted Operational Plan. The overall decrease is primarily due to higher costs in Fiscal Year 2007-08 for one-time projects that will not be repeated in Fiscal Year 2008-09. Increases include appropriations for negotiated wage and benefits adjustments and for stewardship of open space lands acquired under the MSCP.

Community Services Group. The Proposed Operational Plan reflects a proposed net decrease to the budget for the Community Services Group of 1.9% or $5.9 million from the Fiscal Year 2007-08 Adopted Operational Plan. Significant decreases are due to elections-related activities that were budgeted in Fiscal Year 2007-08, but will not be repeated in Fiscal Year 2008-09. Significant offsetting increases in costs are related to additional permanent staff, negotiated wage and benefits adjustments for existing staff, contract service payments, and major maintenance projects. Finally, two reserve designations for the Registrar of Voters are increased, one for the election cycle and one for future voting equipment replacement.

Finance and General Government Group. The Proposed Operational Plan reflects a proposed net increase to the budget for the Finance and General Government Group of 11.0% or $34.8 million from the Fiscal Year 2007-08 Adopted Budget. Material changes include funding for negotiated wage and benefit increases, the upgrade of core financial and human resource software applications, the development of a Data Warehouse, a Business Case Management System, and ongoing technology costs. Management Reserves increases will support all unanticipated needs in the Finance and General Government Group, including revenue shortfalls which may result from the weakening economy.

Capital Program. The Proposed Operational Plan reflects a proposed net increase to the budget for the Capital Program of 1,084.5% or $370.0 million from Fiscal Year 2007-08 Adopted Budget. The increase is due to a change in the mix and value of capital projects compared to Fiscal Year 2007-08. The main reason for the increase in Fiscal Year 2008-09 is the addition of $308.3 million for the redevelopment of the COC and $56.0 million for the relocation of offices at either the COC or the COC Annex that will not be part of the new COC campus. Appropriations are also included for the Lincoln Acres Library and Community Center, Sweetwater Summit Campground, the MSCP, replacement of the North Central Public Health Clinic, and re-construction of the San Pasqual Academy residences and administrative buildings that were destroyed in the 2007 fires. Appropriations are also included in the Edgemoor Development Fund to pay debt service on the 2005 Edgemoor bonds.

Finance-Other. The Proposed Operational Plan reflects a proposed net decrease to the budget for the Finance-Other of 11.4% or $70.1 million from Fiscal Year 2007-08 Adopted Budget. Many of the ongoing expenses in this group vary little from year to year, but some expenses reported here are one-time and can fluctuate significantly from year to year. Significant areas of expenditure for Fiscal Year 2008-09 include a $167.7 million General Fund contribution to the Capital Program to carry out the projects noted above and an additional POB principal prepayment of $44.0 million.

Changes to County's 2008-09 Proposed Budget and the Operational Plan

On June 18, 2008, the Chief Administrative Officer filed the Fiscal Years 2008-09 and 2009-10 Proposed Operational Plan Change Letter with the Clerk of the Board of Supervisors. This document recommended changes to the Proposed Operational Plan based on information that became available after the Proposed Operational Plan was presented to the Board on May 13, 2008. These changes increased expenditures in the Proposed Operational Plan by $38.2 million for Fiscal Year 2008-09 and by $1.0 million for Fiscal Year 2009-10, with an increase of 7.0 staff years in each year. Of the $38.2 million increase in Fiscal Year 2008-09, $19.7 million was in the General Fund. Significant increases in the

General Fund included $3.4 million for the lease of aerial firefighting equipment, $7.3 million for grant funded activities in the Sheriff's Department and $5.4 million to re-budget various incomplete park, open space, fire prevention, and land use planning activities. The General Fund increases are funded by $11.4 million in fund balance and $8.3 million in external funding sources. On June 24, 2008, the Board of Supervisors approved the CAO's Proposed Operational Plan and proposed changes thereto. The Board adopted the Fiscal Year 2008-09 budget (which consists of the 2008-09 Proposed Budget, as modified by the CAO's Proposed Operational Plan) at its regular meeting on July 22, 2008.

Impact of Governor's 2008-09 Proposed Budget on the County's 2008-09 Proposed Budget

On January 10, 2008, the Governor submitted the 2008-09 Proposed State Budget (the "2008-09 Proposed State Budget") to the California legislature. The 2008-09 Proposed Budget projects an estimated $14.5 billion budget shortfall by the end of Fiscal Year 2008-09 in the absence of any changes to State law or policy to reduce spending, which the Governor proposes to address with more than $17 billion in corrective actions. The Governor has declared a fiscal emergency under the State Constitution and called the State Legislature into special session to, among other things, consider the Governor's proposals for balancing the State budget, which includes making 10 percent across-the-board reductions in most State programs, excepting only program reductions that are deemed to be in conflict with the State Constitution or impractical. Subsequently, on February 20, 2008, the Legislative Analyst's Office (the "LAO") issued an alternative budget proposal (the "LAO Alternative Budget Proposal"). See "State of California Budget Information – Proposed State Budget for Fiscal Year 2008-09" herein.

The County has analyzed the potential impacts of the Governor's 2008-09 Proposed State Budget and the LAO's Alternative Budget Proposal on County services. The proposed reductions are expected to have negative impacts on County operations, contract service providers, and clients. The State, among other things, funds many County health and social services programs and provides grants to help sustain library, environmental health, transportation, and public safety programs. The County has not speculated on which of the proposals will be enacted in developing its Proposed Operational Budget. Instead, the CAO has directed departments to develop contingency plans and mitigation strategies for potential impacts.

The following are some of the potential areas affected by State funding reductions:

- In the Health and Human Services Agency the potential affected areas include: Medi-Cal rates for patients at Edgemoor; Foster Care payments; Child Welfare Services Administrative allocation; and County administrative allocations including California Children's Services, IHSS, Medi-Cal eligibility services, and Adult Protective Services; and Medi-Cal Rates for Community Providers.

- In the Public Safety Group the potential affected areas include: Citizens Option for Public Safety Programs; Prosecution Grants; Computer and Technology Crime High Technology Theft and Apprehension Teams; Mentally Ill Offenders; Programs serving juvenile offenders and juveniles at risk are proposed for reduction; and Services provided by the County through an agreement with the Administrative Office of the Courts.

In addition, two areas that may impact local costs are the Governor's proposal for the early release of 22,000 State prisoners, placing them on summary parole without supervision, and the LAO's proposal to shift parole functions for 71,000 offenders from the State to the counties, together with the LAO's attendant proposed sources of funding, which, as proposed, fall short of meeting all of the costs to the County justice system.

Impact of 2008-09 May Revision on the County's 2008-09 Proposed Budget

The Governor's 2008-09 May Revision (the "May Revision") was released on May 14, 2008. In the area of Public Safety, the May Revision provided for the elimination of the proposal for the early release of State prisoners, but retained the 10% across-the-board reductions in justice related programs that were included in the 2008-09 Proposed State Budget. The potential areas affected are the same as those described above. In the area of Health and Human Services, the May Revision proposes reductions that are in addition to those described above. The additional reductions primarily impact either client payments or eligibility criteria to receive benefits that in some cases could result in overall savings to the County. One of the key areas affected is IHSS, where additional savings are proposed by reducing the State's participation in provider wages to the minimum wage of $8.00 per hour and $0.60 per hour for benefits and by implementing stricter eligibility criteria for those who receive services. The May Revision also proposes eliminating cost of living increases for Supplemental Security Income/State Supplementary Payment ("SSI/SSP") and CalWORKS clients, eliminating the Cash Assistance for Immigrants program, decreasing funding for the California Healthcare for Indigents Program, and making various adjustments to Medi-Cal expenditures.

In the area of General Government, the May Revision provides for the reimbursement to counties for the February 2008 presidential primary. The County's cost was approximately $9.0 million. This reimbursement is not included in the County's 2008-09 Proposed Budget. The May Revision also postpones the third payment to counties for mandated costs incurred prior to July 2004. The County's share is approximately $2.0 million and has not been included in the County's 2008-09 Proposed Budget.

Fund Balance and Reserves Policy

The County's Fund Balance and Reserves Policy (the "Fund Balance and Reserves Policy") establishes guidelines regarding the use of fund balance and the maintenance of reserves in the General Fund. Pursuant to the Fund Balance and Reserves Policy, subject to a waiver of all or a portion of such policy by the Board of Supervisors, the County will maintain a General Reserve (the "General Reserve") with a targeted amount equivalent to 5% of budgeted general purpose revenues to fund legally declared emergencies, a Contingency Reserve (the "Contingency Reserve") with a targeted amount equivalent to 2% of budgeted general purpose revenues to fund unanticipated needs of the County or offset revenue shortfalls during the Fiscal Year and a General Fund unappropriated, unreserved, undesignated fund balance at the targeted level of 10% of the budgeted general purpose revenues. In the event that the General Reserve, the Contingency Reserve or the General Fund unappropriated, unreserved, undesignated fund balance falls below their targeted levels, the CAO will present a plan to the Board of Supervisors for restoration of those levels. As of March 31, 2008, the Fiscal Year 2007-08 year-end balance in the General Reserve is projected to be $55.5 million and the Fiscal Year 2007-08 balance in the Contingency Reserve is projected to be $17.0 million. On October 24, 2007, the Board of Supervisor's approved the transfer of $3.0 million for Firestorm 2007 support activities. The General Fund unappropriated, unreserved, undesignated fund balance is projected to be $509.3 million at the end of Fiscal Year 2007-08. The General Purpose Revenues in the Fiscal Year 2008-09 Proposed Budget total $1,014.7 million. The general reserve is currently $55.5 million which exceeds the reserve requirements of $50.735 million for Fiscal Year 2008-09. The General Fund Appropriated Contingency Reserve will increase to $20.294 million in Fiscal Year 2008-09. In Fiscal Year 2008-09, the General Fund unappropriated, unreserved, undesignated fund balance target is $101.470 million. See "– Budget and Financial Position of the County" and "– County's 2008-09 Proposed Budget and the Operational Plan," herein.

Teeter Plan

In Fiscal Year 1993-94, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the Revenue and Taxation Code of the State of California (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at Fiscal Year end. Under this plan, the County assumes an obligation to advance funds to these entities to cover expected delinquencies. The County's general fund benefits from future collections of penalties and interest on delinquent taxes collected on behalf of participants in this alternative method of apportionment.

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

Temporary Transfers

Section 6 of Article XVI of the California Constitution provides for temporary transfers of funds by the Treasurer-Tax Collector of the County (the "Temporary Transfers"; such transfers are referred to as Treasurer's Loans from time to time) to cover short-term operational deficits occurring as a result of imbalances between receipts and expenditures. The California Constitution prohibits Temporary Transfers by participants of the Treasury Pool (herein defined) (including the County) prior to the first day of the Fiscal Year or after the last Monday of April of each Fiscal Year, and of amounts in excess of 85% of the school district taxes levied by a county under Section 21 of Article XIII of the California Constitution and of amounts apportioned to such school district under Section 6 Article IX of the California Constitution. Treasury Pool participants may utilize Temporary Transfers from time to time for various purposes. A Temporary Transfer must be repaid from the Treasury Pool participant's first revenues received thereafter before any other obligation and thus, in the case of the County, would have a priority over the County's general fund debt obligations. The only Temporary Transfer utilized by the County in the past ten years was in Fiscal Year 1996-97 in the amount of $25,000,000.

San Diego County Employees Retirement Association

The following information concerning the San Diego County Employees Retirement Association (the "Association") has been excerpted from publicly available sources, which the County believes to be accurate, or otherwise obtained from the Association. The Association is not obligated in any manner for payment of debt service on the County's Taxable Pension Obligation Bonds, Series 2008A and Series 2008B (Variable Rate Demand Obligations) (collectively, the "Series 2008 Bonds") and the assets of the County's pension plan are not available for such payment.

General

The Association, which was established July 1, 1939 under provisions of the County Employees Retirement Law of 1937 (the "Retirement Law"), is a contributory defined benefit 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, 2007, there were 17,733 active members, 12,504 retired members and beneficiaries and 4,908 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 County is one of the employers that participates in the Association. In addition to the County, participating employers include the San Diego Superior Court (the "Court"), the Local Agency Formation Commission, the San Dieguito River Valley Joint Powers Authority, and the San Diego County Office of Education. The County and these other participating employers are collectively referred to herein as the "Employers" and contributions to the Association made by such Employers are referred to herein as "Employer Contributions". The County is obligated to make approximately 91.5% of the annual Employer Contributions to the Association and the other participating employers are obligated to make approximately 8.5% of the annual Employer Contributions to the Association, based on the estimated relative percentage of payroll of the County and the other participating employers for Fiscal Year 2007-08.

General Funding Practices of the Association

Introduction. The Retirement Law requires the Association to commission an actuarial valuation and an experience study at least every three years. The Association's practice has been to conduct an actuarial valuation on an annual basis as of June 30 of each year, which is the end of the Association's fiscal year. The valuation must be completed by an Enrolled Actuary, covering the mortality, service, and compensation experience of the members and beneficiaries, and must evaluate the valuation assets and actuarially determined liabilities of the Association. The Retirement Law requires the Retirement Board of the Association (the "Retirement Board") to recommend to the Board of Supervisors and the other Employers such changes in the rate of contribution by the Employers and members, and in the County's and the other Employers' appropriations as necessary. Once the Retirement Board recommends any such changes, the Retirement Law requires the Employers (including the County) to implement such changes. The most recent actuarial valuation is as of June 30, 2007. The Segal Company (the "Actuary") has been retained as the Association's actuary.

UAAL and its Calculation. Currently, the Association uses the "entry age normal cost method" to calculate the Employers' annual rates of contribution. The actuarially required contribution has two components, the "normal cost" and the amortized amount of the unfunded actuarial accrued liability ("UAAL"). Normal cost represents the portion of the actuarial present value of the benefits that the Employers and their respective employees will be expected to fund that are attributable to a current year's employment. The amortization of the UAAL represents the current year's portion of the unfunded accrued costs (*i.e.*, the UAAL) attributable to past years' employment. The UAAL may increase or decrease as a result of changes in actuarial assumptions, benefit improvements and other experience which differs from that anticipated by the actuarial assumptions. There is a lag between the point in time at which the actuary completes the actuarial valuation and the date that the contribution rates calculated in the valuation go into effect. This lag is typically 12 months. For example, the recommended contributions contained in the actuarial report as of June 30, 2007 would apply to contributions to be made by the County and the other Employers for the fiscal year beginning July 1, 2008.

The UAAL is an estimate based on a series of assumptions that operate on demographic data of the Association's membership. This process is necessary to determine, as of the date of the calculation, how sufficient the assets in the Association are to fund, as of the date of calculation, the accrued costs attributable to currently active, deferred vested members and retired members. The funding sufficiency is typically expressed as the ratio of the valuation assets to the actuarial accrued liabilities. If the actuarially calculated funding level of a plan is less than 100%, the plan has a UAAL. Examples of the actuarial assumptions that are used in this process are the assumed rate of earnings on the assets of the plan into the future, the assumed future pay increases for current employees, assumed rates of disability, the assumed retirement ages of active employees, the assumed marital status at retirement, and the post-employment life expectancies of retirees and beneficiaries.

When measuring assets for determining the UAAL, many pension plans, including the Association, "smooth" gains and losses to reduce volatility. If in any year the actual investment return on the Association's assets is lower or higher than the actuarial assumed rate of return (which is 8.25%, net of expenses), then the shortfall or excess is smoothed or spread over a five-year period. The impact of this will result in "smoothed" assets which are lower or higher than the market value of assets depending upon whether the remaining amount to be smoothed is either a net gain or a net loss. In the case of the Association, as a consequence of this smoothing practice, as of June 30, 2007, there was a total unsmoothed gain of $905.2 million remaining to be spread over the five years ending June 30, 2012.

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

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

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

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

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

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

Funding Status of the Association

Current Status. As of June 30, 2007, the date of the most recent actuarial valuation report, the valuation value of assets of the Association was approximately $7.250 billion, the actuarial accrued liability was approximately $8.083 billion, resulting in a funded ratio of approximately 89.7%. The actuarial value of assets may increase or decrease as a result of investment results of the Association increasing or decreasing below the actuarially assumed rate of 8.25% per annum as a consequence of increases or decreases in the securities market. No assurance can be given that the actuarial value of assets of the Association will not materially decrease.

As of June 30, 2007, the UAAL was approximately $832 million. The Association's funded ratio and the UAAL as of June 30, 2007 reflect the contributions by the County of the proceeds of all POBs (herein defined), as well as additional discretionary contributions by the County in the amount of approximately $91.8 million since Fiscal Year 2004-05. In the valuation as of June 30, 2007, the combined contribution rate for the County for 2008-09 was calculated at 20.6%. The UAAL as of June 30, 2007 excludes a total unsmoothed gain of $905.2 million as of June 30, 2007, which amount will be spread over the five years ending June 30, 2012. See "County Financial Information – San Diego County Employees Retirement Association – UAAL and its Calculation" herein.

Historical Funding Status. Table 9 below sets forth for each of the ten years ended June 30, 2007 the amount of the total Employer Contributions made by the County and the other Employers, the UAAL as of the end of each such fiscal year and the funded ratio of the Association as of the end of each of such fiscal years.

TABLE 9

HISTORICAL FUNDING STATUS
Fiscal Years Ended June 30, 1998 through 2007
(In Millions)

Fiscal Year	Employer Contribution[1]	Employer Offsets [1]	UAAL[2]	Funded Ratio
1998	$24.3	$37.2	$(157.0)	105.9%
1999	0.0	36.4	(221.8)	107.4
2000	0.0	38.2	(319.8)	109.9
2001	2.0	39.1	(238.8)[3]	106.8
2002	5.3	45.2	905.1[3][4]	82.5[3][4]
2003	12.2[5]	53.9	1,435.4[3][5]	75.5[3][5]
2004	195.0[5]	55.2	1,202.7[5]	81.1[5]
2005	260.0[6]	56.1	1,378.4	80.3
2006	243.7[7]	58.8	1,232.3	83.6
2007	258.2[8]	62.3	832.1[9]	89.7

Source: The County.

(1) These contribution amounts reflect the aggregate contribution amount of all Employers and not only that of the County. In each year the amounts indicated under the columns Employer Contribution and the Employer Offsets were based on the valuations as reported in the actuarial valuation dated as of the end of the second preceding year ended June 30. The County share of Employer Contributions and Employer Offsets are estimated to be approximately 91.5% based on the estimated relative percentage of payroll of the County for Fiscal Years 2007-08. See "County Financial Information – San Diego County Employees' Retirement Association – General" herein.

(2) Negative numbers represent an actuarially accrued surplus.

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

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

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

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

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

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

(9) Excludes a total unsmoothed gain of $905.2 million as of June 30, 2007, which amount will be spread over the five years ending June 30, 2012. See "County Financial Information – San Diego County Employees Retirement Association – UAAL and its Calculation" herein.

Employee Contributions Paid by the Employers. In addition to making annual contributions to the Association in accordance with the applicable actuarial valuation, the Employers also have agreed pursuant to the collective bargaining arrangements with their employee unions to pay a portion of the employees' required contribution to the Association (these payments by the Employers are referred to herein as the "Employer Offsets"), which, for non-safety employees of the Employers range from 3% to 9.5% of their salary, and for safety employees range from 2.75% to 16.8% of their salary. In most instances, the amount of Employer Offsets will be less than the total required employee annual contribution. With the exception of the labor agreement with the Supervising Probation Officers Association, which the County is in the process of negotiating, all the collective bargaining agreements expire in 2009. However, since 1982, the Employers' agreement to pay Employer Offsets has been a consistent feature of these collective bargaining arrangements. 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, 2007.

Prospective Funding Status of the Association

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

Each year, the Retirement Board reviews certain economic assumptions as recommended by the Association's Actuary, including the assumed rate of earnings, rate of inflation, and individual salary increases, which are used in preparing the annual actuarial valuation. On June 1, 2006, the Association's Actuary presented to the Retirement Board for discussion purposes a report entitled "Review of Economic Actuarial Assumptions for the June 30, 2006 Actuarial Valuation," pursuant to which the Actuary recommended certain changes to the assumed rate of earnings, rate of inflation, and individual salary increases. The Retirement Board unanimously approved a substantial portion of the Actuary's recommendations at its July 6, 2006 meeting but did not adopt the Actuary's recommendation to reduce the assumed rate of earnings due in part to the higher-than-assumed historical rate of earnings experienced by the Association through June 2006. The Retirement Board elected to maintain the same assumptions in connection with the preparation of the June 30, 2007 actuarial valuation. See "County Financial Information – San Diego County Employees Retirement Association – General Funding Practices of the Association – Investment Policy" for a discussion of the impact of the Association's investment strategies on its assumed rate of earnings. The Retirement Board is expected to review these economic assumptions in June 2008 for purposes of preparing the June 30, 2008 actuarial valuation. The County cannot predict whether the Association will change the assumed rate of interest or other assumptions in the future, or the effects of any such changes on the Association's assets and liabilities.

TABLE 10

PROSPECTIVE FUNDING STATUS OF THE ASSOCIATION
Fiscal Years Ended June 30, 2008 through 2014
(In Millions)

Fiscal Year	Employer Contributions(1)(2)(3)	Employer Offsets(1)(2)(3)	UAAL(1)(2)(3)	Funded Ratio(1)(3)
2008	$247	$65	$563	93.5%
2009	228	68	440	95.3
2010	218	71	382	96.2
2011	218	74	392	96.3
2012	224	77	486	95.7
2013	236	80	461	96.2
2014	255	83	422	96.8

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 0.00% from July 1, 2007 to June 30, 2008 and 8.25% per year thereafter. Under the Retirement Board's asset smoothing method, if actual return on market value of assets is above/below the expected return on market value of assets, the difference between the actual and the expected return will be recognized over a five-year period. There was a total of $905.2 million in unrecognized investment gain as of June 30, 2007.

(b) With the exception of the investment return, all of the other actuarial assumptions used in developing the contribution rates in the June 30, 2007 valuation will be met in the future.

(c) In projecting the payroll, the Actuary assumed that the estimated Fiscal Year 2007-08 payroll of $1,062.4 million is used in the June 30, 2007 actuarial valuation will increase by 4.25% per annum.

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

(e) The Employer Offsets (i.e., the County's pickup of member contributions) of about $62 million (reported by the Association for the 2006-07 Fiscal Year) will increase by 4.25% per year (3.75% inflation plus 0.50% across-the-board salary increase) as assumed in the June 30, 2007 valuation. The Employer Offsets for Fiscal Year 2007-2008 and thereafter have been approximated by increasing the prior year's offsets by 4.25%. See "County Financial Information – San Diego County Employees Retirement Association – General" herein. This is a simplifying assumption as the actual Employer Offsets amount is governed by bargaining agreements with employee groups and actual membership demographics.

(f) Assumes the Retirement Board will transfer earnings sufficient to maintain a 1% Contingency Reserve. As the funded ratio is projected to be between 90% to 100% from the June 30, 2008 to the June 30, 2014 valuations, the amounts set forth above also assumed that the Retirement Board would exercise its discretion under its Excess Earnings Policy so that 25% of any Excess Earnings would be set aside and not credited to the valuation reserves. See "County Financial Information – San Diego County Employees Retirement Association – Transfers of Investment Earnings by the Association" herein.

(g) The above projections do not reflect the impact of any assumption changes that may be adopted by the Board after the June 30, 2007 valuation.

(2) The County is obligated to make approximately 91.5% of the annual Employer Contributions to the Association and the other participating employers are obligated to make approximately 8.5% of the annual Employer Contributions to the Association, based on the estimated relative percentage of payroll of the County and the other participating employers for Fiscal Year 2007-08.

(3) In each year the Employer-Required Contribution and the Employer Offsets will be based on the UAAL as reported in the actuarial valuation dated as of the end of the second preceding year ended June 30. Indicated projected amounts under the columns entitled "UAAL" and "Funded Ratio" are as of June 30 of the years indicated.

The amounts shown in the foregoing table reflect a transfer of Excess Earnings (herein defined) sufficient to maintain the amount on deposit in the contingency reserve (the "Contingency Reserve") equal to 1% of the market value of all of the Association's assets is reflected in the indicated amounts. The amounts in the foregoing table do not account for any other transfers of Excess Earnings to non-valuation assets. See "County Financial Information – San Diego County Employees Retirement

Association – Transfers of Investment Earnings by the Association" for a description of how transfers from Excess Earnings remove assets from valuation assets which, over time, may increase the UAAL and the required contributions of the County and the other Employers. Such transfers will most likely occur in one or more of the years shown, but the amounts to be transferred and the timing of such transfers, if any, remains unknown. If such transfers occur in one or more of the years shown, the effect of such transfers will be to increase Employer Contributions and UAAL. The Association has adopted an Excess Earnings Policy that governs the allocation of Excess Earnings to non-valuation assets. See "County Financial Information – San Diego County Employees Retirement Association – Transfers of Investment Earnings by the Association – Excess Earnings Policy," herein.

Investment Policy.

General. The Retirement Law grants the Retirement Board exclusive control over the investment of the Association's assets. The Retirement Law provides general guidelines which generally require the Retirement Board to manage the investments for the purpose of providing benefits to members, minimizing Employer Contributions, and defraying the reasonable expenses of administering the Association. The Retirement Law further requires the Retirement Board to manage the Association's investments prudently and to diversify investments.

The Retirement Board has adopted an investment policy statement and related policies to ensure that the Association's investments are managed prudently and in compliance with the Retirement Law. These policies set investment return and risk objectives and provide for extensive guidelines with respect to the diversification of assets, the appropriate securities, lending of securities, commission recapture, value-added strategies, proxy voting, and corporate governance issues. The Association's assets are diversified across asset classes, including equity, fixed income and real estate assets, and within asset classes. Table 11 below sets forth the Association's current asset allocation policy (the "Asset Allocation Policy"). The asset allocation policy is managed and monitored by the Association's staff with the assistance of external investment consultants. As of June 30, 2007 the total portfolio market value of the Association's assets was $8.438 billion. As of May 31, 2008, that total portfolio market value was $8.985 billion.

TABLE 11

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

Investment Description	Allocation
Fixed Income	
U.S. Fixed Income	17.00%
High Yield	3.00
TIPS	5.00
Emerging Market Debt	4.00
Total:	29.00%
Real Estate	10.00%
Equity	
U.S. Equity	23.00[2]
Non-U.S. Equity	24.00
Alternative Equity	5.00
Total:	52.00%
Real Assets	
Commodities	4.00
Infrastructure	5.00
Total:	9.00%
Total Assets	100.00%
Expected Compound Annual Return	7.08[3]

Source: San Diego County Employees Retirement Association.

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

(2) As of February 29, 2008, this target portfolio allocation was split between small capitalization stocks which represented 4.6% of the target portfolio allocation directly held by the Association, and large capitalization stocks, which represented 18.4% of the target portfolio allocation held by the Association through its investments in derivative securities.

(3) Excludes adjustment to the expected rate of earnings as a result of the Alpha Engine strategy described below.

The assumed rate of return adopted by Retirement Board and applicable to the projection of the Association's assets and liabilities is higher than the expected compound annual passive return of the Association's Asset Allocation Policy as calculated by the Association's Investment Consultant. The Investment return assumption of 8.0% recommended by the Actuary is based on a number of assumptions, including the average assumed passive rate of earnings by asset class from a sample of investment consultants to several public pension funds including the Association's investment consultant and then applied to the Association's asset allocation policy portfolio. In 2005, 2006 and 2007, the Retirement Board elected to maintain the assumed rate of earnings at 8.25% for the applicable fiscal year, a rate acceptable to the actuary, in part because the active management portfolio strategy of the Association, including the application of the Alpha Engine (herein defined) strategy, as described below, historically yielded rates of earnings substantially higher than the rates recommended by the Actuary. See "County Financial Information – San Diego County Employees Retirement Association – Historical Investment Return". The use of the Alpha Engine has also subjected the Association to certain greater investment risks. The Association diversifies the risks associated with such investments by diversifying the number of fund managers used by the Association and the types of strategies employed by such managers.

Historical Investment Return. The historical annual net investment return on the market value of the Association's assets was 15.4% for the year ended June 30, 2007, 14.6% for the three years then ended, 13.7% for the five years then ended and 9.6% for the ten years then ended. This compares to the 8.25% actuarial assumed rate of return that the Association's actuary uses to calculate the normal Employer and employee contribution rates and the UAAL on a year-to-year basis (which is done by projecting into the future a variety of estimates, including how much will be earned on the assets of the Association in future years). On December 6, 2007, the Retirement Board reaffirmed and approved the continued use of an assumption of an 8.25% return on plan assets of the Association for purposes of calculating normal Employer and employee annual contributions and UAAL in Fiscal Year 2008-09. The annualized net investment return on the market value of the Association's assets was 3.86% for the six months ended December 31, 2007, 11.9% per annum for the three years then ended, 16.2% per annum for the five years then ended and 9.5% per annum for the ten years then ended.

Absolute Return Funds and Hedge Funds. The Association's diversified investment strategy includes the use of absolute return funds and hedge funds. As of February 29, 2008, the 23% target portfolio allocation for U.S. Equity was split between small and large capitalization stocks. Approximately 4.6% of the target portfolio allocation was for small capitalization stocks and 18.4% was allocated to large capitalization stocks. For the large capitalization stock allocation, the Association uses an internally managed strategy that uses swap contracts on the Standard & Poor's 500 index ("S&P 500 Index") to replicate the return generated by U.S. large capitalization stocks together with investments in absolute return funds and hedge funds that, in the aggregate, seeks to achieve returns higher than the S&P 500 Index. The absolute return fund and hedge fund investments strategy are referred to by the Association as the "Alpha Engine." There is no standard definition of what constitutes a hedge fund. Using nomenclature that is consistent with peer funds, the Association considers absolute return funds as managers that tend to exhibit low volatility with the aim of market neutrality. Also consistent with peer funds, the Association considers hedge funds as managers that tend to employ higher volatility strategies, have lock-up periods, and may or may not be registered with the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended (the "Securities Act"). Hedge funds not registered under the Securities Act typically issue their securities in "private offerings" and are not required to make periodic reports under the Securities and Exchange Act of 1934, as amended. As of March 31, 2008 there was approximately $1.4 billion net notional S&P 500 exposure, via futures and swap contracts with a number of counterparties. As of March 31, 2008, approximately $271.9 million, or 19.4% of the Alpha Engine, is held in cash. The market value of the sixteen hedge and absolute return fund investments in the Alpha Engine was approximately $1.127 billion, or 13.0% of the total market value of the portfolio. The nine hedge fund investments in the Alpha Engine were valued at approximately $722.3 million, or 8.33% of the total market value of the portfolio and the seven absolute return fund investments were valued at $404.4 million, or 4.7% of the total market value of the portfolio. The Association identifies six of the sixteen funds in the Alpha Engine (five hedge funds and one absolute return fund), or $370.1 million, as higher volatility funds. The remaining ten funds, or $756.6 million, are classified by the Association as lower volatility funds. At the aggregate level, volatility is diversified and controlled. The volatility of the Alpha Engine, the risk of strategy is maintained consistent with other active S&P enhancement implementations offered commercially.

Transfers of Investment Earnings by the Association

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

Pursuant to the statutory authority of the Retirement Law, the Retirement Board has adopted an “Interest Crediting and Excess Earnings Policy”, most recently amended in August 2007, which directs that investments earnings be transferred from the Undistributed Reserve to the following Association reserves, effectively, in the following order. First, such earnings are credited to the Association’s valuation assets up to an amount determined by the Retirement Board’s policies, currently in an amount equal to 8.25% of the value of the Association’s valuation assets as of the end of the prior fiscal year. Second, a portion of such earnings is transferred to a Contingency Reserve to maintain the amount on deposit in the Contingency Reserve, which is not part of valuation assets, equal to one percent of the total market value of assets of the Association. The Association may transfer amounts from the Contingency Reserve to valuation assets when current investment earnings are insufficient to credit the valuation asset reserves with the 8.25% interest target. Earnings in excess of the amounts transferred to the Contingency Reserve are referred to herein as “Excess Earnings.” The Association currently uses the change in actuarial value methodology to calculate Excess Earnings.

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

Excess Earnings Policy. As part of the actions taken by the Retirement Board at its May 3, 2007 meeting regarding post-retirement healthcare benefits, STAR COLA benefits, and policies regarding the use of Excess Earnings, the Retirement Board adopted an Excess Earnings Policy effective July 1, 2007 (the “Excess Earnings Policy”), pursuant to which, after crediting the mandatory reserves with the assumed rate of interest, Excess Earnings would be available as follows:

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

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

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

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

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

Historical Transfers of Investment Earnings. Table 12 below sets forth the amount of the Association's investment earnings that the Retirement Board has transferred from the Undistributed Reserve into reserves that are separate from valuation assets during the ten fiscal years ending June 30, 2007:

TABLE 12

TRANSFERS OF INVESTMENT EARNINGS TO NON-VALUATION RESERVES
Fiscal Years Ended June 30, 1998 through 2007
(In Millions)

Fiscal Year	Post-Retirement Healthcare[1]	STAR COLA[2]	Contingency Reserve[3]	Total
1998	$112.3	$ 50.5	$ --	$162.8
1999	7.3	0.0	--	7.3
2000	32.0	9.8	--	41.8
2001	45.5	8.2	--	53.7
2002	117.0	24.2	35.3	176.5
2003	0.0	0.0	0.0	0.0
2004	0.0	19.6	19.8	39.4
2005[4]	0.0	9.3	8.5	17.8
2006	31.4	10.0	9.7	51.1
2007[5]	0.0	26.4	11.1	37.5
Total	$345.5	$158.0	$84.4	$587.9

Source: The Association.

(1) Reflects amounts that the Association transferred to the Health Reserve from Excess Earnings for Fiscal Years 1997-98 through 2006-07. The Health Reserve was originally established to hold amounts with which the Association reimbursed the County for amounts that the County contributed for the payment of post-retirement healthcare benefits. See footnote (5) below regarding the restructuring of the Health Reserve in Fiscal Year 2007-08.

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

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

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

(5) In Fiscal Year 2007-08, the Health Reserve was restructured as a "Supplemental Benefits Reserve". See "County Financial Information – Post-Retirement Healthcare Benefits – Health Reserve" 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 – Post-Retirement Healthcare Benefits – STAR COLA" herein.

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, 2007, $84.4 million was on deposit in the Contingency Reserve, $164.9 million was on deposit in the Health Reserve (which during Fiscal Year 2007-08 was restructured as a Supplemental Benefits Reserve), and no funds were on deposit in the STAR COLA or Undistributed Earnings Reserve. For a discussion on actions of the Retirement Board with respect to the transfer of certain Excess Earnings to the Health Reserve and the STAR COLA reserve, see "County Financial Information – San Diego County Employees Retirement Association – Transfers of Investment Earnings by the Association" herein. See also "County Financial Information – STAR COLA Benefits" and "County Financial Information – Post-Retirement Healthcare Benefits" herein.

Post-Retirement Healthcare Benefits

General. The Association offers to eligible retirees a health insurance allowance to offset or reimburse the cost of medical insurance premiums. A variety of healthcare and dental plans with varying providers and levels of premiums are sponsored by the Association. Once a retiree elects a particular healthcare or dental plan, the amount of the premium is deducted from the retiree's monthly retirement check. Alternatively, retirees may be reimbursed for health insurance premiums of non-Association sponsored plans. With respect to those retirees who have 10 or more years of service credit before retirement, the Association currently offers a monthly medical allowance that ranges from $200 to $400 depending on the years of service credit and Medicare eligibility. With respect to those retirees who are Medicare eligible, the maximum monthly medical allowance is reduced to $300, but the Association reimburses such retirees for their Medicare Part B premium, which for 2008 is $93.50.

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. 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. Benefits paid to retirees from the 401(h) account are non-taxable.

New Reporting Requirements Regarding Post-Retirement Benefits. In 2004, the Governmental Accounting Standards Board ("GASB") issued two statements that address other post-employment benefits ("OPEB"), which are defined to include post-retirement healthcare benefits. GASB Statement

No. 43, Financial Reporting for Post-employment Benefits Plans Other Than Pension Plans ("GASB 43") and GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions ("GASB 45"), establish accounting and financial reporting standards for OPEB in a manner similar to those currently in effect for pension benefits. The provisions of GASB 43 focuses on the entity that administers such benefits (the Association) while GASB 45 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 fiscal year ended June 30, 2007. The County is required and fully intends to include the required disclosures beginning with the County's comprehensive annual financial report for the fiscal year ending June 30, 2008.

GASB 45 requires substantially different financial accounting of OPEB, or any post-employment benefits that are provided separately from a pension plan, such as post-employment healthcare. For the County, the affected benefits include the post-employment healthcare benefits paid by the Association. GASB 45 seeks to associate the costs of the OPEB with the periods in which the employee services are rendered in exchange for the OPEB. Prior to the requirements of GASB 45, however, OPEB costs were accounted for on a pay-as-you-go basis, which does not require the accrual of costs associated with OPEB that are attributable to current and past fiscal years.

The core requirement of GASB 45 is that at least biennially an actuarial analysis must be prepared with respect to projected benefits ("Plan Liabilities"); against this would be measured the actuarially determined value of the related assets (the "Plan Assets"). To the extent that Plan Liabilities exceeded Plan Assets, then similar to the actuarial and accounting practices for pension plan liabilities, the difference would be amortized over a period which could be up to 30 years. The method of financial reporting for OPEB costs would be similar to financial reporting for pension plan normal costs and UAAL. The requirements that GASB 45 imposes on the County only affect the County's financial statements and would not impose any requirements regarding the funding of any OPEB plans.

Valuation of the Association's Post-Retirement Healthcare Benefits. The Actuarial Valuation and Review of Postretirement Welfare Benefits as of June 30, 2006, indicated that the actuarial accrued liability for post-retirement healthcare benefits, whether vested or non-vested, was approximately $669.8 million, approximately 4.7% above the actuarial accrued liability of $639.5 million as of June 30, 2005, the date of the previous actuarial valuation for post-retirement healthcare benefits.

Action by the Board of Supervisors in Response to the Valuation of Post-Retirement Healthcare Benefits. On December 5, 2006, the Board of Supervisors adopted a resolution that urged the Retirement Board to eliminate the subsidy that the Association contributes to the health insurance premiums of retired safety and non-safety members who are entitled to the highest vested retirement payments, commonly known as Tier A members. The action of the Board of Supervisors directed the Chief Financial Officer of the County to designate the County's contribution to the Association for retiree healthcare payments if (a) by June 30, 2007, the Association had adopted and continued to maintain a policy limiting healthcare allowance payments to certain members (Tier I and Tier II) only and (b) except as provided in (a) above, the Association continued the provision of its retiree post-retirement healthcare benefit program relating to qualifications for benefits and maximum payments at levels no greater than what is authorized as of December 5, 2006. If the Retirement Board were to decide not to accept the recommendations made by the Board of Supervisors, the County would no longer make the 401(h) account contributions described above.

The County's preliminary estimates, based on information reported in the 2005 Postretirement Benefits Valuation, indicate that limiting these benefits only to Tier I and Tier II members would reduce the liability from approximately $640 million to $290 million and the annual required Employer Contributions from an estimated $60-70 million per year to approximately $20-30 million per year. The total estimated annual Employer Contributions over 20 years would be reduced from $1.8 billion to $637 million.

Action by the Retirement Board. In response to the County's resolution, the Retirement Board approved the following post-retirement healthcare benefit and taxable pension supplement benefit provisions to be effective July 1, 2007 as part of the actions taken at its May 3, 2007 meeting:

1. The current post-retirement healthcare benefit for Tier I and Tier II members will continue in its current, non-taxable state. The post-retirement healthcare benefit remains a non-vested benefit, and the eligibility rules and dollar amounts remained unchanged. However, the Retirement Board expects the source of payment for these benefits to be funded by County contributions, rather than the Association's Excess Earnings.

2. Eligible Safety members who retired under the "3% at age 50" benefit formula and eligible Tier A retirees will receive a non-vested, taxable pension supplement instead of a post-retirement healthcare benefit beginning July 1, 2007. The source of payment for these benefits is the current Health Reserve. As of June 30, 2007, the balance in the Health Reserve was approximately $164.9 million.

   The taxable pension supplement will be paid to all eligible Safety members who retired under the "3% at age 50" benefit formula and eligible Tier A retirees, if they have 10 or more years of eligible service credit. Members with 10 years of service will be eligible for the minimum supplement of $200. The supplement then increases incrementally for each additional year of service credit up to a maximum of $400 for members with 20 or more years of service credit. Because it is a taxable pension supplement (not a post-retirement healthcare benefit), there are no restrictions on how these benefits are used and no liability is reportable under GASB 43 or GASB 45.

3. Eligible Tier A members and Safety members covered by the "3% at age 50" benefit formula who retire after July 1, 2007 may also receive the taxable pension supplement to the extent amounts in the Health Reserve are available.

The Association's actuary conducted an OPEB valuation as of June 30, 2007 (the "2007 OPEB Valuation"). According to the 2007 OPEB Valuation, the OPEB actuarial accrued liability as of June 30, 2007 was $235.6 million, none of which was funded. However, according to the Association's actuary, there were $18.8 million available for benefits in the 401(h) account as of June 30, 2007. The assumptions used in the 2007 OPEB Valuation included an individual entry-age normal cost method, a level percent of pay amortization method and a 20-year close amortization period. The economic assumptions used in the 2007 OPEB Valuation are the same as those used for the pension plan valuations, including an 8.25% investment rate of return, a 5.25% projected salary increase, a 3.00% cost of living adjustment for retirees and a 3.75% inflation assumption. The 2007 OPEB Valuation established the annual required Employer Contribution to be $23.6 million.

Historical Payments. Table 13 below sets forth the amounts for each of the ten years ended June 30, 2007 that the Association has paid to its members for post-retirement healthcare benefits:

TABLE 13

PAYMENTS FOR POST-RETIREMENT HEALTHCARE BENEFITS
Years Ended June 30, 1998 through 2007

Fiscal Year Ending June 30	Payments from Health Reserve (in millions)
1998	$ 6.6
1999	8.0
2000	9.0
2001	10.8
2002	14.3[1]
2003	20.0[1]
2004	26.4[1]
2005	32.6
2006	32.9
2007	35.3

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.

Future Payments. According to cash flow projections conducted by the Actuary, taxable pension supplement payments from the Health Reserve were projected to be approximately $18.7 million for Fiscal Year 2007-08, As of June 30, 2007, the Health Reserve balance was $164.9 million, and was expected to provide for payments to eligible members through approximately 2014. Nontaxable health insurance allowance payments to eligible Tier I and II retirees were projected to be $23.3 million in Fiscal Year 2007-08.

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

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

Table 14 below sets forth the amounts paid by the Association to retirees out of the STAR COLA reserve since 2001. The Association does not track either the Employer or the departments or funds of any Employer from which retired personnel receiving STAR COLA benefits, when in active service, were paid.

TABLE 14

PAYMENTS FROM STAR COLA RESERVE
Fiscal Years Ended June 30, 2001 through 2007

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

Source: The Association.

Pension Obligation Bonds

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

County Pension Obligation Bonds. In February 1994, the County issued $430,430,000 in principal amount of POBs (the "1994 POBs") and in October 2002 the County issued an additional $737,340,000 in principal amount of POBs (the "2002 POBs"), in part to refund a portion of the 1994 POBs. In June 2004, the County issued $454,112,915.70 in principal amount of POBs (the "2004 POBs"). The County has contributed to the Association an aggregate amount of $1,428,500,000 from the issuance of the 1994 POBs, the 2002 POBs and the 2004 POBs to reduce the UAAL. On August 15, 2007, the County prepaid in full all of the $100 million Series 2002C PINES and on February 15, 2008, the County prepaid $20 million of the Series 2002B-1 POBs (herein defined) with available cash, these two prepayments resulted in over approximately $7.5 million of annual interest savings to the County. As of June 30, 2008, the County had POBs outstanding in the aggregated principal amount of $1.07 billion. As described in the forepart of this Official Statement, the County will issue $443,515,000 aggregate principal amount of Series 2008 Bonds in August 2008 to refund all of the outstanding 2002B POBs (herein defined). The County may, from time to time, finance all or a portion of the UAAL through the additional issuances of POBs.

Swaps. The County previously entered into interest rate swap agreements with Citibank, N.A. New York ("Citibank") and Morgan Stanley Capital Services Inc. ("Morgan") (collectively, the "Swap Providers") in connection with a portion of the 2002 POBs issued as auction rate securities to attain a "synthetic" fixed interest rate on such portion of the underlying POBs (the "Series 2002B2-4 POBs"), at a cost expected by the County to be less than rates associated with fixed-rate obligations at the time the related POBs were issued. See "– Basis Risk" herein and Appendix B – "County of San Diego Audited Financial Statements for the Fiscal Year Ended June 30, 2007" Note IV(J) attached to the Official Statement. Except in the event of an early swap termination, the notional amounts set forth in the table below are amortized in accordance with the scheduled reductions in principal amounts for the related POBs. The County will terminate its interest rate swap agreements with the Swap Providers upon the issuance of the Series 2008 Bonds and the refunding of the 2002B POBs in connection therewith. See "Plan of Financing" in the forepart of this Official Statement.

Table 15 below sets forth certain information regarding the County's interest rate swaps with respect to a portion of its 2002 POBs, all of which will be terminated upon the issuance of the Series 2008 Bonds as described herein.

TABLE 15

INTEREST RATE SWAPS

Initial and Current Notional Amount Covered by Swaps	Effective Date	Fixed Rate Paid by County	Variable Rate Received by County	Current Ratings of Swap Providers	Termination Date
$263 million[1]	9/17/02	5.30%	5.06%[2]	Aa3/AA-/AA-[1] [3]	2/15/31
$142 million[4]	9/17/02	5.30%	5.06%[2]	Aa3/A+/AA-[3] [4]	2/15/31

Source: The County.
(1) The counterparty is Citibank, N.A.
(2) Variable rate received by the County is a variable rate based on the One-Month LIBOR, which as of June 18, 2008 was 2.482%. The actual rate received is the One-Month LIBOR average rate for the six months preceding the payment dates of February 15 and August 15 over the life of the swap. As of February 15, 2008, the average One-Month LIBOR rate for the preceding six months was 5.06%.
(3) Ratings of Moody's Investors Service, Standard & Poor's Ratings Service and Fitch Ratings, respectively.
(4) The counterparty is Morgan Stanley Capital Services Inc.

Scheduled payments made by the County to the Swap Providers are on a parity with the respective series of POBs to which they relate. The County's rights and obligations under the swaps do not alter the County's obligation to pay the principal of, premium, if any, and interest on the respective POBs. If a Swap Provider defaults on its payment obligations under its respective swap agreement, the swap may terminate and, depending on market conditions, a termination payment (which could be substantial) may be due from the County. The County would then potentially have to pay any prospective increases in the variable interest rates payable on that portion of its POBs related to the swap. See "County Financial Information – General Obligation Debt, Pension Obligation Bonds, Lease Obligations and Long-Term Loans – Swap Policy" below regarding the County's Swap Policy.

Basis Risk. Of the aggregate $737,340,000 principal amount of 2002 POBs issued by the County, $505,125,000 principal amount were issued as auction rate securities (the "2002B POBs") insured by "AAA" bond insurance from MBIA Insurance Corp. ("MBIA"). Of the $505,125,000 of 2002B POBs, the 2002B-1 POBs in the amount of $100,000,000 (the "2002B-1 POBs") were issued as un-hedged auction rate securities and the 2002B2-4 POBs in the amount of $405,125,000 were "synthetically" fixed at an interest rate of 5.30%. See "– Swaps" herein. Beginning in September 2007, the auction rate securities market experienced some volatility as a result of the negative attention on and downgrades of "AAA" monoline insurers resulting from exposure to sub-prime securities. On April 4, 2008, Fitch Ratings ("Fitch") downgraded the financial strength rating of MBIA to "AA" from "AAA" and gave MBIA a negative outlook. On June 5, 2008, Standard & Poor's, a Division of the McGraw Hill Companies, Inc. ("S&P") downgraded the financial strength rating of MBIA to "AA" from "AAA" and gave MBIA a negative outlook. On June 19, 2008, Moody's Investors Service ("Moody's") downgraded the financial strength rating of MBIA to "A2" from "AAA" and gave MBIA a negative outlook. On June 26, 2008, Fitch withdrew its rating of MBIA.

Since February 13, 2008, auctions of the 2002B POBs have failed, causing the winning rates to be set at the maximum rate, which is equal to one-month LIBOR plus 150 basis points. From February 13, 2008 to present, the average interest rate on the un-hedged 2002B-1 POBs has been 4.190%. Because the 2002B2-4 POBs are synthetically swapped with the County paying the maximum rate of LIBOR plus 150 basis points and receiving LIBOR from the counterparties, the County has incurred 150 basis points of negative basis since the auctions began failing.

The 2002B POBs are callable on a semi-annual basis with their next call date on August 15, 2008. Proceeds of the Series 2008 Bonds will be used to refund all of the outstanding 2002B POBs. The County includes in its annual budget a conservative estimate of debt service for the 2002B POBs, which estimate is based on an interest rate 200 basis points above the then-current rates on the unhedged series and 150 basis points to cover basis risk on the hedged series. Accordingly, despite the higher than expected interest costs, the County has budgeted sufficient funds to pay the debt service on the 2002B POBs until their anticipated redemption in August 2008.

Termination Events/Collateral Requirements. In February 2008, Moody's confirmed MBIA's rating of "Aaa" and assigned a negative outlook. On June 5, 2008, S&P downgraded the financial strength rating of MBIA to "AA" from "AAA" and gave MBIA a negative outlook. On June 19, 2008, Moody's downgraded the financial strength rating of MBIA to "A2" from "AAA" and gave MBIA a negative outlook. In accordance with provisions of the International Swaps and Derivatives Association Master Agreement ("ISDA"), insurer rating actions taken by S&P and Moody's do not trigger termination or collateral requirements on the 2002B POBs.

In addition to termination for default events, termination of the swap may be triggered if the insurer rating is downgraded to or below "A-"or "A3" by S&P or Moody's, respectively, and the County's underlying rating is withdrawn, suspended, or falls to or below "BBB-" or "Baa3" by S&P or Moody's, respectively. Termination of the swap may also be triggered if the underlying ratings of one of the Counterparties (Citibank or Morgan Stanley) is withdrawn, suspended or falls to or below "BBB+" or "Baa1" by S&P or Moody's, respectively. (Fitch rating changes are not stipulated in the ISDA).

If the counterparties' or the County's ratings are downgraded below "BBB"/"Baa2" (S&P/Moody's), the downgraded party must post collateral in a form sufficient to the opposite party. If the County is the downgraded party, it may also choose to terminate the swap instead of posting collateral. The counterparties may also be required to post collateral to the County and the insurer if their respective underlying ratings are withdrawn, suspended or fall below "A-"/"A3" (S&P/Moody's).

Escrow and Pledge of Funds for 1994 POBs. On September 27, 2004, the County deposited with BNY Western Trust Company approximately $63.5 million (the "Deposit"), which was invested in an Investment Agreement (the "Investment Agreement"). The obligor under the Investment Agreement made payments to BNY Western Trust Company in July of each of 2005, 2006 and 2007, in amounts sufficient to meet the County's remaining annual payment obligations to a counterparty under a Debt Service Forward Sale Agreement (the "Forward Agreement") for the 1994 POBs until the final maturity of the 1994 POBs on August 15, 2007. The 1994 POBs have been repaid in full and are no longer outstanding.

Pension Related Payments and Obligations

Payments. Table 16 below sets forth the historical and estimated Employer Contributions, Employer Offsets and POB debt service for Fiscal Years 2003 through 2016, prior to the issuance of the Series 2008 Bonds and the refunding of the 2002 POBs in connection therewith. The estimates contained in this table, and the related assumptions, are "forward-looking" in nature and are not to be construed as representations of fact or representations that in fact the various estimates shown will be the correct amounts for the years indicated. Rather, these reflect good faith estimates by the County taking into account a variety of assumptions, a number of which are discussed herein. Accordingly, prospective investors are cautioned to review these estimates as general indications of orders of magnitude and not as precise amounts.

TABLE 16

PENSION RELATED PAYMENTS
Fiscal Years Ended June 30, 2003 through 2014
(In Millions)

Fiscal Year	Employer Contributions[3]	Employer Offsets	County Pension Obligation Bonds Debt Service[4]	Total Pension Related Payments
2003[1]	$ 12.2[5]	$53.9	$60.8	$126.9
2004[1]	195.0[5]	55.2	51.9	302.1[6]
2005[1]	260.0	56.1	56.3	372.4
2006[1]	243.7	58.8	63.6	366.1
2007[1]	258.2	62.3	68.8	389.3
2008[2][7][8]	247.0	65.0	66.1	378.1
2009[2][7][8]	228.0	68.0	86.4	380.2
2010[2][7][8]	218.0	71.0	87.7	372.2
2011[2][7][8]	218.0	74.0	89.0	376.5
2012[2][7][8]	224.0	77.0	90.4	386.8
2013[2][7][8]	236.0	80.0	91.8	403.2
2014[2][7][8]	255.0	83.0	93.3	426.7

Source: The Segal Company; County of San Diego.

(1) Actual.

(2) 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.

(3) 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 91.5% based on the estimated relative percentage of payroll of the County for Fiscal Years 2007-08. See "County Financial Information – San Diego County Employees' Retirement Association – General" herein.

(4) The 2002B POBs currently bear interest at a variable rate. $405,125,000 principal amount of the 2002B2-4 POBs have been synthetically fixed pursuant to a swap agreement between the County and the Swap Providers, and the balance of the 2002B POBs is not subject to such agreement. The County has assumed that the 2002B2-4 POBs will bear interest at 5.30% plus 0.31% to account for on-going broker-dealer fees and incur 150 basis points in negative basis during the indicated fiscal years, and that Swap Providers will perform their obligations under the swap agreement in all material respects. For a description of the swap agreement with respect to the 2002B2-4 POBs, see "County Financial Information – San Diego County Employees Retirement Association – Pension Obligation Bonds – Swaps" and "– Basis Risk" herein. The 2002B-1 POBs are assumed to bear interest at a variable rate of 7.26%, which consists of the historical average rate from March 2007 through March 2008 of 4.95%, plus an additional 2.00% contingency amount and an additional 0.31% to account for ongoing broker-dealer fees. The County converted the Variable 2004 POBs to a fixed rate of interest on August 15, 2006. The 1994 POBs were repaid in full on August 15, 2007. See "County Financial Information – San Diego County Employees Retirement Association – Pension Obligation Bonds – Escrow and Pledge of Funds for 1994 POBs" herein. The debt service amounts projected for the 2002B POBs includes the basis costs discussed under "County Financial Information – San Diego County Employees Retirement Association – Pension Obligation Bonds – Basis Risk" herein.

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

(7) Estimated; based on data, results and assumptions used in preparation the actuarial valuation as of June 30, 2007.

(8) Does not account for the County's anticipated prepayment in Fiscal Year 2008-09 of $44 million Series 2002B-1 POBs with available cash, which prepayment is expected to result in $3.06 million of annual interest savings to the County.

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

TABLE 17

COUNTY PENSION RELATED OBLIGATIONS
Fiscal Years Ended June 30, 2003 through 2014
(In Millions)

Fiscal Year	UAAL	Outstanding Pension Obligation Bonds[1]	Total Outstanding Obligations
2003	$1,435.4	$ 980.8	$2,416.2
2004	1,202.7	1,269.1	2,471.7
2005	1,378.0	1,194.9	2,571.6
2006	1,232.0	1,198.6[3]	2,429.2
2007	832.0[2]	1,192.8[3]	2,024.8
2008[4]	563.0[2]	1,068.2[3]	1,631.2
2009[4]	440.0[2]	1,047.6[3]	1,443.6
2010[4]	382.0[2]	1,024.5[3]	1,362.5
2011[4]	392.0[2]	999.1[3]	1,347.1
2012[4]	486.0[2]	971.0[3]	1,413.0
2013[4]	461.0[2]	940.1[3]	1,357.1
2014[4]	422.0[2]	906.0	1,284.0

Source: The Segal Company; County of San Diego.

(1) On September 27, 2004, the County established an Escrow and Pledge Fund with respect to the 1994 POBs. See "County Financial Information – San Diego County Employees Retirement Association – Pension Obligation Bonds – Escrow and Pledge of Funds for 1994 POBs" herein. Accordingly, outstanding principal balances with respect to the 1994 POBs for Fiscal Years ending after June 30, 2004 are not reflected in this table.

(2) Estimated. The amounts indicated are subject to the same assumptions as set forth in footnote (1) to the "Prospective Funding Status of the Association" table herein and in preparation of the actuarial valuation as of June 30, 2007.

(3) 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.

(4) Does not account for the County's anticipated prepayment in Fiscal Year 2008-09 of $44 million Series 2002B-1 POBs with available cash, which prepayment is expected to result in $3.06 million of annual interest savings to the County.

Risk Management

The County is required to obtain and maintain public liability insurance and workers' compensation insurance under various types of its financing lease obligations. These financing leases generally require public liability insurance to be issued by a responsible carrier or be in the form of self-insurance or self-funding to cover claims for damages including death, personal injury, bodily injury, or property damage arising from operations involving the facilities covered by such leases, affording protection with a combined single limit loss of not less than $5,000,000 per occurrence with respect to bodily injury, death or property damage liability. In addition, these financing leases generally require the County to obtain and maintain workers' compensation insurance issued by a responsible carrier or in the form of self-insurance or self-funding to cover all persons employed by the County in connection with the facilities covered by such leases and to cover full liability for compensation under the act requiring workers' compensation. Any self-insurance or self-funding for these risks is subject to certain conditions, including, but not limited to, providing evidence of self-insurance and 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 premises liability, medical malpractice, errors and omissions, false arrest, forgery, general liability and workers' compensation. The County purchases insurance for property damage, certain casualty claims, public officials bond, employee dishonesty, faithful performance, volunteers, airport comprehensive, and loss of money and securities based upon site locations. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. The County allocated the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll. In accordance with Government Accounting Standards Board Statement 10, "Accounting and Financial Reporting for Risk Financing and Relating Insurance Items," the County established two Internal Service Funds, the Public Service Liability Fund and the Employee Benefits Internal Service Fund (collectively, the "ISF") to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Actuarial evaluations were obtained which determine estimates of known and projected public liability and workers compensation claim liabilities. At June 30, 2007, the amount of these liabilities, including an estimate for claims incurred but not reported and allocated and unallocated loss adjustment expenses was estimated at $111.2 million, including $16.5 million in public liability and $94.7 million in workers' compensation. As of June 30, 2007, the ISF had available cash in the approximate amount of $86.4 million. The estimate of claims liabilities were recorded in the ISF. In Fiscal Year 2006-07, the County deposited $4 million into the Worker's Compensation Fund and appropriated sufficient funds to pay anticipated claims. For Fiscal Year 2007-08, the County deposited $4 million into the Workers' Compensation Fund in addition to appropriating sufficient funds to pay anticipated claims. The County's 2008-09 Proposed Budget provides for a deposit of $4 million into the Workers' Compensation Fund in addition to appropriating sufficient funds to pay anticipated claims.

The County will maintain excess workers' compensation insurance for Fiscal Year 2008-09. Following the results of a feasibility analysis, the County will not carry excess liability insurance at this time.

Litigation

CMS Litigation. Section 17000 of the California Welfare & Institutions Code requires the County to provide relief and support to all incompetent, poor and indigent persons, and those incapacitated by age, disease, or accident, who are lawful residents in the County, if those person are not supported or relieved by some other means. The County satisfies its Section 17000 obligation to provide medical care through its County Medical Services (the "CMS") program. Persons who are eligible to receive medical care services under the CMS program are those who have net income below a certain level designated by the CMS program (the "Eligibility Level") and are not otherwise eligible for medical care services from the State or Federal Government. The County pays for medically necessary care received by individuals who are eligible and have qualified for the CMS program.

The County was sued by five individuals who were denied eligibility under the CMS program because their respective net incomes exceeded the Eligibility Level. Plaintiffs sought to invalidate the income eligibility requirements of the CMS program and to compel the County to implement new eligibility requirements. Class action status was requested by the plaintiffs and granted by the court. The class includes all individuals whose applications for CMS were denied on or after January 24, 2004 because their net income exceeded the Eligibility Level.

As a result of the litigation, the County Board, on December 6, 2005, adopted new income standards for determining eligibility for the CMS program. Pursuant to the court's order, the new standards are retroactive to January 24, 2004. On April 7, 2006, the court approved the new income eligibility standards adopted by the County and approved the County's plan of implementation for notifying class members who were denied eligibility on or after January 24, 2004 of the procedure for filing claims to obtain reimbursement of amounts paid for medical services. The new standards became effective November 30, 2005, and resulted in an increased number of applicants who will be eligible for benefits from the CMS program and an increase in the overall cost to the County in administering the CMS program. The County accounted for the new eligibility requirements by increasing the ongoing budget for the CMS program by $6.0 million, to a total of $72.3 million, in Fiscal Year 2006-07 and has included the same amount for the provision of these benefits in the 2007-08 Adopted Budget. The County also set aside $6.0 million in Fiscal Year 2006-07 for one-time costs associated with retroactive claims.

Based on year end close-out data, the new eligibility standards implemented in 2005 increased the aggregate expenditures for the CMS program by $4.0 million during Fiscal Year 2006-07. This amount included a cost for retroactive benefits of $0.3 million and current costs of $3.7 million. The County estimates that the approximate aggregate costs related to the 2005 eligibility standards for the CMS program for Fiscal Year 2007-08 will be $4.2 million.

The plaintiffs appealed the trial court's determination and on May 23, 2007, the Court of Appeal reversed the decision of the trial court. The Court of Appeal found the new eligibility cutoff to be invalid because it is an inflexible cap that does not take into account ability to pay. The California Supreme Court denied the County's petition for hearing on August 22, 2007.

On October 24, 2007, the Board of Supervisors adopted revised eligibility standards to take effect December 1, 2007 that established a CMS income limit of 165% of the Federal Poverty Level (the "FPL"), copayments for individuals with incomes between 135% and 165% of the FPL (with a hardship exception) and a CMS Hardship Exception Policy (the "CMS Hardship Exception Policy") for individuals with incomes over 165% of the FPL, which allows waivers for financial and/or medical hardships. It is estimated that the annual cost of the new provisions will be $3 million. Costs will be addressed by the Proposed Operational Plan by reprioritizing other Health and Human Services programs. Based on statements made by representatives of the Western Center on Law and Poverty, the County expects a further legal challenge to the new standards. The County cannot at this time predict the financial impact of any such challenge to the new standards.

At a hearing on March 28, 2008, the Court of Appeal entered an interim order prohibiting the County from requiring co-payments, and prohibiting the denial of CMS benefits to applicants with income above 165% FPL on the grounds that (1) the applicant had the ability to obtain health insurance within the past year, but had failed to do so; and (2) the applicant would be able to pay for needed care over a period of up to 60 months.

On May 13, 2008, the Board of Supervisors adopted further revised eligibility standards by approving an action, effective July 1, 2008, to permanently remove the co-payment requirement for individuals over 135% of the FPL, establish a repayment agreement requirement for all individuals over 165% of the FPL, establish an income limit of 350% of the FPL, revise the CMS Hardship Exception Policy to permanently remove requirements to assess individuals' past ability to purchase medical coverage and future ability to pay for current medical services, and establish a monthly share of cost requirement for individuals determined eligible for CMS through the CMS Hardship Exception Policy.

At a Superior Court hearing on June 27, 2008, the CMS program adopted by the Board of Supervisors on May 13, 2008 was approved. The program will be implemented on July 1, 2008.

Wrongful Conviction Litigation. Ken Marsh filed a claim against the County of San Diego seeking damages in excess of $50,000,000. He alleged that the County and some of its employees conspired with employees of Children's Hospital to wrongfully convict him of the murder of 2 ½ year old Phillip Buell. The claim was rejected and on August 9, 2005, Marsh filed a complaint for damages in the United States District Court, Southern District of California, Case No. 05cv1568 WQH(NLS). The trial for this case is expected to commence in the fall of 2008. In the County's opinion, to prevail in the civil action Marsh must prove that a County pathologist and deputy coroner lied about Phillip's cause of death in concert with physicians at Children's Hospital, and then committed perjury during the criminal trial to secure the conviction of Marsh. While the outcome of any litigation is uncertain, the County does not expect any facts will be uncovered during the civil case to establish liability and anticipates that the matter will be resolved favorably by the trial judge on motion. The County anticipates that any impact of this litigation will not adversely affect the ability of the County to pay its obligations as and when due.

Short-Term Borrowing

In July, 2008, the County issued its 2008-09 Tax And Revenue Anticipation Notes (the "2008 TRANSs") on behalf of itself and certain school districts within the County in an aggregate principal amount of $169,800,000, of which $75,000,000 represent notes issued by the County. The 2008 TRANs mature on June 30, 2009. The 2008 TRANs were issued for the purpose of financing seasonal cash flow requirements for general fund expenditures.

During the 1990s, the County has utilized Temporary Transfers from time to time for various purposes, including the finance of County library programs and other County programs. Should the County find it necessary to use a Temporary Transfer, then such borrowing, pursuant to the California Constitution, must be repaid from the first County revenues received thereafter before any other obligation, including the Notes, is paid from such revenues.

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

The County has no outstanding general obligation bonds. As of June 30, 2008, the County will have POBs outstanding in the aggregate principal amount of $1.068 billion. As described in the forepart of this Official Statement, the County will issue $443,515,000 aggregate principal amount of Series 2008 Bonds in August 2008 to refund all of the outstanding 2002B POBs. 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 or certificates of participation ("COPs") and then leases the asset or assets to the County. As of June 30, 2008, the County will have COPs outstanding in the aggregate principal amount of $357.6 million. As of June 30, 2008, there will be approximately $1.425 billion aggregate principal amount of long-term general fund obligations outstanding. The annual long-term lease payments and annual debt service payments on the COPs and POBs of the County aggregated to approximately $126.8 million for Fiscal Year 2007-08 and will aggregate to approximately $127.2 million for Fiscal Year 2008-09, which amounts do not account for the County's anticipated prepayment in Fiscal Year 2008-09 of $44 million Series 2002B-1 POBs with available cash, which prepayment is expected to result in $3.06 million of annual interest savings to the County, and the refunding of the other 2002B POBs with proceeds of the Series 2008 Bonds.

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
Fiscal Year Ended June 30, 2008
(In Thousands)

	Interest Rates	Final Maturity Dates	Original Principal Amounts	Principal Amounts Outstanding
Certificates of Participation:				
San Diego County Capital Asset Leasing Corporation ("SANCAL"):				
1993 Master Refunding, issued May 1993	5.50-5.625%	2012	$ 203,400	$ 29,400
1997 Central Jail Refunding, issued July 1997	4.70-5.00%	2025	80,675	60,670
1998 Downtown Courthouse Refunding, issued December 1998	4.00-5.25%	2023	73,115	45,610
1999 East Mesa Refunding, issued September 1999	4.625-4.75%	2009	15,010	3,550
2000 Information Technology, issued May 2000	5.00-5.125%	2010	51,620	12,435
2002 Motorola, issued March 2002	3.30-5.00%	2011	26,060	9,530
2005 RCS Refunding, issued February 2005	3.00-5.00%	2019	28,885	20,110
2005 Edgemoor, issued February 2005	3.00-5.00%	2030	83,510	81,300
2005 North and East County Justice Facilities Refunding, issued September	3.25-5.00%	2019	28,210	25,060
2006 Edgemoor, issued December 2006	4.00-5.00%	2030	42,390	42,390
Total SANCAL			$ 632,875	$ 330,055
San Diego Regional Building Authority (SDRBA):				
2001 MTS Tower Refunding, issued September 2001	4.00-5.25%	2019	$ 36,960	$ 27,590
Total SDRBA			$ 36,960	$ 27,590
Total Certificates of Participation			$ 669,835	$ 357,645
Taxable Pension Obligation Bonds:				
Taxable Pension Obligation Bonds, issued September 2002				
Series A	3.88-4.95%	2015	132,215	132,215
Series B1, B2, B3, B4[1]	Variable Rate	2032	505,125	485,125
Taxable Pension Obligation Bonds, issued June 2004				
Series A	3.83%-5.865%	2022	241,360	223,095
Series B1, B2	5.911%	2024	147,825	147,825
Series C[2]	4.66%-5.76%	2015	64,928	100,170
Less Unaccreted Value			-	*(20,230)*
Total Taxable Pension Obligation Bonds			$1,091,453	$1,068,200
Unamortized Issuance Premium[3]			$ 8,639	$ 6,879
Unamortized Issuance Discount[3]			(4,594)	(1,899)
Total General Fund Long-Term Bonded Obligations			$1,765,333	$1,430,825

Source: The County.

(1) The County entered into interest rate swap agreements in connection with the 2002B2-4 POBs to attain a "synthetic" fixed interest rate on such portion of the underlying POBs, at a cost expected by the County to be less than rates associated with fixed-rate obligations at the time the related POBs were issued. $405,125,000 is synthetically fixed at an interest rate of 5.30%. See "Pension Obligation Bonds – Swaps" herein and Appendix B – "County of San Diego Audited Financial Statements for the Fiscal Year Ended June 30, 2007" Note IV(J) attached to the Official Statement. The interest rate swap agreements will be terminated upon the issuance of the Series 2008 Bonds and the refunding of the 2002B POBs in connection therewith.

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

(3) As of June 30, 2006; audited.

MBIA is the provider for four guaranteed investment contracts entered into in connection with several of SANCAL's Certificates of Participation. These are (1) 1997 Central Jail Refunding ($5.5 million of bond proceeds invested), (2) 1998 Downtown Courthouse Refunding ($5.4 million of bond proceeds invested), (3) 1999 East Mesa Refunding ($1.5 million of bond proceeds invested), and (4) 2005 North and East County Justice Facilities Refunding ($2.7 million of bond proceeds invested). On June 19, 2008, Moody's Investor Service downgraded MBIA Insurance Corporation's financial strength from Aaa to A2, which affected the investment contracts between the County and MBIA. The County and MBIA have agreed to terminate the investment contracts and MBIA will return to the County all amounts under such contracts, with interest to the date of termination.

Anticipated Capital Financings

General. A Capital Improvements Needs Assessment ("CINA") is prepared and presented annually to the Board of Supervisors to guide the development of both immediate and long-term capital projects. The CINA includes a comprehensive list of all current and anticipated capital projects over a five-year period. Capital projects are considered during the annual budget process unless the Board of Supervisors or the CAO recommends mid-year adjustments to the budget as circumstances warrant to meet emergency requirements or to benefit from unusual development or purchase opportunities. The Fiscal Year 2008-10 CAO Proposed Operational Plan includes $401.0 million in new appropriations for various capital projects and equipment. Of the capital projects set forth in the CAO Proposed Operational Plan for Fiscal Years 2008-09 and 2009-10, the County intends to issue debt only to fund a portion of the COC Project, as described below. All other capital projects will be funded with alternative sources of revenue.

COC Project. The proposed funding of $308.3 million in improvements to the COC will fund Phase 1 of the County's objective of redeveloping the existing site to support the efficient, modern operational needs of the County. The overall plan will include construction of six 150,000 square foot office buildings, two multi-level parking structures, a new central plant, and a conference center with food services. Construction is scheduled to begin in late 2008.

The CAO's Proposed Operational Plan for Fiscal Year 2008-09 includes appropriations of $308.3 million for Phase 1 of the COC and Annex Redevelopment Project, which is anticipated to be funded with approximately $75 million of General Fund resources and approximately $233.3 million in proceeds of lease revenue bonds or certificates of participation payable from lease payments from the County's General Fund This financing is anticipated to be completed in October 2008.

Swap Policy

In 2004, the County's Debt Advisory Committee ("DAC") approved an Interest Rate Swap Policy (the "Swap Policy") establishing guidelines for the execution and management of the County's use of interest rate and other swaps, caps, options, basis swaps, rate locks, total return swaps and other similar products (the transactions involving such products being referred to herein as "Swap Transactions"). The Swap Policy is reviewed and updated as necessary annually by DAC. The County may integrate Swap Transactions into its overall debt and investment management programs in a prudent manner to, among other things, enhance the relationship between risk and return with respect to debt or investments, achieve significant savings as compared to products available in the cash market, provide a higher level of savings, lower level of risk, greater flexibility, or other direct benefits not available in the cash market and achieve more flexibility in meeting overall financial objectives than can be achieved in conventional markets, all in accordance with the parameters set forth in the Swap Policy and consistent with the County's overall long-term financial obligation management policy. Pursuant to the Swap Policy, the total notional amount of all Swap Transactions executed by the County shall not exceed 30% of the outstanding principal of the County's long-term debt obligations at the time of execution. The Chief Financial Officer submits periodic reports to DAC on the status of the County's Swap Transactions, which reports include a summary of the terms of each Swap Transaction, including the credit rating of the counterparty, the value of any collateral that has been posted, the market value of the Swap Transaction, if available, cumulative and periodic cash flows and material changes to existing Swap Transactions, if any, an evaluation of the performance of each Swap Transaction, and a schedule of any new Swap Transactions entered into by the County since the previous report.

The County has entered into two Swap Transactions in connection with its 2002 POBs. See "Pension Obligation Bonds – Swaps" herein. The Swap Transactions entail risk to the County. The counterparties under the Swap Transactions may fail or be unable to perform, interest rates may vary from assumptions and, if the Swap Transactions are terminated for any of the conditions set forth in the related agreements and at the time of termination either swap has a negative fair value, the County may be required to make a payment equal to such swap's fair value. The County anticipates terminating its interest rate swap agreements with the Swap Providers upon the issuance of the Series 2008 Bonds and the refunding of the 2002B POBs in connection therewith. See Appendix B – "County of San Diego Audited Financial Statements for the Fiscal Year Ended June 30, 2007" Note IV(J) attached to the Official Statement.

SAN DIEGO COUNTY INVESTMENT POOL

General

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

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

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

The Treasury Pool's Portfolio

As of June 30, 2008, the securities in the Treasury Pool had a market value of $5,063,274,059 and a book value of $5,045,869,849, for a net unrealized gain of $17,404,210 of the book value of the Treasury Pool. As of June 30, 2008, the weighted average maturity of the Pool portfolio was approximately 427 days. As of June 30, 2008, 30.52% of the Pool was invested in securities with maturities ranging from 1-30 days, 25.20% of the Pool was invested in securities with maturities ranging from 31-90 days, 3.41% of the Pool was invested in securities with maturities ranging from 91-180 days, 3.50% of the Pool was invested in securities with maturities ranging from 181-365 days and 37.38% of the Pool was invested in securities with maturities between 1 and 5 years.

The effective duration for the Treasury Pool was 0.707 years as of June 30, 2008. "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 0.707 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 0.707%.

As of June 30, 2008, approximately 3.47% of the total funds in the Pool were deposited by Voluntary Depositors, such as cities and fire districts. Mandatory Depositors are comprised of 36.85% by the County, 43.32% by K-12 school districts, 12.40% by community colleges and 3.96% by Non-County entities.

Standard & Poor's, a Division of the McGraw-Hill Companies, Inc. maintains ratings on the Pool's ability to meet its financial commitments of "AAAf" (long-term) and "S1" (short-term volatility). The rating reflects only the view of the rating agency and any explanation of the significance of such rating may be obtained from such rating agency as follows: Standard & Poor's, 55 Water Street, New York, New York 10041.

Investments of the Treasury Pool

Authorized Investments

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

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

Beginning early August 2007, the Treasury Pool halted all investments 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 Treasury Pool is not invested in any structured investment vehicles and has never invested in collateralized debt obligations.

The Investment Policy

The Pool's Investment Policy (the "Investment Policy"), as approved by the County Board of Supervisors, currently states that the objectives of the Treasurer when investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds are as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve an investment return on the funds under the control of the Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 50% of the Pool should be invested in securities maturing one year or less. Furthermore, at least 25% of the Pool must mature within 90 days. The maximum effective duration shall be 1.50 years. With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements is to invest the proceeds form the agreement into permissible securities that have the highest short-term credit rating, to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation, and that the maturity of the reverse repurchase agreement and the maturity of the security purchased be the same.

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

Certain Information Relating to Pool

Table 19 below sets forth information with respect to the Pool as of the close of business June 30, 2008. As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described herein. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described herein. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by the Pool's Custodian, Bank of New York. Accordingly, there can be no assurance that if these securities had been sold on June 30, 2008, the Pool necessarily would have received the values specified. The County has no Pool investments in any corporation that has filed for bankruptcy.

Pool Benchmark

Beginning in early 2007, the Pool was managed as two portfolios; one positioned to meet liquidity needs and the other positioned to achieve incremental yield. All reporting with respect to the Pool will be on a combined portfolio basis to facilitate financial transparency from the perspective of Pool participants. The change was instituted after the development of a benchmark portfolio, which is comprised of 60% U.S. Treasury securities, 30% U.S. Government Agency securities and 10% corporate securities. It has a duration of approximately 1.6 years and reflects an appropriate risk/return profile for the portion of the Pool that is not anticipated to be needed for liquidity purposes. While the "benchmarked" portion of the portfolio is available for liquidity needs, it is positioned to achieve long term incremental yield. The combined portfolios will continue to comply with all California State Code and the Pool's Investment Policy.

TABLE 19

TREASURER-TAX COLLECTOR
SAN DIEGO COUNTY PORTFOLIO STATISTICS
(As of June 30, 2008)

	Percent of Portfolio	Book Value	Market Price	Accrued Interest	Market Value	Unrealized Gain/(Loss)	Yield to Maturity	Weighted Average Days to Maturity
U.S. Treasury Notes	7.45%	$ 370,085,110	101.99%	$ 3,235,917	$ 377,359,276	$ 7,274,166	4.13%	858
FNMA Discount Notes	7.09	358,768,190	99.72	0	358,803,320	35,130	2.37	45
Federal Farm Credit Bank Notes	1.78	88,929,846	101.14	990,719	90,052,835	1,122,989	3.90	721
Federal Home Loan Bank Discount Notes	5.83	293,757,801	99.83	0	295,179,951	1,422,150	2.07	27
Federal Home Loan Bank Notes	14.85	747,549,214	100.81	10,704,683	751,965,834	4,416,620	4.34	898
Federal Home Loan Mortgage Corporation Discount Notes	5.41	273,721,213	99.89	0	273,702,400	(18,813)	2.16	18
Federal Home Loan Mortgage Corporation Notes	15.05	758,780,410	100.56	7,076,747	762,341,809	3,561,399	4.05	955
Fannie Mae	9.54	483,432,678	100.11	5,140,011	482,904,146	(528,532)	3.60	466
Corporate Medium Term Notes	1.94	98,666,801	100.79	823,735	98,269,500	(397,301)	4.26	749
Asset Backed Notes	0.78	38,857,325	101.34	177,970	39,523,400	666,075	5.42	322
Bond Fund	0.69	35,000,000	99.70	80,512	34,894,895	(105,105)	2.50	1
Money Market Funds	0.86	43,270,000	100.00	1,624,218	43,270,000	0	2.25	1
Repurchase Agreements	7.12	360,676,795	100.00	25,207	360,676,795	0	2.52	1
Negotiable Certificates of Deposit	7.41	375,000,369	100.01	5,810,507	375,035,000	34,631	3.29	21
Commercial Paper	12.23	619,374,097	99.89	0	619,294,898	(79,199)	2.47	15
Collateralized/FDIC Certificates of Deposit	1.97	100,000,000	100.00	61,982	100,000,000	0	3.25	181
Totals for June 2008	100.00%	$5,045,869,849	100.36%	$35,752,208	$5,063,274,059	$17,404,210	3.33%	427
Totals for May 2008	100.00%	$5,246,790,386	100.36%	$39,132,673	$5,265,943,416	$19,153,030	3.45%	430
Change From Prior Month		($ 200,920,537)	0.00%	($ 3,380,465)	($ 202,669,357)	($ 1,748,820)	(0.12%)	(3)
Portfolio Effective Duration	0.707 years							

	June 2008 Return	Annualized	Fiscal Year to Date Return	Annualized	Calendar Year to Date Return	Annualized
Book Value	0.277%	3.375%	4.614%	4.601%	1.982%	3.975%
Market Value	0.254	3.085	6.137	6.120	2.391	4.796

Source: The County.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A

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

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

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

Article XIII B

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

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

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

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

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

The Board of Supervisors adopted the annual appropriation limit for the Fiscal Year 2007-08 of approximately $3.6 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 2007-08 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 $2.3 billion below the Article XIII B limit.

Proposition 46

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

Proposition 62

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

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, this special tax was found to be invalid.

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

Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIII C and XIII D to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the County, to levy and collect both existing and future taxes, assessments, fees and charges. The County is unable to predict whether and to what extent Proposition 218 may be held to be constitutional or how its terms will be interpreted and applied by the courts. Proposition 218 could substantially restrict the County's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the County's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. However, the County does not presently believe that the potential financial impact on the County as a result of the provisions of Proposition 218 will adversely affect the County's ability to pay its debt obligations and perform its other obligations payable from the General Fund as and when due.

Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the County require a majority vote and taxes for specific purposes, even if deposited in the County's General Fund, require a two-thirds vote. Further, any general purpose tax that the County imposed, extended or increased without voter approval after December 31, 1994 may continue to be imposed only if approved by a majority vote in an election held within two years of November 5, 1996. The County has not enacted, imposed, extended or increased any tax without voter approval since January 1, 1995. These voter approval requirements of Proposition 218 reduce the flexibility of the County to raise revenues through General Fund taxes, and no assurance can be given that the County will be able to impose, extend or increase such taxes in the future to meet increased expenditure requirements.

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

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

The initiative power granted under Article XIII C of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges. The County is unable to predict whether the courts will ultimately interpret the initiative provision to be limited to property related local taxes, assessments, fees and charges. No assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the County's General Fund. The County believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are reduced or substantially reduced, the financial condition of the County, including its General Fund, would be materially adversely affected. As a result, there can be no assurances that the County would be able to pay the Series 2008 Bonds as and when due or any of its other obligations payable from the General Fund.

Article XIII D of Proposition 218 adds several new requirements to make it more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined in Proposition 218 and SB 919 as any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in County service areas and in special districts. In most instances, in the event that the County is unable to collect assessment revenues relating to specific programs as a consequence of Proposition 218, the County will curtail such services rather than use amounts in the General Fund to finance such programs. Accordingly, the County anticipates that any impact Proposition 218 may have on existing or future taxes, fees, and assessments will not adversely affect the ability of the County to pay the Series 2008 Bonds as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the assessments that presently finance them are reduced or repealed.

Article XIII D also adds several provisions, including notice requirements and restrictions on use, affecting "fees" and "charges" which are defined as "any levy other than an ad valorem tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." The annual amount of revenues that are received by the County and deposited into its General Fund which may be considered to be property related fees and charges under Article XIII D of Proposition 218 is not substantial. Accordingly, presently the County does not anticipate that any impact Proposition 218 may have on future fees and charges will not adversely affect the ability of the County to pay the principal and interest on the Series 2008 Bonds as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

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

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

Proposition 1A

Proposition 1A (SCA 4) ("Proposition 1A"), proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A 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, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses 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 currently in effect, 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.

Future Initiatives

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

STATE OF CALIFORNIA BUDGET INFORMATION

The following information concerning the State's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. Information about the State Budget is regularly available at various State-maintained websites. Text of the budget may be found at the Department of Finance website, www.dof ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the LAO at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the County or the Underwriters, and the County and the Underwriters take no responsibility for the continued accuracy of the internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

State Budget for Fiscal Year 2007–08

Fiscal Year 2007–08 State Budget. The 2007–08 Budget Act (the "2007–08 Budget Act") was adopted by the State Legislature on August 21, 2007, along with a number of implementing measures, and signed by the Governor on August 24, 2007. The State Legislature took actions to reduce spending and increase available funds, which increased total reserves to $3.4 billion. The Governor further reduced spending by vetoing $943 million in appropriations from General Fund, special funds, and bond funds (including $703 million in General Fund appropriations), raising the total reserve to $4.1 billion. General Fund spending growth in the 2007–08 Budget Act was held to $0.6 billion, or 0.6 percent. The 2007–08 Budget Act assumed that the State ended the 2006–07 Fiscal Year with $4.1 billion in reserves and projected $102.3 billion in budget-year revenues, representing a 6.5 percent increase from the 2006–07 Fiscal Year projected General Fund revenues and transfers at $102.3 billion. The 2007–08 Budget Act also authorized expenditures of an equal amount, representing a 0.6 percent increase from Fiscal Year 2006–07. The 2007–08 Budget Act left the General Fund with a $4.1 billion reserve, similar to the estimated June 30, 2007 reserve. The reserve consisted of two components: (i) $2.6 billion in the State's traditional reserve known as the Special Fund for Economic Uncertainties, and (ii) $1.5 billion in the Budget Stabilization Account established pursuant to Proposition 58, which was approved in March 2004.

Legislative Analyst's Office Analysis of the 2007–08 Budget Act; Projections – 2007–08 Through 2012-13. On August 31, 2007, the LAO released a report entitled "Major Features of the 2007 California Budget" (the "2007 LAO Budget Overview"). The 2007 LAO Budget Overview observed that while expenditures did not exceed revenues in the 2007–08 Budget Act, the one-time nature of many of the budget solutions would result in operating shortfalls of more than $5 billion in both Fiscal Year 2008-09 and Fiscal Year 2009-10. On November 14, 2007, the LAO released a report entitled "California's Fiscal Outlook: LAO Projections 2007–08 Through 2012-13." The LAO forecasted that, absent corrective action, the State will end Fiscal Year 2007–08 with a $1.9 billion deficit, rather than the reserve of $4.1 billion projected in the 2007–08 Budget Act and face an $8 billion operating shortfall in 2008-09. The LAO attributed the increase in its projection of the State's deficit in Fiscal Year 2008-09 to, among other things, slow growth in the State's economy due to a declining real estate market, high energy and gas prices, lower property taxes and a reduction in the State's anticipated revenues and states that, in order to balance the Fiscal Year 2008-09 State Budget, the State will have to adopt nearly $10 billion in solutions.

State Budget for Fiscal Year 2008-09

Proposed Governor's Budget for Fiscal Year 2008-09. On January 10, 2008, Governor Schwarzenegger (the "Governor") released his 2008-09 Proposed Budget (the "2008-09 Proposed Budget"). The 2008-09 Proposed Budget projects an estimated $14.5 billion budget shortfall by the end of Fiscal Year 2008-09, in the absence of any changes to State law or policy to reduce spending, which the Governor proposes to address with more than $17 billion in correction actions. In particular, the 2008-09 Proposed Budget projects State General Fund revenues and transfers for Fiscal Year 2008-09 of $102.9 billion, an increase of approximately 2.1 percent above the anticipated revenues and transfers for Fiscal Year 2007-2008, and State General Fund expenditures of $101.0 billion, a decrease of approximately 2.3 percent below the anticipated expenditures for Fiscal Year 2007–08. With proposed expenditures of $2.6 billion more than revenues, the 2008-09 Proposed Budget projects ending Fiscal Year 2007–08 with a State General Fund balance of $1.76 billion, of which $885 million will be reserved for the liquidation of encumbrances and $872 million will be deposited in a reserve for economic uncertainties, and ending Fiscal Year 2008-09 with a State General Fund balance of $3.67 billion, of which $2.78 billion will be deposited in a reserve for economic uncertainties, provided various budget-balancing proposals are approved.

The Governor's revised economic forecasts for the State reflects weaker economic performance than was previously forecast. State personal income growth (considered the broadest single measure available of the State's overall economic activity) is predicted to slow from 5.6 percent in 2007, to 4.8 percent in 2008, and then increase to 5.2 percent in 2009. Job growth within the State is expected to drop from 0.8 percent for 2007, to 0.7 percent for 2008, and then increase to 1 percent for 2009. New housing permits in the State are expected to be 95,000 in 2008, compared to an average of more than 160,000 annually for the past ten years.

The Governor has declared a fiscal emergency under the State Constitution and called the State Legislature into special session to, among other things, consider the Governor's proposals for balancing the State budget, which includes issuing approximately $3.3 billion in deficit-financing bonds, suspending a $1.5 billion supplementary payment on outstanding deficit-financing bonds, accruing in Fiscal Year 2008-09 $2 billion in tax revenues that are currently reflected as Fiscal Year 2009-10 revenues, reducing K-14 education spending in the current year by $400 million, suspending the Proposition 98 minimum guarantee in the amount of $4 billion in Fiscal Year 2008-09, saving approximately $18 million in Fiscal Year 2007–08, $758 million by Fiscal Year 2009-10 by releasing certain nonviolent prisoners and no longer actively supervising nonviolent offenders on parole, and making 10 percent across-the-board reductions (aggregating to approximately $5 billion in savings) in most other State programs, excepting only program reductions that are deemed to be in conflict with the State Constitution or impractical. See "LAO Analysis of the 2008-09 Proposed Budget" herein for a discussion of certain actions taken by the State Legislation.

In addition, the Governor proposes that a constitutional amendment be put before the State's voters, which amendment would provide for a creation of a third State reserve fund to receive revenues from the General Fund of any amount over the average long-term trend of revenue growth rate (which amounts would be transferred back to the General Fund in any year in which revenue growth was below the average) and provide the Governor with the power to make program reductions when he predicts the

State to be in a budget deficit. The Governor also seeks legislation that would allow him to make reductions to the services of statutory entitlement programs.

Certain of the features of the 2008-09 Proposed Budget affecting counties include the following:

1. The 2008-09 Proposed Budget proposes to fully fund the Proposition 1A loan repayment for Fiscal Year 2008-09 and the approximately $1.5 billion Proposition 42 transfer, which is proposed to be allocated as follows: $82.7 million to the Traffic Congestion Relief Fund, $594.2 million to the State Transportation Improvement Program, $297.1 million to the Public Transportation Account and $594.2 million to cities and counties for local streets and roads maintenance.

2. The 2008-09 Proposed Budget includes the elimination of $75 million in estimated reimbursement claims but does not subject unreimbursed pre-2004 mandate reimbursements to the proposed 10 percent reductions.

3. The 2008-09 Proposed Budget includes changes to California Work Opportunity and Responsibility to Kids ("CalWORKs") that are expected to result in net savings of $74 million in 2007–08 and $389 million in 2008-09, including the increase of economic sanctions for families that against families with adults who do not comply with program requirements and the elimination of the children's safety net grant unless their parent(s) meeting federal work participation requirements.

4. The 2008-09 Proposed Budget provides for the July 2008 CalWORKs cost of living adjustment ("COLA") in the amount of $131 million but proposes the deletion of the June 2008 State COLA for SSI/SSP recipients, which is expected to result in savings of $23 million in Fiscal Year 2007–08 and $271 million in Fiscal Year 2008-09.

5. The 2008-09 Proposed Budget proposes reducing provider rates for Medi-Cal to generate Fiscal Year 2007–08 State General Fund savings of $33 million and Fiscal Year 2008-09 savings of $602 million, which savings would be achieved through a 10 percent provider payment reduction to most fee-for-service providers (generally physicians). The 2008-09 Proposed Budget also proposes to change from a weekly reimbursement schedule to an annual reimbursement schedule for a one-time State General Fund savings of $165 million.

LAO Analysis of the 2008-09 Proposed Budget. On January 14, 2008, the LAO released a report entitled "Overview of the Governor's Budget" (the "2008 LAO Budget Overview"), which provides an analysis by the LAO of the 2008-09 Proposed Budget. The 2008 LAO Budget Overview is available on the LAO website at www.lao.ca.gov. Information on the website is not incorporated herein by reference.

In the 2008 LAO Budget Overview, the LAO states that the 2008-09 Proposed Budget's revenue forecast is generally reasonable (although recent cash trends and continued negative economic reports may cause actual results to be lower than forecasted) and its spending proposals are built upon solid assumptions about caseload and program requirements. However, the LAO states that, in the context of the amount of corrective actions that are proposed, the ongoing revenue-raising proposals set forth in the 2008-09 Proposed Budget are minimal, indicated that the proposed across-the-board reductions may cause many programs to operate in a less than optimal manner thus providing lower quality services to the public, and questioned whether certain proposed accruals comply with generally accepted accounting principals. The LAO recommends that the State Legislature, among other things, focus on early decisions that will allow State programs to achieve desired savings in the current year, identify additional revenue solutions, balance the budget proposals set forth in the 2008-09 Proposed Budget against the programmatic impacts from delaying payments to schools districts and local governments. In addition, the LAO stated that the reforms included in the 2008-09 Proposed Budget represent a "serious diminution of the State Legislature's appropriation authority" and "limit future policy makers' options to craft budgets" and suggests the exploration of other budgetary options.

On February 20, 2008, the LAO released a report entitled "Analysis of 2008-09 Budget Bill" (the "LAO Budget Analysis"), which provides further analysis by the LAO of the 2008-09 Proposed Budget. The LAO also released a report entitled "The 2008-09 Budget: Perspectives and Issues" (the "LAO Budget Perspectives"), which discusses significant fiscal and policy issues which fall under the scope of several programs, agencies and subcommittees of the State Legislature, and a budget update on April 24, 2008 (the "LAO Budget Update") with respect to certain actions taken by the State Legislature to address the fiscal emergency. In the LAO Budget Analysis, the LAO states that General Fund revenues for the current and budget year combined will be $1.5 billion below the Governor's estimate and indicates that this revised forecast will cause the State to face a shortfall of approximately $16 billion over the current year and through Fiscal Year 2008-09. The LAO Budget Perspectives report presented an alternative budget approach that recommended, among other things, an adjustment to the division of probation-related responsibilities and services among State and local entities, and a shift in existing revenues to counties from current water and wastewater enterprise special district property taxes, city Proposition 172 sales taxes and vehicle license fees. According to the LAO's Budget Update, through April 2008, the State Legislature has adopted approximately $7.5 billion in budgetary solutions (more than $6 billion of which are one-time in nature), but a budgetary shortfall of over $8 billion remains. Amongst the Legislature's budgetary solutions is the delay of $3.7 billion in payments to schools, local governments, Medi-Cal providers and the teachers' retirement system, which delay is coupled with an additional $1.1 billion delay in similar payments implemented by the Governor. The LAO's Budget Update also indicates that current year revenue receipts are below previously forecasted levels.

May Revision of the 2008-09 Proposed State Budget. On May 14, 2008, the Governor released the May Revision to the 2008-09 Governor's Budget (the "May Revision"). The May Revision projects a current budget deficit of $17.2 billion, approximately $3.0 billion in excess of the $14.5 billion budget deficit reflected in the 2008-09 Governor's Budget. The May Revision attributes the difference to a lower than expected gross domestic product growth, weaker California job growth, and smaller gains in California personal income in calendar years 2008 and 2009.

The May Revision proposes a combination of spending reductions and revenue solutions to address the budget gap and to provide for reserves of approximately $2.0 billion. The May Revision fully funds the Proposition 98 guarantee, abandons earlier proposals by the Governor to close over 40 State parks and to release certain California prison inmates early. The May Revision proposes $12.6 billion in expenditure reductions across State government and $627 million in additional reductions to health and human services programs. The May Revision also proposes loans and transfers from various special funds to provide one-time funding to the General Fund to help close the budget gap. The May Revision also includes the State's decision to postpone the sale of the EdFund, the State-established non-profit organization that has guaranteed student loans since 1997, which was proposed as a budget balancing revenue source for Fiscal Year 2007-08.

The May Revision includes the Governor's plan to address the State's current and ongoing budget problem. The Governor's reform plan focuses on four elements: (1) the Budget Stabilization Act (the "BSA"), a constitutional amendment that seeks to address the cyclical nature of the State's revenues by establishing a Revenue Stabilization Fund (the "RSF") in which revenues above a defined level of "reasonable, long-term average rate of growth" would be deposited, with the goal of providing the General Fund with a reserve of $5.1 billion; (2) subject to approval by qualified voters, the sale of bonds backed by a securitization of a portion of State lottery revenues (similar to the State's tobacco settlement litigation revenue securitization), with the expectation that such securitization will generate $5.1 billion for the RSF in Fiscal Year 2008-09 and a total of $15 billion by Fiscal Year 2010-11; (3) a temporary sales tax increase as a fail-safe mechanism in the event that the lottery securitization ballot measure is not approved; and (4) the creation of a Tax Modernization Commission to conduct a comprehensive examination of California's tax laws.

Certain features of the May Revision affecting counties include the following:

1. The May Revision includes a proposal to withhold the federal SSI/SSP COLA for savings of $108.8 million and continues to propose the elimination of the State COLA for Fiscal Year 2008-09.

2. The May Revision includes additional budget and policy proposals beyond the 2008-09 Governor's Budget, which proposals are estimated to reduce the CalWORKS Fiscal Year 2008-09 caseload projection to 386,781 families, a 16-percent decrease from the Fiscal Year 2007-08 estimate.

3. The May Revision presents additional changes to services and eligibility for the Medi-Cal program, by proposing cuts to Medi-Cal eligibility.

4. The May Revision proposes to fully fund Proposition 42, but revises the estimate from $1.49 billion to $1.43 billion. In turn, the reduction will cause a revision in allocation estimates for each county. Should the legislature support this funding, this would represent the first year that counties and cities receive their full Proposition 42 payments of 20 percent each.

5. The May Revision includes a proposal to reduce the State's payments in connection with IHSS, pursuant to which the State's participation in provider wages will be reduced to the minimum wage of $8.00 per hour and $0.60 per hour for benefits and stricter eligibility criteria will be implemented for IHSS recipients.

LAO Analysis of the 2008-09 May Revision. On May 19, 2008, the LAO released an analysis of the May Revision entitled "Overview of the 2008-09 May Revision" (the "LAO Overview"). According to the LAO Overview, the overall budget-year estimates in the May Revision are reasonable. The LAO Overview projects that if the Legislature adopted all of the Governor's proposals and if such proposals were successfully implemented, the State's year-end reserve in Fiscal Year 2008-09 would be approximately $500 million less than the estimate set forth in the May Revision. Further, the LAO Overview predicts multibillion dollar shortfalls in Fiscal Year 2010-11.

The LAO Overview states that the May Revision presents overly optimistic estimates about the potential growth in lottery sales and profits. Consequently, securitization of lottery revenues would create a strong likelihood that distributions to public education from the lottery would fall short of their current levels – up to $5 billion over the next 12 years. The LAO also states that the Governor's proposed budget reforms, by requiring General Fund monies to be deposited into a new reserve at the same time that the State faces multibillion dollar shortfalls, may prevent the State from accessing monies intended to help solve the budget problem. The LAO further states that the proposed across-the-board reductions presented in the May Revision fail to prioritize which State programs are most essential while undermining the Legislature's constitutional authority over appropriations. The LAO Overview offers alternative approaches to the proposals set forth in the May Revision, including an alternate lottery plan and budget reform proposals that may be simpler.

The Fiscal Year 2008-09 State Budget ("Fiscal Year 2008-09 State Budget") is expected to be subject to significant negotiation and revision prior to its ultimate adoption. There can be no assurances that the final Fiscal Year 2008-09 State Budget will not place additional burdens on local governments, including counties, or will not significantly reduce revenues to such local governments. The Fiscal Year

2008-09 State Budget is subject to approval by the State Legislature, and the County cannot predict the ultimate impact of the final approved Fiscal Year 2008-09 State Budget on the County's financial situation. In the event the final Fiscal Year 2008-09 State Budget includes decreases in County revenues or increases in required County expenditures from the levels assumed by the County, the County will be required to generate additional revenues, curtail programs and/or services, or spend down its reserve to ensure a balanced budget.

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 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 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.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

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

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

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

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

The San Diego Convention Center has been expanded to 2.6 million total gross square feet. The Convention Center generated approximately $1.5 billion in calendar year 2007 in total economic impact (direct and indirect spending).

San Diego County is also growing as a major center for culture and education. Over 30 recognized art organizations, including the San Diego Opera, the Old Globe Theatre productions, the La Jolla Chamber Orchestra, as well as museums and art galleries, are located in 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.

County Government

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

Population

There are 18 incorporated cities in San Diego County, and several unincorporated communities. Table 20 below sets forth the population in San Diego County, the State and the United States for the years 1999 to 2008.

TABLE 20

POPULATION ESTIMATES[(1)]
(In Thousands)

Year	San Diego County	Percent Change	State of California	Percent Change	United States[(2)]	Percent Change
1999	2,751	1.78%	33,141	1.48%	272,691	0.90%
2000	2,801	1.82	33,722	1.75	282,194	3.48
2001	2,865	1.81	34,431	1.65	285,112	1.03
2002	2,923	2.02	35,064	1.84	287,888	0.97
2003	2,975	1.78	35,653	1.68	290,448	0.90
2004	3,012	1.24	36,199	1.53	293,192	0.94
2005	3,038	0.86	36,675	1.31	295,896	0.92
2006	3,065	0.89	37,115	1.20	298,755	0.97
2007	3,100	1.14	37,559	1.20	301,621	0.96
2008	3,146	1.48	38,049	1.30	NA	NA

Sources: State of California Department of Finance; U.S. Bureau of the Census.
(1) As of January 1 of the year shown, except as noted.
(2) As of July 1 of the year shown.

Employment

Table 21 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 the years 2003 through 2007.

TABLE 21

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT ANNUAL AVERAGES 2003-2007[1]
By Place of Residence
(In Thousands)

	2003	2004	2005	2006	2007
San Diego County					
Labor Force[2]	1,468.2	1,490.8	1,505.9	1,520.4	1,542.5
Employment[2]	1,391.7	1,420.1	1,440.5	1,459.9	1,471.6
Unemployment Rate[2]	5.2%	4.7%	4.3%	4.0%	4.6%
State of California					
Labor Force	17,390.7	17,506.6	17,703.4	17,907.2	18,188.1
Employment	16,200.1	16,413.4	16,742.3	17,029.9	17,208.9
Unemployment Rate	6.8%	6.2%	5.4%	4.9%	5.4%
United States					
Labor Force	146,510.0	147,401.0	149,320.0	151,428.0	153,124.0
Employment	137,736.0	139,252.0	141,730.0	144,427.0	146,047.0
Unemployment Rate	6.0%	5.5%	5.1%	4.6%	4.6%

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

(1) March 2007 Benchmark.

Table 22 below sets forth the annual average employment within San Diego County by employment sector, other than farm industries, for 2003 through 2007. In 2007, the service sector constituted the largest non-farm employment sector in San Diego County, representing approximately 42% of all non-farm employment.

TABLE 22

SAN DIEGO COUNTY
NON-AGRICULTURAL LABOR FORCE AND INDUSTRY EMPLOYMENT
ANNUAL AVERAGES[(1)]
2003-2007
(In Thousands)

Employment Sector	2003	2004	2005	2006	2007
Natural Resources and Mining	0.3	0.4	0.4	0.5	0.4
Construction	80.2	87.7	90.8	92.7	87.2
Manufacturing	105.3	104.3	104.5	103.9	102.1
Trade, Transportation and Utilities	209.7	215.3	219.4	222.0	223.0
Information	36.9	36.6	37.4	37.3	38.0
Financial Activities	79.9	81.9	83.2	83.7	80.4
Professional and Business Services	201.2	204.5	210.4	213.6	216.5
Educational and Health Services	121.8	121.7	122.5	125.1	128.8
Leisure and Hospitality	140.7	145.7	149.6	156.5	160.9
Other Services	46.8	47.9	48.8	48.4	48.8
Government	217.3	214.3	215.1	217.9	222.1
Total	1,240.1	1,260.3	1,282.1	1,301.6	1,308.2

Source: California Employment Development Department.
(1) Total may not equal the sum of the line items due to rounding.

Regional Economy

Table 23 below sets forth San Diego County's Gross Regional Product, which is an estimate of the value for all goods and services produced in the region, from 1998 through 2006.

TABLE 23

SAN DIEGO COUNTY
GROSS REGIONAL PRODUCT
1998-2006

	Gross Regional	Annual Percent Change	
	Product	Current Dollars	Real Change*
Year	(In Billions)	San Diego	San Diego
1998	$ 93.7	9.4%	8.2%
1999	102.4	9.3	8.2
2000	111.6	9.0	7.0
2001	116.3	4.2	2.1
2002	124.9	7.4	4.9
2003	133.1	6.5	4.5
2004(1)	141.7	6.5	4.4
2005(1)	151.1	6.6	4.5
2006(2)	161.1	6.6	4.9

Sources: Economic Research Bureau of the San Diego Chamber of Commerce.
* Adjusted using the GDP/GSP Implicit Price Deflator.
(1) Estimate.
(2) Forecast; 2007 data not available.

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

Building Activity

Building permit valuation for both residential and non-residential construction in San Diego County in 2007 decreased over 2006 levels by approximately 20%. Measures limiting new housing remain in effect in areas throughout San Diego County, resulting in a 25% decrease in residential valuations. Non-residential valuations increased 13%.

Table 24 below sets forth the annual total building permit valuation and the annual unit total of new residential permits from 2003 through 2007:

TABLE 24

COUNTY OF SAN DIEGO
BUILDING PERMIT ACTIVITY
2003-2007
(In Thousands)

	2003	2004	2005	2006	2007
Valuation:					
Residential	$3,683,807	$3,875,359	$3,562,702	$2,470,685	$1,852,381
Non-Residential	1,169,397	1,288,130	1,381,794	1,621,608	1,416,823
Total	$4,853,204	$5,163,489	$4,944,496	$4,092,293	$3,269,204
New Housing Units:					
Single Family	9,455	9,555	7,886	4,753	3,503
Multiple Family	8,859	7,751	7,372	6,024	3,942
Total	18,314	17,306	15,258	10,777	7,445

Source: Construction Industry Research Board.

Commercial Activity

Table 25 below sets forth information regarding taxable sales in San Diego County for the years 2002-2006.

TABLE 25

SAN DIEGO COUNTY
TAXABLE SALES
2002-2006
(In Thousands)

Type of Business	2002	2003	2004	2005	2006
Apparel Stores	$ 1,374,858	$ 1,466,233	$ 1,644,428	$ 1,798,104	$ 1,909,011
General Merchandise	4,557,457	4,832,2826	5,204,962	5,406,091	5,594,621
Specialty Stores	3,803,803	4,144,293	4,541,225	4,728,028	4,926,656
Food Stores	1,650,104	1,685,203	1,736,610	1,858,152	1,928,274
Home Furnishings/Appliances	1,353,158	1,458,403	1,549,482	1,566,046	1,511,389
Eating and Drinking Establishments	3,505,859	3,757,136	4,047,726	4,267,302	4,521,392
Building Materials	2,510,931	2,757,706	3,341,105	3,376,009	3,331,161
Automotive	7,862,366	8,563,690	9,318,277	9,739,136	9,819,932
All Other Retail Stores	803,063	855,601	961,645	1,045,927	1,076,631
Business and Personal Services	1,977,606	2,040,077	2,146,781	2,239,304	2,302,057
All Other Outlets	9,196,342	9,303,350	9,978,097	10,655,372	10,914,390
TOTAL ALL OUTLETS	$38,595,547	$40,863,978	$44,470,338	$46,679,471	$47,835,514

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

Personal Income

Table 26 below sets forth the median household income for San Diego County, the State, and the United States between 2002 and 2006.

TABLE 26

MEDIAN HOUSEHOLD INCOME[1]
2002 through 2006

Year	San Diego County	California	United States
2002	$50,384	$49,738	$43,057
2003	49,886	50,220	43,564
2004	51,012	51,185	44,684
2005	56,335	53,629	46,242
2006	59,591	56,645	48,451

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

Foreclosures; Notices of Loan Default

There has been an increase in the number of foreclosures and notices of loan default issued in San Diego County in the first three months of calendar year 2008, relative to the first three months of calendar year 2007. For the three calendar years from 2004 through 2006, an average 16.2% of notices of loan default resulted in foreclosures. This percentage increased to 37.9% in 2007 and 45.81% through June 2008. In 2007 an average of 6.3% of total deeds recorded were followed by foreclosures. This percentage increased to 15.49% through June 2008.

The defaults have been attributed 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) and transfers of corporations and real estate investment trusts in San Diego County, which acquisitions and transfers constitute reappraisable events for purposes of the County's assessment roll.

Table 27 below sets forth information relating to notices of defaults and foreclosures in San Diego County for failure to pay taxes from Calendar Year 1998 through June 2008 of Calendar Year 2008.

TABLE 27

NOTICES OF DEFAULTS AND FORECLOSURES
Calendar Years 1998 through 2008

Calendar Year	Notices of Default	Foreclosures
1998	7,766	3,345
1999	5,962	1,989
2000	5,472	1,380
2001	5,726	826
2002	5,986	909
2003	5,167	566
2004	4,260	553
2005	5,080	559
2006	10,294	2,065
2007	22,194	8,417
2008(1)	20,248	9,275

Source: County of San Diego Assessor/Recorder/County Clerk.
(1) Through June 2008.

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 seven general aviation airports located in San Diego County.

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

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

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

Visitor and Convention Activity

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

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately $7.9 billion in 2007, according to an estimate by the San Diego Convention and Visitors Bureau, an increase of approximately $180 million from the prior year. San Diego County hosted 66 conventions and trade shows in 2007, attended by approximately 655,819 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, 2007

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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, 2007, 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, 2007. Those financial statements were audited by other auditors whose report thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Commission is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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, 2007, 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.

The San Diego County Employees' Retirement Association (SDCERA) was previously reported as a component unit of the County, however based on a reevaluation of the financial accountability criteria SDCERA was determined not to be a component unit of the County. Accordingly, beginning in fiscal year 2007, SDCERA is excluded from the County's fiduciary funds and is no longer reported as a pension trust fund in the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated December 17, 2007, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information and schedule of funding progress on pages 29 through 45, 107 through 112 and 113, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Macias Gini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
December 17, 2007

Management's Discussion and Analysis

Donald F. Steuer
Chief Financial Officer

Tracy M. Sandoval
Auditor and Controller

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, 2007.

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 2006-07 (2007) by $2.95 billion (net assets). Of this amount, $2.52 billion is invested in capital assets, net of related debt; $162 million is restricted for specific purposes (restricted net assets); and the remaining portion represents unrestricted net assets of $263 million.
- Total net assets increased by $374 million. For governmental activities, revenues exceeded expenses by $355 million. For business type activities, revenues exceeded expenses, before transfers, by $19.6 million.
- General revenues for governmental activities were $1.37 billion. Of this amount, property taxes and property taxes in lieu of vehicle license fees accounted for $838 million or 61 percent; other taxes, sales and use taxes for roads, sales and use taxes for public protection, sales and uses taxes, interest and other general revenues accounted for $530 million or 39 percent.
- Program revenues for governmental activities were $2.3 billion. Of this amount, $1.8 billion or 80 percent was attributable to operating grants and contributions while charges for services accounted for $453 million or 20 percent.
- The total expenses for governmental activities were $3.29 billion. Public protection accounted for $1.08 billion or 32.8 percent of this amount, while public assistance accounted for $1.04 million or 31.7 percent. Additionally, health and sanitation accounted for $580 million or 17.6 percent.

Overview of the Financial Statements

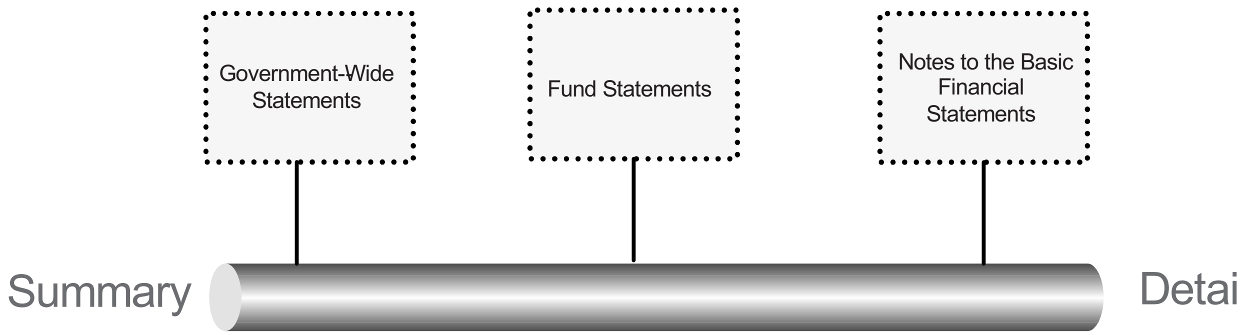
This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) *Government-wide* financial statements 2) *Fund* financial statements, and 3) *Notes* to the basic financial statements.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

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



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

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

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 twenty-seven 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 and the Tobacco Securitization Special Revenue Fund, both of which are considered to be major funds. Data from the other twenty-five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the combining financial statements and supplemental information section in this report.

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

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

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

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

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

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

Required supplementary information (RSI) is also presented. It provides budgetary comparisons for the General Fund and the Tobacco Securitization Special Revenue Fund (a major fund) in separate Schedules of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual. Additionally, the *RSI* provides trend information on the County's funding progress of its pension system, the San Diego County Employees Retirement Association (SDCERA), for the last three actuarial evaluations.

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

Government-wide Financial Analysis

Table 1

Net Assets
June 30, 2007
(In Thousands)

	Governmental Activities		Business Type Activities		Total	
	2007	2006	2007	2006	2007	2006
ASSETS						
Current and other assets	$ 2,888,810	2,610,156	87,186	84,646	2,975,996	2,694,802
Capital assets	2,755,506	2,710,793	115,100	100,174	2,870,606	2,810,967
Total assets	5,644,316	5,320,949	202,286	184,820	5,846,602	5,505,769
LIABILITIES						
Long-term liabilities	2,385,188	2,396,272	2,893	3,134	2,388,081	2,399,406
Other liabilities	509,529	530,516	2,065	3,349	511,594	533,865
Total liabilities	2,894,717	2,926,788	4,958	6,483	2,899,675	2,933,271
NET ASSETS						
Invested in capital assets, net of related debt	2,409,050	2,367,442	112,549	97,212	2,521,599	2,464,654
Restricted	162,318	224,635			162,318	224,635
Unrestricted	178,231	(197,916)	84,779	81,125	263,010	(116,791)
Total net assets	$ 2,749,599	2,394,161	197,328	178,337	2,946,927	2,572,498

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 $2.95 billion at the close of fiscal year 2007.

The largest portion of the County's net assets (85 percent) reflects its investment of $2.52 billion in capital assets (e.g. land, infrastructure, buildings, and equipment); less any related outstanding debt used to acquire those assets. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be liquidated for these liabilities.

An additional portion of the County's net assets, $162 million, 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 $263 million in unrestricted net assets.

At June 30, 2007, changes in net assets before transfers (revenues minus expenses) equaled $374 million, a $13.7 million or 3.5% decrease from the previous year. Principal revenue sources contributing to the change in net assets were operating grants and contributions of $1.83 billion and taxes of $1.072 billion (including: property taxes; sales and use taxes for public protection; and property taxes in lieu of vehicle license fees.) These revenue categories accounted for 78% of total revenues. Principal expenses were in the following areas: public protection, $1.08 billion; public assistance, $1.04 billion; and health and sanitation, $580 million. These expense categories accounted for 81% of total expenses.

Table 2

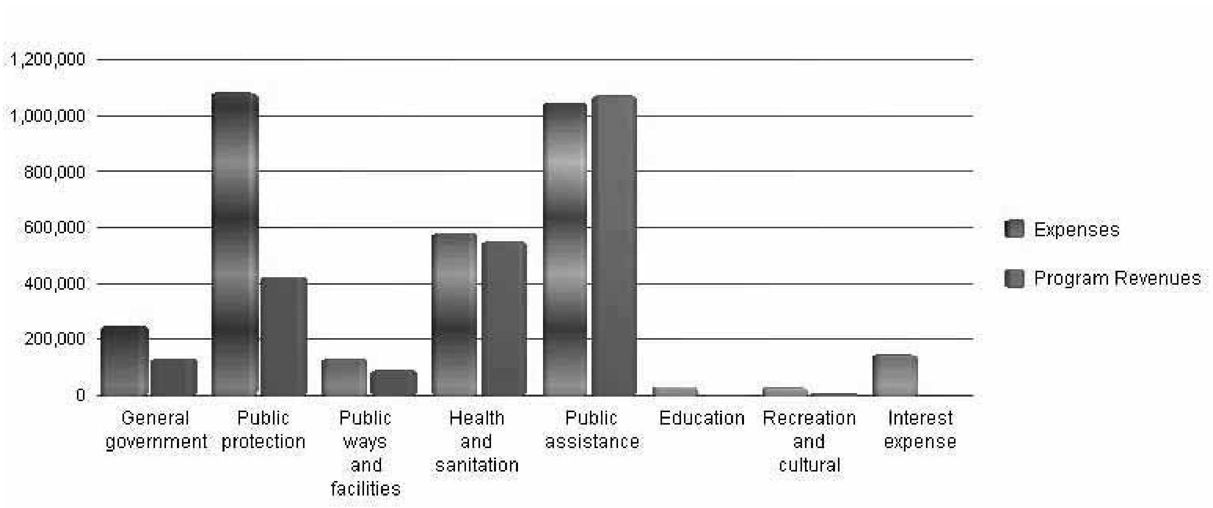
Changes in Net Assets
June 30, 2007
(In Thousands)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	$ 453,414	455,559	32,024	29,006	485,438	484,565
Operating grants and contributions	1,821,349	1,792,663	8,257	9,994	1,829,606	1,802,657
Capital grants and contributions	7,559	5,283	464	58	8,023	5,341
General revenues:						
Property taxes	559,726	516,569			559,726	516,569
Other taxes	26,760	34,219			26,760	34,219
Sales and use taxes for roads	57,439	38,702			57,439	38,702
Sales and use taxes for public protection	234,797	236,438			234,797	236,438
Property taxes in lieu of vehicle license fees	277,930	261,695			277,930	261,695
Sales and use taxes	26,534	23,475			26,534	23,475
Interest	88,974	63,810	4,189	7,048	93,163	70,858
Other	95,343	78,651	2,909	160	98,252	78,811
Total revenues	3,649,825	3,507,064	47,843	46,266	3,697,668	3,553,330
Expenses:						
Governmental Activities:						
General government	249,993	240,158			249,993	240,158
Public protection	1,079,320	1,021,464			1,079,320	1,021,464
Public ways and facilities	133,148	128,268			133,148	128,268
Health and sanitation	580,384	559,709			580,384	559,709
Public assistance	1,043,454	1,015,481			1,043,454	1,015,481
Education	33,223	32,488			33,223	32,488
Recreation and cultural	28,469	23,376			28,469	23,376
Interest expense	146,997	116,692			146,997	116,692
Business-type Activities:						
Airport			8,209	7,699	8,209	7,699
Wastewater Management			4,422	4,733	4,422	4,733
Sanitation Districts			15,620	15,133	15,620	15,133
Total expenses	3,294,988	3,137,636	28,251	27,565	3,323,239	3,165,201
Changes in net assets before transfers	354,837	369,428	19,592	18,701	374,429	388,129
Transfers	601	1,090	(601)	(1,090)		
Change in net assets	355,438	370,518	18,991	17,611	374,429	388,129
Net assets at beginning of year	2,394,161	2,023,643	178,337	160,726	2,572,498	2,184,369
Net assets at end of year	$ 2,749,599	2,394,161	197,328	178,337	2,946,927	2,572,498

Analysis of Changes in Net Assets

The County's total net assets increased by $374 million during fiscal year 2007. The increase of $374 million was attributed to: increases of $341 million in total assets (includes an increase of $281 million in current and other assets and a $60 million increase in capital assets); and a decrease in total liabilities of $33 million (includes a decrease of $22 million of other liabilities and a decrease in long-term liabilities of $11 million).

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



Governmental activities:

Governmental activities increased the County's net assets by $355 million, accounting for 95% of the total increase in net assets (Business-type activities accounted for the remaining 5%, $19 million).

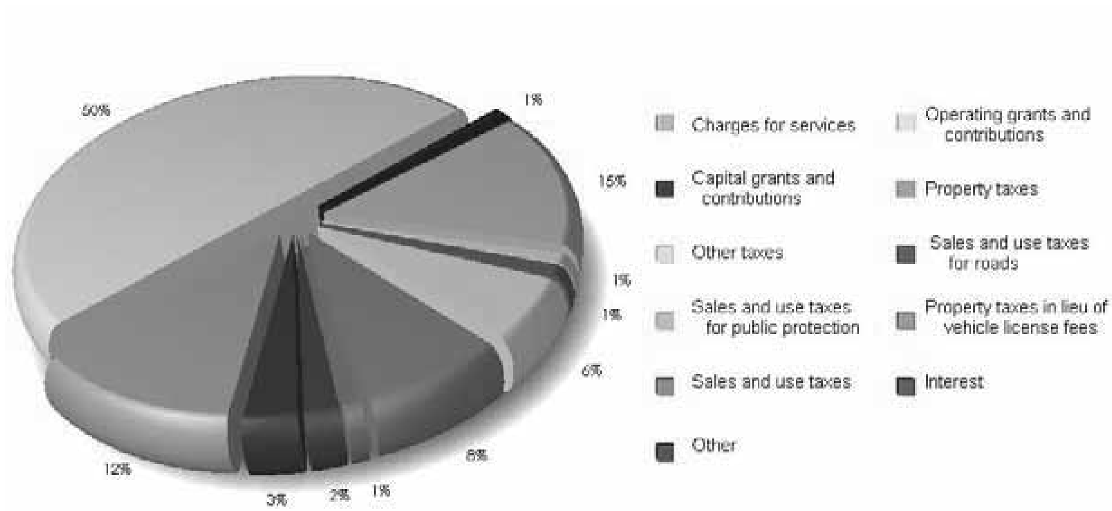
Expenses:

- Total expenses for governmental activities were $3.29 billion, an increase of $157 million or 5% ($127 million in functional expenses and $30 million in interest expense) over the prior year. Public protection was the largest functional expense (32.8 percent), followed by public assistance (31.7 percent) and health and sanitation (17.6 percent).

Increases in program expenses were attributed to the following:

- $82 million was due to an increase in contracted services including: $48 million in public protection activities principally due to an increase in Sheriff adult detention and police protection activities of $37 million and Planning and Land Use fire protection activities of $11 million; and $34 million in health and sanitation activities due in large part to increases in mental health and other assistance activities of $19 million and $15 million, respectively.
- $46 million was attributable to an increase in salaries and benefit costs of approximately 3% over the previous year. As a service delivery entity, the County's major cost component is salaries and benefits, which accounts for approximately 46% of the total expenses. The County's overall strategy of deleting, freezing and temporarily funding positions has minimized the impact of negotiated salary increases and increased benefit costs.
- A $30 million increase in interest expenses principally occurred as a result of new debt issued during the current fiscal year, and increased amortization of debt issuance related costs such as issuance discounts and deferred amounts on refundings.

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



Revenues:

Total revenues for governmental activities were $3.65 billion, an increase of 4 percent or $143 million from the previous year.

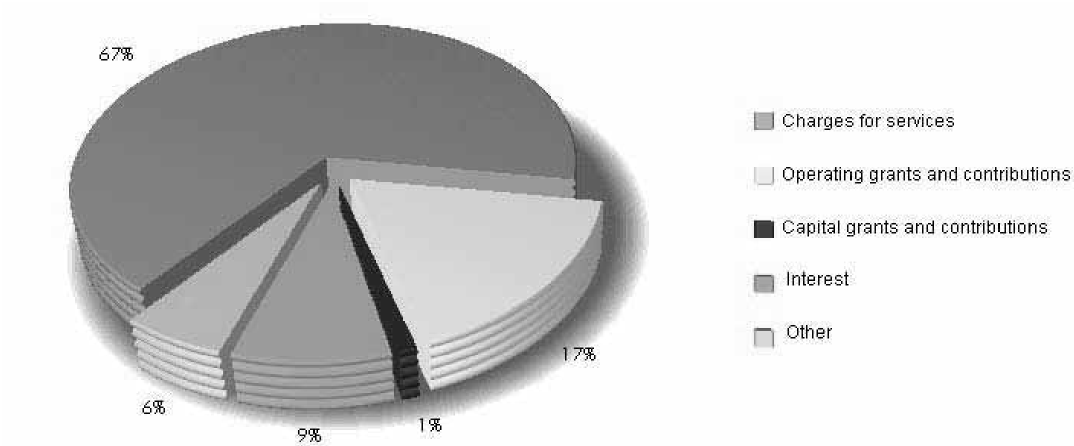
Program revenues increased by $29 million due primarily to increases in operating grants and contributions.

General revenues increased by $114 million. This increase was primarily due to the following:

- $43 million of the increase was due to increases in current and delinquent property taxes chiefly because of the growth in assessed property values.
- $25 million of the increase was attributable to an increase in interest earnings as the annual pool investment earnings rate increased to 5.00% from the prior year of 3.47%.
- $19 million of the increase was due to an increase in sales and use taxes for roads, principally due to an increase in the one-half percent TransNet taxes received by the County.
- $16 million of the increase was due to property taxes in lieu of vehicle license fees. This revenue source replaced the previous distribution of vehicle license fees to local governments.
- $3 million of the increase was due to an increase in general sales and use taxes.

The County's governmental activities rely on several sources of revenue to finance ongoing operations. As shown in **Chart 2** above, operating grants and contributions of $1.8 billion accounted for 50%, 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.

Chart 3
Revenue By Source - Business Type Activities
(As a percent)



Combined, these general revenues of $838 million account for 23% of governmental activities. Additionally, $453 million applicable to charges for services accounted for 12%, while sales and use taxes for public protection of $235 million accounted for 6% of these revenues.

At the end of fiscal year 2007, total revenues for the governmental activities were $3.65 billion, while total expenses for governmental activities were $3.29 billion.

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

Business-type Activities:

Business-type activities 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 $32 million or 67% while grants ($8 million) and interest earnings ($4 million) represent 17% and 9% of total revenues respectively.

Financial Analysis of the County Funds

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

Governmental Funds:

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

As of the end of fiscal year 2007, the County's governmental funds reported combined ending fund balances of $2.13 billion, an increase of $251 million in comparison with the prior year fund balance. Of the total June 30, 2007 amount, $1.44 billion constitutes unreserved fund balance, which is available for spending at the County's discretion. The remaining $684 million of fund balance is reserved to indicate that it is not available for new spending because it has already been committed. These reservations include: (1) $253 million in encumbrances for existing contracts and purchase orders; (2) $253 million in Special Fund reserves, see **Table 32,** "Reserved for Other Purposes" in Notes to Financial Statements for details; (3) $113 million reserved for debt service, (4) $55 million reserved for loans, advances and prepaids; and $10 million reserved for: inventories ($9 million); and landfill closure costs ($1 million).

Revenues for governmental functions overall totaled $3.59 billion representing a 5% increase. Expenditures for governmental functions, totaled $3.4 billion, a 5% increase from the fiscal year ended June 30, 2006.

- *General Fund:*

The General Fund is the chief operating fund of the County. At the end of fiscal year 2007, the unreserved fund balance of the General Fund was $745 million, while total fund balance was $1.16 billion, an increase of $256 million from fiscal year 2005-06 (2006).

This was primarily attributed to a $273 million increase in Aid from other governmental agencies - State (principally realignment monies); a $43 million increase in Aid from other governmental agencies - Federal (principally Title 19 Medi-cal); partially offset by a $59 million increase in public protection expenditures, due in large part to increases in Sheriff police protection and adult detention. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 27 percent of total General Fund expenditures of $2.81 billion, while total fund balance represents 41 percent of that same amount.

- *Tobacco Securitization Special Revenue Fund:*

This special revenue fund is used to account for the $411 million the County received from the Tobacco Asset Securitization Corporation (Corporation) related to the sale of 25 years of tobacco settlement revenue in fiscal year 2002; and an additional $123 million the County received from Corporation resulting from the issuance of the San Diego County Tobacco Asset Securitization Corporation refunding bonds in fiscal year 2006. The County will continue to invest these funds in investment products to maximize the sustained long-term use of these dollars. At the end of fiscal year 2007, fund balance was $431 million, a decrease of $9 million from fiscal year 2006. This decrease was attributable to interest earnings of $15 million; and transfers out of $24 million to support health related program expenditures.

- *Other Governmental Funds*:

Other governmental funds consist of twenty-five nonmajor funds, which include special revenue funds, debt service funds, and capital project funds. Individual fund data for each of these nonmajor governmental funds is provided in the combining financial statements and supplemental information section of this report. As of the end of fiscal year 2007, the fund balance of the other governmental funds totaled $542 million, an increase of $4 million over the prior year. This $4 million net increase to fund balance was primarily due to the following.

Increases to fund balance were principally due to the activity in the following funds: The $10 million Road fund's increase in fund balance represents $137 million of revenues from taxes, the State and other revenue sources offset by $70 million of costs incurred for road related activities, $55 million in capital outlay, and $2 million in transfers made out of the road fund to the Pension Obligation Debt Service Fund; $10 million of the increase is related to SANCAL debt service ($6 million) and capital related activities ($4 million); $7 million increase in the Flood Control Districts Fund (Flood) is for transfers made into Flood in to be used for flood related expenditures; $7 million increase to the Housing Authority's fund balance consists of expenditures of $97 million, principally $88 million in tenant assistance offset by Federal grants of $99 million and other revenue of $5 million; $5 million increase in Edgemoor development capital project activities; $4 million increase due to air pollution related activities; $2 million increase in County Library related activities; $1 million for County Service District activities; and, $1 million for Tobacco Securitization Joint Special Revenue Fund activities.

Decreases to fund balance were due to the activity in the following funds: $23 million in Pension Obligation Bond Debt Service Fund's decrease in fund balance is due primarily to debt service payments of $99 million offset by transfers in of $67 million and other revenue of $9 million; $17 million decrease in the Public Safety fund balance represents $234 million in 2007 tax revenues offset by a transfer out to other governmental funds of $251 million to be spent on public protection activities; and, $3 million decrease in the Inactive Wastesites fund balance of represents expenditures in inactive wastesite management costs of $10 million offset in part by interest income of $5 million and tonnage fee and other revenues of $2 million.

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.

The net assets of business-type activities Enterprise Funds increased by $19 million or 11%, indicating that these activities generated revenues sufficient to cover the costs of operations. $4 million of this increase represents operating income. The remaining $15 million increase is primarily due to $8 million in Airport Enterprise Fund grant revenue; $4 million in interest and dividends ($1 million Airport Enterprise Fund and $3 million in the Sanitation Districts Fund); and, a $3 million gain on disposal of assets in the Sanitation Districts Fund.

Net Assets of the internal service funds totaled $106 million, an increase of $23 million from the prior year. This increase was primarily due to net asset increases of $11 million in the Employee Benefits Fund and $11 million in the Public Liability Insurance Fund.

Fiduciary Funds:

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

- *Specific Investments - Investment Trust Fund:*

The Specific Investments - Investment Trust Fund was created in 2007 for the purpose of reporting individual investments which are offered as an alternative to a pooled position. In general, external entities include school districts, independent special districts and various other governments. The Specific Investments - Investment Trust Fund 's net assets totaled $344 million, a decrease in net assets of $513 million, primarily due to distribution from investments of $571 million offset by contributions on investments of $37 million and investment earnings of $21 million.

- *Pool Investments - Investment Trust Fund:*

This fund was established to account for the external portion of the County Treasurer's investment pool. This fund consists of school districts, special districts, and funds held for other governments. The Pool Investments - Investment Trust Fund's net assets totaled $2.62 billion, an increase in net assets of $179 million, primarily resulting from contributions on pooled investments of $17.052 billion and investment earnings of $134 million offset by distribution from pooled investments of $17.007 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 offset by the amount of budget carried forward to the subsequent fiscal year. At June 30, 2007 net expenditure appropriations increased by $7.6 million and appropriations for transfers-out decreased $132.2 million for a net decrease of $124.6 million. (The net appropriation decrease included $130.9 million in net budget amendments offset by $255.5 million for the amount of budget carried forward to the subsequent fiscal year.)

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

- $10.0 million in the Office of Emergency Services for the purchase of equipment to enhance the response to chemical, biological and radiological incidents, to conduct exercises and for emergency planning and administration, based on revenue from the California Office of Homeland Security.
- $9.5 million for the payment of costs related to the transition of information technology from Computer Sciences Corporation to Northrup Grumman Information Technology, Inc., funded by fund balance.
- $6.9 million in the Sheriff to upgrade the County's Wireless Data System based on Proposition 172 revenue and Asset Forfeiture funds.
- An additional $5.4 million in Proposition 172 funding for various projects within the Public Safety Group. This includes $2.5 million in the Probation Department for maintenance projects at the various detention facilities, a new document management system and continuation of the global positioning and home supervision contracts to monitor and track high-risk sex offenders, $1.5 million in the District Attorney's Office for Continuity of Operations Planning (COOP) for information technology enhancements and equipment, $1.0 million in the District Attorney's Office for costs associated with the design and development of the new document management and $0.4 million for various other projects in the Public Safety Group.
- $21.1 million for salaries and benefits for incentives earned through the County's Fiscal Year 2006 Quality First program, funded by fund balance.
- $5.4 million in the District Attorney's Office for salary and benefits costs related to temporary help, graduate law clerks and student workers, the purchase of equipment to support employees' health and safety needs, equipment for the Regional Law Enforcement Training Center and the District Attorneys' training division and information technology upgrades, funded by fund balance.
- $7.2 million in the Health and Human Services Agency to enhance Child Welfare Services as described in the Board approved State-mandated System Improvement Plan and augment staffing needs to address recent state and federal Mandates. The funding source is State Child Welfare funding and Adoptions Basic Funding.
- $3.0 million in the Health and Human Services Agency for alcohol and drug services funded through a California Screening, Brief Intervention, Referral and Treatment Services Grant from the State Department of Alcohol and Drug Programs.

- $2.5 million in the Registrar of Voters to fund the additional costs of the November, 2006 General Election and March, 2007 Special Elections based on elections services revenues received from jurisdictions that participated in the elections and November, 2005 Special Statewide Election reimbursements from the Secretary of State.
- $4.0 million for the renovation and remodeling of existing structures in Heritage Park, funded by fund balance.
- $3.9 million in the Assessor/Recorder/County Clerk for remodeling and facilities maintenance in the County Administration Center and various other departmental maintenance projects, ergonomic workstations and for application services which include the development and upgrade of information technology services and the replacement of microfilm/printers based on funding from the Property Tax Administration, Modernization and Vital Statistics Trust Funds.

Actual revenues fell short of the final budgeted amounts by $49.5 million, while expenditures fell short of the budgeted amount by $380.4 million. The combination of the revenue and expenditure shortfalls resulted in a net favorable operating variance of $330.9 million. Other financing sources and uses of funds resulted in a favorable variance from budget of $17.6 million and there was no variance in the increase to the reserve for inventories of materials and supplies. These combined amounts resulted in a variance in the net change in fund balance of $348.5 million.

Highlights of actuals compared to budgeted amounts are discussed below:

- *Health and Human Services Agency:*

Funded by a combination of State, federal, and County revenues, most agency programs are carried out in the functional areas of health and sanitation and public assistance, with favorable expenditure variances of $58.1 million and $82.2 million respectively. The expenditure variances result from demand for services being less than the budgeted level. This includes Child Care payments, CalWORKS and Welfare to Work and Refugee Assistance payments. These lowered expenditures were offset by corresponding reductions in federal and State revenue.

- *Salaries and Benefits:*

In the continuing environment of uncertainty over State and federal funding, many County functions have deferred hiring staff for ongoing programs in anticipation of future budget constraints. In addition, the Sheriff's department is having recruiting difficulties due to a nationwide shortage of peace officers. The total favorable variance across all functions in this category is $55.7 million of which $15.3 million is attributable to the Sheriff's department.

- *Delayed expenditures:*

Many County projects such as maintenance and information technology take place over more than one fiscal year. However, at inception they are budgeted at full expected cost, resulting in favorable expenditure variances that are re-budgeted in the new fiscal year. For example, in the Department of Planning and Land Use, re-budgets include: $1.0 million for the removal of dead, dying and diseased trees; $1.0 million for the Fire Prevention Program to provide funding to fire districts and County Service Areas; $1.7 million for costs related to the completion of the General Plan 2020 and subsequent Zoning ordinance revisions and $0.8 million for various projects related to the Multiple Species Conservation Program. The Department of Parks and Recreation has re-budgeted $1.6 million for various projects in local parks and community centers. The District Attorney has rebudgeted $4.0 million for approved information technology projects to be completed in the upcoming year. Additional rebudgeted amounts include $0.5 million in the Public Safety Group for various projects including the California Multi-Jurisdictional Methamphetamine Team and for information technology enhancements in the Probation Department and $0.2 million for the relocation of the Purchasing and Contracting Property Disposal warehouse to a new facility.

Appropriated Management Reserves:

The County annually appropriates management and contingency reserves 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 reserves resulted in a positive variance of $54.7 million. In addition, in fiscal year 2007, the County set aside $36.3 million for economic uncertainty with the intent that it not be spent unless unusual needs arose; of that amount, $32.5 million was unexpended at year end.

Capital Assets and Commitments

Capital Assets

At June 30, 2007, the County's capital assets for both governmental and business-type activities was $2.76 billion and $115 million, respectively, net of accumulated depreciation. Investment in capital assets includes land, construction in progress, structures and improvements, equipment, and infrastructure (including roads, bridges, flood channels, and traffic signals). The significant capital asset activity in fiscal year 2007 was as follows:

Governmental Activities:

- $54.4 million towards the construction and improvement of County maintained roads, bridges, and other road related infrastructure. An additional $15.1 million in infrastructure was donated by developers.
- $30.1 million towards the construction of the Edgemoor Skilled Nursing Facility in Santee. Total project costs are estimated at $118.8 million.
- $9.1 million towards the construction of flood control drainage channels.
- $4.1 million towards the construction of a new Medical Examiner Building in Kearny Mesa. Total project costs are estimated at $85.4 million.
- $4.1 million towards the construction of a Sheriff station in Alpine. Total project costs are estimated at $6.0 million.
- $3.8 million for expansion of the Public Health Laboratory. Total project costs are estimated at $4.3 million.
- $2.9 million for acquisition of real property in Lakeside for a future sports park.
- $1.6 million towards the construction of the Spring Valley Gymnasium. Total projects costs are estimated at $2.6 million.
- $1.2 million for open space habitat restoration at the Goodan Ranch Compound. Total projects costs are estimated at $1.7 million.
- $8.3 million towards the construction of numerous other Capital Outlay Fund projects.

Business-Type Activities:

- $2.1 million to complete the rehabilitation of the taxiway at Gillespie Field Airport in El Cajon.
- $1.8 million towards improvements in the Spring Valley Sanitation District including outfall manhole replacement. Total project costs are estimated at $2.2 million.
- $1.5 million towards the construction of the Palomar Airport North Ramp. Total project costs are estimated at $8.8 million.

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

More detailed capital assets information, including depreciation as of June 30, 2007, can be found in Note IV-D of the notes to the basic financial statements.

Capital Commitments

As of June 30, 2007, capital commitments included the following:

- $80 million for the construction of Edgemoor Skilled Nursing Facility, Valley Center Road, Wildcat Canyon road, route 54/94, Central Avenue Flood Control System, and Resurfacing/Culvert Replacement on various county roads.
- $2 million for the Jamacha Boulevard Sewer Improvements and the Flow Monitoring Systems in Alpine, Lakeside, and Spring Valley Sanitation Districts.

More detailed capital commitments information, including depreciation as of June 30, 2007, can be found in Note IV-D.2 of the notes to the basic financial statements.

Long-Term Obligations

At June 30, 2007, for governmental activities, the County had outstanding long-term obligations of $2.385 billion. Of this amount, $364 million pertained to outstanding certificates of participation, and the remaining $2.021 billion pertained to the following obligations: $1.207 billion of taxable pension obligation bonds; $584 million of San Diego County Tobacco Asset Securitization Corporation Bonds; $15 million of Redevelopment Agency bonds; $8 million for loans; $7 million of unamortized issuance premiums; $(21) million of unamortized issuance discounts; $(27) million of unamortized deferred amounts on refundings; $30 million for capital leases; $111 million for claims and judgments; $83 million for compensated absences; and, $24 million for landfill closure and postclosure costs.

Long-term obligations for business-type activities totaled $2.9 million and consisted of $2.6 million for capital loans and $342 thousand for compensated absences.

During fiscal year 2006, the County's total principal amount of bonds, loans and notes payable for governmental activities decreased by $24 million, before giving affect to the unamortized issuance, issuance premiums, unamortized issuance discounts and unamortized deferred amounts on refundings. The $24 million decrease was due to the following debt issuances, offset by debt service payments discussed below:

Increases - $50 million

The County's issued $42.4 million in certificates of participation for the 2006 Edgemoor Completion Project; $344 thousand Landavo Zone PRD #1015 Capital Loan; and a $118 thousand El Sereno Way Zone PRD #1016 Capital Loan.

Additionally $7 million of principal was accreted (added) to the outstanding CAB principal balances outstanding. These issuances and the accredited amount totaled $50 million.

Decreases - $74 million

Decreases to debt included $74 million in principal debt service payments.

The long-term obligations for business-type activities decreased by $241 thousand due to $194 thousand debt service payments on capital loans, and a decrease of $47 thousand in compensated absences.

More detailed long-term obligation activity, including interest rates and maturity dates, can be found in Note IV-I through IV-I-5 of the notes to the basic financial statements.

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

Table 3

Credit Ratings

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

In May 2007, Fitch Ratings upgraded the County's ratings on its outstanding Certificates of Participation and Pension Obligation Bonds from AA- to AA and assigned the County an

AA+ Issuer rating. According to Fitch Ratings credit research report issued in May 2007, “The rating upgrade is based on the County’s positive financial trend, marked by consistent operating surpluses and resulting high fund balances, disciplined pension system funding, and positive actions to limit other post-employment benefit costs, sound underlying economy, and conservative debt management”

Economic Factors and Next Year's Budget and Rates

- The fiscal year 2007-08 (2008) General Fund budget utilized as funding sources for one-time expenditures $123.3 million out of $561.4 million in unreserved undesignated fund balance and $1.5 million out of $183.4 million unreserved designated fund balance. In addition, $55.5 million in unreserved designated fund balance was shifted to a general reserve.
- The development of the fiscal year 2008 budget was based on current expectations for demand for services and availability of funding to support those services. The fiscal year 2008 General Fund budget contains total appropriations of $3.521 billion. This is an increase of $231.4 million or 7.0% from the fiscal year 2007 General Fund budget. A number of risk factors continue to be tracked: the U.S. economy, the State of California's projected budget imbalance for fiscal year 2009, 2010 and beyond; significant weaknesses in the housing sector; uncertainty in short and long-term interest rates; continued pressure of high energy prices; and the impact of legislation and propositions on the State of California's budget particularly in the areas of Health Care and Corrections Reform.
- The U.S. economy's Gross Domestic Product (GDP) for 2006 showed an increase of 2.9% versus a revised growth rate of 3.1% in 2005. The projected GDP growth for 2007 is approximately 1.9%.
- The State of California's economy has been doing well for the last two years. Overall, 2006 was another good year for California: payroll jobs experienced healthy growth at 1.9%; the job growth also contributed to real personal income growth of 2.9%; but taxable sales grew by only 1.9%.
- The San Diego economy continues to show positive growth (i.e., gross regional product at 6.1% for 2004, 3.9% in 2005, 4.1% in 2006, but slowing growth is forecasted at 2.5% for 2007 and 3.1% for 2008).
- The State's budget outlook continues to be strained by an ongoing structural imbalance between revenues and expenditures. According to a review of the Governor's budget by the State of California's Legislative Analyst (August 2007), the state will again face projected operating shortfalls of more than $5.0 billion in both fiscal years 2009 and 2010.
- The 2006 Budget Act required counties to transfer undesignated fees to the local trial court. This transfer was to occur for only 2004 and 2005, but was extended for four more years, albeit at declining amounts. The County's share was $2.1 million for 2004 and 2005, $0.8 million in 2006, and $0.6 million in 2007. For fiscal years 2008 and 2009, the County's share is $0.4 million and $0.2 million, respectively. One-time resources will be used to fund this requirement.
- Since fiscal year 1996, the State Property Tax Administration Grant program supported counties' maintenance of timely property assessments. The 2008 Budget Act did not include funding for counties' property tax

administration programs. For fiscal year 2008, general purpose revenues continue to replace the loss of these grant funds.

The County's general purpose revenues continue to perform well overall. Specifically:

- The largest source of general purpose revenues is property taxes ($511.4 million in fiscal year 2008), representing 53.1% of the total. The housing boom that had been driving the California and U.S. economies has faded, and the "housing construction/real estate" slowing will contribute to slowing in the growth of the State economy in 2007 and 2008. For the last seven years, property tax growth has been high (9.7% average annual growth) due to the County's strong overall economy and healthy real estate market. 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 ($474.6 million) assumes a net assessed value growth of 7.5% over the prior year and includes an allowance for tax increment allocations to redevelopment agencies and an allowance for delinquent property tax payments. Actual gross assessed value growth exceeded 9.0%, meaning that actual current secured property tax revenues in fiscal year 2008 will likely exceed budget. The demand for housing in the County is also slowing, as evidenced by a reduction in residential building permits, marginally declining housing prices, and increases in foreclosures and defaults. These factors are offset by relatively low interest rates and the area's population growth. Overall, property tax growth is expected to decelerate over the next two years.
- Current supplemental property taxes ($20.8 million in Fiscal Year 2008) are derived from additions to the tax roll during the budget year and are therefore more difficult to predict. The actual amount of these revenues in Fiscal Year 2007 was 26.3% less than budgeted ($23.4 million actual versus $31.7 million budgeted) as a result of weakness in assessed value growth from the slowing in the real estate market. The budget assumes that this weakness will continue through the next two fiscal years with the Fiscal Year 2008 amount being less than the actual for Fiscal Year 2007 followed by a small recovery in Fiscal Year 2009.
- Current unsecured property taxes ($16.0 million in Fiscal Year 2008) do not build on a prior year base. The roll is forecasted based on trends and available information at the time the budget is developed. Growth of 4.3% is budgeted for Fiscal Year 2008 over the Fiscal Year 2007 adopted budget.
- Property taxes in lieu of vehicle license fees (VLF) comprises 30.8% (an estimated $297.1 million) of general purpose revenues in fiscal year 2008. This revenue source was established by the state in fiscal year 2005 to replace the previous distribution of vehicle license fees to local governments. Growth in this revenue source is based on the growth in the County's gross taxable assessed value. The certified growth rate for 2008 is 9.2525%, but as for current secured property tax revenue, the rate of growth is expected to decline over the next two years.
- Real Property Transfer Tax Revenue (RPTT) for fiscal year 2008 was budgeted at $21.5 million, which is 2.2% of general purpose revenues. RPTT is paid when any lands, tenements, or other realty exceeding $100 in value are sold and granted, assigned, transferred or conveyed to the purchaser. The tax rate set by the State is $1.10 per $1,000 of assessed valuation. The County collects 100% of the revenues from all transactions in the unincorporated area and 50% of the revenues from transactions in the incorporated areas.

- Sales & use tax revenue & in lieu local sales & use tax ($24.7 million in fiscal year 2008) represents about 2.6% of general revenues and is derived from taxable sales by businesses located in unincorporated County areas. Its growth is generally impacted by population and income, but is primarily due to economic development and new business formation in the County. These amounts reflect both the Sales Tax revenues and the in lieu local sales & use tax replacement funding that will be transferred from ERAF. Again, effective July 1, 2004, provisions of AB7 X1, one of the 2004 State budget bills referred to as the "triple flip", took effect. It enabled the state to redirect one-quarter cent of the local sales and use tax to the state to repay up to $15 billion in bonds authorized by Proposition 57 (March 2004) to help the state refinance its past debt. In turn, the lost revenues are replaced on a dollar-for-dollar basis with countywide property tax revenues shifted back from the ERAF. Retail sales show moderate growth in the unincorporated area with a projected before-triple-flip-adjustment sales tax growth of $1.2 million (5.2%) over the fiscal year 2007 budget.
- Other revenues budgeted for fiscal year 2008 total $108.9 million. Various revenue sources make up this category including interest on deposits, fines, fees and forfeitures, redevelopment agency tax increment, prior year adjustments on property taxes, franchise revenue, aid from the City of San Diego in lieu of booking fees, and other miscellaneous revenues. The fiscal year 2008 budget represents an increase of 39% over the fiscal year 2007 budget. The increased revenues are primarily due to growth in redevelopment agency tax increment, prior year secured supplemental property taxes, penalties and costs related to delinquent taxes, and interest on deposits, and to a shift in the budgeting and accounting for delinquent property tax revenues associated with the Teeter Plan.

The County's *Operational Plan for Fiscal Years 2008 and for Fiscal Year 2009 can be found on the internet at http://www.sdcounty.ca.gov/ auditor.*

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

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

STATEMENT OF NET ASSETS
June 30, 2007
(In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	First 5 Commission Fund
ASSETS				
Current assets:				
Pooled cash and investments	$ 1,442,244	81,028	1,523,272	21,517
Cash with fiscal agents	6,054		6,054	
Investments with fiscal agents	34,816		34,816	174,755
Receivables, net	406,247	3,218	409,465	9,875
Property taxes receivables, net	158,753		158,753	
Internal balances	(2,940)	2,940		
Inventories	9,921		9,921	
Deposits with others	97		97	
Deferred charges	1,425		1,425	
Prepaid items	6,189		6,189	2
Restricted assets:				
Cash with fiscal agents	373		373	
Investments with fiscal agents	356,258		356,258	
Total current assets	2,419,437	87,186	2,506,623	206,149
Noncurrent assets:				
Restricted assets:				
Investments with fiscal agents	430,843		430,843	
Investments with fiscal agents	18,780		18,780	
Deferred charges	19,750		19,750	
Capital assets:				
Land and construction in progress	473,770	53,826	527,596	
Other capital assets, net of depreciation	2,281,736	61,274	2,343,010	
Total noncurrent assets	3,224,879	115,100	3,339,979	
Total assets	5,644,316	202,286	5,846,602	206,149
LIABILITIES				
Current liabilities:				
Accounts payable	157,734	1,825	159,559	18,402
Accrued payroll	25,815	109	25,924	
Amount due for tax and revenue anticipation notes	220,000		220,000	
Accrued interest	30,929		30,929	
Unearned revenue	75,051	131	75,182	
Current portion of long-term obligations	124,727	343	125,070	53
Total current liabilities	634,256	2,408	636,664	18,455
Noncurrent liabilities:				
Noncurrent portion of long-term obligations	2,260,461	2,550	2,263,011	30
Total noncurrent liabilities	2,260,461	2,550	2,263,011	30
Total liabilities	2,894,717	4,958	2,899,675	18,485
NET ASSETS				
Invested in capital assets, net of related debt	2,409,050	112,549	2,521,599	
Restricted for:				
Loans receivable	47,422		47,422	
Landfill closure costs	1,446		1,446	
Defray administrative costs, other general reserves	13,517		13,517	
Emergency medical services, various construction costs	11,530		11,530	
Mental health	66,887		66,887	
Social programs	4,119		4,119	
Domestic violence and child abuse prevention	5,823		5,823	
Sheriff vehicle maintenance and replacement	645		645	
Fingerprinting equipment purchase and operation	5,986		5,986	
Delinquency and juvenile crime prevention	2,624		2,624	
Donations	2,024		2,024	
Housing repairs and improvements	295		295	
Unrestricted	178,231	84,779	263,010	187,664
Total net assets	$ 2,749,599	197,328	2,946,927	187,664

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2007
(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	$ 249,993	98,365	28,041	7,559	(116,028)		(116,028)	
Public protection	1,079,320	201,332	224,600		(653,388)		(653,388)	
Public ways and facilities	133,148	56,219	36,684		(40,245)		(40,245)	
Health and sanitation	580,384	80,601	471,333		(28,450)		(28,450)	
Public assistance	1,043,454	8,472	1,059,450		24,468		24,468	
Education	33,223	1,380	1,003		(30,840)		(30,840)	
Recreation and cultural	28,469	7,045	238		(21,186)		(21,186)	
Interest expense	146,997				(146,997)		(146,997)	
Total governmental activities	3,294,988	453,414	1,821,349	7,559	(1,012,666)		(1,012,666)	
Business-type Activities:								
Airport	8,209	9,367	8,257	421		9,836	9,836	
Wastewater Management	4,422	4,662		28		268	268	
Sanitation Districts	15,620	17,995		15		2,390	2,390	
Total business-type activities	28,251	32,024	8,257	464		12,494	12,494	
Total primary government	3,323,239	485,438	1,829,606	8,023	(1,012,666)	12,494	(1,000,172)	
Component Unit:								
First 5 Commission	$ 51,804		40,805					(10,999)

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

STATEMENT OF ACTIVITIES
For the year ended June 30, 2007
(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	$ (1,012,666)	12,494	(1,000,172)	(10,999)
General revenues:				
Taxes:				
Property taxes	559,726		559,726	
Other taxes	26,760		26,760	
Intergovernmental restricted:				
Sales and use taxes for roads	57,439		57,439	
Sales and use taxes for public protection	234,797		234,797	
Intergovernmental unrestricted:				
Property taxes in lieu of vehicle license fees	277,930		277,930	
Sales and use taxes	26,534		26,534	
Total general tax revenues	1,183,186		1,183,186	
Interest	88,974	4,189	93,163	9,817
Other	95,343	2,909	98,252	
Total general revenues	1,367,503	7,098	1,374,601	9,817
Transfers	601	(601)		
Total general revenues and transfers	1,368,104	6,497	1,374,601	9,817
Change in net assets	355,438	18,991	374,429	(1,182)
Net assets at beginning of year (Component Unit restated)	2,394,161	178,337	2,572,498	188,846
Net assets at end of year	$ 2,749,599	197,328	2,946,927	187,664

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

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007
(In Thousands)

	General Fund	Tobacco Securization Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Pooled cash and investments	$ 936,658	17,499	334,298	1,288,455
Cash with fiscal agents	33		6,021	6,054
Investments with fiscal agents	2		53,594	53,596
Receivables, net	265,425	5,799	131,372	402,596
Property taxes receivables, net	157,936		817	158,753
Due from other funds	97,033		10,111	107,144
Advances to other funds	884		64	948
Inventories	7,048		1,874	8,922
Deposits with others			97	97
Prepaid items	5,509		680	6,189
Restricted assets:				
Cash with fiscal agents	185		188	373
Investments with fiscal agents	221,026	408,857	157,218	787,101
Total assets	1,691,739	432,155	696,334	2,820,228
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	88,038		29,911	117,949
Accrued payroll	23,885		1,353	25,238
Amount due for tax and revenue anticipation notes	220,000			220,000
Due to other funds	27,889	1,292	94,063	123,244
Advances from other funds			4,390	4,390
Deferred revenues	107,702		19,357	127,059
Unearned revenue	69,143		5,180	74,323
Total liabilities	536,657	1,292	154,254	692,203
Fund balances				
Reserved fund balance:				
Reserved for encumbrances	212,090		41,281	253,371
Reserved for loans, advances and prepaids	12,523		42,036	54,559
Reserved for landfill closure costs	1,446			1,446
Reserved for inventories	7,048		1,874	8,922
Reserved for debt service			112,544	112,544
Reserved for other purposes	177,137		76,289	253,426
Unreserved:				
Designated for subsequent years' expenditures	182,499			182,499
Designated for landfill postclosure and landfill closure costs	910			910
Undesignated	561,429	430,863		992,292
Unreserved, reported in nonmajor:				
Special Revenue Funds				
Designated for subsequent years' expenditures			626	626
Designated for landfill postclosure and landfill closure costs			69,694	69,694
Undesignated			123,813	123,813
Capital Projects Funds				
Undesignated			73,923	73,923
Total fund balances	1,155,082	430,863	542,080	2,128,025
Total liabilities and fund balances	$ 1,691,739	432,155	696,334	2,820,228

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2007
(In Thousands)

Total fund balances - governmental funds	$	2,128,025
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.		2,666,775
Accrued interest on long-term debt		(30,929)
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.		127,059
Long-term liabilities, including bonds, notes, and loans payable, are not due and payable in the current period and, therefore, are not reported in the balance sheet		(2,246,288)
Internal Service Funds are used by management to charge the costs of information technology, vehicle operations and maintenance, employee benefits, public liability, and communications services to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.		104,957
Net assets of governmental activities	$	2,749,599

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, 2007
(In Thousands)

	General Fund	Tobacco Securization Special Revenue Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 842,396		304,541	1,146,937
Licenses, permits and franchise fees	33,752		10,055	43,807
Fines, forfeitures and penalties	55,248		3,107	58,355
Revenue from use of money and property	51,894	15,125	26,227	93,246
Aid from other governmental agencies:				
State	851,309		76,541	927,850
Federal	704,440		116,411	820,851
Other	92,769		7,554	100,323
Charges for current services	269,282		55,767	325,049
Other revenue	33,227		43,453	76,680
Total revenues	2,934,317	15,125	643,656	3,593,098
Expenditures:				
Current:				
General government	224,261		9,210	233,471
Public protection	1,059,826		6,158	1,065,984
Public ways and facilities	1,369		72,950	74,319
Health and sanitation	539,954		37,435	577,389
Public assistance	928,234		115,059	1,043,293
Education	1,157		31,804	32,961
Recreation and cultural	24,509		2,265	26,774
Capital outlay	17,190		120,827	138,017
Debt service:				
Principal			73,816	73,816
Interest and fiscal charges	10,843		105,252	116,095
Bond issuance costs			885	885
Total expenditures	2,807,343		575,661	3,383,004
Excess (deficiency) of revenues over (under) expenditures	126,974	15,125	67,995	210,094
Other financing sources (uses)				
Sale of capital assets	130		1,471	1,601
Issuance of bonds and loans:				
Face value of bonds issued			42,390	42,390
Face value of loans issued			462	462
Premium on issuance of bonds			606	606
Transfers in	283,535		228,851	512,386
Transfers out	(152,854)	(24,200)	(337,626)	(514,680)
Total other financing sources (uses)	130,811	(24,200)	(63,846)	42,765
Net change in fund balances	257,785	(9,075)	4,149	252,859
Fund balances at beginning of year	898,885	439,938	537,822	1,876,645
Increase (decrease) in Reserve for inventories	(1,588)		109	(1,479)
Fund balances at end of year	$ 1,155,082	430,863	542,080	2,128,025

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, 2007 (In Thousands)	
Net change in fund balances - total governmental funds	$ 252,859
Governmental funds accrue property tax revenue which is deemed collectible within 60 days. However, for the statement of activities the total amount estimated to ultimately be collected is accrued.	7,436
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	20,194
Adjustment to reserve for inventories	(1,479)
Change in accounting estimate for closure and postclosure costs - (public protection function) - San Marcos Landfill	831
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.	50,152
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.	6,131
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.	33,512
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.	(36,643)
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.	22,445
Change in net assets - governmental activities	$ 355,438

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007
(In thousands)

	Business-Type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
ASSETS		
Current assets:		
Pooled cash and investments	$ 81,028	153,789
Receivables, net	3,218	3,651
Due from other funds	1,646	22,944
Advances to other funds		97
Inventories		999
Total current assets	85,892	181,480
Noncurrent assets:		
Advances to other funds	3,363	177
Capital assets:		
Land	11,243	
Construction and contracts in progress	42,583	
Buildings and improvements	47,503	
Equipment	1,341	170,269
Road network	235	
Sewer network	65,626	
Accumulated depreciation	(53,431)	(81,538)
Total noncurrent assets	118,463	88,908
Total assets	204,355	270,388
LIABILITIES		
Current liabilities:		
Accounts payable	1,825	39,785
Accrued payroll	109	577
Due to other funds	2,637	5,853
Unearned revenue	131	728
Bonds and loans payable	206	482
Compensated absences	137	886
Claims and judgments		37,245
Total current liabilities	5,045	85,556
Noncurrent liabilities:		
Advances from other funds	195	
Bonds and loans payable	2,345	3,847
Compensated absences	205	1,328
Claims and judgments		73,937
Total noncurrent liabilities	2,745	79,112
Total liabilities	7,790	164,668
NET ASSETS		
Invested in capital assets, net of related debt	112,549	88,731
Unrestricted	84,016	16,989
Total net assets	$ 196,565	105,720

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	$ 196,565	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	763	
Net assets of business type activities	$ 197,328	

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, 2007
(In Thousands)

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
OPERATING REVENUES		
Charges for current services	$ 31,700	273,510
Miscellaneous	84	5,977
Total operating revenues	31,784	279,487
OPERATING EXPENSES		
Salaries	6,116	30,713
Repairs and maintenance	3,174	39,868
Equipment rental	487	1,693
Sewage processing	10,412	
Contracted services	3,401	115,713
Depreciation	2,472	23,201
Utilities	130	18,236
Cost of material	1	1,622
Claims and judgments		9,253
Fuel		9,534
Other operating expenses	2,067	18,737
Total operating expenses	28,260	268,570
Operating income (loss)	3,524	10,917
NONOPERATING REVENUES (EXPENSES)		
Grants	8,257	800
Interest and dividends	4,513	8,518
Interest expense	(165)	(281)
Gain (loss) on disposal of assets	2,825	(248)
Total nonoperating revenues (expenses)	15,430	8,789
Income (loss) before contributions and transfers	18,954	19,706
Capital contributions	464	18
Transfers in	326	5,385
Transfers out	(927)	(2,490)
Change in net assets	18,817	22,619
Net assets (deficits) at beginning of year	177,748	83,101
Net assets (deficits) at end of year	$ 196,565	105,720

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	$ 18,817	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	174	
Change in net assets of business-type activities	$ 18,991	

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, 2007
(In Thousands)

	Business-type Activities	Governmental Activities
	Enterprise Funds	Internal Service Funds
Cash flows from operating activities:		
Cash received from customers	$ 26,764	18,329
Cash received from other funds	4,255	262,639
Cash payments to suppliers	(17,334)	(189,976)
Cash payments to employees	(6,175)	(30,798)
Cash payments to other funds	(3,370)	(60,224)
Cash paid for judgments and claims		(20,403)
Other miscellaneous revenue	322	2,045
Net cash provided (used) by operating activities	4,462	(18,388)
Cash flows from noncapital financing activities:		
Operating grants	8,264	800
Transfers from other funds	326	5,445
Transfers to other funds	(927)	(2,490)
Advances to other funds		114
Net cash provided (used) by non-capital financing activities	7,663	3,869
Cash flows from capital financing activities:		
Capital contributions		18
Acquisition of capital assets	(15,663)	(11,411)
Proceeds from sale of assets	2,825	816
Retirement of capital leases, bonds and loans	(194)	(369)
Interest paid on long-term debt	(165)	(281)
Net cash provided (used) by capital and related financing activities	(13,197)	(11,227)
Cash flows from investing activities:		
Interest	3,814	5,142
Net increase (decrease) in cash and cash equivalents	2,742	(20,604)
Cash and cash equivalents - beginning of year	78,286	174,393
Cash and cash equivalents - end of year	81,028	153,789
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	3,524	10,917
Adjustments for non-cash activities:		
Other miscellaneous revenue	322	2,045
Inc (dec) in compensated absences	(47)	(75)
Inc (dec) in accrued payroll	(9)	28
Inc (dec) in due to other funds	1,432	(54,055)
Inc (dec) in accounts payable	(2,460)	10,508
Inc (dec) in claims and judgments		(11,150)
Inc (dec) in deferred credits and other liabilities	(82)	598
Dec (inc) in accounts and notes receivable	(44)	2,142
Dec (inc) in due from other funds	(646)	(2,274)
Dec (inc) in Inventories		(359)
Dec (inc) in other current assets		86
Depreciation	2,472	23,201
Net cash provided by (used in) operating activities	4,462	(18,388)
Non-cash investing and capital financing activities:		
Capital Acquisitions included in accounts payable	1,269	1,287
Contributions of Capital Assets:		
From governmental	464	
Total non-cash investing & capital financing activities	$ 1,733	1,287

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

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007
(In Thousands)

	Specific Investments - Investment Trust	Pool Investments - Investment Trust	Agency Funds
ASSETS			
Pooled cash and investments	$	2,584,995	451,993
Cash with fiscal agents	5		3,685
Investments with fiscal agents	343,892		
Receivables:			
Accounts receivable		15,138	142
Interest receivable	152	36,831	47,152
Other receivables			
Total assets	344,049	2,636,964	502,972
LIABILITIES			
Accounts payable		15,456	45,212
Warrants outstanding			208,644
Accrued payroll			133
Due to other governments			248,983
Total liabilities		15,456	502,972
NET ASSETS			
Held in trust for other purposes	$ 344,049	2,621,508	

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, 2007
(In Thousands)

	Specific Investments - Investment Trust	Pool Investments - Investment Trust
ADDITIONS		
Contributions:		
Contributions on investments	$ 37,052	17,052,422
Total contributions	37,052	17,052,422
Investment earnings:		
Net increase (decrease) in fair value of Investments	274	8,885
Interest income	20,962	125,624
Total investment earnings	21,236	134,509
Total additions	58,288	17,186,931
DEDUCTIONS		
Distribution from investments	571,059	17,007,670
Total deductions	571,059	17,007,670
Change in net assets	(512,771)	179,261
Net assets at beginning of year (Specific Investments - Investment Trust restated)	856,820	2,442,247
Net assets at end of year	$ 344,049	2,621,508

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

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

Contents - Notes to the Financial Statements

I. Summary of Significant Accounting Policies

A. The Reporting Entity

The County of San Diego (the "County" or "CoSD"), is a political subdivision of the State of California (the "State") charged with general governmental powers and governed by an elected five-member Board of Supervisors (the "CoSD 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.

As required by generally accepted accounting principles in the United States of America (GAAP), these financial statements present the County (the primary government) and its component units, entities for 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 or financial relationships with the County. Management applied the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," and Statement No. 39, "Determining Whether Certain Organizations are Component Units - an amendment of GASB Statement No. 14," to determine whether the following component units should be reported as blended or discretely presented component units. Blended component units, although legally separate entities are, in substance, part of the County's operations. Data from these component units are combined with the data from the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County.

1. Blended Component Units

Blended component units governed by the CoSD Board include the County of San Diego In-Home Support Services Public Authority (IHSS), the San Diego County Housing Authority, the San Diego County Redevelopment Agency, as well as various service areas and districts which provide specific services County-wide or to distinct geographic areas within the County. While each of these component units is legally separate from the County, the County is financially accountable for these entities. Financial accountability is demonstrated by the CoSD Board acting as the governing board for each of these component units. Descriptions of these component units are as follows:

County of San Diego In-Home Supportive Services Public Authority (IHSS) - This authority was established to serve as the employer of record for the IHSS program which provides in-home assistance to low-income aged, blind, and disabled individuals enabling them to remain safely in their own homes and avoid institutionalization. The IHSS program is state-mandated. This fund is included as a *special revenue fund*.

San Diego County Housing Authority - This authority accounts for revenues and expenditures related to providing decent housing in a suitable environment for individuals who cannot afford standard private housing. Contracts with the U.S. Department of Housing and Urban Development provide the major funding sources. This fund is included as a *special revenue fund*.

San Diego County Redevelopment Agency - This agency was established to provide a method of eliminating slums and blighted areas, improving housing, expanding employment opportunities, and providing an environment for the social, economic and psychological growth, and well-being of all citizens of the County. This agency is included in the *debt service and capital projects funds*.

Air Pollution Control District - This district was established to provide for control of air pollution from motor vehicles and other sources in order to attain health-based air quality standards. Revenue sources include license and permit fees, fines, state and federal funds, charges to property owners and vehicle registration fees. This fund is included as a *special revenue fund*.

County Service Districts - These special districts were established to provide authorized services such as road, park, lighting maintenance, fire protection or ambulance service to specific areas in the county. They are financed by ad valorem property taxes in the area benefited or by special assessments levied on specific properties. These funds are included as *special revenue funds*.

Flood Control District - This district was established to account for revenues and expenditures related to providing flood control in the County. It is financed primarily by ad valorem property taxes and federal grants. This fund is included as a *special revenue fund*.

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

Sanitation Districts - These districts are used to account for the activities of all individual sanitation districts governed by the County Board of Supervisors. They are included as *enterprise funds*.

Blended component units governed by Boards other than the CoSD Board include the San Diego County Capital Asset Leasing Corporation, the San Diego County Tobacco Asset Securitization Corporation, the Tobacco Securitization Joint Powers Authority of Southern California. Because of their relationship with the County and the nature of their operations, these component units are, in substance, part of the County's operations and, accordingly, the activities of these component units are combined (blended) with the activities of the County for purposes of reporting in the accompanying basic financial statements. The basis for blending these component units is that the governing bodies are substantially the same as the CoSD Board.

Descriptions of these component units are as follows:

San Diego County Capital Asset Leasing Corporation (SANCAL) - This corporation was established to finance the acquisition of County buildings and equipment. It is a nonprofit corporation governed by a five-member Board of Directors, which is appointed by the CoSD Board. This corporation is included in the *special revenue, debt service* and *capital projects funds*.

The San Diego County Tobacco Asset Securitization Corporation (Corporation) - This is a separate legal nonprofit public benefit corporation created under the California Nonprofit Public Benefit Corporation Law. It was established to purchase tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories. The Corporation is governed by a Board of Directors consisting of three members, two of which are employees of the County of San Diego and one independent director who is not an employee of the County. This fund is included as a *special revenue fund*.

The Tobacco Securitization Joint Powers Authority of Southern California (TSJPA) - This is a separate legal public entity created by a Joint Exercise of Powers Agreement between the County of San Diego and the County of Sacramento pursuant to Government Code Sections 6500 et seq. The Authority's purpose is to finance a loan via the sale of bonds to the San Diego County Tobacco Asset Securitization Corporation which in turn uses the loan proceeds to purchase the

CoSD's future tobacco settlement revenues under the Purchase and Sale Agreement. The Authority is administered by a Board of Directors consisting of three members, two members who are appointed by the CoSD Board and the third member is appointed by the Sacramento County Board of Supervisors. This fund is included as a *special revenue fund*.

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

The San Diego County Employees' Retirement Association (SDCERA) is a separate legal entity and is fiscally independent of the County. It is controlled and governed by the Board of Retirement and not by the County Board of Supervisors. In previous fiscal periods, SDCERA was reported as a component unit of the County. Based on a reevaluation of the financial accountability criteria established in Governmental Accounting Standards Board Statement Number 14 "The Financial Reporting Entity," SDCERA was determined not to be a component unit of the County. Accordingly, beginning in fiscal year 2006-07 (2007), SDCERA is excluded from the County's fiduciary funds and no longer reported as a pension trust fund in the basic financial statements. The SDCERA publishes a separately audited Comprehensive Annual Financial Report which may be obtained by writing to the San Diego County Employees Retirement Association, 2275 Rio Bonito Way Suite 200, San Diego, California 92108 or by calling (619) 515-0130.

2. Discrete Component Unit

The *First 5 Commission of San Diego (Commission)* was established by the Board as a separate legal entity under the authority of the California Children and Families First Act and Sections 130100 et seq. of the Health and Safety Code. It administers the County's share of tobacco taxes levied by the State for the purpose of implementing early childhood development programs. The County appoints all of the Commission's board and can remove appointed members at will. The Commission is discretely presented because its Board is not substantively the same as the County's and it does not provide services entirely or almost entirely to the County. A separately financial report can be obtained by writing to The First 5 Commission, 1495 Pacific Highway, Suite 202, (MS-A211), San Diego, CA, 92101-6466 or at http://www.first5sandiego.com/ContentPage.asp?ContentID=188

B. Government-Wide and Fund Financial Statements

1. Government-Wide Financial Statements

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

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

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

2. Fund Financial Statements

Separate fund financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The County reports the following major governmental funds:

The *General Fund* is the County's primary operating fund. It accounts for all financial resources of the County except those required to be accounted for in another fund. Revenues are primarily derived from taxes; licenses, permits and franchises; fines, forfeitures and penalties; use of money and property; intergovernmental revenues; charges for services; and other revenues. Expenditures are expended for functions of general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and cultural. Expenditures also include capital outlay and debt service.

The *Tobacco Securitization Special Revenue Fund* accounts for tobacco settlement payments allocated to the County from the State of California, pursuant to the Master Settlement Agreement concluded on November 23, 1998 between the major tobacco companies and 46 states (including California), the District of Columbia and four U.S. Territories.

The County reports the following additional funds and fund types:

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

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

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

Investment Trust Funds account for two types of investment activities on behalf of external entities and include: the portion of the County Treasurer's investment pool applicable to external entities (Pool Investments- Investment Trust Fund); and the total amount of individual investment accounts held on behalf of external entities by the Treasurer (Specific Investments - Investment Trust Fund). In general, external entities include school districts, independent special districts and various other governments. The Specific Investments - Investment Trust Fund was created in 2007 for the purpose of reporting individual investments which are offered as an alternative to a pooled position, (also, see Note V., G., 2. Restatements, Specific Investments-Investment Trust Fund.)

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

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

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

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

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

For *business-type activities*, the County has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting

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

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

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

1. Deposits and Investments

For purposes of reporting the statement of cash flows, the County considers all short-term highly liquid investments (including restricted assets) to be cash equivalents. Investments held in the County Treasury's Investment Pool are available on demand to individual participants and are considered highly liquid and cash equivalents for purposes of the statements of cash flows.

Investments 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 custodial bank.

2. Receivables and Payables

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

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

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

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

Pursuant to State law, in fiscal year 1994 the County adopted the Teeter Plan, an alternative method of distributing secured property taxes to local agencies. Under this tax distribution method, the County General Fund annually advances to participating agencies the full amount of their share of current delinquent property taxes on the secured roll. In exchange, the General Fund receives all future delinquent tax payments, penalties and interest. While the County bears the risk of loss on delinquent taxes that go unpaid, it benefits from the penalties associated with these delinquent taxes when they are paid. In turn, participating local agencies receive a stable cash flow and eliminate collection risk. Under the Teeter Plan, the County is required to establish a tax loss reserve fund, equal to 25% of the current year delinquent secured tax levy at June 30th, to cover losses that may occur as a result of special sales of tax-defaulted property (i.e., if the sale price of the property is less than the amount owed). The tax loss reserve requirement for fiscal year 2007 was $16.7M.

3. County Leased Property

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

4. Inventories and Prepaid Items

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

5. Deferred Charges

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

6. Restricted Cash and Investments

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

7. Capital Assets

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

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

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

Table 1

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

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

Table 2

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

8. Deferred and Unearned Revenue

Under both the accrual and modified accrual basis of accounting revenue may be recognized only when earned. Therefore, the government-wide statement of net assets as well as governmental and enterprise funds defer revenue recognition in connection with resources that have been received as of year-end, but not yet earned. In the government-wide statement of net assets deferred revenue represents unearned revenue. Assets recognized in connection with a transaction before the earnings process is complete are offset by a corresponding liability for both deferred and unearned revenue. Under the modified accrual basis it is not enough that revenue has been earned if it is to be recognized in the current period. Revenue must also be susceptible to accrual (i.e. measurable and available to finance expenditures of the current period). Governmental funds report deferred revenues in connection with receivables for revenues not considered available to liquidate liabilities of the current period.

9. Lease Obligations

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

10. Long-Term Obligations

In the government-wide financial statements, and proprietary fund type fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Certificates of participation and bond premiums, discounts, deferred amounts on refunding and issuance costs are *deferred* and *amortized* over the life of the *straight-line method*. Bonds and certificates of participation payable are reported net of the applicable premium, discount, or deferred amount on refunding. In the fund financial statements, governmental fund types recognize bond and certificates of participation premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

11. Employee Compensated Absences

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

Amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of Social Security and Medicare taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation, sick leave, and compensatory time worked in the amount of approximately $82.8 million for the governmental activities as of June 30, 2007, is recorded in the statement of net assets. 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.

12. Termination Benefits

Effective December 2000, County employees in the unclassified service may receive 50% of the cash value of all or a portion of their sick leave balances upon termination or retirement. The cash value of these benefits was $6.8 million at June 30, 2007. This liability has been recorded in the current and long-term portion of compensatable absences in the appropriate proprietary funds and the statement of net assets. All County employees who have completed at least five years of continuous service in the County retirement system, and have a sick leave balance of at least one hundred hours, may convert, at retirement, all or a portion of their sick leave balance to retirement service credits on a hour-for-hour basis. The impact of the conversion of sick leave balances to retirement service credits on the County's actuarial accrued liability, as part of its defined benefit pension plan, is not estimatable, however, contribution requirements as determined in the actuarial valuation as of June 30, 2007 include assumptions regarding employee terminations, retirement, death, etc.

13. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

This amount is derived by subtracting the outstanding debts, (adjusted by any unamortized deferred charges (costs of issuances), premiums, discounts, deferred amounts on refunding, 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.

15. Restricted Net Assets

Restricted net assets arise when restrictions on the use of net assets are externally imposed by a creditor, (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports $208.665 million of restricted net assets, all of which was externally imposed.

16. Unrestricted Net Assets

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

17. Indirect Costs

Expenditures and expenses for functional activities include County indirect costs that are allocated to benefiting departments. Cost allocations were based on the County's Fiscal Year 2007 *County-wide Cost Allocation Plan* which was prepared in accordance with Federal Office of Management and Budget Circular A-87.

18. Use of Estimates

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

II. Reconciliation of Government-Wide and Fund Financial Statements

A. Balance Sheet/Net Assets

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

Table 3

Governmental Fund Balance Sheet / Government-Wide Statement of Net Assets Reconciliation	
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of this $2,246,288 difference are as follows:	
Bonds, notes and loans payable	$ 2,427,781
Less: Unaccreted appreciation - capital appreciation bonds	(253,171)
Less: Unamortized deferred amounts on refundings (to be amortized as interest expense)	(26,922)
Less: Unamortized issuance discounts (to be amortized as interest expense)	(21,362)
Less: Unamortized issuance costs (to be amortized over the life of the debt)	(21,175)
Unamortized issuance premiums	7,351
Capital lease obligations (excluding Internal Service Funds)	29,623
Arbitrage	2
Compensated absences (excluding Internal Service Funds)	80,545
Landfill closure and postclosure - San Marcos landfill	23,616
Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities	$ 2,246,288
Internal Service Funds (See description of Internal Service Funds in Note I. B. 2. Fund Financial Statements, *Internal Service Funds.*)The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. The details of this $104,957 difference are as follows:	
Net assets of the internal service funds	$ 105,720
Less: Internal payable representing charges in excess of cost to business-type activities - prior years	(589)
Less: Internal payable representing charges in excess of cost to business-type activities - current year	(174)
Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	$ 104,957

(Amounts Expressed in Thousands Unless Otherwise Noted)

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

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

Table 4

Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities Reconciliation	
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 $50,152 difference are as follows:	
Capital outlay	$ 138,017
Depreciation expense	(87,865)
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$ 50,152
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 $6,131 difference are as follows:	
The proceeds from the sale of capital assets provide current financial resources but have no effect on net assets	$ (1,601)
The loss on the disposal of capital assets does not affect current financial resources but decreases net assets	(7,391)
Donations of assets to the County do not provide current financial resources but resources increase net assets	15,123
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$ 6,131
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 $(33,512) difference are as follows:	
Debt issued or incurred:	
Face value of capital loans issued	$ 462
Face value of bonds issued	42,390
Plus: Premiums	606
Less: Costs of issuances	(885)
Principal repayments	(73,816)
Capital lease payments	(2,271)
Arbitrage	2
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$ (33,512)
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 $36,643 difference are as follows:	
Compensated absences	$ 4,404
Accrued interest	1,055
Accretion of capital appreciation bonds	7,175
Amortization of premium	(512)
Amortization of deferred amounts on refundings	21,661
Amortization of issuance costs	1,620
Amortization of discounts	1,240
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$ 36,643
Internal Service Funds (See description of Internal Service Funds in Note I. B. 2. Fund Financial Statements, Internal Service Funds.) The net revenue of certain activities of internal service funds is reported with governmental activities." The details of this $22,445 difference are as follows:	
Change in net assets of the internal service funds	$ 22,619
Less: Loss from charges to business activities	(174)
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets - governmental activities	$ 22,445

(Amounts Expressed in Thousands Unless Otherwise Noted)

III. Stewardship, Compliance and Accountability

A. Fund Deficits

The funds in **Table 5** below had accumulated deficits at June 30, 2007.

The deficit in the Employee Benefits fund resulted from the accrual of known and projected losses, allocated loss adjustment expenses and unallocated loss adjustment expenses based on actuarial studies. The deficit has decreased by $11 million from the previous year due to interest earned in the fund, an increase in the premium rate, and lower claims and other expenses. The County intends to reduce the deficit through increased premium rate charges to County departments by $4 million per year.

The deficit within the Facilities Management Internal Service fund decreased from $7 million at June 30, 2006 to $2.1 million. The decrease was primarily due to a contribution from the General Fund of $3.9 million. The remaining deficit is due to the use of two California Energy Commission loans for expenses incurred for maintenance cost and energy conservation equipment. The deficit will be reduced by including it in the utility rates calculation charged to the departments. The loans will be repaid by FY 2014/2015.

Table 5

Fund Deficits - Various Funds	
Internal Service Funds:	
Employee Benefits Fund	$ 26,363
Facilities Management	2,098

IV. Detailed Notes on all Funds

A. Deposits and Investments

The authority to conduct County investment activities is delegated to the Treasurer by the Board per Government Code 27000 et seq. Accordingly, the Treasurer's office is responsible for the Investment Pool (Pool) and various specific investment accounts outside of the Pool. Additionally, the Treasurer has oversight responsibilities regarding debt covenant investments held with fiscal agents and is responsible for authorizing the establishment of all County bank accounts.

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

Pool participants include the County, local school districts, local community colleges, and other districts and agencies. Local school districts are required by State statutes to deposit their funds with the County. Mandatory participants in the Pool comprise approximately 98% of the Pool's assets. Voluntary agencies are not required to place their funds in the Pool but do so only as an investment option. Voluntary agencies include cities, fire districts and various special districts. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company and does not have any binding guarantees of share values.

The Pool operates under the prudent person standard. The primary objective is to safeguard the principal of the funds. The secondary objective is to meet the liquidity needs of the participants. The third objective is to achieve an investment return on the funds with the parameters of prudent risk management.

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

Permitted types of investments and financial instruments include: government 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; and mortgage pass-through securities, mortgage backed securities, and mortgage collateralized securities.

In addition to the restrictions cited in the Government Code, the Board annually adopts an Annual Investment Policy for the Pool. The policy is prepared by the Treasurer and is based on the criteria in Government Code 53601 and adds further specificity and restrictions to permitted investments. A comparison of Pool investment restrictions to investments permitted by the Government Code is shown on **Table 7A.**

Pursuant to Government Code 27130 et seq., the Board established a Treasurer's Oversight Committee (TOC) that monitors the management of funds and compliance with the Pool's investment policy. The TOC consists of members from the districts or offices they represent and up to five members of the public, having expertise in, or an academic background in public finance. The TOC requires an annual financial audit. In this regard, the Treasurer issues a separate stand-alone financial report for the Pool which can be obtained from the Treasurer's Office which is located at 1600 Pacific Highway, Room 162, San Diego, California 92101 or at http://www.sdtreastax.com/mcf_afreports.html

The Treasurer also holds specific investments on behalf of units inside and outside of the primary government that are referred to as individual investment accounts. Earnings derived from these investments are credited separately to each fund.

Assets classified on the statements of net assets/ balance sheets either as "cash with fiscal agent" or "investments with fiscal agents" (both restricted and unrestricted) include individual investment accounts held by the Treasurer on behalf of inside and outside units, amounts held by trustees as a result of primary government units' debt covenants and cash held in custodial banks separate from those that service the Treasurer's Pool.

Specifics regarding deposits and investments are discussed below. Please refer to **Table 7**, **Investments**, which provides details concerning the types of securities held by the Pool and fiscal agents at June 30, 2007 along with their; fair value; interest rate and maturity ranges; weighted average maturity (days); security rating; and percentage of portfolio. Also, refer to **Table 8, Deposits and Investments Reconciliation** which summarizes these balances by fund type.

1. Deposits

At June 30, 2007, the carrying amount of the Treasury's deposits were $23.541 million while the related bank balance with various financial institutions totaled $23.535 million. The bank balance amount with various financial institutions consisted of $21.844 million in demand deposits and $1.691 million in insured time deposits. Of the total bank balance amount, $1.891 million was covered by federal deposit insurance and $21.644 million was collateralized with securities held by the pledging financial institution in the County's name. The County is in compliance with State statutes that require depositories having public funds on deposit to maintain Pool securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit.

(Amounts Expressed in Thousands Unless Otherwise Noted)

At June 30, 2007 the carrying amount of the Cash with Fiscal Agents was $10.117 million, while the related bank balance with various financial institutions was $11.742 million. Of this, $6.029 million was uncollateralized and held in escrow accounts related to third party contracts. The remaining $5.714 million was held in demand deposits, for which $.335 million was covered by federal deposit insurance and $5.379 million was collateralized with securities held by the pledging financial institution or their agents.

2. Investments

At June 30, 2007 the fair value of the Pool's investments was $4.55 billion and the fair value of investments with fiscal agents was $1.36 billion. Investments 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 custodial bank.

The Pool's investments were in compliance with the Treasurer's more restrictive policy. Specific investments held by the Treasurer for units inside and outside of the primary government and trustee held investments complied with the aforementioned Government Code 53601. Accordingly, the County believes it is not at measurable risk with respect to the risk areas discussed below.

3. Investment Risks

a. Interest Rate Risk

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

Declines in the fair value of investments are managed by limiting the length of the maturity of securities. In general, the maximum maturity allowed is five years unless the Board has granted express authority either specifically or as part of an investment program. The policy related to the maturity structure of Pool requires that 50% of the portfolio include short-term instruments up to one year (25% maturing within 90 days and 25% maturing within 91to 365 days) and no more than 50% to mature in 1 to 5 years. In compliance with the policy, a weighted average of 74% of the Pool's investments had a maturity of 90 days or less at June 30, 2007.

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

b. Credit Risk

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

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

Table 6

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

c. Concentration of Credit Risk

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

The Pool Investment policy limits the amount of exposure to any one single issuer to five percent. An exclusion to this limit is dependent upon the weighted average days to maturity for commercial paper. If the weighted average days is 5 days or less, the issuer limit can increase to ten percent of the total portfolio. The Government Code requires specific percentage limitations for a particular category of investment and limits the purchase of commercial paper to no more than ten percent of the outstanding commercial paper of any single issuer. Investments are in compliance with State law. At June 30, 2007 the Pool's exposure to Negotiable Certificates of Deposit issued by Fortis Bank New York was 5.8%. On the date of purchase, these investments were 4.97% of the pool. Government Code 53601 requires that when determining a percentage limitation, that percentage is only applicable at the date of purchase. A later increase or decrease in a percentage resulting from a change in values or assets shall not constitute a violation of that restriction. The Pool's investment policy is silent in this area, but was applied consistent with State code. Please refer to **Table 7**.

d. Custodial Credit Risk

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

The investment policy does not permit investments in uninsured and unregistered securities not held by the County. Although the policy does permit securities lending transactions, the pool portfolio has not been exposed to securities lending transactions.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 7

Investments	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
Pooled Investments						
US treasury notes	$ 319,459	4.54% - 5.08%	07/07 - 05/12	449	AAA	7.02%
Federal farm credit bank notes	49,150	3.50% - 4.96%	05/08 - 02/11	942	AAA	1.08%
Federal home loan bank notes (1)	259,247	2.50% - 5.71%	07/07 - 04/12	787	AAA	5.70%
Federal national mortgage assn. notes	49,915	3.80% - 4.00%	07/07 - 09/07	44	AAA	1.10%
Federal home loan mortgage corp. notes (1)	284,885	4.00% - 5.38%	08/07 - 03/12	539	AAA	6.26%
Medium-term notes	178,303	5.07% -5.70%	10/07 - 12/09	285	A+	3.92%
Medium-term notes	50,000	5.30%	09/07	66	A-1+	1.10%
Commercial paper	1,708,348	5.26% - 5.45%	07/07 - 11/07	35	A-1	37.53%
Asset-backed notes (semi-annual)	32,368	5.13% - 5.34%	03/08 - 05/09	590	AAA	0.71%
Asset-backed notes (monthly)	13,773	5.55%	05/09	685	AAA	0.30%
Repurchase agreements and sweep	302,494	3.88% - 5.43%	07/07	2	N/A	6.65%
Negotiable certificates of deposit	1,190,259	5.28% - 5.61%	07/07 - 06/08	58	A-1+	26.15%
Open-end institutional money market funds	56,950	5.18% - 5.24%	07/07	1	AAA	1.25%
Collateralized certificates of deposit	35,000	5.17%	01/08	214	N/A	0.77%
Collateralized certificates of deposit	20,000	5.12% - 5.14%	02/08 - 05/08	286	N/A	0.44%
Time deposits	496	4.94% - 5.10%	08/07 - 05/08	190	N/A	0.01%
Time deposits	1,195	4.85% - 5.27%	07/07 - 05/08	191	N/A	0.03%
Total pooled investments	$ 4,551,842					100%
County investments with fiscal agents						
Unrestricted:						
Federal home loan bank notes (1)	$ 9,911	4.40%	07/08	394	AAA	1.18%
Federal home loan mortgage corp. notes	3,980	5.25%	02/11	1335	AAA	0.47%
Commercial paper	4,970	5.20%	08/07	38	A-1+	0.59%
Medium term notes	14,744	3.50%-3.77%	5/08-10/08	366	AAA	1.75%
Negotiable certificates of deposit	19,991	5.33%	10/07-01/08	146	A-1+	2.38%
Subtotal	53,596					
Restricted:						
US treasury notes	2,210	4.05%	02/08	216	AAA	0.26%
Federal home loan bank discount notes (1)	33,284	5.27%	11/07	151	N/A	3.96%
Federal home loan mortgage corp. discount notes	74	4.50%	09/07	89	N/A	0.01%
Federal national mortgage assn. discount notes	551	4.50%	07/07-09/07	40	AAA	0.07%
Fixed income tax exempt bonds	11,315	2.63%-3.45%	04/34-04/35	9930	A-1	1.35%
Fixed income tax exempt bonds	10,395	5.75%	09/09	794	A-1+	1.24%
Fixed income tax exempt bonds	19,069	5.00%-5.50%	01/08-12/11	870	AA	2.27%
Fixed income tax exempt bonds	13,173	5.00%-5.25%	09/07-05/10	826	AA-	1.57%
Fixed income tax exempt bonds	43,518	3.50%-5.50%	02/08-01/15	1406	AA+	5.18%
Fixed income tax exempt bonds	284,604	0.00%-6.50%	09/07-05/34	1407	AAA	33.85%
Fixed income tax exempt bonds	8,104	4.50%	07/07	31	SP1-	0.96%
Fixed income tax exempt bonds	2,504	5.50%-5.90%	01/08-03/10	617	N/A	0.30%
Guaranteed investment contracts	321,154	2.70%-5.52%	07/07-08/09	152	NA	38.20%
Mutual funds	16,175	3.57%	07/07	1	N/A	1.92%
Money market funds	20,971	4.05%-4.96%	07/07	1	AAAm	2.49%
Subtotal	787,101					
Total County investments with fiscal agents	$ 840,697					100.00%

(Table 7 continued on next page)

(Amounts Expressed in Thousands Unless Otherwise Noted)

Investments	Fair Value	Interest Rate Range	Maturity Range	Weighted Average Maturity (days)	S&P Rating	% of Portfolio
(Table 7 continued)						
External specific investments:						
Federal home loan bank notes	$ 3,467	3.88%-5.25%	09/07-06/12	847	AAA	1.01%
Federal home loan mortgage corp. notes	1,484	4.48%-4.75%	09/08-09/22	691	AAA	0.43%
Commercial paper	641	5.12%	01/08	199	A-1	0.19%
Guaranteed investment contracts	327,665	4.21%-5.15%	01/08-12/08	392	N/A	95.28%
Medium term notes	3,449	3.50%-4.88%	05/08-10/10	578	AAA	1.00%
Money market funds	4,686	4.51%-4.74%	07/07	1	AAAm	1.36%
Negotiable certificates of deposit	2,500	5.32%	08/07	46	N/A	0.73%
Total external specific investments	$ 343,892					100.00%
Total investments with fiscal agents	$ 1,184,589					

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

Table 7A

Investment Pool Policy Restrictions versus Government Code 53601 Requirements

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

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

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

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 8

Deposits and Investments Reconciliation

	Primary Government: Governmental Activities	Business-Type Activities	Total Primary	First 5 Commission	Specific Investments - Investment Trust	Pooled Investments - Investment Trust	Agency Funds	Total
Pooled cash and investments	$ 1,442,244	81,028	1,523,272	21,517		2,584,995	451,993	4,581,777
Cash with fiscal agents:								
Unrestricted	6,054		6,054		5		3,685	9,744
Restricted	373		373					373
Total cash with fiscal agents	$ 6,427		6,427		5		3,685	10,117
Investments with fiscal agents:								
Current - unrestricted	34,816		34,816					34,816
Current - restricted	356,258		356,258					356,258
Noncurrent - unrestricted	18,780		18,780					18,780
Noncurrent - restricted	430,843		430,843					430,843
Unrestricted External specific investments					343,892			343,892
Subtotal investments with fiscal agents	$ 840,697		840,697		343,892			1,184,589
Current - First 5 Commission				174,755				174,755
Total investments with fiscal agents	$ 840,697		840,697	174,755	343,892			1,359,344

Reconciliation of pooled cash and investments:	
Investments in county pool	$ 4,550,151
Add: Demand deposits	23,541
Collection in transit	7,660
Imprest cash	425
Total pooled cash and investments	$ 4,581,777

Reconciliation of pooled investments to Table 7:	
Investments in county pool	$ 4,550,151
Add: Time deposits included in demand deposits above	1,691
Investments in county pool - Table 7	$ 4,551,842

B. Receivables

GASB Statement No.38 requires identification of receivable balances not expected to be collected within one year. **Table 9** below presents receivables at June 30, 2007 for the County's individual major funds, nonmajor governmental and enterprise funds, internal service funds and the discrete component unit including the applicable allowances for uncollectible accounts. The details of the receivables reported in the government-wide statement of net assets that are not expected to be collected within the next fiscal year are identified below:

1. Due From Other Governmental Agencies

Of the $306,747 due from other governmental agencies for governmental activities, $42,867 is not expected to be received within the next fiscal year. This represents the amount the State of California owes to the County for Senate Bill (SB)90 mandated cost reimbursements for programs and services the State requires the County to provide. The State has deferred reimbursement to counties to future fiscal years, however, payment by the State began in Fiscal year 2007; hence this amount is expected to be received in the future.

(Amounts Expressed in Thousands Unless Otherwise Noted)

2. Loans Receivable

$47.422 million of loans receivable for governmental activities consist of loans for low-income housing programs such as down payments for closing costs, community development block grant loans, and various housing rehabilitation loan programs for low-income or special need residents. These loans are not expected to be repaid within the next fiscal year.

Table 9

Receivables
Primary Government and Discretely Presented Component Unit

	Accounts	Interest	Due From Other Gov't Agencies	Loans	Other	Total Receivables	Allowance For Doubtful Accounts	Receivables Net
Governmental activities:								
General Fund	$ 3,702	14,264	244,009	6,130		268,105	(2,680)	265,425
Tobacco Securitization Special Revenue Fund		5,799				5,799		5,799
Other Governmental Funds	25,490	6,205	61,130	41,292		134,117	(2,745)	131,372
Internal Service Funds	372	1,671	1,608			3,651		3,651
Total governmental activities	$ 29,564	27,939	306,747	47,422		411,672	(5,425)	406,247
Business-type activities:								
Enterprise Fund	$ 1,715	1,071	432			3,218		3,218
Component Unit:								
First 5 Commission	$	3,067	6,502		306	9,875		9,875

C. County Property on Lease to Others

The County has *noncancelable* operating leases for certain properties which are not material to the County's governmental operations, except for the aforementioned sublease of a share of the Metropolitan Transit System (MTS) Towers. In this regard, the share of the County's property under this lease is an estimated $12.74 million in land and structures and improvements with accumulated depreciation of $4.7 million at June 30, 2007.

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 $2.43 million in land at June 30, 2007.

Lease revenues for both non-cancelable and cancelable leases for the year ended June 30, 2007 were approximately $21.4 million.

Future minimum *revenue* to be received under these noncancelable operating leases as of June 30, 2007 are noted below in **Table 10**. (One lease extends through 2091 for a two acre parcel leased to a non-profit public benefit corporation.)

Table 10

Lease Revenue
County Property Leased To Others

Fiscal Year	Minimum Lease Revenue
2008	$ 13,706
2009	13,246
2010	12,489
2011	12,082
2012	11,442
2013-2091	174,976
Total	$ 237,941

(Amounts Expressed in Thousands Unless Otherwise Noted)

D. Capital Assets

1. Primary Government

Capital asset activity for the year ended June 30, 2007 was as follows:

Governmental Activities:

On **Table 11** below, building and infrastructure projects are recorded as construction in progress until completion.

Table 11

Capital Assets - Governmental Activities	Beginning Balance at July 1	Increases	Decreases	Ending Balance at June 30
Capital assets, not being depreciated:				
Land	$ 270,505	4,767	(5)	275,267
Construction and contracts in progress	174,517	54,727	(30,741)	198,503
Total capital assets, not being depreciated	445,022	59,494	(30,746)	473,770
Capital assets, being depreciated:				
Buildings and improvements	979,070	28,139	(34)	1,007,175
Equipment	260,312	26,787	(13,769)	273,330
Road infrastructure	2,167,666	76,420		2,244,086
Bridge infrastructure	41,050	2,246		43,296
Total capital assets, being depreciated	3,448,098	133,592	(13,803)	3,567,887
Less accumulated depreciation for:				
Buildings and improvements	(311,247)	(18,801)	23	(330,025)
Equipment	(111,481)	(30,370)	7,219	(134,632)
Road infrastructure	(746,445)	(61,113)		(807,558)
Bridge infrastructure	(13,154)	(782)		(13,936)
Total accumulated depreciation	(1,182,327)	(111,066)	7,242	(1,286,151)
Total capital assets, being depreciated, net	2,265,771	22,526	(6,561)	2,281,736
Governmental activities capital assets, net	$ 2,710,793	82,020	(37,307)	2,755,506

Depreciation expense was charged to governmental activities of the primary government as shown in **Table 12.**

Table 12

Depreciation Expense - Governmental Activities	
General government	$ 2,092
Public protection	19,035
Public ways and facilities	61,494
Health and sanitation	2,351
Public assistance	1,081
Education	125
Recreation and cultural	1,687
Internal Service Funds	23,201
Total Depreciation Expense - Governmental Activities	$ 111,066

Business Type Activities:

On **Table 13** below, building and infrastructure projects are recorded as construction in progress until completion.

Table 13

Capital Assets - Business Type Activities	Beginning Balance at July 1	Increases	Decreases	Ending Balance at June 30
Capital assets, not being depreciated:				
Land	$ 10,709	534		11,243
Construction and contracts in progress	27,656	16,398	(1,471)	42,583
Total capital assets, not being depreciated	38,365	16,932	(1,471)	53,826
Capital assets, being depreciated:				
Buildings and improvements	47,128	375		47,503
Equipment	1,252	89		1,341
Road infrastructure	139	96		235
Sewer infrastructure	64,251	1,375		65,626
Total capital assets, being depreciated	112,770	1,935		114,705
Less accumulated depreciation for:				
Buildings and improvements	(21,430)	(1,130)	2	(22,558)
Equipment	(949)	(55)		(1,004)
Road infrastructure	(3)	(3)		(6)
Sewer infrastructure	(28,579)	(1,284)		(29,863)
Total accumulated depreciation	(50,961)	(2,472)	2	(53,431)
Total capital assets, being depreciated, net	61,809	(537)	2	61,274
Enterprise fund capital assets, net	$ 100,174	16,395	(1,469)	115,100

(Amounts Expressed in Thousands Unless Otherwise Noted)

Depreciation expense was charged to *business type activities* as shown below:

Table 14

Depreciation Expense - Business Type Activities	
Airport Fund	$ 1,115
Wastewater Management Fund	18
Sanitation Districts Fund	1,339
Total Depreciation expense - Business Type Activities	$ 2,472

2. Capital Commitments

At June 30, 2007, outstanding major capital contract commitments existed for construction of buildings and infrastructure consisting of roads, flood channels, and sewer system improvements. They are listed by fund within *governmental and business-type activities* as shown below:

Table 15

Capital Commitments	Remaining Commitments
Governmental Activities	
Other Governmental Funds:	
Construction of Edgemoor Skilled Nursing Facility	$ 47,966
Construction of Valley Center Road, Phase II	23,946
Resurfacing and Culvert Replacement on Various County Roads	2,566
Construction of Route 54/94 Improvements	2,171
Construction of Central Avenue Flood Control Improvements	2,006
Construction of Wildcat Canyon Road Improvements	1,211
Subtotal	79,866
Business-type Activities	
Enterprise Funds:	
Flow Monitoring System in Alpine, Lakeside and Spring Valley	1,190
Jamacha Boulevard Sewer Improvements	1,052
Subtotal	2,242
Total	$ 82,108

E. Payables

The County's payables at June 30, 2007 are shown below for the General Fund, other governmental funds, internal service funds, business type activities' funds, and the discrete component unit:

Table 16

Payables	Vendors	Due to Other Gov't Agencies	Other	Total Payables
Governmental Activities:				
General Fund	$ 76,700	7,371	3,967	88,038
Other Governmental Funds	27,841	681	1,389	29,911
Internal Service Funds	39,620	165		39,785
Total governmental activities	$ 144,161	8,217	5,356	157,734
Business-type activities:				
Enterprise Funds	$ 1,804	19	2	1,825
Component Unit:				
First 5 Commission	$ 15,338	2,679	385	18,402

F. Interfund Transactions

The composition of interfund balances as of June 30, 2007, is as follows:

1. Due To/Due From Other Funds

Due to/due from other funds shown in **Table 17** arise due to the exchange of goods or services between funds that were pending the transfer of cash as of June 30, 2007. These due to/from other funds have been eliminated in the government-wide financial statements, except for "internal balances" that are reflected between the governmental and business-type statements as of June 30, 2007.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 17

Due To/From Other Funds		
Receivable Fund	Payable Fund	Amount
General Fund	Tobacco Securitization Special Revenue Fund	$ 1,292
	Nonmajor Governmental Funds	90,520
	Nonmajor Enterprise Funds	136
	Internal Service Funds	5,085
Total General Fund		97,033
Nonmajor Governmental Funds	General Fund	7,573
	Nonmajor Governmental Funds	1,737
	Nonmajor Enterprise Funds	688
	Internal Service Funds	113
Total Nonmajor Governmental Funds		10,111
Nonmajor Enterprise Funds	General Fund	68
	Nonmajor Governmental Funds	10
	Nonmajor Enterprise Funds	1,567
	Internal Service Funds	1
Total Nonmajor Enterprise Funds		1,646
Internal Service Funds	General Fund	20,248
	Nonmajor Governmental Funds	1,796
	Nonmajor Enterprise Funds	246
	Internal Service Funds	654
Total Internal Service Funds		22,944
Total		$ 131,734

2. Advances

Advances to/from other funds at June 30, 2007 are noted on **Table 18** below. The purpose of these advances was primarily for the establishment of loans that are not due within one year. These loans are for the planning, undertaking, construction or operation of redevelopment projects within the County. Advances to/from other funds have been eliminated in the government-wide financial statements, except for "internal balances" that are reflected between the governmental and business-type statements as of June 30, 2007.

Table 18

Advances	Advances To Other Funds	Advances From Other Funds
General Fund	$ 884	
Nonmajor Governmental Funds	64	4,390
Nonmajor Enterprise Funds	3,363	195
Internal Service Funds	274	
Total	$ 4,585	4,585

3. Prior-Year Advance

The County Airport Enterprise Fund funded the initial expenditures of the San Diego County Redevelopment Agency's (Agency) two airport projects. The Agency is required to reimburse the Airport Enterprise Fund, which spent approximately $9.6 million on the projects. The Agency pays interest on advances, but is not responsible for payment until funds are available for this purpose. In December 2005, the Agency issued $16 million Revenue Refunding Bonds Series 2005A. A portion of the proceeds was used to pay $4.6 million of interest accrued on these advances and $5.7 million of principal to the County's Airport Enterprise Fund. As of June 30, 2007, the remaining principal balance on the Airport Enterprise advances to the Redevelopment Agency is $3.4 million with $167 thousand of accrued interest.

4. Transfers In/Transfers Out

The purposes of these transfers were primarily for reimbursement of project costs, lease payments, initiation fees and replacement costs. Transfers in/transfers out at June 30, 2007 were as follows:

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 19

Transfers In/Transfers Out		
From	To	Amount
General Fund	Nonmajor Governmental Funds	$ 147,343
	Internal Service Funds	5,185
	Nonmajor Enterprise Funds	326
Total General Fund		152,854
Tobacco Securitization Special Revenue Fund	General Fund	24,200
Nonmajor Governmental Funds	General Fund	258,705
	Nonmajor Governmental Funds	78,796
	Internal Service Funds	125
Total Nonmajor Governmental Funds		337,626
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	852
	Internal Service Funds	75
Total Nonmajor Enterprise Funds		927
Internal Service Funds	General Fund	630
	Nonmajor Governmental Funds	1,860
Total Internal Service Funds		2,490
Total		$ 518,097

G. Short-Term Obligations

The County's short-term borrowing program consists of its annual Tax and Revenue Anticipation Notes (Notes), which fund the County's annual operating cash flow needs, and the issuance of Teeter Commercial Paper, which fund payments to public agencies their full share of property taxes levied. The County bears the risk of loss on delinquent property taxes that go unpaid; however, it also benefits from the penalties associated with these delinquent property taxes when they are paid.

On July 3, 2006, the County of San Diego issued $220 million of Notes with an interest and principal maturity date of July 27, 2007. The Notes carry an interest rate of 4.50% and a yield of 3.70%. The amount outstanding at June 30, 2007 is $220 million.

Short-term obligation activity for the year ended June 30, 2007 was as follows:

Table 20

Short-Term Obligations	Beginning Balance at July 1	Issued	Redeemed	Ending Balance at June 30
Tax and revenue anticipation notes	$ 250,000	220,000	250,000	220,000

H. Lease Obligations

1. Lease Commitments- Real Property

The County has commitments under long-term property operating lease agreements for facilities used for operations through fiscal year 2014 (**Table 21** below). These leases do not meet the criteria for capitalization under FASB Statement 13. The County is the lessee under the terms of several non-cancelable operating leases for real property used to house certain County facilities. Total rental expense for all real property operating leases, including short-term cancelable leases for the year ended June 30, 2007, was approximately $25.7 million.

The combined rental cost for which the County is obligated under these leases is as follows:

Table 21

Lease Commitments - Real Property	
Fiscal Year	Minimum Lease Payments
2008	$ 10,622
2009	10,241
2010	9,362
2011	8,788
2012	7,151
2013-2014	3,393
Total	$ 49,557

2. Lease Commitments- Personal Property

The County has also entered into long-term operating leases for personal property, a large portion of which represents security systems, duplicating equipment, 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, 2007, was $5.1million.

(Amounts Expressed in Thousands Unless Otherwise Noted)

3. Capital Leases

a. Minimum Lease Payments

Certain buildings and equipment are being leased under capital leases as defined in FASB Statement 13. The present value of the minimum lease obligation has been capitalized in the statement of net assets and is reflected as a liability in that statement. The County assumes responsibility for all maintenance, repair, and structural modifications under the terms of the lease agreements. Future minimum lease payments (**Table 22** below) under capital leases at June 30, 2007 were as follows:

Table 22

Capital Leases - Future Minimum Lease Payments

Fiscal Year	Amount
2008	$ 3,454
2009	3,068
2010	3,053
2011	3,130
2012	3,017
2013-2017	15,280
2018-2020	9,191
Total minimum lease payments	40,193
Less: Amount representing interest	(10,570)
Net lease payments	$ 29,623

b. Book Value

The book value of capital lease property at June 30, 2007 consisted of the following:

Table 23

Capital Leases - Book Value

Capital Lease Property	Original Cost	Accumulated Depreciation	Net Book Value June 30
Land	$ 2,221		2,221
Buildings and improvements	52,314	18,288	34,026
Total	$ 54,535	18,288	36,247

I. General Long-Term Obligations

Outstanding general long-term obligations at June 30, 2007 consist of certificates of participation, taxable pension obligation bonds, capital appreciation bonds (CABs), current Interest bonds, revenue bonds, capital loans, capital lease obligations, capital financing leases, and other long-term obligations.

As further explained below, CABs are bonds that are issued at a deep discount and are presented at their maturity value, less the unaccreted appreciation. Unaccreted appreciation represents the difference between the maturity value of the CABs and their face (par) value. The unaccreted appreciation is accreted as interest over the life of the CABs.

During prior fiscal years, the County refunded some of its existing debt. The difference between the reacquisition price and the net carrying amount of the refunded debt is the is the unamortized deferred amounts on refundings. The amortized amount is an adjustment to interest expense in the statement of activities over the remaining life of the refunded debt.

Premiums applicable to debt issued in excess of par value are amortized as a reduction of interest expense over the life of the debt issuance. Similarly, discounts applicable to debt issued at amounts less than the face (par) value are amortized as an increase to interest expense over the life of the debt issued.

All obligations listed, carry a fixed interest rate with the exception of $505.125 million of the 2002 taxable pension obligation bonds series B1 and B2-4 which are variable rate and are subject to market fluctuations. The interest rate range listed in **Table 24** below displays the range of interest rates on the serial, term bonds or in the case of capital leases, the range of rates for various leases. The variable rate used to calculate the interest due on the 2002 taxable pension obligation bonds Series B1 is 5.208% which represents the auction rate bond coupon for June 2007. The variable rate used for the 2002 taxable pension obligation bonds Series B2-4 is 5.205%, which represents the average auction rate bond coupon for June 2007. The maximum interest rate on these bonds shall not exceed 17% per annum.

1. Outstanding Long-Term Obligations

Governmental Activities:

Long-term obligations for *governmental activities* at June 30, 2007 are presented in **Table 24**.

The certificates of participation (COPs) of the SANCAL, a non-profit corporation, are secured by annual base rental lease payments payable primarily by the County General Fund for use of the facilities constructed or equipment purchased with the proceeds. There are also encumbrances on the facilities constructed or purchased with the proceeds of the SANCAL. The capital leases between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and long-term obligations (e.g. certificates of participation of SANCAL) are reported as San Diego County's assets and debt, respectively.

The Pension Obligation 2004 Series C Capital Appreciation Bonds (CABs) and the San Diego County Tobacco Asset Securitization Corporation CABs represent bonds that were issued at stated interest rates significantly below their effective interest rates, resulting in a substantial discount. The implicit interest, i.e. discount (unaccreted appreciation), is not paid until the bonds begin to mature. Therefore, the net value of the bonds "accretes" each year. In **Table 24** below, the CABs are shown at their maturity value (original amount issued plus total amount to be accreted (appreciated) over the life of the debt), less the unaccreted appreciation (total amount to be accreted over the life of the debt, less the amount accreted to date).

At June 30, 2007, the 2004 Taxable Pension Obligation Series C CABs outstanding balance was $75.892 million which includes accreted interest of $3.842 million. The San Diego County Tobacco Asset Securitization Corporation (Corporation) Series 2006 B CABs outstanding balance was $21.139 million which includes accreted interest of $1.265 million. The Corporation Series 2006 C CABs outstanding balance was $9.302 million which includes accreted interest of $569 thousand. The Corporation Series D CABs outstanding balance was $22.186 million which includes accreted interest of $1.499 million.

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, 2007, a $2 thousand estimate of probable arbitrage rebate liability has been included in the statement of net assets.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 24

Long-Term Obligations - Governmental Activities	Original Amount	Interest Rate	Final Maturity Date	Beginning Balance at July 1, 2006	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2007	Amounts Due Within One Year
Certificates of Participation:									
1993 Master Refunding	$ 203,400	2.50 - 5.625%	2013	$ 57,600		$ (15,800)		$ 41,800	$ 12,400
1997 Central Jail	80,675	4.00 - 5.42%	2026	65,415		(2,320)		63,095	2,425
1998 Downtown Courthouse	73,115	4.00 - 5.25%	2023	51,905		(3,085)		48,820	3,210
1999 East Mesa	15,010	3.60 - 4.75%	2010	6,780		(1,580)		5,200	1,650
2000 ITS	51,620	4.50 - 5.125%	2010	23,715		(5,505)		18,210	5,775
2002 Motorola	26,060	2.00 - 5.00%	2011	15,320		(2,850)		12,470	2,940
2005 Edgemoor Facility Projects	83,510	3.00 - 5.00%	2030	83,510				83,510	2,210
2005 Refunding of Regional Communications System	28,885	3.00 - 5.00%	2019	24,235		(2,035)		22,200	2,090
2005 N&E Refunding	28,210	3.25 - 5.00%	2020	28,210		(1,550)		26,660	1,600
2006 Edgemoor Completion Project	42,390	4.00 - 5.00%	2030		42,390			42,390	
Total Certificates of Participation	$ 632,875			356,690	42,390	(34,725)		364,355	34,300
Taxable Pension Obligation Bonds:									
1994 Series A	430,430	6.38 - 6.59%	2008	39,830		(25,755)		14,075	14,075
2002 Series A	132,215	3.88 - 4.95%	2016	132,215				132,215	
2002 Series B1	100,000	variable	2033	100,000				100,000	
2002 Series B2-4	405,125	variable	2031	405,125				405,125	
2002 Series C	100,000	6.125%	2033	100,000				100,000	
2004 Series A	241,360	3.28 - 5.86%	2023	241,360		(9,605)		231,755	8,660
2004 Series B1-2 (1)	147,825	5.911%	2025	147,825				147,825	
2004 Series C CABs	64,928	4.66 - 5.76%	2016	100,170				100,170	
2004 Series C Unaccreted Appreciation CABs				(28,120)			3,842	(24,278)	(4,048)
Total Taxable Pension Obligation Bonds	$ 1,621,883			1,238,405		(35,360)	3,842	1,206,887	18,687
San Diego County Tobacco Asset Securitization Corporation:									
Series 2006A Senior Current Interest Bonds	534,610	4.75 - 5.125%	2016-2029	534,610		(3,100)		531,510	9,670
Series 2006B CABs	19,770	6.25%	2031	88,052	1,919			89,971	
2006B Unaccreted Appreciation CABs				(68,178)	(1,919)		1,265	(68,832)	(1,342)
Series 2006C CABs	8,686	6.40%	2032	43,893	1,097			44,990	
2006C Unaccreted Appreciation CABs				(35,160)	(1,097)		569	(35,688)	(605)
Series 2006D CABs	20,565	7.10%	2035	141,176	5,383			146,559	
2006D Unaccreted Appreciation CABs				(120,489)	(5,383)		1,499	(124,373)	(1,603)
Total San Diego County Tobacco Asset Securitization Corporation	$ 583,631			583,904		(3,100)	3,333	584,137	6,120

(1) The interest rate for the Taxable Pension Obligation Bonds 2004 Series B1-2004 Series B1-2 was converted from a variable to a fixed interest rate of 5.911% during fiscal year 2007.

(Table 24 continued on next page)

(Amounts Expressed in Thousands Unless Otherwise Noted)

Long-Term Obligations - Governmental Activities

	Original Amount	Interest Rate	Final Maturity Date	Beginning Balance at July 1, 2006	Additions	Reductions	Accreted Interest	Ending Balance at June 30, 2007	Amounts Due Within One Year
(Table 24 continued)									
Redevelopment Agency:									
Revenue Refunding Bonds Series 2005A	16,000	3.65 - 5.75%	2033	16,000		(360)		15,640	320
Total Redevelopment Agency:	$ 16,000			16,000		(360)		15,640	320
Capital Loans:									
Alpine Highlands Zone #1010	436	7.75%	2007	58		(58)			
Singing Trails Zone #1013	66	8.75%	2008	26		(13)		13	13
Pauma Heights PRD #21	160	7.75%	2009	96		(32)		64	32
Landavo Zone PRD #1015	344	8.25%	2016		344	(34)		310	34
El Sereno Way Zone PRD #1016	118	8.25%	2012		118			118	24
Firebird Manor	4,486	1.00%	2028	3,219		(133)		3,086	134
Total Capital Loans:	$ 5,610			3,399	462	(270)		3,591	237
California Energy Comm Loans:									
California Energy Comm Loan 1 (Facilities ISF)	1,977	4.00%	2015	1,698		(172)		1,526	178
California Energy Comm Loan 2 (Facilities ISF)	3,001	3.95%	2015	3,001		(198)		2,803	304
Total California Energy Comm Loans	$ 4,978			4,699		(370)		4,329	482
Total Bonds, Loans and Notes payable, before issuance discounts and premiums and deferred amounts on refundings:	2,864,977			2,203,097	42,852	(74,185)	7,175	2,178,939	60,146
Unamortized Issuance Premiums	8,639			7,257	606	(512)		7,351	472
Unamortized Issuance Discounts	(31,745)			(22,602)		1,240		(21,362)	(1,194)
Unamortized Deferred Amounts on Refundings	(52,990)			(48,583)		21,661		(26,922)	(8,016)
Total Bonds, Loans and Notes Payable, net	$ 2,788,881			2,139,169	43,458	(51,796)	7,175	2,138,006	51,408
Capitalized Leases:									
San Diego Regional Building Authority	36,960	2.15 - 5.25%	2020	30,845		(1,595)		29,250	1,660
S&L Development	1,056	8.00%	2008	283		(136)		147	147
Koch Lighting	7,649	4.245 - 5.91%	2008	766		(540)		226	226
Total Capitalized Leases	45,665			31,894		(2,271)		29,623	2,033
Arbitrage					2			2	
Claims and judgments - ISF				122,332	9,253	(20,403)		111,182	37,245
Non Internal Service Funds Compensated Absences				76,141	58,370	(53,966)		80,545	32,218
Internal Service Funds Compensated Absences				2,289	1,391	(1,466)		2,214	886
Landfill closure and postclosure				24,447		(831)		23,616	937
Total Other Liabilities				225,209	69,016	(76,666)		217,559	71,286
Total Governmental Activities	$ 2,834,546			$2,396,272	$ 112,474	$ (130,733)	$ 7,175	$ 2,385,188	$ 124,727

(Amounts Expressed in Thousands Unless Otherwise Noted)

Business-Type Activities:

Long-term obligations for business-type activities at June 30, 2007 were as follows:

Table 25

Long-Term Obligations - Business-Type Activities

	Original Amount	Interest Rate	Final Maturity Date	Beginning Balance at July 1, 2006	Additions	Reductions	Ending Balance at June 30, 2007	Amounts Due within One Year
Enterprise Funds:								
Capital loans:								
Department of Transportation Beginning March 2001	$ 3,584	5.63%	2019	$ 2,652		$ (192)	$ 2,460	$ 205
US Department of Agriculture Beginning December 2003	100	4.63%	2040	93		(2)	91	1
Compensated absences				389	217	(264)	342	137
Total business-type activities	$ 3,684			$ 3,134	$ 217	$ (458)	$ 2,893	$ 343

2. Debt Service Requirements to Maturity

Governmental Activities:

Debt service requirements to maturity for *governmental activities'* long-term bond and note obligations outstanding at June 30, 2007 are shown below. (Note: **Table 26** does not reflect the County's exposure to the interest rate swap on the 2002 Taxable Pension Obligation Bonds. See Note IV-J Interest Rate Swap for further information.)

Table 26

Debt Service Requirements To Maturity - Governmental Activities

Fiscal year	Principal	Unaccreted Appreciation	Interest	Total
2008	$ 67,744	7,598	103,931	179,273
2009	66,942	8,055	101,028	176,025
2010	69,205	8,057	98,375	175,637
2011	64,190	7,912	95,661	167,763
2012	57,777	7,666	93,326	158,769
2013-2017	320,066	33,515	428,980	782,561
2018-2022	488,138	39,163	326,840	854,141
2023-2027	549,721	54,400	179,152	783,273
2028-2032	404,343	66,893	59,085	530,321
2033-2036	76,243	19,912	423	96,578
Subtotal	2,164,369	253,171	1,486,801	3,904,341
Add:				
Accreted appreciation through June 30	14,570			14,570
Subtotal	2,178,939	253,171	1,486,801	3,918,911
Add:				
Unamortized issuance premium	7,351			
Less:				
Unamortized issuance discount	(21,362)			
Unamortized deferred amount on refunding	(26,922)			
Total	$ 2,138,006			

(Amounts Expressed in Thousands Unless Otherwise Noted)

Business-Type Activities:

Debt service requirements to maturity for *business-type activities'* capital loans obligations outstanding at June 30, 2007 were the following:

Table 27

Debt Service Requirements to Maturity -Business-Type Activities

Fiscal Year	Principal	Interest	Total
2008	$ 206	143	349
2009	218	131	349
2010	231	119	350
2011	243	106	349
2012	256	92	348
2013-2017	1,321	231	1,552
2018-2022	11	17	28
2023-2027	14	14	28
2028-2032	17	10	27
2033-2037	22	6	28
2038-2040	12	1	13
Total	$ 2,551	870	3,421

3. Prior Year Defeasance of Long-Term Debt

In prior years, the County defeased certain taxable pension obligation bonds and tobacco settlement asset-backed bonds by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old obligations. Accordingly, the trust account assets and the liability for the defeased obligations are not included in the County's financial statements. At June 30, 2007, $433.3 million of bonds and COPs were legally defeased and remain outstanding.

4. New Long-Term Debt

- *San Diego County Asset Leasing Corporation 2006 Edgemoor Completion Project*

In December 2006, the San Diego County Capital Asset Leasing Corporation (SANCAL) issued $42.390 million of fixed rate serial and term certificates of participation titled, "2006 Edgemoor Completion Project" (the "Certificates"). These Certificates consist of $19.485 million Serial Certificates issued at fixed interest rates ranging form 4.00% to 5.00% with maturity dates ranging from February 1, 2010 through February 1, 2021; $11.645 million Term Certificates issued at a fixed rate of 4.25% with maturity dates ranging from February 1, 2022 through February 1, 2026; and, $11.260 Term Certificates issued at a fixed rate of 4.45% with maturity dates ranging from February 1, 2027 through February 1, 2030.

These Certificates were issued with a premium of $606 thousand. Certificate proceeds of $42.996 million along with County contributions of $6.996 million were distributed as follows: 1) $36.291 million to finance the completion of a skilled nursing facility to replace the existing skilled nursing facility in Santee California; 2) $10.582 million to pay interest during the construction period on a portion of these Certificates and a portion of the SANCAL 2005 Edgemoor Project and 1996 Regional Communications System Refunding - "Series 2005 Certificates" (issued in September 2005), through March 1, 2009; 3) $2.210 million to pay the principal portion of the base rental payment for the Series 2005 Certificates becoming due and payable in fiscal year 2007-08 (2008); 4) $887 thousand to pay certain costs of issuance incurred in connection with these Certificates; and, $22 thousand was set aside to be used for various ongoing debt related costs. The interest on these Certificates is excludable from gross income for federal income tax purposes and is exempt from State of California income taxes.

- *Landavo Permanent Road Division (PRD) Zone 1015 Loan Agreement*

In October 2006, the County of San Diego entered into a private bank loan agreement on its behalf and on behalf of the Landavo Permanent Road Division (PRD) Zone 1015 (Landavo), for $344 thousand to finance the improvement and maintenance of roads in the Escondido area. Equal principal payments of $17.2 thousand and fixed interest of 8.25% calculated on a 365-day year basis, are due semi-annually on June 30th and December 31st, until the loan matures on June 30, 2016.

(Amounts Expressed in Thousands Unless Otherwise Noted)

- *El Sereno PRD Zone 1016 Loan Agreement*

In October 2006, the County of San Diego entered into a private bank loan agreement on its behalf and on behalf of the El Sereno PRD Zone 1016 (El Sereno), for $118 thousand to finance the improvement and maintenance of roads in the Vista area. Equal principal payments of $11.8 thousand (beginning December 31st, 2007) and fixed interest of 8.25% calculated on a 365-day year basis, are due semi-annually on June 30th and December 31st until the loan matures on June 30, 2012.

5. Changes in Long-Term Obligations

Long-term obligation activity (Governmental Activities) for the year ended June 30, 2007 is presented in **Table 24.**

The following funds presented in **Table 28** below have typically been used to liquidate other long-term liabilities in prior years:

Table 28

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, Cable TV and Air Pollution; Internal Service Funds - Facilities Management, Fleet Services and Purchasing
Landfill Closure and Postclosure	General Fund

J. Interest Rate Swap

To manage interest rate risk and lower the County's borrowing cost for its 2002 Taxable Pension Obligation Bonds, the County entered into an interest rate swap on September 17, 2002 with two counterparties. The swap converts the variable interest rates on several subseries of the 2002 Taxable Pension Obligation Bonds to a single long-term fixed rate that was lower than the “natural” fixed rate available at the time of the swap. The interest rate swap with Citibank N.A. (Citibank) and Morgan Stanley Capital Services (Morgan Stanley), (together the “counterparties”) is governed by the International Swaps and Derivatives Association, Inc. Master Agreement (the Agreement) and a Swap Confirmation. In fiscal year 2003, the County issued $737.340 million of Pension Obligation Bonds of which $505.125 million of the Series B Bonds are Auction Rate Securities. Within the Series B Auction Rate Securities there are the following subseries: $100 million of Series B-1, $135.025 million of Series B-2, $135.05 million Series of B-3 and $135.05 million of Series B-4 bonds. The County swapped Series B-2, B-3 and B-4 totaling $405.125 million of the Auction Rate Securities for a contractually agreed fixed interest rate of 5.30%. Of the $405.125 million our exposure with Citibank is $263.325 million and our exposure with Morgan Stanley is $141.8 million notional amount.

Further details concerning this interest rate swap are discussed below:

1. Terms

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

(Amounts Expressed in Thousands Unless Otherwise Noted)

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

As of June 30, 2007, the swap created a synthetic interest rate for the bonds as noted below:

Table 29

Interest Rate Swap - Synthetic Interest Rate	Terms	Rates
Fixed Rate to Counterparty	Fixed	5.300%
Variable Rate from Counterparty	1 month LIBOR	-5.320%
Net Interest Rate Swap Payments		-0.020%
Average Auction Rate Bond Coupon Payments		5.205%
Synthetic Interest Rate on Bonds		5.185%

2. Fair Value

As of June 30, 2007 the swaps had a mark to market fair value of $21.1 million. The mid-market or indicative unwind valuation was derived from a proprietary model using the zero coupon method. This model takes into consideration estimates about relevant present and future market consideration as well as the size and liquidity of the position and any related actual or potential hedging transaction.

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

3. Credit Risk

As of June 30, 2007 the County was exposed to credit risk because the swap had a positive mark to market fair value of $21.9 million. Citibank is rated Aaa/AA+/AA+ by Moody's, Standard & Poors and Fitch, respectively and Morgan Stanley is rated Aa3/A+/AA- by Moody's, Standard & Poor's and Fitch, respectively. Pursuant to the Agreement if the rating issued by Standard & Poors or Moody's of the senior unsecured debt obligations of the counterparties is suspended or withdrawn or falls below “A-” in the case of Standard & Poors or below “A3” in the case of Moody's, collateral is to be delivered to a third party.

4. Termination Risk

The Agreement includes standard termination events such as failure to pay, bankruptcy and early termination. For this transaction, the swap and bond maturities match and carries an Interest Rate Swap Insurance Policy by MBIA Insurance Corporation (MBIA). If the Agreement is terminated for any of the conditions in the agreement, and at the time of the termination the swap has a negative fair value, the County would be liable to the counterparties for a payment equal to the swap's fair value. The swap can be terminated by the County for market value at any time. As of June 30, 2007 the fair value of the swap is $21.1 million. Value is predominantly tied to changes in the market for the fixed swap rate for the remaining swap term.

(Amounts Expressed in Thousands Unless Otherwise Noted)

5. Basis Risk

The County's exposure to basis risk arises when the one-month LIBOR rate index received from the counterparties may be less than the applicable auction rate that is being paid to the bondholders, that is the cash flow being received by the counterparty is not equal to the cash flow being paid to the variable rate bondholder. By using one month LIBOR, the County's objective is to mitigate the effect of the differential between the swap index and the bondholder variable rate. For fiscal year 2007, the differential was $512 thousand.

6. Swap Payments and Associated Debt

As of June 30, 2007, debt service requirements of the variable-rate debt and net swap payments, *assuming current interest rates remain the same*, for their term are presented in **Table 30**. As rates vary, variable rate bond interest payments and net swap payments will vary.

Table 30

Interest Rate Swap - SWAP Payments and Associated Debt

Fiscal Year	Principal	Interest 5.205%	Interest Rates Swaps,Net (.020%)	Total
2008	$	21,028	(81)	$ 20,947
2009		21,087	(81)	21,006
2010		21,087	(81)	21,006
2011		21,087	(81)	21,006
2012		21,087	(81)	21,006
2013-2017	18,275	104,601	(403)	122,473
2018-2022	108,325	85,095	(335)	193,085
2023-2027	143,275	51,879	(210)	194,944
2028-2031	135,250	11,032	(53)	146,229
Total	$ 405,125	357,983	(1,406)	$ 761,702

K. 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 2006. Post closure maintenance began in September 2006.

The County is required by GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs", to report the projected closure and postclosure care costs as of each balance sheet date. The projected landfill closure and postclosure care liability at June 30, 2007 for the San Marcos Landfill was $23.616 million. This estimated amount is based on what it would cost to perform all closure and postclosure care in calendar year 2007 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.

(Amounts Expressed in Thousands Unless Otherwise Noted)

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, 2007, $24.274 million has been spent on closure costs and $1.446 of the net assets of the government-wide statement of net assets has been restricted for remaining closure costs of the San Marcos Landfill.

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

L. Fund Balances Reserved For Other Purposes

At June 30, 2007, the fund balances reserved for other purposes are presented in **Table 31** as follows:

Table 31

Fund Balances Reserved For Other Purposes	
General Fund	
Defray administrative costs, other general reserves	$ 27,246
Improvement and maintenance of recorded document systems	18,561
Teeter tax losses	16,707
Emergency medical services, various construction costs	11,530
Mental health	66,887
Social programs	4,119
Vector control	8,014
Real estate fraud prosecution	1,172
Domestic violence and child abuse prevention	5,823
Sheriff vehicle maintenance and replacement	645
Fingerprinting equipment purchase and operation	5,986
Sheriff automated warrant system	3,922
Delinquency and juvenile crime prevention	2,624
Reserve for donations	3,901
Total General Fund	$ 177,137
Special Revenue Funds	
Road-future road improvements	$ 55,362
Lighting Maintenance	16
County Service Districts projects	1,271
Flood Control-future drainage improvements	19,095
Housing repairs and improvements	295
Total Special Revenue Funds	$ 76,039
Capital Projects Funds	
Edgemoor capital projects	$ 250
Total Capital Projects	$ 250
Total Fund Balances Reserved for Other Purposes	$ 253,426

M. Fund Balances Designated for Subsequent Years' Expenditures

At June 30, 2007, the fund balances designated for subsequent years' expenditures are presented in **Table 32** as follows:

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 32

Fund Balances Designated for Subsequent Years' Expenditures		
General Fund		
Sheriff Department's future capital expenditures	$	6,000
Assessor Department future expenditures		111
Clerk of the Board future expenditures		5
Planning and Land Use building services		1,505
Department of Environmental Health future expenditures		6,476
Unforeseen catastrophic events		55,500
Realignment health, mental health and social services		74,620
Housing Authority future lease payments		917
Registrar of Voters future expenditures		1,200
Management of the County's conduit financing program		319
Preventative health care for children		613
South County Shelter capital improvements		15
Senior Volunteer Patrols Program in the unincorporated communities		6
Regional communication system infrastructure enhancements		7,830
Replacement of Sheriff Department's helicopter		1,010
Edgemoor geriatric hospital reconstruction		2,674
Health based programs aimed at reducing adult and youth smoking		7,902
Equipment replacement/system enhancement-Call ID Remote Access Network		1,160
Future lease payments		2,624
FEMA and other agencies' reimbursement of costs to 2003 County fires		12,012
Total General Fund	$	182,499
Special Revenue Funds		
Equipment acquisition	$	626
Total Special Revenue Funds	$	626

V. Other Information

A. Risk Management

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, general liability and workers' compensation. The County purchases insurance for property damage, certain casualty claims, public officials bond, employee dishonesty, faithful performance, volunteers, airport comprehensive, and loss of money and securities based upon site locations. 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. At June 30, 2007, the amount of these liabilities, including an estimate for claims incurred but not reported and allocated and unallocated loss adjustment expenses was estimated at $111.2 million, including $16.5 million in public liability and $94.7 million in workers' compensation. Changes in the balances of claim liabilities for fiscal year 2006 and 2007 are shown below:

Table 33

Risk Management - Changes in Claim Liabilities			
Employee Benefits Fund		**2006**	**2007**
Unpaid claims, July 1	$	86,073	91,297
Incurred claims		38,233	20,374
Claim payments		(33,009)	(16,985)
Unpaid claims, June 30	$	91,297	94,686
Public Liability Insurance Fund		**2006**	**2007**
Unpaid claims, July 1	$	17,496	31,035
Incurred claims		14,675	(11,121)
Claim payments		(1,136)	(3,418)
Unpaid claims, June 30	$	31,035	16,496

B. Subsequent Events

1. Tax and Revenue Anticipation Notes

In July 2007, the County issued tax and revenue anticipation notes (TRANS) totaling $95.2 million due June 30, 2008 at a coupon rate of 4.50% and net interest cost of 3.60%. Proceeds from the notes will be used to meet fiscal year 2008 cash flow requirements. Fiscal year 2008 unrestricted revenues collateralize the notes.

C. Contingencies

1. Litigation

In addition to the accrued liability for litigation and workers compensation claims described in Note V-A, the County has a potential liability of $24.8 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above (in Note V-A) include estimates of claims incurred but not reported at June 30, 2007.

2. Unrecorded Leave Benefits

County employees have unrecorded accumulated benefits of approximately $147.5 million in sick leave, holiday and compensatory time. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation have been recorded as current or long-term liabilities in the appropriate proprietary funds and the statement of net assets.

3. Federal and State Programs

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

D. Jointly Governed Organizations

The County Board of Supervisors jointly governs the Service Authority for Freeway Emergencies (S.A.F.E.). San Diego S.A.F.E. is governed by a seven-member board, whose members are appointed by the County Board of Supervisors and the eighteen cities within the county. The purpose of the authority is to provide for freeway emergency call boxes on major freeways within the County. Funding for the authority is provided by a $1dollar yearly fee on vehicle registrations in San Diego County, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for the S.A.F.E. authority.

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

The 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. The annual budget is $1.5 million. The City and the County have agreed to fund the budget equally.

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

The County is a participant with eighteen incorporated cities to operate an 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 region is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one half of the total required funding each year. The County, by agreement, also provides one half of the required yearly funding. Total participant contributions for fiscal year 2007 were $1.6 million. The organization had a cumulative surplus of $34 thousand at June 30, 2007.

E. Deferred Compensation Plans

County of San Diego Incentive Retirement Deferred Compensation Plan

The County of San Diego Incentive Retirement Deferred Compensation Plan is a defined contribution plan established and governed under the Internal Revenue Code Section 401(a). All permanent and part-time County employees are eligible to participate in the plan. Participants may elect to contribute between 2.5 and 25% of their federal taxable gross wages, up to $44,000 a year, whichever is less. Plan participation is voluntary, however, once enrolled, the election percentage is irrevocable except under certain unforeseeable financial hardship provisions in the plan.

Under Internal Revenue Code rules, the amount of contributions by participants to the plan are considered employer contributions not subject to federal or state tax at the time of contribution. Participants direct the investment of all amounts contributed through two plan providers. All amounts held on behalf of participants are fully vested and held in trust at all times. Plan benefits for a participant who separates from County service or retires will be dependent upon the accumulated value of individual contributions and investment return. The County does not perform the investing function and has no fiduciary accountability for the plan. Thus, plan assets and any related liability to plan participants have been excluded from the County's financial statements. The 401(a)actual contributions for the year ended June 30, 2007 were $24.3 million.

San Diego County Deferred Compensation Plan

The County offers to its employees an optional deferred compensation plan created in accordance with Section 457 (b) of the Internal Revenue Code. This plan is available to substantially all employees and allows participants to defer a portion of their current income until future years, up to a maximum of $15,000 (in whole dollars), so as to shelter such funds and earnings from state and federal taxation until withdrawal. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. The actual contributions for the year ended June 30, 2007 were $23.7 million.

The County does not perform the investing function and has no fiduciary accountability for the plan. Thus, plan assets and any related liability to plan participants have been excluded from the County's financial statements.

F. San Diego County Employees Retirement Association

1. Plan Description

The SDCERA administers a cost-sharing, multi-employer defined benefit plan, with County employees representing 89.6% of active members. Participating employers include: the County; the Air Pollution Control District; the Superior Court; the San Diego River Valley Joint Power Authority; the Local Agency Formation Commission; and the San Diego County Office of Education.

The plan provides retirement, disability, and death benefits for members and beneficiaries pursuant to the County Employees Retirement Act of 1937, as enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. The SDCERA Board does not set the pension benefit amounts or establish/amend plan provisions. SDCERA administers benefits that are set by the County Board of Supervisors through the collective bargaining process with County employees in accordance with the Retirement law.

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

2. Funding Policy

In accordance with Board of Supervisors' resolutions, the County's funding policy is to make contributions to SDCERA in amounts such that, when combined with employee contributions and invested income, will fully provide for member benefits at retirement. State statutes require that County and member contributions be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Average member contribution rates, in effect at June 30, 2007, expressed as a percentage of salary are 9.19%-9.97% for general members and 11.94% for safety members. The County is also required by State statutes to contribute at an actuarially determined rate, expressed as a percentage of annual covered payroll. The fiscal year 2007 rates, expressed as a percentage of covered payroll, are 18.70% for general members and 27.55% for safety members. Additionally, in accordance with various agreements with employee bargaining units, the County has contributed $44.5 million on behalf of employees.

In March 2002, the County implemented a new enhanced retirement package. In October 2002, the County issued taxable Pension Obligation Bonds to fund a portion of its statutory obligations arising from enhanced benefits. In June 2004, the County issued Pension Obligation Bonds and transferred $450 million of the issuance to the retirement fund. The retirement plan's funding status (the ratio of system assets to system liabilities) was 89.7% at June 30, 2007.

3. Actuarial Assumptions and Annual Pension Cost

For the fiscal year ended June 30, 2007, the County's annual pension cost was $231.3 million. The County's actual contribution during the fiscal year ended June 30, 2007 totaled $231.3 million, resulting in a net pension obligation of zero as of June 30, 2007, compared to zero at the end of the prior year. The required contribution rates, as adopted by the SDCERA Board of Retirement, were determined as part of the June 30, 2005 actuarial valuation based on entry-age actuarial cost method. The actuarial assumptions include: an inflation rate of 3.75%; an investment rate-of-return of 8.25%, projected salary increases of 5.25% per year; and cost-of-living increases for retirees of 3%.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Generally accepted actuarial methods and assumptions are used to evaluate SDCERA's assets, liabilities and future contribution requirements. Effective with the June 30, 2004 valuation, actuarial calculations reflect the Board of Retirement's funding policy to amortize the unfunded actuarial accrued liability as 20-year fixed/closed (i.e. decreasing) layered amortization periods.

4. Three-Year Trend Information

The following trend information concerning annual pension costs and the percentage of annual pension costs contributed for the last three fiscal years is included below:

Table 34

Three-Year Trend Information

Fiscal Year Ended June 30	Annual Required Contributions	Percentage of ARC Contributed	Net Pension Obligation
2005	$ 235,122	100.00%	$ 0
2006	203,700	100.00%	0
2007	231,300	100.00%	0

5. Retiree Health Benefits

Retiree health benefits may be available to eligible retirees to the extent that the Board of Retirement annually approves the payment of such benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which approximated $35.3 million for fiscal year 2007.

The Board of Supervisors and the Board of Retirement adopted a funding mechanism under Section 401(h) of the Internal Revenue Code, which calls for a portion of the County's contributions to be deposited to a separate health benefits 401(h) account that is administered by SDCERA. Any investment income earned on the account balance increases the balance and any losses reduce it.

The reserve for health benefits, established by the SDCERA Board of Directors, designates funds that may be used for future payments under the retiree health benefits program and related administrative expenses. The reserve for health benefits was approximately $164.9 million at June 30, 2007, a $42.4 million decrease from the previous fiscal year.

G. Restatements

1. First 5 Commission

The beginning net asset balance of the First 5 Commission is restated as shown in **Table 35** below in the amount of $828 thousand resulting from an adjustment reflecting an unrealized loss of $768 thousand on investments that should not have been recorded in 2006 and a correction of an overstated vacation accrual of $60 thousand.

Table 35

Restatement - First 5 Commission

Net asset balance as of June 30, 2006	$ 188,018
Adjustment for restatement	828
Net asset balance, restated June 30, 2006	$ 188,846

2. Specific Investments-Investment Trust Fund

The beginning net assets balance of the Specific Investments - Investment Trust Fund is restated as shown in **Table 36** below. Individual investments for School Districts and other agencies outside of the investment pool were not reported in the County's financial statements previously. Specifically, it was interpreted that these investments were not held by the Treasurer and as a result there was no fiduciary responsibility. Based on a reevaluation of Government Code 27000 et seq., and GASB Statement No. 31, it was determined that a fiduciary responsibility and a reporting requirement exists. Accordingly, this adjustment is reflected below in the restated beginning net assets balance of the Individual Investment Accounts - Investment Trust Fund.

(Amounts Expressed in Thousands Unless Otherwise Noted)

Table 36

Restatement - Specific Investments - Investment Trust Fund		
Net asset balance as of June 30, 2006	$	0
Adjustment for restatement		856,820
Net asset balance, restated June 30, 2006	$	856,820

H. Commitments

1. Third Party Debt

The tax code allows for certain types of nongovernmental borrowers to take advantage of tax-exempt financing through a governmental agency. The County of San Diego as a governmental agency, has issued tax-exempt debt on behalf of qualified borrowers. The County of San Diego is not responsible for the repayment of the debt. Accordingly, no liability for these bonds has been recorded in the statement of net assets.

a. Mortgage Revenue Bonds

Mortgage Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between 1995 and 2002, the County issued $14 million of Mortgage Revenue Bonds of which $8.6 million were still outstanding as of June 30, 2007.

b. Certificates of Participation

The County has implemented a conduit program whereby the County is the issuer of tax-exempt bonds and loans, where the proceeds are provided to a qualifying for profit or nonprofit organization. The County has no obligation to pay for the bonds and loans. The original amounts of Certificates of Participation issued as well as the amounts outstanding per issue at June 30, 2007 are as follows:

Table 37

Certificates of Participation - Conduit Program

	Date Issued		Original Amount Issued	Amount Outstanding at June 30
Sharp Hospital	April 1998	$	112,020	96,255
San Diego Natural History Museum	December 1998		15,000	13,200
San Diego Museum of Art (principal due at maturity)	March 2000		6,000	5,800
Salk Institute	April 2000		15,000	13,785
University of San Diego	May 2001		36,870	31,895
San Diego-Imperial Counties Developmental Services	September 2002		10,750	9,750
Chabad Jewish Academy (principal due at maturity)	January 2003		11,700	10,530
San Diego Jewish Academy (principal due at maturity)	December 2003		13,325	11,720
Bishop School	June 2004		25,000	25,000
Museum of Contemporary Art	December 2004		13,000	12,750
Sidney Kimmel Cancer Center (principal due at maturity)	October 2005		24,500	24,500
Burnham Institute for Medical Research	February 2006		59,405	58,450
San Diego Foundation	August 2006		13,500	13,500

c. Reassessment District Improvement Bonds

Reassessment District Improvement Bonds were issued to provide refunding an earlier issuance of improvement bonds for the 4-S Ranch assessment district. The District originally issued $28.8 million of Improvement Bonds in July 1991 to finance the acquisition of certain infrastructure improvements specially benefiting properties within an assessment district. In July 1997, the District issued $21.8 million of Reassessment Bonds to refund the original issuance, of which $10.39 million were still outstanding as of June 30, 2007.

2. Deposits for Other Agencies

The Treasurer is a named paying agent for various bonds issued by other agencies, e.g., school districts, pursuant to the bond covenants. The proceeds from these issues are deposited in the County pool or as specified in bond resolutions. The amounts deposited belong to the specific agencies that issued the bonds and are not assets of the County. The County has no liability with respect to these issues. The repayment of these bonds are from ad valorem taxes levied on the properties in the school districts.

I. New Governmental Accounting Standards

1. Implemented

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the County's fiscal year ending June 30, 2007

In Fiscal Year 2007, the County determined that these requirements do not affect the financial reporting for the County of San Diego. The County will implement the requirements of GASB Statement 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits; in the fiscal year ended June 30, 2008.

2. Under Analysis

The County is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the County's fiscal year ending June 30, 2008.

In June 2005, GASB issued Statement 47, *Accounting for Termination Benefits*. This Statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45, and are therefore effective for the County's fiscal year ended June 30, 2008.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. Governments sometimes exchange an interest in their expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments - generally, a single lump sum. The financial reporting question addressed by this Statement is whether that transaction should be regarded as a sale or as a collateralized borrowing resulting in a liability. This statement establishes criteria that governments will use to ascertain whether the proceeds received should be reported as revenue or as a liability. This statement also includes a provision that stipulates that governments should not revalue assets that are transferred between financial reporting entity components. Therefore, any assets (or future revenues) sold or donated within the same financial reporting entity should continue to be reported at their current carrying value when those assets or future revenues are transferred. Additionally, this statement also includes guidance to be used for recognizing other assets and liabilities arising from a sale of specific receivables or future revenues, including residual interests and recourse provisions. This disclosures pertaining to future revenues that have been pledged or sold are intended to provide financial statement users with information about which revenues will be unavailable for other purposes and how long they will continue to be so. This statement is effective for the County's fiscal year ending June 30, 2008.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations.* This Statement identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation. Liabilities and expenses would be estimated using an "expected cash flows" measurement technique, which is used by environmental professionals but will be employed for the first time by governments. Statement 49 also will require governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. This statement is effective for the County's fiscal year ending June 30, 2009.

In May 2007, GASB issued Statement 50, Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27. This Statement amends GASB Statement 25 Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans (GASB Statement 25) and GASB Statement 27 Accounting for Pensions by State and Local Governmental Employers (GASB Statement 27) to require defined benefit pension plans to present notes to financial statements that disclose the funded status of the plan as of the most recent actuarial valuation date. Defined benefit pension plans also should disclose actuarial methods and significant assumptions used in the most recent actuarial valuation in notes to financial statements instead of in notes to required supplementary information (RSI).

This Statement amends GASB Statement 25 to require defined benefit pension plans to disclose in the notes to financial statements the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices. This Statement amends GASB Statement 27 to require cost-sharing employers to include, in the note disclosure of the required contribution rates of the employer(s) in dollars and the percentage of that amount contributed for the current year and each of the two preceding years, how the contractually required contribution rate is determined (for example, by statute or by contract, or on an actuarially determined basis) or that the cost-sharing plan is financed on a pay-as-you-go basis.

This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and RSI contain information resulting from actuarial valuations as of June 15, 2007, or later. In the initial year of implementation, defined benefit pension plans that use the aggregate actuarial cost method to determine the ARC are required to present elements of information in the schedule of funding progress using the entry age actuarial cost method as of the most recent actuarial valuation date. In subsequent years, plans and employers should add to that schedule information as of subsequent actuarial valuation dates until the requirements of Statements 25 and 27, as amended, with regard to the minimum number of years or actuarial valuations to be included have been met. This statement is effective for the County's fiscal year ending June 30, 2008.

In June 2007, GASB issued Statement 51, Accounting and Financial Reporting for Intangible Assets. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. This Statement also provides guidance on recognizing internally generated computer software as an intangible asset. This guidance serves as an application of the specified-conditions approach described above to the development cycle of computer software.

This Statement also establishes guidance specific to intangible assets related to amortization. This Statement provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. Retroactive reporting is not required but is permitted for intangible assets considered to have indefinite useful lives as of the effective date of this Statement and those considered to be internally generated. This statement is effective for the County's fiscal year ending June 30, 2010.

In November 2007, GASB issued Statement 52, Land and Other Real Estate Held as Investments by Endowments. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This statement is effective for the County's fiscal year ending June 30, 2009.

Required Supplementary Information

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, 2007
(In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Taxes	$ 856,760	856,760	842,396
Licenses, permits and franchise fees	34,362	34,362	33,752
Fines, forfeitures and penalties	50,221	48,528	55,248
Revenue from use of money and property	25,939	26,087	51,894
Aid from other governmental agencies:			
State	1,003,135	1,005,695	851,309
Federal	593,470	617,286	704,440
Other	97,141	99,339	92,769
Charges for current services	261,306	269,813	269,282
Other revenue	25,248	25,890	33,227
Total revenues	2,947,582	2,983,760	2,934,317
Expenditures:			
Current:			
General government:			
Assessor/recorder/county clerk - finance	32,477	35,949	32,536
Auditor and controller	31,209	32,772	30,573
Board of supervisors district #1	1,108	1,209	1,043
Board of supervisors district #2	1,112	1,273	1,079
Board of supervisors district #3	1,073	1,134	1,064
Board of supervisors district #4	1,039	1,402	954
Board of supervisors district #5	1,182	1,642	1,094
Board of supervisors general office	1,067	1,065	825
CAC major maintenance	2,062	1,478	1,064
Chief Administrative office - legislative and administrative	4,372	4,451	4,186
Civil service commission	606	619	571
Clerk of the board of supervisors - legislative and administrative	2,740	2,839	2,361
Clerk of the board of supervisors - property management	4,012	3,810	2,818
Community enhancement	3,013	2,985	2,969
Community projects	11,648	8,351	8,341
Community services	9,924	14,424	4,140
Contributions to capital outlay	3,344	4,041	3,534
County counsel	20,405	20,888	19,782
County technology office	10,910	10,192	7,728
Countywide general expense	70,513	71,288	4,379
Financing and general government - legislative and administrative	40,458	15,663	13,397
Financing and general government - other general	415	9,782	4,130
Health and human services - legislative and administrative	400	400	383
Human resources - other general government	3,683	3,738	3,513
Human resources - personnel	18,558	18,069	14,966
Land use and environment - legislative and administrative	7,126	13,499	3,068
Public safety - legislative and administrative	25,023	15,832	8,270
Registrar of voters	15,827	32,080	29,464
Treasurer/tax collector	17,083	16,229	16,029
Total general government	342,389	347,104	224,261
Public protection:			
Agriculture weights and measures	15,725	16,505	14,225
Alternate public defender	14,634	14,963	14,129
Assessor/recorder/county clerk - other protection	15,239	16,594	16,163
Child support	51,248	52,404	46,391
Citizens law enforcement review board	505	519	486
Contributions for trial courts	75,602	74,704	73,104
Defense attorney/contract administration	9,284	9,284	8,414
Department of animal services	12,385	12,631	12,096
District attorney-judicial	113,719	124,564	116,524

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, 2007
(In Thousands)

(Continued)	Original Budget	Final Budget	Actual
Grand jury	$ 581	574	544
LAFCO administration	294	294	293
Land use and environment - other protection	1,217	1,202	1,080
Medical examiner	7,333	7,600	7,002
Office of emergency services	17,074	29,819	19,993
Planning and land use - fire protection	28,392	28,559	15,507
Planning and land use - other protection	30,384	30,868	23,698
Probation - adult detention	3,896	4,106	4,106
Probation - detention and correction	104,514	109,355	102,967
Probation - juvenile detention	31,574	32,870	32,870
Probation - police protection	2,491	2,511	2,511
Public defender	48,827	49,539	48,351
Public works, flood control, soil and water, general	3,124	2,355	974
Public works, general - other protection	445	445	406
Sheriff - adult detention	188,608	193,281	181,661
Sheriff - detention and correction		286	4
Sheriff - other protection		897	891
Sheriff - police protection	332,442	328,205	315,436
Total public protection	1,109,537	1,144,934	1,059,826
Public ways and facilities:			
Public Works, special projects	494	398	398
Public works, general - public ways	3,220	1,149	971
Total public ways and facilities	3,714	1,547	1,369
Health and sanitation:			
Environmental health	35,135	34,716	30,959
Health and human services agency - California children services	17,643	18,494	17,503
Health and human services agency - health	89,974	89,842	85,519
Health and human services agency - health administration	86,985	87,356	71,796
Health and human services agency - medical care	123,301	117,475	116,817
Health and human services agency - mental health	255,358	249,212	212,613
Public works, general - sanitation	5,822	4,747	4,747
Total health and sanitation	614,218	601,842	539,954
Public assistance:			
Health and human services agency - aid programs	43,877	43,877	41,474
Health and human services agency - other assistance	241,389	241,563	240,459
Health and human services agency - social administration	703,692	705,912	627,245
Health and human services agency - veterans' services	716	716	715
Housing Authority	9,770	9,757	8,545
Probation - care of court wards	9,481	9,796	9,796
Total public assistance	1,008,925	1,011,621	928,234
Education:			
Farm and home advisor	1,062	1,555	1,157
Total education	1,062	1,555	1,157
Recreation and cultural:			
Parks and recreation	32,378	26,294	24,509
Total recreational and cultural	32,378	26,294	24,509
Contingency:			
Contingency reserve	20,000	20,000	
Total contingency	20,000	20,000	
Capital outlay	35,276	20,184	17,190
Debt service:			
Interest and fiscal charges	12,700	12,700	10,843
Total expenditures	3,180,199	3,187,781	2,807,343
Excess (deficiency) of revenues over (under) expenditures	$ (232,617)	(204,021)	126,974

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, 2007
(In Thousands)

(Continued)	Original Budget	Final Budget	Actual
Other financing sources (uses)			
Sale of capital assets	$		130
Transfers in	267,305	279,798	283,535
Transfers out	(298,706)	(166,553)	(152,854)
Total other financing sources (uses)	(31,401)	113,245	130,811
Net change in fund balance	(264,018)	(90,776)	257,785
Fund balance at beginning of year	186,691	898,885	898,885
Increase (decrease) in			
Reserve for inventory of materials and supplies		(1,588)	(1,588)
Fund balance at end of year	$	806,521	1,155,082

See notes to required supplementary information.

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL
Tobacco Securization Special Revenue Fund
For the Year Ended June 30, 2007
(In Thousands)

	Original Budget	Final Budget	Actual
Revenues:			
Revenue from use of money and property	$		15,125
Total revenues			15,125
Expenditures:			
Current:			
General government:			
Tobacco Settlement	1,300	1,300	
Total general government	1,300	1,300	
Total expenditures	1,300	1,300	
Excess (deficiency) of revenues over (under) expenditures	(1,300)	(1,300)	15,125
Other financing sources (uses)			
Transfers out	(24,200)	(24,200)	(24,200)
Total other financing sources (uses)	(24,200)	(24,200)	(24,200)
Net change in fund balance	(25,500)	(25,500)	(9,075)
Fund balance at beginning of year		439,938	439,938
Fund balance at end of year	$	414,438	430,863

See notes to required supplementary information.

Budgetary Information

General Budget Policies

An operating budget is adopted each fiscal year by the Board of Supervisors for the governmental funds. The annual resolution adopts the budget at the object level of expenditures within departments. Annual budgets are not required to be adopted for: the Tobacco Securitization Joint Special Revenue Fund; SANCAL, a non-profit corporation, and the Debt Service and Capital Projects Funds (other governmental funds). Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year with the approval of the Board of Supervisors.

Appropriations may also be adjusted during the year with the approval of the Board of Supervisors. Additionally, the Chief Financial Officer is authorized to approve certain transfers and revisions of appropriations within a department. Such adjustments are reflected in the final budgetary data. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

The decrease in appropriations during the year ended June 30, 2007, amounted to $124.6 million in the General Fund.

The Schedule of Revenues, Expenditures, And Changes In Fund Balance - Budget and Actual for the General Fund and the Tobacco Securitization Special Revenue Fund presented as Required Supplementary Information were prepared using the Generally Accepted Accounting Principles (GAAP) basis.

The Original Budget column consists of the Fiscal Year 2006-07 (2007) adopted budget plus the budget carried forward from Fiscal Year 2006. As such, the County has included encumbrances that are subject to automatic re-appropriation as part of the original budget. Also, the original budget is adjusted to reflect reserves, transfers, allocations, and supplemental appropriations that occur prior to the start of the fiscal year. The County adopts its budget subsequent to the start of the each new fiscal year (August 1, 2006). Therefore, under the circumstances, the complete budget that is adopted by the County Board of Supervisors constitutes the adopted budget, plus the approved carry forward for purposes of budgetary comparison presentation.

The Final Budget column consists of the Original Budget column plus amended budget changes occurring during Fiscal Year 2007 plus technical amendments that occur after the close of the fiscal year less the amount of budget carried forward to Fiscal Year 2008.

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.

Schedule of Funding Progress

San Diego County Employees Retirement Association

Schedule of Funding Progress (In millions) (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/2005	$ 5,612.3	$ 6,990.7	$ 1,378.4	80.3%	$ 921.8	149.5%
6/30/2006	$ 6,263.0	$ 7,495.3	$ 1,232.3	83.6%	$ 979.4	125.8%
6/30/2007	$ 7,250.4	$ 8,082.5	$ 832.1	89.7%	$ 1,062.4	78.3%

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APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

The following is a summary of certain provisions contained in the Amended and Restated Trust Agreement and the 2008 First Supplemental Trust Agreement and is not to be considered a full description thereof. Reference is made to the Amended and Restated Trust Agreement as supplemented for a full description of its terms.

DEFINITIONS

Unless the context otherwise requires, the terms defined in this section shall for all purposes of the Amended and Restated Trust Agreement and of any Supplemental Trust Agreement and of any certificate, opinion, request or other document mentioned therein or in the Amended and Restated Trust Agreement have the meanings specified in the Amended and Restated Trust Agreement:

Account

The term "Account" means each Remarketing Account, County Purchase Account and Liquidity Facility Purchase Account established within the Bond Purchase Fund.

Act

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

Accreted Value

The term "Accreted Value" means, with respect to any Capital Appreciation Bond, as of any date of calculation, an amount equal to the initial Principal Amount of such Capital Appreciation Bond, plus interest accrued thereon from the date of initial issuance thereof to such date of calculation, compounded semiannually on each Compounding Date at the interest rate borne by such Capital Appreciation Bond, assuming in each year that such interest accrues in equal daily amounts on the basis of a 360-day year consisting of twelve 30-day months.

Additional Bonds

The term "Additional Bonds" means all bonds of the County authorized by and at any time Outstanding pursuant to the Amended and Restated Trust Agreement and executed, issued and delivered in accordance with the Amended and Restated Trust Agreement.

Alternate Liquidity Facility

The term "Alternate Liquidity Facility" means a Liquidity Facility issued to replace a Liquidity Facility to purchase Series 2008B Bonds as provided in the First Supplemental Trust Agreement and any amendment or assignment of a Liquidity Facility which results in a change in the Liquidity Facility Provider.

Amended and Restated Trust Agreement

The term "Amended and Restated Trust Agreement" means the Amended and Restated Trust Agreement, dated as of August 1, 2008, between the County and the Trustee, as originally executed and as amended and supplemented by the First Supplemental Trust Agreement, and as it may from time to time be amended or supplemented by all Supplemental Trust Agreements executed pursuant to the provisions of the Amended and Restated Trust Agreement.

Association

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

Authorized Denomination

The term “Authorized Denomination” means with respect to Bonds of a Series during any period while such Bonds bear interest at a variable rate of interest other than a Long-Term Interest Rate Period, $100,000 or any integral multiple of $5,000 in excess thereof, and during any period while such Bonds bear interest at a Long-Term Interest Rate or a Fixed Rate, $5,000 or any integral multiple thereof.

Available Moneys

The term “Available Moneys” means any moneys deposited with the Trustee or the Tender Agent.

Bank Bond Interest Differential Amount

The term “Bank Bond Interest Differential Amount” means, as to any Bank Bond for any period for which interest on such Bank Bond has not been paid, the difference between the amount of accrued interest on such Bank Bond at the Bank Bond Rate during such period and the amount of accrued interest on such Series 2008B Bond included in the sales price therefor.

Bank Bond Rate

The term “Bank Bond Rate” means the interest rate, if any, specified in the Liquidity Facility then in effect as the rate at which Bank Bonds shall bear interest, such rate not to exceed the Maximum Bank Bond Interest Rate; provided, however, that if no such rate is specified in the Liquidity Facility then in effect, then Bank Bonds shall continue to bear interest and such interest shall accrue and be payable as specified in the First Supplemental Trust Agreement as if such Bank Bonds were not Bank Bonds.

Bank Bonds

The term “Bank Bonds” means Series 2008B Bonds purchased by the Liquidity Facility Provider pursuant to a Liquidity Facility during the period beginning on the date such Series 2008B Bonds are purchased until the earlier of (i) the date on which such Bonds are remarketed to a purchaser identified by the Remarketing Agent, or (ii) the date on which the Liquidity Facility Provider elects pursuant to the First Supplemental Trust Agreement not to sell such Bonds to a purchaser identified by the Remarketing Agent.

Bankruptcy Code

The term “Bankruptcy Code” means Title 11 of the United States Code, as amended, and any successor statute.

Beneficial Owner

The term “Beneficial Owner” means any Person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including any Person holding a Bond through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for federal income tax purposes.

Bond Interest Term

The term “Bond Interest Term” means, with respect to any Series 2008B Bond, each period established in accordance with the First Supplemental Trust Agreement during which such Series 2008B Bond bears interest at a Bond Interest Term Rate.

Bond Interest Term Rate

The term "Bond Interest Term Rate" means, with respect to each Series 2008B Bond, a non variable interest rate on such Series 2008B Bond established periodically in accordance with the provisions of the First Supplemental Trust Agreement summarized under the caption "– Issuance of Series 2008B Bonds, Dates, Maturities and Interest – Bond Interest Term Rates and Short Term Interest Rate Period."

Bond Purchase Fund

The term "Bond Purchase Fund" means the fund created with that name in the First Supplemental Trust Agreement.

Bonds, 1994 Series A Bonds, Series 2002 A Bonds, Series 2004 Bonds, Additional Bonds, Serial Bonds, Term Bonds

The term "Bonds" means, collectively, the 1994 Series A Bonds, the Series 2002 A Bonds, the Series 2004 Bonds and all Additional Bonds.

The term "1994 Series A Bonds" means all bonds of the County authorized by and at any time Outstanding pursuant to the Amended and Restated Trust Agreement and executed, issued and delivered in accordance with Article II of the Original Trust Agreement.

The term "Series 2002 A Bonds" means the County of San Diego Taxable Pension Obligation Bonds, Series 2002 A.

The term "Series 2004 Bonds" means the County of San Diego Taxable Pension Obligation Bonds, Series 2004 A, Series 2004 B and Series 2004 C.

The term "Additional Bonds" means all bonds of the County authorized by and at any time Outstanding pursuant to the Amended and Restated Trust Agreement and executed, issued and delivered in accordance with Article III.

The term "Serial Bonds" means Bonds for which no sinking fund payments are provided.

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

Bond Year

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

Business Day

"Business Day" means any day other than a Saturday or Sunday or day upon which the Corporate Trust Office is authorized by law to remain closed or other day on which the New York Stock Exchange is closed or on which banks are authorized or required to be closed in any of the City of Los Angeles, California, the City of New York, New York or any other municipalities in which the principal offices of the Trustee, the Tender Agent and the Remarketing Agent and the office of the Liquidity Facility Provider or Credit Facility Provider from which payments pursuant to the Liquidity Facility or Credit Facility are to be made are located.

Capital Appreciation Bonds

The term “Capital Appreciation Bonds” means Bonds that, by their terms, accrete interest on a compounded basis, payable, together with the Principal Amount thereof, solely at maturity, and includes the Series 2004 C Bonds and any Additional Bonds designated as Capital Appreciation Bonds in the Supplemental Trust Agreement pursuant to which such Additional Bonds are issued.

Certificate of the County

The term “Certificate of the County” means an instrument in writing signed by the Chairperson or Vice-Chairperson of the Board of Supervisors of the County, County’s Chief Administrative Officer, Chief Financial Officer, Treasurer-Tax Collector, Auditor and Controller, Group Finance Director or Debt Finance Manager, or by any other officer of the County duly authorized by the Board of Supervisors for that purpose.

Closing Date

The term “Closing Date” means the date on which the Bonds are delivered to the original purchasers.

Comparable Treasury Issue

The term “Comparable Treasury Issue” means, with respect to any redemption date for a particular Bond or Series of Bonds, the United States Treasury security or securities selected by the Designated Investment Banker which has an actual or interpolated maturity comparable to the remaining average life of the applicable Series of Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining average life of the Series of Bonds to be redeemed.

Comparable Treasury Price

The term “Comparable Treasury Price” means, with respect to any redemption date for a particular Bond or Series of Bonds, (1) if the Designated Investment Banker receives at least four Reference Treasury Dealer Quotations, the average of such quotations for such redemption date, after excluding the highest and lowest Reference Treasury Deal Quotations, or (2) if the Designated Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

Compounding Dates

The term “Compounding Dates” means, with respect to a Capital Appreciation Bond, each February 15 and August 15, from and including the February 15 or August 15 first occurring after the date of initial issuance of such Capital Appreciation Bond, to and including the maturity date thereof.

Continuing Disclosure Agreement

The term “Continuing Disclosure Agreement” means, collectively, the 2002 Continuing Disclosure Agreement, the 2004 Continuing Disclosure Agreement and any other continuing disclosure undertaking signed by the County on the date of issuance and delivery of Additional Bonds, as originally executed and as the same may be amended from time to time in accordance with the terms thereof.

Conversion

The term “Conversion” means a conversion of the Series 2008B Bonds from one Interest Rate Period to another Interest Rate Period (including the establishment of a new interest period within the Long-Term Interest Rate Period) as provided in the First Supplemental Trust Agreement.

Conversion Date

The term “Conversion Date” means the effective date of a Conversion of the Series 2008B Bonds.

Corporate Trust Office

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

Counsel

The term “Counsel” means an attorney or a firm of attorneys admitted to practice law in the highest court of any state in the United States of America or in the District of Columbia.

County

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

County Auditor

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

County Purchase Account

“County Purchase Account” means each account with that name established within the Bond Purchase Fund pursuant to the First Supplemental Trust Agreement.

County Treasurer

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

Current Interest Bonds

The term “Current Interest Bonds” means Bonds, the interest on which, by the terms thereof, is payable semiannually on Interest Payment Dates (except that the first interest period with respect thereto may be less than six months but not more than 12 months from the date of issuance of such Bonds), and includes the Series 2004 A Bonds, the Series 2004 B Bonds and any Additional Bonds designated as Current Interest Bonds in the Supplemental Trust Agreement pursuant to which such Additional Bonds are issued.

Daily Interest Rate

The term “Daily Interest Rate” means a variable interest rate for the Series 2008B Bonds established in accordance with the provisions of the First Supplemental summarized under the caption “– Issuance of Series 2008B Bonds, Dates, maturities and Interest – Daily Interest Rate and Daily Interest Rate Period.”

Daily Interest Rate Period

The term “Daily Interest Rate Period” means each period during which a Daily Interest Rate is in effect for the Series 2008B Bonds.

Debenture

The term "Debenture" means the Original Debenture, the Series 2002 Debenture, the Series 2004 Debenture and any other pension obligation debenture of the County issued in favor of the Association and refunded with proceeds of Bonds.

Designated Investment Banker

The term "Designated Investment Banker" means one of the Reference Treasury Dealers appointed by the County.

DTC

The term "DTC" means The Depository Trust Company, New York, New York.

Electronic Means

The term "Electronic Means" means facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

Escrow Agreement

The term "Escrow Agreement" means the Escrow Agreement, dated as of August 1, 2008 by and between the County and the Escrow Bank.

Escrow Bank

The term "Escrow Bank" means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America and its successors and assigns as Escrow Bank under the Escrow Agreement.

Escrow Fund

The term "Escrow Fund" means the fund by that name created under the Escrow Agreement.

Event of Bankruptcy

The term "Event of Bankruptcy" means any of the following events:

(i) the County shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the County or of all or any substantial part of their respective property, (b) commence a voluntary case under the Bankruptcy Code, or (c) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(ii) a proceeding or case shall be commenced, without the application or consent of the County in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding-up, or composition or adjustment of debts, of the County, (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the County or of all or any substantial part of their respective property, or (c) similar relief in respect of the County under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts.

Event of Default

The term "Event of Default" means an event of default under and as defined in the Amended and Restated Trust Agreement.

Existing Trust Agreement

The term "Existing Trust Agreement" means the Original Trust Agreement, as amended by the First Supplement, the Second Supplement and the Third Supplement.

Expiration Date

The term "Expiration Date" means the termination date of the Liquidity Facility then in effect, as extended from time to time.

Federal Securities

The term "Federal Securities" means, collectively, the following investments:

1. U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series – (SLGs)).

2. Direct obligations of the U.S. Treasury which have been stripped by the U.S. Treasury itself.

3. Resolution Funding Corp. ("REFCORP"). Only the interest component of REFCORP strips which have been stripped by request to the Federal Reserve Bank of New York in book entry form are acceptable.

4. Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P. If, however, the issue is only rated by S&P (i.e., there is no Moody's rating) then the pre-refunded bonds must have been pre-refunded with cash, direct U.S. or U.S. guaranteed obligations, or AAA rated pre-refunded municipals to satisfy this condition.

5. Obligations issued by the following agencies which are backed by the full faith and credit of the U.S.:

a. U.S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
b. Farmers Home Administration (FmHA)
c. Federal Financing Bank
d. General Services Administration
Participation Certificates
e. U.S. Maritime Administration
Guaranteed Title XI financing
f. U.S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures - U.S. government guaranteed debentures
U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

Financial Newspaper

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

First Supplement

The term "First Supplement" means the First Supplemental Trust Agreement, dated as of September 1, 2002, between the County and the BNY Western Trust Company, predecessor to the Trustee.

First Supplemental Trust Agreement

The term "First Supplemental Trust Agreement" means the First Supplemental Trust Agreement, dated as of August 1, 2008, between the County and the Trustee.

Fiscal Year

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

Fitch

"Fitch" means Fitch Ratings, a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, shall be deemed to refer to any other nationally recognized securities rating agency designated by the County by notice to the Trustee.

Fund

The term "Fund" means any of the Bond Fund and the Bond Purchase Fund.

Funding Amount

The term "Funding Amount" means an amount equal to the difference between (1) the aggregate Tender Price of Series 2008B Bonds with respect to which a notice was received pursuant to the First Supplemental Trust Agreement and to be purchased pursuant to the First Supplemental Trust Agreement, and (2) the Tender Price of Series 2008B Bonds to be purchased pursuant to the First Supplemental Trust Agreement that are remarketed by the Remarketing Agent and for which funds have been transferred by the Remarketing Agent to the Tender Agent.

Holder and Holders

The term "Holder" and "Holders" means any person who shall be a registered owner of any Outstanding Bond; provided that each Insurer (so long as no event of default shall have occurred and be continuing under such Insurer's Insurance Policy) shall be deemed Holder of such percentage of Outstanding Bonds then covered by such Insurer's Insurance Policy, with respect to consent required for (a) the execution and delivery of any Supplemental Trust Agreement, (b) the removal of the Trustee and selection and appointment of any successor Trustee, and (c) initiation or approval of any action not described in (a) or (b) above which requires the consent of the Holders of the Bonds, including, without limitation, the rights set forth more particularly set forth under Article XI of the Amended and Restated Trust Agreement.

Independent Certified Public Accountant

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

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

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

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

Information Services

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

Insurance Policy

The term "Insurance Policy" means the municipal bond insurance policy, financial guaranty insurance policy and/or similar guarantee, if any, issued by the applicable Insurer and guaranteeing, in whole or in part, the scheduled payment of principal of and interest on a Series of Bonds when due, including the 2002 Insurance Policy, the 2004A Insurance Policy and the 2004B Insurance Policy.

Insurer

The term "Insurer" means the 2002 Insurer, the 2004A Insurer and the 2004B Insurer, and any other issuer or issuers of a policy or policies of municipal bond insurance, financial guaranty insurance and/or similar guarantee obtained by the County to insure the payment of principal or Accreted Value of and interest on a Series of Bonds issued under the Amended and Restated Trust Agreement, when due otherwise than by acceleration, and which, in fact, are at any time insuring such Series of Bonds.

Interest Accrual Date

The term "Interest Accrual Date" means, with respect to the Series 2008B Bonds:

(a) for any Weekly Interest Rate Period, the first day thereof and, thereafter, the first Wednesday of each calendar month during such Weekly Interest Rate Period;

(b) for any Daily Interest Rate Period, the first day thereof and, thereafter, the first day of each month;

(c) for any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date during that Long Term Interest Rate Period, other than the last such Interest Payment Date; and

(d) for each Bond Interest Term within a Short-Term Interest Rate Period, the first day thereof.

Interest Payment Date

The term "Interest Payment Date" means:

(a) with respect to the Series 2008B Bonds,

(i) for any Weekly Interest Rate Period, the first Wednesday of each calendar month, or, if the first Wednesday is not a Business Day, the next succeeding Business Day;

(ii) for any Daily Interest Rate Period, the fifth Business Day of the next succeeding calendar month;

(iii) for any Long Term Interest Rate Period, each February 15 and August 15, or if any February 15 or August 15 is not a Business Day, the next succeeding Business Day;

(iv) for any Bond Interest Term, the day next succeeding the last day of that Bond Interest Term;

(v) for each Interest Rate Period, the day next succeeding the last day thereof; and

(vi) for Bank Bonds, as set forth in the Liquidity Facility then in effect; and

(b) with respect to the Series 2008A Bonds, February 15 and August 15 of each year to which reference is made.

Interest Rate Period

The term "Interest Rate Period" means each Daily Interest Rate Period, Weekly Interest Rate Period, Short Term Interest Rate Period or Long Term Interest Rate Period.

LIBOR

"LIBOR" means, as of any date of determination, the offered rate (rounded up to the next highest 0.001%) for deposits in U.S. dollars for a one-month period which appears on the Reuters Screen LIBOR01 Page at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

Liquidity Facility

The term "Liquidity Facility" means the standby bond purchase agreement delivered by Landesbank Baden-Württemberg, acting through its New York Branch, to provide liquidity support to pay the Tender Price of the Series 2008B Bonds tendered for purchase in accordance with the provisions of the First Supplemental Trust Agreement and any Alternate Liquidity Facility delivered pursuant to the First Supplemental Trust Agreement and with terms that are not inconsistent with the terms of the First Supplemental Trust Agreement.

Liquidity Facility Provider

The term "Liquidity Facility Provider" means the provider of a Liquidity Facility, and its successors and permitted assigns, and, upon the effective date of an Alternate Liquidity Facility, the bank or banks or other financial institution or financial institutions or other Person or Persons issuing such Alternate Liquidity Facility, their successors and assigns. If any Alternate Liquidity Facility is issued by more than one bank, financial institution or other Person, notices required to be given to the Liquidity Facility Provider may be given to the bank, financial institution or other Person under such Alternate Liquidity Facility appointed to act as agent for all such banks, financial institutions or other Persons.

Liquidity Facility Purchase Account

The term "Liquidity Facility Purchase Account" means each account with that name established within the Bond Purchase Fund pursuant to the First Supplemental Trust Agreement.

Long-Term Interest Rate

The term "Long-Term Interest Rate" means a term, non variable interest rate established in accordance with the provisions of the First Supplemental Trust Agreement summarized under the caption "– Issuance of Series 2008B Bonds, Dates, Maturities and Interest – Long Term Interest Rate and Long Term Interest Rate Period."

Long-Term Interest Rate Period

The term "Long-Term Interest Rate Period" means each period during which a Long Term Interest Rate is in effect.

Maturity Date

The term "Maturity Date" shall have the meaning set forth in the Series 2008B Bond.

Majority of the Holders

The term "Majority of the Holders" means the Holders of more than 50 percent of the aggregate principal amount of Outstanding Bonds.

Mandatory Standby Tender

The term "Mandatory Standby Tender" means the mandatory tender of the Series 2008B Bonds pursuant to the First Supplemental Trust Agreement upon receipt by the Trustee of written notice from the Liquidity Facility Provider that an event with respect to the Liquidity Facility has occurred which requires or gives the Liquidity Facility Provider the option to terminate such Liquidity Facility upon notice. Mandatory Standby Tender shall not include circumstances where the Liquidity Facility Provider may suspend or terminate its obligations to purchase securities without notice, in which case there will be no mandatory tender.

Maximum Bank Bond Interest Rate

The term "Maximum Bank Bond Interest Rate" means the lesser of (a) the rate per annum defined in the Liquidity Facility as the Maximum Bank Bond Interest Rate and (b) the Maximum Lawful Rate.

Maximum Bond Interest Rate

The term "Maximum Bond Interest Rate" means the lesser of 15% per annum and the Maximum Lawful Rate.

Maximum Lawful Rate

The term "Maximum Lawful Rate" means the maximum rate of interest on the relevant obligation permitted by applicable law.

Moody's

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

Nominee

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

Opinion of Counsel

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

Original Debenture

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

Original Trust Agreement

The term "Original Trust Agreement" means the Trust Agreement, dated as of February 1, 1994, between the County and the Trustee, as originally executed and delivered.

Outstanding

The term "Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Amended and Restated Trust Agreement as summarized herein under the caption "AMENDMENT OF THE AMENDED AND RESTATED TRUST AGREEMENT - Disqualified Bonds") all Bonds except

(1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(2) Bonds paid or deemed to have been paid within the meaning of the Amended and Restated Trust Agreement as summarized herein under the caption "DEFEASANCE - Discharge of Bonds";

(3) Bonds in lieu of or in substitution for which other Bonds shall have been executed, issued and delivered by the County pursuant to the Amended and Restated Trust Agreement;

(4) principal of any Bond which has become due (whether by maturity, call for redemption or otherwise) and for which provision for payment as required in the Amended and Restated Trust Agreement has been made; and

(5) for purposes of any direction, consent or waiver under the Amended and Restated Trust Agreement, Series 2008B Bonds deemed not to be outstanding pursuant to the provisions of the First Supplemental Trust Agreement summarized under the caption "MISCELLANEOUS – Series 2008B Bonds Owned by County."

Participant

The term "Participant" means, with respect to DTC or another Securities Depository, a member of or participant in DTC or such other Securities Depository, respectively.

Payment Date

The term "Payment Date" means each Interest Payment Date or any other date on which any principal of, premium, if any, or interest on any Series 2008B Bond is due and payable for any reason, including without limitation upon any redemption of Series 2008B Bonds pursuant to the First Supplemental Trust Agreement.

Permitted Investments

The term "Permitted Investments" means any of the following to the extent permitted by the laws of the State:

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

(2) Bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act and bonds of any federal home loan bank established under said act; bonds, debentures, participation certificates or other obligations of the Government National Mortgage Association or the Federal National Mortgage Association established under the National Housing Act, as amended;

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

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

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

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

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

(8) Government money market portfolios or money market funds restricted to obligations issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States, which portfolios shall have an “AAA” or equivalent by the Rating Agencies, including funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services;

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

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

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

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

Person

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

Principal Amount

The term “Principal Amount” means (a) with respect to Capital Appreciation Bonds, the Accreted Value thereof as of the date of calculation, and (b) with respect to Current Interest Bonds, the principal amount thereof.

Principal Office

The term “Principal Office” means the address stated as such for the Trustee and any other fiduciary, agent or service provider as provided in the Amended and Restated Trust Agreement, or such other address designated by the Trustee, fiduciary or agent.

Principal Payment Date

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

Rating Agencies

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

Record Date

The term "Record Date" means (i) with respect to any Interest Payment Date in respect to any Daily Interest Rate Period, the last Business Day of each calendar month or, in the case of the last Interest Payment Date in respect to a Daily Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, (ii) with respect to any Interest Payment Date in respect to any Weekly Interest Rate Period or any Short-Term Interest Rate Period, the Business Day immediately preceding such Interest Payment Date, and (iii) with respect to any Interest Payment Date in respect to any Long-Term Interest Rate Period, the fifteenth day immediately preceding that Interest Payment Date or, in the event that an Interest Payment Date shall occur less than 15 days after the first day of a Long-Term Interest Rate Period, that first day.

Reference Treasury Dealer

The term "Reference Treasury Dealer" means Citigroup Global Markets Inc. and their respective successors and three other firms, specified by the County from time to time, that are primary U.S. Government securities dealers in the City of New York (each a "Primary Treasury Dealer"); provided, however, that if any of them ceases to be a Primary Treasury Dealer, the County shall substitute another Primary Treasury Dealer.

Reference Treasury Dealer Quotations

The term "Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any redemption date for a particular Bond or Series of Bonds, the average, as determined by the Designated Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Designated Investment Banker by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the third business day preceding such redemption date.

Refunding Fund

The term "Refunding Fund" means the fund or funds established under the Amended and Restated Trust Agreement for the deposit of Bonds proceeds in connection with the refunding of a pension obligation debenture.

Remarketing Account

The term "Remarketing Account" means each account with that name established within the Bond Purchase Fund pursuant to the First Supplemental Trust Agreement.

Remarketing Agent

The term "Remarketing Agent" means each Person qualified under the First Supplemental Trust Agreement to act as Remarketing Agent for the Bonds and appointed by the County from time to time.

Remarketing Agreement

The term "Remarketing Agreement" means a Remarketing Agreement between the County and the Remarketing Agent whereby the Remarketing Agent undertakes to perform the duties of the Remarketing Agent under the First Supplemental Trust Agreement, as amended from time to time.

Representation Letter

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

Request

The term “Request” means a request by the Tender Agent under a Liquidity Facility or an Alternate Liquidity Facility for the payment of the Tender Price of Bonds in accordance with the terms of the First Supplemental Trust Agreement.

Responsible Officer

The term “Responsible Officer” means, with respect to the Trustee, any officer or authorized representative in its Corporate Trust Office or similar group administering the trusts under the First Supplemental Trust Agreement or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers to whom a particular matter is referred by the Trustee because of such officer’s or authorized representative’s knowledge of and familiarity with the particular subject.

Retirement Law

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

S&P

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

Securities Act

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

Securities Depositories

The term “Securities Depositories” means: The Depository Trust Company, 55 Water Street, 50th Floor, New York, N.Y. 10041-0099 Attn. Call Notification Department, Fax (212) 855-7232; or such other addresses and/or such other securities depositories as the County may designate to the Trustee in writing.

Second Supplement

The term “Second Supplement” means the Second Supplemental Trust Agreement, dated as of June 1, 2004, between the County and BNY Western Trust Company, predecessor to the Trustee.

Serial Bonds

The term “Serial Bonds” means Bonds for which no sinking fund payments are provided.

Series 2008 Bonds

The term “Series 2008 Bonds” means the Series 2008A Bonds and the Series 2008B Bonds.

Series 2008A Bonds

The term “Series 2008A Bonds” means the County’s Taxable Pension Obligation Bonds, Series 2008A issued under the First Supplemental Trust Agreement in the original aggregate principal amount of $343,515,000 and from time to time Outstanding under the First Supplemental Trust Agreement.

Series 2008B Bonds; Series 2008B-1 Bonds; Series 2008B-2 Bonds

The term "Series 2008B Bonds" means the County's Taxable Pension Obligation Bonds, Series 2008B (Variable Rate Demand Obligations), in two subseries consisting of "Series 2008B-1 Bonds" and "Series 2008B-2 Bonds", respectively, each subseries issued under the First Supplemental Trust Agreement in the original aggregate principal amount of $50,000,000 and from time to time Outstanding under the Amended and Restated Trust Agreement.

Short-Term Interest Rate Period

The term "Short-Term Interest Rate Period" means each period, consisting of Bond Interest Terms, during which the Bonds bear interest at one or more Bond Interest Term Rates.

State

The term "State" means the State of California.

Supplemental Trust Agreement

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

Tender Agent

The term "Tender Agent" means each Person qualified under the First Supplemental Trust Agreement to act as Tender Agent with respect to the Bonds and so appointed by the County and so acting from time to time, and its successors.

Tender Date

The term "Tender Date" means the date on which Bonds are required to be purchased pursuant to the First Supplemental Trust Agreement.

Tender Price

The term "Tender Price" means the purchase price to be paid to the Holders of Series 2008B Bonds purchased pursuant to the provisions of the First Supplemental Trust Agreement summarized under the caption "– Purchase of Series 2008B Bonds," which shall be equal to the principal amount thereof tendered for purchase, without premium, plus accrued interest from the immediately preceding Interest Accrual Date to the Tender Date (if the Tender Date is not an Interest Accrual Date); provided, however, that in the case of a Conversion or attempted Conversion from a Long-Term Interest Rate Period on a date on which the Series 2008B Bonds being converted would otherwise be subject to optional redemption pursuant to the First Supplemental Trust Agreement if such Conversion did not occur, the Tender Price shall also include the optional redemption premium, if any, provided for such date under the First Supplemental Trust Agreement.

Term Bonds

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

Third Supplement

The term "Third Supplement" means the Third Supplemental Trust Agreement, dated as of June 1, 2006, between the County and The Bank of New York Mellon Trust Company, N.A.

Treasury Rate

The term "Treasury Rate" means, with respect to any redemption date for a particular Bond or Series of Bonds, the rate per annum, expressed as a percentage of the principal amount, equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price, as calculated by the Designated Investment Banker.

Trust Indenture Act

The term "Trust Indenture Act" means the Trust Indenture Act of 1939, as amended.

Trustee

The term "Trustee" means The Bank of New York Mellon Trust Company, N.A., or any other association or corporation which may at any time be substituted in its place as provided in the Amended and Restated Trust Agreement as summarized herein under the caption "THE TRUSTEE - The Trustee."

UAAL

The term "UAAL" means unfunded actuarially accrued liability.

Underwriter

The term "Underwriter" means Citigroup Global Markets Inc., on its own behalf and as representative of Morgan Stanley & Co. Incorporated and E.J. DeLaRosa & Co., Inc.

Variable Rate Bonds

The term "Variable Rate Bonds" means Bonds bearing interest at a variable rate of interest in accordance with the terms of the Amended and Restated Trust Agreement.

Weekly Interest Rate

The term "Weekly Interest Rate" means a variable interest rate for the Bonds established in accordance with the provisions of the Indenture summarized under the caption " – Issuance of Series 2008B Bonds, Dates, Maturities and Interest – Weekly Interest Rate and Weekly Interest Rate Period."

Weekly Interest Rate Period

The term "Weekly Interest Rate Period" means each period during which a Weekly Interest Rate is in effect for the Bonds.

Written Request of the County

The term "Written Request of the County" means an instrument in writing signed by the County's Chief Administrative Officer, Chief Financial Officer, Treasurer-Tax Collector, Auditor and Controller, Group Finance Director or Debt Finance Manager, or by any other officer of the County duly authorized by the County for that purpose.

1994 Series A Bonds

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

2002 Continuing Disclosure Agreement

The term "2002 Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement signed by the County on the date of issuance and delivery of the Series 2002 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

2002 Debenture

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

2002 Insurance Policy

The term "2002 Insurance Policy" means the financial guaranty insurance policy issued by the 2002 Insurer guaranteeing the scheduled payments of principal of and interest on the Series 2002 A Bonds.

2002 Insurer

The term "2002 Insurer" means MBIA Insurance Corporation, a stock insurance company incorporated under the laws of the State of New York, as issuer of the 2002 Insurance Policy.

2004 Accreted Value

The term "2004 Accreted Value" means, with respect to any Series 2004 C Bond, as of the date of calculation, the sum of the initial principal amount thereof plus the interest accreted and compounded thereon to such date of calculation as determined in accordance with the 2004 Accreted Value Table for the dates indicated thereon and as provided in the Amended and Restated Trust Agreement for any other date.

2004 Accreted Value Table

The term "2004 Accreted Value Table" means, with respect to the smallest Authorized Denomination of any Series 2004 C Bond, the table appended to the Amended and Restated Trust Agreement as Exhibit F indicating the 2004 Accreted Value of such Series 2004 C Bond on the date of issuance thereof, on each date on which interest on such Series 2004 C Bond is compounded and on the maturity date thereof.

2004A Insurance Policy

The term "2004A Insurance Policy" means the municipal bond new issue insurance policy issued by the 2004A Insurer that guarantees payment of principal of and interest on the Series 2004 A Bonds and payment of principal of and 2004 Accreted Value on the Series 2004 C Bonds.

2004A Insurer

The term "2004A Insurer" means Financial Guaranty Insurance Company, a New York stock insurance company, or any successor thereto.

2004B Insurance Policy

The term "2004B Insurance Policy" means the municipal bond new issue insurance policy issued by the 2004B Insurer that guarantees payment of principal of and interest on the Series 2004 B Bonds.

2004B Insurer

The term “2004B Insurer” means XL Capital Assurance Inc. is a monoline financial guaranty insurance company incorporated under the laws of the State of New York.

2004 Continuing Disclosure Agreement

The term “2004 Continuing Disclosure Agreement” means that certain Continuing Disclosure Agreement signed by the County on the date of issuance and delivery of the Series 2004 Bonds, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

2004 Debenture

The term “2004 Debenture” means the Pension Obligation Debenture dated as of the 29th day of June, 2004, issued in favor of the Association in the principal amount of $450 million.

2004 Insurers

The term “2004 Insurers” means, collectively, the 2004A Insurer and the 2004B Insurer.

AMENDED AND RESTATED TRUST AGREEMENT

ISSUANCE OF BONDS; GENERAL BOND PROVISIONS

Authorization and Purpose of Bonds. The County has reviewed all proceedings heretofore taken relative to the authorization of the 1994 Series A Bonds, the Series 2002 A Bonds and the Series 2004 Bonds and has found, as a result of such review, and in accordance with the Amended and Restated Trust Agreement finds and determines that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in the issuance of the 1994 Series A Bonds, the Series 2002 A Bonds and the Series 2004 Bonds do exist, have happened and have been performed in due time, form and manner as required by law, and that the County is now duly authorized, pursuant to the Law, to issue the 1994 Series A Bonds, the Series 2002 A Bonds and the Series 2004 Bonds in the form and manner provided in the Amended and Restated Trust Agreement for the purpose of satisfying any obligation to make payments to the Association pursuant to the Retirement Law relating to pension benefits accruing to the Association’s members and providing funds to refund the 1994 Series A Bonds, and that the 1994 Series A Bonds, the Series 2002 A Bonds and the Series 2004 Bonds shall be entitled to the benefit, protection and security of the provisions of the Amended and Restated Trust Agreement.

Bonds as Obligations Imposed by Law; Place of Payment. The obligations of the County under the Bonds, including the obligation to make all payments of interest and principal when due, are obligations of the County imposed by law and are absolute and unconditional, without any right of set-off or counterclaim. The Bonds do not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation. Neither the Bonds nor the obligation of the County to make payments on the Bonds constitute an 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. Pursuant to Section 31584 of the County Employees Retirement Law of 1937, the Board of Supervisors of the County is obligated to make appropriations to pay the unfunded accrued actuarial liability which is evidenced by the Bonds, and the County Auditor shall transfer from any money available in any fund in the County treasury the sums specified if the Board of Supervisors of the County fails to make such appropriation.

The principal, Accreted Value and premium, if any, of the Bonds shall be payable in lawful money of the United States of America at the principal office of the Trustee in Los Angeles, California, or such other place as designated by the Trustee.

Payment of the principal of, Accreted Value and premium on, if any, the Bonds shall be made upon the surrender thereof at maturity or on redemption prior to maturity at the Corporate Trust Office of the Trustee or such other place as designated by the Trustee.

Only those Bonds bearing thereon a certificate of authentication and registration in the form recited, executed manually and dated by the Trustee, shall be entitled to any benefit, protection or security under the Amended and Restated Trust Agreement or be valid or obligatory for any purpose, and such certificate of the Trustee shall be conclusive evidence that the Bonds so authenticated and registered have been duly authorized, executed, issued and delivered under the Amended and Restated Trust Agreement and are entitled to the benefit, protection and security of the Amended and Restated Trust Agreement.

Transfer and Payment of Bonds. Any Bond may, in accordance with its terms, be transferred in the books required to be kept pursuant to the provisions of the Amended and Restated Trust Agreement by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer, the County shall execute and the Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of the same series and maturity for a like aggregate principal amount. The Trustee shall require the payment by the Holder requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer as a condition precedent to the exercise of such privilege. The cost of printing any Bond and any services rendered or expenses incurred by the Trustee in connection with any transfer shall be paid by the County.

The County and the Trustee may deem and treat the registered owner of any Bond as the absolute owner of such Bond for the purpose of receiving payment thereof and for all other purposes, whether such Bond shall be overdue or not, and neither the County nor the Trustee shall be affected by or liable due to any notice or knowledge to the contrary; and payment of the interest on, principal and Accreted Value of and redemption premium, if any, on such Bond shall be made only to such registered owner, which payments shall be valid and effectual to satisfy and discharge all liability on such Bond to the extent of the sum or sums so paid.

The Trustee shall not be required to issue, register the transfer of or exchange any Bond after a Record Date and on or prior to an Interest Payment Date or during the period established by the Trustee for the selection of Bonds for redemption, or to register the transfer or exchange of any Bonds which have been selected for redemption in whole or in part, from and after the day of mailing of a notice of redemption of such Bonds selected for redemption in whole or in part as provided in any Supplemental Trust Agreement.

Exchange of Bonds. Bonds may be presented or exchanged at the office of the Trustee for a like aggregate principal amount of Bonds of the same series and maturity of other authorized denominations. The Trustee shall require the payment by the Holder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange as a condition precedent to the exercise of such privilege. The cost of printing Bonds and any services rendered or expenses incurred by the Trustee in connection with any exchange shall be paid by the County. The Trustee shall not be required to make any such exchange after a Record Date and on or prior to an Interest Payment Date or during the period established by the Trustee for the selection of Bonds for redemption, or to register the exchange of any Bonds which have been selected for redemption in whole or in part, from and after the day of mailing of a notice of redemption of such Bonds selected for redemption in whole or in part as provided in any Supplemental Trust Agreement.

Bond Registration Books. The Trustee will keep sufficient books for the registration and transfer of the Bonds which shall at all reasonable times during business hours be open to inspection by the County, and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Bonds in such books as provided in the Amended and Restated Trust Agreement.

Mutilated, Destroyed, Stolen or Lost Bonds. If any Bond shall become mutilated, the Trustee, at the expense of the Holder, shall thereupon authenticate and deliver a new Bond of like tenor and number in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee shall be cancelled.

If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Holder, shall thereupon authenticate and deliver, a new Bond of like tenor and number in lieu of and in substitution for the Bond so lost, destroyed or stolen.

The Trustee may require payment of a reasonable sum for each new Bond issued under this section and of the expenses which may be incurred by the County and the Trustee in the premises. Any Bond issued under the provisions of this section in lieu of any Bond alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Amended and Restated Trust Agreement with all other Bonds of the same series. Neither the County nor the Trustee shall be required to treat both the original Bond and any duplicate Bond as being Outstanding for any purpose under the Amended and Restated Trust Agreement, including but not limited to the purpose of determining the principal amount of Bonds which may be issued under the Amended and Restated Trust Agreement or for the purpose of determining any percentage of Bonds Outstanding under the Amended and Restated Trust Agreement, but both the original and duplicate Bond shall be treated as one and the same for all purposes under the Amended and Restated Trust Agreement.

Temporary Bonds. The Bonds issued under the Amended and Restated Trust Agreement may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such denominations as may be determined by the County, shall be in fully registered form and may contain such reference to any of the provisions of the Amended and Restated Trust Agreement as may be appropriate. Every temporary Bond shall be executed and authenticated as authorized by the County, in accordance with the terms of the Act. If the County issues temporary Bonds it will execute and furnish definitive Bonds as soon as practicable and thereupon the temporary Bonds may be presented, for cancellation, in exchange therefor at the Corporate Trust Office of the Trustee, or such other place as designated by the Trustee, and the Trustee shall deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under the Amended and Restated Trust Agreement as definitive Bonds delivered under the Amended and Restated Trust Agreement.

Special Covenants as to Book-Entry Only System for Bonds. (a) Except as otherwise provided in subsections (b) and (c) of this section, all of the Bonds initially issued shall be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), or such other nominee as DTC shall request pursuant to the Representation Letter. Payment of the interest on any Bond registered in the name of Cede & Co. shall be made on each interest payment date for such Bonds to the account, in the manner and at the address indicated in or pursuant to the Representation Letter.

(b) The Bonds initially shall be issued in the form of a single authenticated fully registered bond for each stated maturity of such Bonds, representing the aggregate principal amount of the Bonds of such maturity. Upon initial issuance, the ownership of all such Bonds shall be registered in the registration records maintained by the Trustee pursuant to the Amended and Restated Trust Agreement as summarized herein under the caption ""ISSUANCE OF BONDS; GENERAL BOND PROVISIONS - Exchange of Bonds" in the name of Cede & Co., as nominee of DTC, or such other nominee as DTC shall request pursuant to the Representation Letter. The Trustee, the County and any paying agent may treat DTC (or its nominee) as the sole and exclusive owner of the Bonds registered in its name for the purposes of payment of the principal and tender price or redemption price of and interest on such Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Holders under the Amended and Restated Trust Agreement, registering the transfer of Bonds, obtaining any consent or other action to be taken by Holders of the Bonds and for all other purposes whatsoever; and neither the Trustee nor the County or any paying agent shall be affected by any notice to the contrary. Neither the Trustee nor the County or any paying agent shall have any responsibility or obligation to any Participant (which shall mean, for purposes of this section, securities brokers and dealers, banks, trust companies, clearing corporations and other entities, some of whom directly or indirectly own DTC), any person claiming a beneficial ownership interest in the Bonds under or through DTC or any Participant, or any other person which is not shown on the registration records as being a Holder, with respect to (i) the accuracy of any records maintained by DTC or any Participant, (ii) the payment by DTC or any Participant of any amount in respect of the principal or redemption price of or interest on the Bonds, (iii) any notice which is permitted or required to be given to Holders of Bonds under the Amended and Restated Trust Agreement, (iv) the selection by DTC or any Participant of any person to receive payment in the event of a partial redemption of the Bonds, or (v) any consent given or other action taken by DTC as Holder of Bonds. The Trustee shall pay all principal of and premium, if any, and interest on the Bonds only at the times, to the accounts, at the addresses and otherwise in accordance with the Representation Letter, and all such payments shall be valid and effective to satisfy fully and discharge the County's obligations with respect to the principal of and premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of its then existing nominee, the Bonds will be transferable to such new nominee in accordance with subsection (f) of this section.

(c) In the event that the County determines that it is in the best interests of the beneficial owners of the Bonds that they be able to obtain bond certificates, the Trustee shall, upon the written instruction of the County, so notify DTC, whereupon DTC shall notify the Participants of the availability through DTC of bond certificates. In such event, the Bonds will be transferable in accordance with subsection (f) of this section. DTC may determine to discontinue providing its services with respect to the Bonds at any time by giving written notice of such discontinuance to the County or the Trustee and discharging its responsibilities with respect thereto under applicable law. In such event, the Bonds will be transferable in accordance with subsection (f) of this section. Whenever DTC requests the County and the Trustee to do so, the Trustee and the County will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of all certificates evidencing the Bonds then Outstanding. In such event, the Bonds will be transferable to such securities depository in accordance with subsection (f) of this section, and thereafter, all references in the Amended and Restated Trust Agreement to DTC or its nominee shall be deemed to refer to such successor securities depository and its nominee, as appropriate.

(d) Notwithstanding any other provision of the Amended and Restated Trust Agreement to the contrary, so long as all Bonds Outstanding are registered in the name of any nominee of DTC, all payments with respect to the principal of and premium, if any, and interest on each such Bond and all notices with respect to each such Bond shall be made and given, respectively, to DTC as provided in the Representation Letter.

(e) The Trustee is in accordance with the Amended and Restated Trust Agreement authorized and requested to execute and deliver the Representation Letter and, in connection with any successor nominee for DTC or any successor depository, enter into comparable arrangements, and shall have the same rights with respect to its actions thereunder as it has with respect to its actions under the Amended and Restated Trust Agreement.

(f) In the event that any transfer or exchange of Bonds is authorized under subsection (b) or (c) of this section, such transfer or exchange shall be accomplished upon receipt by the Trustee from the registered owner thereof of the Bonds to be transferred or exchanged and appropriate instruments of transfer to the permitted transferee, all in accordance with the applicable provisions of the Amended and Restated Trust Agreement as summarized herein under the caption "ISSUANCE OF BONDS; GENERAL BOND PROVISIONS - Transfer and Payment of Bonds" and "- Exchange of Bonds." In the event Bond certificates are issued to Holders other than Cede & Co., its successor as nominee for DTC as holder of all the Bonds, another securities depository as holder of all the Bonds, or the nominee of such successor securities depository, the provisions of the Amended and Restated Trust Agreement as summarized herein under the caption "ISSUANCE OF BONDS; GENERAL BOND PROVISIONS - Transfer and Payment of Bonds" and "- Exchange of Bonds" shall also apply to, among other things, the registration, exchange and transfer of the Bonds and the method of payment of principal of, premium, if any, and interest on the Bonds.

ISSUANCE OF ADDITIONAL BONDS

Conditions for the Issuance of Additional Bonds. The County may at any time issue Additional Bonds on a parity with the 1994 Series A Bonds, and including without limitation the Bonds, but only subject to the following specific conditions, which are in accordance with the Amended and Restated Trust Agreement made conditions precedent to the issuance of any such Additional Bonds:

(a) The County shall be in compliance with all agreements and covenants contained in the Amended and Restated Trust Agreement.

(b) The issuance of such Additional Bonds shall have been authorized pursuant to the Act and shall have been provided for by a Supplemental Trust Agreement which shall specify the following:

(i) The purpose for which such Additional Bonds are to be issued; provided that such Additional Bonds shall be applied solely for (i) the purpose of satisfying any obligation to make payments to the Association pursuant to the Act relating to pension benefits accruing to the Association's members, and/or for payment of all costs incidental to or connected with the issuance of Additional Bonds for such purpose, and/or (ii) the purpose of refunding any Bonds then Outstanding, including payment of all costs incidental to or connected with such refunding;

(ii) The authorized principal amount and designation of such Additional Bonds;

(iii) The denomination or denominations of and method of numbering such Additional Bonds;

(iv) The redemption premiums, if any, and the redemption terms, if any, for such Additional Bonds;

(v) The amount, if any, to be deposited from the proceeds of sale of such Additional Bonds in the Interest Account referred to in the Amended and Restated Trust Agreement;

(vi) Such other provisions (including the requirements of a book-entry Bond registration system, if any) as are necessary or appropriate and not inconsistent with the Amended and Restated Trust Agreement.

Procedure for the Issuance of Additional Bonds. At any time after the sale of any Additional Bonds in accordance with the Act, the County shall execute such Additional Bonds for issuance under the Amended and Restated Trust Agreement and shall deliver them to the Trustee, and thereupon such Additional Bonds shall be delivered by the Trustee to the purchaser thereof upon the Written Request of the County, but only upon receipt by the Trustee of the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Bonds by the Trustee:

(a) An executed copy of the Supplemental Trust Agreement authorizing the issuance of such Additional Bonds;

(b) A Written Request of the County as to the delivery of such Additional Bonds;

(c) An Opinion of Counsel to the effect that (1) the County has executed and delivered the Supplemental Trust Agreement, and the Supplemental Trust Agreement is valid and binding upon the County and (2) such Additional Bonds are valid and binding obligations of the County entitled to the benefits of the Act and of the Amended and Restated Trust Agreement, and such Additional Bonds have been duly and validly issued in accordance with the Act and with the Amended and Restated Trust Agreement;

(d) A Certificate of the County containing such statements as may be reasonably necessary to show compliance with the conditions for the issuance of such Additional Bonds contained in the Amended and Restated Trust Agreement;

(e) Such further documents, money or securities as are required by the provisions of the Supplemental Trust Agreement providing for the issuance of such Additional Bonds.

FUNDS AND ACCOUNTS

Bond Fund; Deposits to Bond Fund. The Debenture provides that the County is obligated to prepay each Fiscal Year's obligations within 30 days of the commencement of such Fiscal Year. To meet the County's obligations under Section 31453.5 of the Retirement Law for each Fiscal Year, the County shall deposit or cause to be deposited with the Trustee the amount of the County's obligations on the Bonds for such Fiscal Year (the “Prepayment Obligation”) within 30 days of the commencement of each Fiscal Year (the “Prepayment Obligation Date”) and on each Prepayment Obligation Date and thereafter, it will transfer to the Trustee an amount which, together with the amount then on deposit in the Debt Service Fund, will be not less than the amount of the obligations on the Bonds becoming due in such Fiscal Year. For purposes of determining the amount of the County’s obligations on any Outstanding Bonds the interest on which is subject to change during such Fiscal Year ("Variable Rate Bonds") to be deposited in accordance with the previous sentence, the Prepayment Obligation with respect to such Variable Rate Bonds shall be calculated on the basis of actual principal to be due and payable during such Fiscal Year plus interest payable on the Variable Rate Bonds during such Fiscal Year based upon the weighted average interest rates with respect to the Variable Rate Bonds for the 12-month period ending March 31 of the preceding Fiscal Year plus 200 basis points, as set forth in a certificate to be provided to the County by the Trustee on or before July 1 of each year.

If on the second Business Day prior to any Interest Payment Date the amount then on deposit in the Interest Account is less than the amount of the interest to be payable on all Outstanding Bonds on such Interest Payment Date, the County will transfer to the Trustee an amount which, together with the amount then on deposit in the Interest Account, will be not less than the than the amount of the interest to be payable on all Outstanding Bonds on such Interest Payment Date.

Further, to the extent permitted by law, the County covenants to take such action as may be necessary to amend or supplement the budget appropriations for payments of the County’s obligations on the Bonds including, without limitation the Prepayment Obligation at any time and from time to time during any Fiscal Year in the event that the County’s obligations on the Bonds including, without limitation the Prepayment Obligation paid in any Fiscal Year exceeds the pro rata portion of the appropriations then contained in the County’s budget.

All amounts payable by the County under the Amended and Restated Trust Agreement shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the “Bond Fund” which fund is created under the Amended and Restated Trust Agreement and shall be held in trust by the Trustee.

Allocation of Moneys in Bond Fund. On each Interest Payment Date or date fixed for redemption of Bonds, the Trustee shall transfer from the Bond Fund, in immediately available funds or securities scheduled to timely mature for the purposes so designated, for deposit into the following respective accounts (each of which the Trustee shall maintain in trust separate and distinct from the other funds and accounts established under the Amended and Restated Trust Agreement), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of funds sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any account subsequent in priority:

(a) Interest Account,
(b) Principal Account, and
(c) Administrative Expense Account.

All money in each of such accounts shall be held in trust by the Trustee and shall be applied, used and withdrawn only for the purposes authorized in the Amended and Restated Trust Agreement.

(a) *Interest Account*. On each Interest Payment Date, the Trustee shall set aside from the Bond Fund and deposit in the Interest Account that amount of money which is equal to the amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date; provided that prior to any semi-annual Interest Payment Date the Trustee shall not make any payments from the Interest Account more frequently than semi-annually unless there shall be on deposit in the Bond Fund money sufficient to pay scheduled principal, Accreted Value and premium, if any, of the Bonds due on the next semi-annual Interest Payment Date.

No deposit need be made in the Interest Account if the amount contained in the Amended and Restated Trust Agreement is at least equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date.

All money in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity).

(b) *Principal Account*. On each August 15, the Trustee shall set aside from the Bond Fund and deposit in the Principal Account an amount of money equal to the amount of all sinking fund payments required to be made on such August 15 into the respective sinking fund accounts for all Outstanding Term Bonds and the principal amount and the Accreted Value of all Outstanding Bonds maturing on such August 15.

No deposit need be made in the Principal Account if the amount contained in the Amended and Restated Trust Agreement is at least equal to the aggregate amount of the principal and the Accreted Value of all Outstanding Serial Bonds maturing by their terms on such August 15 plus the aggregate amount of all sinking fund payments required to be made on such August 15 for all Outstanding Term Bonds.

The Trustee shall establish and maintain within the Principal Account a separate subaccount for the Term Bonds of each series and maturity, designated as the "__ Sinking Account" (the "Sinking Account"), inserting therein the series and maturity (if more than one such account is established for such series) designation of such Bonds. With respect to each Sinking Account, on each mandatory sinking account payment date established for such Sinking Account, the Trustee shall apply the mandatory sinking account payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of the series and maturity for which such Sinking Account was established, upon the notice and in the manner provided in the Amended and Restated Trust Agreement; provided that, at any time prior to giving such notice of such redemption, the Trustee may upon the Written Request of the County, apply moneys in such Sinking Account to the purchase for cancellation of Term Bonds of such series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account), as may be directed by the County, except that the purchase price (excluding accrued interest) shall not exceed the redemption price that would be payable for such Bonds upon redemption by application of such mandatory sinking account payment. If, during the twelve-month period immediately preceding said mandatory sinking account payment date, the Trustee has purchased Term Bonds of such series and maturity with moneys in such Sinking Account, such Bonds so purchased shall be applied, to the extent of the full principal amount thereof to reduce said mandatory sinking account payment.

All money in the Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Bonds as they shall become due and payable, whether at maturity or redemption, except that any money in any sinking account shall be used and withdrawn by the Trustee only to purchase or to redeem or to pay Term Bonds for which such sinking account was created.

(c) *Administrative Expense Account*. Any moneys remaining in the Bond Fund following the first Interest Payment Date in each Fiscal Year shall be deposited by the Trustee in the Administrative Expense Account. Moneys deposited in the Administrative Expense Account shall be transferred by the Trustee to or upon the order of the County, as specified in a Written Request of the County to, among other things and without limitation, pay rating agency fees, credit or liquidity facility fees and other administrative and ongoing costs incident to the Bonds, in each case provided all of the County's obligations under the Amended and Restated Trust Agreement are then otherwise satisfied.

Deposit and Investments of Money in Accounts and Funds. All money held by the Trustee in any of the accounts or funds established pursuant to the Amended and Restated Trust Agreement shall be invested in Permitted Investments at the Written Request of the County. If no Written Request of the County is received, the Trustee shall invest funds held by it in Permitted Investments described in clause (8) of the definition thereof. Such investments shall, as nearly as practicable, mature on or before the dates on which such money is anticipated to be needed for disbursement under the Amended and Restated Trust Agreement. All interest or profits received on any money so invested shall be deposited in the Bond Fund. The Trustee shall not be liable for any losses resulting from any investments made pursuant to this section. The County acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the County the right to receive brokerage confirmations of security transactions as they occur, the County specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the County periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Amended and Restated Trust Agreement.

COVENANTS OF THE COUNTY

Punctual Payment and Performance. The County will punctually pay the interest on and the principal and Accreted Value of and redemption premiums, if any, to become due on every Bond issued under the Amended and Restated Trust Agreement in strict conformity with the terms of the Amended and Restated Trust Agreement and of the Bonds, and will faithfully observe and perform all the agreements and covenants to be observed or performed by the County contained in the Amended and Restated Trust Agreement and in the Bonds.

Extension of Payment of Bonds. The County shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Amended and Restated Trust Agreement, to the benefits of the Amended and Restated Trust Agreement, except subject to the prior payment in full of the principal and Accreted Value of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this section shall be deemed to limit the right of the County to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Additional Debt. The County expressly reserves the right to enter into one or more other agreements or indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Power to Issue Bonds. The County is duly authorized pursuant to law to issue the Bonds and to enter into the Amended and Restated Trust Agreement. The Bonds and the provisions of the Amended and Restated Trust Agreement are the legal, valid and binding obligations of the County in accordance with their terms. The Bonds constitute obligations imposed by law. In the event the County fails to deposit with the Trustee the amounts required to pay principal and Accreted Value of, premium, if any, and interest on the Bonds by an Interest Payment Date, in accordance with Section 31584 of the Retirement Law, the County Auditor shall forthwith transfer any lawfully available funds to the Trustee to the extent necessary to pay the principal and Accreted Value of, premium, if any, and interest coming due on the Bonds on such Interest Payment Date. The County may issue at any time, and from time to time, Additional Bonds in accordance with the Amended and Restated Trust Agreement as summarized herein under the caption “ISSUANCE OF ADDITIONAL BONDS - Conditions for the Issuance of Additional Bonds” and any such Additional Bonds shall be subject to the benefits of the obligation imposed upon the County Auditor by the next preceding sentence.

Allocation of UAAL. If at any time a court of competent jurisdiction were to finally determine that the proceeds of the Series 2004 Bonds that are contributed to the Association by the County have been improperly allocated to that portion of the Association’s unfunded actuarially accrued liability (the “UAAL”) attributable to the employees of the San Diego Superior Court, then the County shall use its best efforts to cause the Association to allocate all such proceeds to that portion of the UAAL attributable to employees of the County.

Accounting Records and Reports. The County will keep or cause to be kept proper books of record and accounts in which complete and correct entries shall be made of all transactions relating to the receipts, disbursements, allocation and application of moneys on deposit in the funds and accounts established under the Amended and Restated Trust Agreement, and such books shall be available for inspection by the Trustee, at reasonable hours and under reasonable conditions. Not more than one hundred eighty (180) days after the close of each Fiscal Year, the County shall furnish or cause to be furnished to the Trustee a complete financial statement covering receipts, disbursements, allocation and application of moneys on deposit in the funds and accounts established under the Amended and Restated Trust Agreement for such Fiscal Year. The Trustee shall have no duty to review or examine such statement.

Prosecution and Defense of Suits. The County will defend against every suit, action or proceeding at any time brought against the Trustee upon any claim to the extent involving the failure of the County to fulfill its obligations under the Amended and Restated Trust Agreement; provided that the Trustee or any affected Holder at its election may appear in and defend any such suit, action or proceeding. The County will indemnify and hold harmless the Trustee, including its directors, officers and employees, against any and all liability claimed or asserted by any person to the extent arising out of such failure by the County, and will indemnify and hold harmless the Trustee against any attorney's fees or other expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions under the Amended and Restated Trust Agreement, except for any loss, cost, damage or expense resulting from the active or passive negligence or willful misconduct of the Trustee. Notwithstanding any contrary provision of the Amended and Restated Trust Agreement, this covenant shall remain in full force and effect even though all Bonds secured in accordance with the Amended and Restated Trust Agreement may have been fully paid and satisfied.

Further Assurances. Whenever and so often as reasonably requested to do so by the Trustee or any Holder, the County will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments, and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Holders all rights, interests, powers, benefits, privileges and advantages conferred or intended to be conferred upon them in accordance with the Amended and Restated Trust Agreement.

Waiver of Laws. The County shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Amended and Restated Trust Agreement or in the Bonds, and all benefit or advantage of any such law or laws is in accordance with the Amended and Restated Trust Agreement expressly waived by the County to the extent permitted by law.

Continuing Disclosure. The County, in accordance with the Amended and Restated Trust Agreement 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 Amended and Restated Trust Agreement, failure of the County to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee (at the request of the purchaser or the Holders of at least 25% aggregate principal amount of Outstanding Bonds upon providing the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby) shall, or any Holder or Beneficial Owner of Bonds may, or any Holder or Beneficial Owner of Bonds 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 section.

THE TRUSTEE

The Trustee. The Bank of New York Mellon Trust Company, N.A. shall serve as the Trustee for the Bonds for the purpose of receiving all money which the County is required to deposit with the Trustee under the Amended and Restated Trust Agreement and for the purpose of allocating, applying and using such money as provided in the Amended and Restated Trust Agreement and for the purpose of paying the interest on and principal and Accreted Value of and redemption premiums, if any, on the Bonds presented for payment at the Corporate Trust Office of the Trustee with the rights and obligations provided in the Amended and Restated Trust Agreement. The County agrees that it will at all times maintain a Trustee having a corporate trust office in Los Angeles or San Francisco, California.

The County may at any time, unless there exists any event of default as defined in the Amended and Restated Trust Agreement, remove the Trustee initially appointed and any successor thereto and may appoint a successor or successors thereto, in each case acceptable to the Insurer, by an instrument in writing; provided that any such successor shall be a bank, national banking association or trust company doing business and having a corporate trust office in Los Angeles or San Francisco, California, having a combined capital (exclusive of borrowed capital) and surplus of at least one hundred million dollars ($100,000,000) and subject to supervision or examination by federal or state authority. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the, requirements of any supervising or examining authority above referred to, then for the purpose of this section the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Trustee may at any time resign by giving written notice of such resignation to the County and by mailing to the Holders notice of such resignation. Upon receiving such notice of resignation, the County shall promptly appoint a successor Trustee by an instrument in writing. Any removal or resignation of a Trustee and appointment of a successor Trustee shall become effective only upon the acceptance of appointment by the successor Trustee. If, within 30 days after notice of the removal or resignation of the Trustee no successor Trustee shall have been appointed and shall have accepted such appointment, the removed or resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, which court may thereupon, after such notice, if any, as it may deem proper and prescribe and as may be required by law, appoint a successor Trustee having the qualifications required by the Amended and Restated Trust Agreement.

The Trustee is in accordance with the Amended and Restated Trust Agreement authorized to pay or redeem the Bonds when duly presented for payment at maturity or on redemption prior to maturity. The Trustee shall cancel all Bonds upon payment thereof or upon the surrender thereof by the County and shall destroy such Bonds and a certificate of destruction shall be delivered to the County. The Trustee shall keep accurate records of all Bonds paid and discharged and cancelled by it.

The Trustee shall, prior to an event of default, and after the curing of all events of default that may have occurred, perform such duties and only such duties as are specifically set forth in the Amended and Restated Trust Agreement and no implied duties or obligations shall be read into the Amended and Restated Trust Agreement. The Trustee shall, during the existence of any event of default (that has not been cured), exercise such of the rights and powers vested in it by the Amended and Restated Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

Liability of Trustee. The recitals of facts, agreements and covenants in the Amended and Restated Trust Agreement and in the Bonds shall be taken as recitals of facts, agreements and covenants of the County, and the Trustee assumes no responsibility for the correctness of the same or makes any representation as to the sufficiency or validity of the Amended and Restated Trust Agreement or of the Bonds, or shall incur any responsibility in respect thereof other than in connection with the rights or obligations assigned to or imposed upon it in the Amended and Restated Trust Agreement, in the Bonds or in law or equity. The Trustee shall not be liable in connection with the performance of its duties under the Amended and Restated Trust Agreement except for its own active or passive negligence or willful misconduct.

The Trustee shall not be bound, subject to the rights of the Insurer in connection with its Insurance Policy, to recognize any person as the Holder of a Bond unless and until such Bond is submitted for inspection, if required, and such Holder's title thereto satisfactorily established, if disputed.

The Trustee shall not be liable for any error of judgment made in good faith, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority in aggregate principal amount and Accreted Value of the Bonds at the time Outstanding, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Amended and Restated Trust Agreement.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Amended and Restated Trust Agreement at the request, order or direction of any of the Holders pursuant to the provisions of the Amended and Restated Trust Agreement unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities that may be incurred therein or thereby. The Trustee has no obligation or liability to the Holders for the payment of interest on, principal of or redemption premium, if any, with respect to the Bonds from its own funds; but rather the Trustee's obligations shall be limited to the performance of its duties under the Amended and Restated Trust Agreement.

The Trustee shall not be deemed to have knowledge of any event of default unless and until an officer at the Trustee's Corporate Trust Office responsible for the administration of its duties under the Amended and Restated Trust Agreement shall have actual knowledge thereof or the Trustee shall have received written notice thereof at its Corporate Trust Office. The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements in the Amended and Restated Trust Agreement or of any of the documents executed in connection with the Bonds, or as to the existence of a default or event of default thereunder. The Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

The Trustee may execute any of the trusts or powers under the Amended and Restated Trust Agreement or perform any duties under the Amended and Restated Trust Agreement either directly or by or through attorneys-in-fact, agents or receivers, and shall be answerable for the negligence or misconduct or any such attorney-in-fact, agent or receiver. The Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty under the Amended and Restated Trust Agreement, but the Trustee shall not be answerable for the professional malpractice of any attorney-in-law or certified public accountant in connection with the rendering of his professional advice in accordance with the terms of the Amended and Restated Trust Agreement, if such attorney-in-law or certified public accountant was selected by the Trustee with due care.

The Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions of the Amended and Restated Trust Agreement.

Whether or not therein expressly so provided, every provision of the Amended and Restated Trust Agreement or related documents relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article.

The Trustee shall be protected in acting upon any notice, resolution, requisition, request (including any Written Request of the County), consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the County, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Amended and Restated Trust Agreement in good faith and in accordance therewith.

Whenever in the administration of its rights and obligations under the Amended and Restated Trust Agreement the Trustee shall deem it necessary or desirable that a matter be established or proved prior to taking or suffering any action under the Amended and Restated Trust Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Amended and Restated Trust Agreement) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the County, which certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Amended and Restated 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 it may deem reasonable.

No provision of the Amended and Restated Trust Agreement shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance or exercise of any of its duties under the Amended and Restated Trust Agreement, or in the exercise of its rights or powers. The Trustee shall be entitled to interest on all amounts advanced by it under the Amended and Restated Trust Agreement at its prime rate plus two percent.

The Trustee agrees to accept and act upon instructions or directions pursuant to the Amended and Restated Trust Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods, provided, however, that, the Trustee shall have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the County elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The County agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

The Trustee shall have no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Amended and Restated Trust Agreement to the contrary notwithstanding.

Compensation and Indemnification of Trustee. The County covenants to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation for all services rendered by it in the exercise and performance of any of the powers and duties under the Amended and Restated Trust Agreement of the Trustee, and the County will pay or reimburse the Trustee upon its request for all expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of the Amended and Restated Trust Agreement (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence, default or willful misconduct, including the negligence or willful misconduct of any of its officers, directors, agents or employees. The County, to the extent permitted by law, shall indemnify, defend and hold harmless the Trustee against any loss, damages, liability or expense incurred without negligence, willful misconduct or bad faith on the part of the Trustee, arising out of or in connection with the acceptance or administration of the trusts created by the Amended and Restated Trust Agreement, including costs and expenses (including attorneys' fees) of defending itself against any claim or liability in connection with the exercise or performance of any of its powers under the Amended and Restated Trust Agreement. The rights of the Trustee and the obligations of the County described in this paragraph shall survive the discharge of the Bonds and the Amended and Restated Trust Agreement and the resignation or removal of the Trustee.

AMENDMENT OF THE AMENDED AND RESTATED TRUST AGREEMENT

Amendment of the Amended and Restated Trust Agreement. The Amended and Restated Trust Agreement and the rights and obligations of the County and of the Holders may be amended at any time by a Supplemental Trust Agreement which shall become binding when the written consents of the Holders of a majority in aggregate principal amount and Accreted Value of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Amended and Restated Trust Agreement as summarized herein under the caption "AMENDMENT OF THE AMENDED AND RESTATED TRUST AGREEMENT - Disqualified Bonds," are filed with the Trustee. No such amendment shall (1) extend the maturity of or reduce the interest rate on or amount of interest on or principal of or redemption premium, if any, on any Bond without the express written consent of the Holder of such Bond, or (2) reduce the percentage of Bonds required for the written consent to any such amendment.

Subject to Article XI of the Amended and Restated Trust Agreement, the Amended and Restated Trust Agreement and the rights and obligations of the County and of the Holders may also be amended at any time by a Supplemental Trust Agreement which shall become binding upon adoption without the consent of any Holders, but only to the extent permitted by law and after receipt of an approving Opinion of Counsel for any purpose that will not materially adversely affect the interests of the Holders, including (without limitation) for any one or more of the following purposes:

(a) to add to the agreements and covenants required in the Amended and Restated Trust Agreement to be performed by the County other agreements and covenants thereafter to be performed by the County, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved in the Amended and Restated Trust Agreement to or conferred in the Amended and Restated Trust Agreement on the County;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Amended and Restated Trust Agreement and in any supplemental trust agreement or in regard to questions arising under the Amended and Restated Trust Agreement which the County may deem desirable or necessary and not inconsistent with the Amended and Restated Trust Agreement;

(c) to provide for the issuance of any Additional Bonds and to provide the terms of such Additional Bonds, subject to the conditions and upon compliance with the procedure set forth in the Amended and Restated Trust Agreement (which shall be deemed not to adversely affect Holders);

(d) to modify, amend or add to the provisions in the Amended and Restated Trust Agreement or in any supplemental agreement to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statutes hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by such statute or similar statute;

(e) to make any revisions of the Amended and Restated Trust Agreement that shall be necessary in connection with the County furnishing a Liquidity Facility or a bond insurance policy, including but not limited to revising the Interest Payment Dates for Bank Bonds; or

(f) to modify, amend or supplement the Amended and Restated Trust Agreement and any supplemental agreement in any manner that does not materially adversely affect the interest of Holders of Bonds.

The Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Trust Agreement which materially adversely affects the Trustee's own rights, duties or immunities under the Amended and Restated Trust Agreement or otherwise.

Disqualified Bonds. Bonds owned or held by or for the account of the County shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Amended and Restated Trust Agreement, and shall not be entitled to consent to or take any other action provided in the Amended and Restated Trust Agreement; provided, however, that Bonds insured by an Insurance Policy shall not be so disqualified. Upon request of the Trustee, the County shall specify in a certificate to the Trustee those Bonds disqualified pursuant to this section and the Trustee may conclusively rely on such certificate.

Endorsement or Replacement of Bonds After Amendment. After the effective date of any action taken as provided in the Amended and Restated Trust Agreement, the County may determine that the Bonds may bear a notation by endorsement in form approved by the County as to such action, and in that case upon demand of the Holder of any Outstanding Bonds and presentation of his Bond for such purpose at the office of the Trustee a suitable notation as to such action shall be made on such Bond. If the County shall so determine, new Bonds so modified as, in the opinion of the County, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Holder of any Outstanding Bond a new Bond or Bonds shall be exchanged at the office of the Trustee without cost to each Holder for its Bond or Bonds then Outstanding upon surrender of such Outstanding Bonds.

Amendment by Mutual Consent. The provisions of the Amended and Restated Trust Agreement shall not prevent any Holder from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds; provided that no Holder of a Bond insured by an Insurance Policy issued by an Insurer shall be permitted to accept such an amendment without the prior written consent of the related Insurer.

EVENTS OF DEFAULT AND REMEDIES OF HOLDERS

Events of Default and Acceleration of Maturities. If one or more of the following events (herein called “events of default”) shall happen, that is to say:

(a) if default shall be made by the County in the due and punctual payment of the interest on any Bond when and as the same shall become due and payable;

(b) if default shall be made by the County in the due and punctual payment of the principal or Accreted Value of or redemption premium, if any, on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed or by proceedings for redemption;

(c) if default shall be made by the County in the performance of any of the agreements or covenants required in the Amended and Restated Trust Agreement to be performed by the County, and such default shall have continued for a period of sixty (60) days after the County shall have been given notice in writing of such default by the Trustee; specifying such default and requiring the same to be remedied, shall have been given to the County by the Trustee or the Holders of not less than twenty five (25%) in aggregate principal amount and Accreted Value of the Bonds at the time Outstanding; provided, however, if the default stated in the notice can be corrected, but not within the applicable period, the Trustee and such Holders shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the County within the applicable period and diligently pursued until the default is corrected.

(d) if the County shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the County seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the County or of the whole or any substantial part of its property;

then, and in each and every such case during the continuance of such event of default the Trustee may, and upon the written request of the Holders of not less than fifty one percent (51%) in aggregate principal amount and Accreted Value of the Bonds then Outstanding shall, by notice in writing to the County, declare the principal and Accreted Value of all Bonds then Outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become due and payable, anything contained in the Amended and Restated Trust Agreement or in the Bonds to the contrary notwithstanding. The Trustee shall promptly notify all Holders of any such event of default which is continuing.

This provision, however, is subject to the condition that if at any time after the principal and Accreted Value of the Bonds then Outstanding shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered the County shall deposit with the Trustee a sum sufficient to pay all matured interest on all the Bonds and all principal and Accreted Value of the Bonds matured prior to such declaration, with interest at the rate borne by such Bonds on such overdue interest, principal and Accreted Value, and such amount as shall be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee, the Tender Agent and the Remarketing Agent, and any and all other defaults known to the Trustee (other than in the payment of interest on and principal of the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then and in every such case the Holders of not less than fifty one percent (51%) in aggregate principal amount and Accreted Value of Bonds then Outstanding, by written notice to the County and to the Trustee, may on behalf of the Holders of all the Bonds then Outstanding rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Application of Funds Upon Acceleration. All moneys in the accounts and funds provided in the Amended and Restated Trust Agreement as summarized herein under the caption “FUNDS AND ACCOUNTS - Bond Fund; Deposits to Bond Fund,” “Allocation of Moneys in Bond Fund” and “Allocation of Moneys in Bond Fund” upon the date of the declaration of acceleration by the Trustee as provided in the Amended and Restated Trust Agreement as summarized herein under the caption “EVENTS OF DEFAULT AND REMEDIES OF HOLDERS - Events of Default and Acceleration of Maturities” and all amounts in the funds and accounts thereafter received by the County under the Amended and Restated Trust Agreement shall be transmitted to the Trustee and shall be applied by the Trustee in the following order:

First, to the payment of the costs and expenses of the Trustee, if any, in carrying out the provisions of this article and incurred in and about the performance of its powers and duties under the Amended and Restated Trust Agreement, including reasonable compensation to their accountants and counsel, and to the payment of the costs and expenses of the Holders in providing for the declaration of such event of default, including reasonable compensation to its accountants and counsel; and

Second, upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid or upon the surrender thereof if fully paid, to the payment of the whole amount then owing and unpaid upon the Bonds for interest, Accreted Value, and principal, with (to the extent permitted by law) interest on the overdue interest, Accreted Value and principal at the rate borne by such Bonds, and in case such money shall be insufficient to pay in full the whole amount so owing and unpaid upon the Bonds, then to the payment of such interest, Accreted Value, principal and (to the extent permitted by law) interest on overdue interest, Accreted Value, and principal without preference or priority among such interest, Accreted Value, principal and interest on overdue interest, Accreted Value, and principal ratably to the aggregate of such interest, Accreted Value, principal, and interest on overdue interest, Accreted Value and principal.

Institution of Legal Proceedings by Trustee. If one or more of the events of default shall happen and be continuing, the Trustee may with the prior written consent of the Insurer, and upon the written request of the Holders of a majority in principal amount of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of the Holders of Bonds under the Amended and Restated Trust Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Amended and Restated Trust Agreement, or in aid of the execution of any power granted in the Amended and Restated Trust Agreement, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights and duties under the Amended and Restated Trust Agreement.

Non-Waiver. Nothing in this article or in any other provision of the Amended and Restated Trust Agreement or in the Bonds shall affect or impair the obligation of the County, which is absolute and unconditional, to pay the interest on and principal and Accreted Value of and redemption premiums, if any, on the Bonds to the respective Holders of the Bonds at the respective dates of maturity or upon prior redemption as provided in the Amended and Restated Trust Agreement, or shall affect or impair the right of such Holders, which is also absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in the Amended and Restated Trust Agreement and in the Bonds.

A waiver of any default or breach of duty or contract by the Trustee or any Holder shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee or any Holder to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Holders by the Act or by this Article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Holders.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned, the County, the Trustee and any Holder shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Actions by Trustee as Attorney-in-Fact. Any action, proceeding or suit which any Holder shall have the right to bring to enforce any right or remedy under the Amended and Restated Trust Agreement may be brought by the Trustee for the equal benefit and protection of all Holders, whether or not the Trustee is a Holder, and the Trustee is in accordance with the Amended and Restated Trust Agreement appointed (and the successive Holders, by taking and holding the Bonds issued under the Amended and Restated Trust Agreement, shall be conclusively deemed to have so appointed it) the true and lawful attorney-in-fact of the Holders for the purpose of bringing any such action, proceeding or suit and for the purpose of doing and performing any and all acts and things for and on behalf of the Holders as a class or classes as may be advisable or necessary in the opinion of the Trustee as such attorney-in-fact.

Remedies Not Exclusive. No remedy conferred in the Amended and Restated Trust Agreement upon or reserved to the Holders is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Amended and Restated Trust Agreement or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

Limitation on Holders' Right to Sue. No Holder of any Bond issued under the Amended and Restated Trust Agreement shall have the right to institute any suit, action or proceeding at law or equity, for any remedy under or upon the Amended and Restated Trust Agreement, unless (a) such Holder shall have previously given to the Trustee written notice of the occurrence of an event of default as defined in the Amended and Restated Trust Agreement as summarized in the Amended and Restated Trust Agreement under the caption "EVENTS OF DEFAULT AND REMEDIES OF HOLDERS - Events of Default and Acceleration of Maturities"; (b) the Holders of at least a majority in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers granted in the Amended and Restated Trust Agreement or to institute such suit, action or proceeding in its own name; (c) said Holders shall have tendered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are in accordance with the Amended and Restated Trust Agreement declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Amended and Restated Trust Agreement; it being understood and intended that no one or more holders of Bonds shall have any right in any manner whatever by his or their action to enforce any right under the Amended and Restated Trust Agreement, except in the manner provided in the Amended and Restated Trust Agreement, and that all proceedings at law or in equity to enforce any provision of the Amended and Restated Trust Agreement shall be instituted, had and maintained in the manner provided in the Amended and Restated Trust Agreement and for the equal benefit of all Holders of the Outstanding Bonds.

Absolute Obligation of County. Nothing in this section or in any other provision of the Amended and Restated Trust Agreement or in the Bonds contained shall affect or impair the obligation of the County, which is absolute and unconditional, to pay the principal and Accreted Value of, premium, if any and interest on the Bonds to the respective Holders of the Bonds at their respective due dates as provided in the Amended and Restated Trust Agreement.

DEFEASANCE

Discharge of Bonds.

(a) If the County shall pay or cause to be paid or there shall otherwise be paid to the Holders of all Outstanding Bonds the interest and the principal and Accreted Value thereof and the redemption premiums, if any, thereon at the times and in the manner stipulated therein and in the Amended and Restated Trust Agreement, then all agreements, covenants and other obligations of the County to the Holders of such Bonds under the Amended and Restated Trust Agreement shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the County all such instruments as may be necessary or reasonably desirable to evidence such discharge and satisfaction, the Trustee shall pay over or deliver to the County all money or securities held by it pursuant to the Amended and Restated Trust Agreement which are not required for the payment of the interest on and principal and Accreted Value of and redemption premiums, if any, on such Bonds.

(b) Any Outstanding Bonds shall prior to the maturity date or redemption date thereof be deemed to have been paid within the meaning of and with the effect expressed in subsection (a) of this section if (1) in case any of such Bonds are to be redeemed on any date prior to their maturity date, the County shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide notice in accordance with the Amended and Restated Trust Agreement, (2) except as provided in the Amended and Restated Trust Agreement as summarized herein under the caption "PROVISIONS WITH RESPECT TO THE INSURANCE POLICIES - Notifications and Reports" with respect to the Series 2004 Bonds, there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Permitted Investments of the type described in clause (1) of the definition of Permitted Investments and which are not subject to redemption prior to maturity (including any such Permitted Investments issued or held in book entry form on the books of the County or the Treasury of the United States of America) or tax exempt obligations of a state or political subdivision thereof which have been defeased under irrevocable escrow instructions by the deposit of such money or Permitted Investments and which are then rated in the highest rating category by the Rating Agencies, the interest on and principal and Accreted Value of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an Independent Certified Public Accountant, to pay when due the interest to become due on such Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of and Accreted Value and redemption premiums, if any, on such Bonds, and (3) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the County shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Holders of such Bonds that the deposit required by clause (2) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with this section and stating the maturity date or redemption date upon which money is to be available for the payment of the principal and Accreted Value of and redemption premiums, if any, on such Bonds.

Unclaimed Money. Anything contained in the Amended and Restated Trust Agreement to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Bonds or interest thereon which remains unclaimed for two (2) years after the date when such Bonds or interest thereon have become due and payable, either at their stated maturity dates or by call for redemption prior to maturity, if such money was held by the Trustee at such date, or for two (2) years after the date of deposit of such money if deposited with the Trustee after the date when such Bonds have become due and payable, shall be repaid by the Trustee to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Holders shall not look to the Trustee for the payment of such Bonds; provided, however, that before being required to make any such payment to the County, the Trustee may, and at the request of the County shall, at the expense of the County, cause to be published once a week for two (2) successive weeks in a Financial Newspaper of general circulation in Los Angeles and in San Francisco, California and in the same or a similar Financial Newspaper of general circulation in New York, New York a notice that such money remains unclaimed and that, after a date named in such notice, which date shall not be less than thirty (30) days after the date of the first publication of each such notice, the balance of such money then unclaimed will be returned to the County.

MISCELLANEOUS

Benefits of the Amended and Restated Trust Agreement Limited to Parties. Nothing contained in the Amended and Restated Trust Agreement, expressed or implied, is intended to give to any person other than the County, the Insurer, the Trustee and the Holders any right, remedy or claim under or by reason of the Amended and Restated Trust Agreement. Any agreement or covenant required in the Amended and Restated Trust Agreement to be performed by or on behalf of the County or any member, officer or employee thereof shall be for the sole and exclusive benefit of the Trustee and the Holders.

Successor Is Deemed Included In All References To Predecessor. Whenever in the Amended and Restated Trust Agreement either the County or any member, officer or employee thereof or the Trustee is named or referred to, such reference shall be deemed to include the successor or assigns thereof, and all agreements and covenants required by the Amended and Restated Trust Agreement to be performed by or on behalf of the County or the Trustee, or any member, officer or employee thereof, shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Holders. Any declaration, request or other instrument which is permitted or required in the Amended and Restated Trust Agreement to be executed by Holders may be in one or more instruments of similar tenor and may be executed by Holders in person or by their attorneys appointed in writing. The fact and date of the execution by any Holder 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 make 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. The ownership of any Bonds and the amount, maturity, number and date of holding the same may be proved by the registration books relating to the Bonds at the office of the Trustee.

Any declaration, request, consent or other instrument or writing of the Holder of any Bond shall bind all future Holders of such Bond with respect to anything done or suffered to be done by the Trustee or the County in good faith and in accordance therewith.

Waiver of Personal Liability. No member, officer or employee of the County shall be individually or personally liable for the payment of the interest on or principal or Accreted Value of or redemption premiums, if any, on the Bonds by reason of their issuance, but nothing contained in the Amended and Restated Trust Agreement shall relieve any such member, officer or employee from the performance of any official duty provided by the Act or any other applicable provisions of law or by the Amended and Restated Trust Agreement.

Publication for Successive Weeks. Any publication required to be made under the Amended and Restated Trust Agreement for 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.

Accounts and Funds; Business Days. Any account or fund required in the Amended and Restated Trust Agreement to be established and maintained by the Trustee may be established and maintained in the accounting records of 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 accounts and 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 Bonds and the rights of the Holders. Any action required to occur under the Amended and Restated Trust Agreement on a day which is not a Business Day shall be required to occur on the next succeeding Business Day.

Article and Section Headings and References. The headings or titles of the several articles and sections of the Amended and Restated Trust Agreement and the table of contents appended to the Amended and Restated Trust Agreement shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the Amended and Restated Trust Agreement. All references in the Amended and Restated Trust Agreement to "Articles," "Sections" and other subdivisions or clauses are to the corresponding articles, sections, subdivisions or clauses thereof; and the words "hereby," "herein," "hereof," "hereto," "herewith," "hereunder" and other words of similar import refer to the Amended and Restated Trust Agreement as a whole and not to any particular article, section, subdivision or clause of the Amended and Restated Trust Agreement.

Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required by the Amended and Restated Trust Agreement to be performed by or on the part of the County or the Trustee shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity of the Amended and Restated Trust Agreement or of the Bonds, and the Holders shall retain all the benefit, protection and security afforded to them under the Act or any other applicable provisions of law. The County and the Trustee in accordance with the Amended and Restated Trust Agreement declare that they would have executed and delivered the Amended and Restated Trust Agreement and each and every other article, section, paragraph, subdivision, sentence, clause and phrase of the Amended and Restated Trust Agreement and would have authorized the issuance of the Bonds pursuant to the Amended and Restated Trust Agreement irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases of the Amended and Restated Trust Agreement or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Governing Law. The Amended and Restated Trust Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to conflicts of laws principles.

Severability. If any provision of the Amended and Restated Trust Agreement is held to be in conflict with any applicable constitution or statue or rule of law, or is otherwise held to be unenforceable for any reason, such circumstance shall not have the effect of rendering the provision in question inoperative or unenforceable in any other part or circumstance, or of rendering any other provision or provisions contained in the Amended and Restated Trust Agreement invalid, inoperative or unenforceable to any extent whatsoever. The invalidity of any one or more phrases, sentences, clauses or sections of the Amended and Restated Trust Agreement will not affect the remaining portions of the Amended and Restated Trust Agreement.

Prosecution and Defense of Suits. The County will defend against every suit, action or, proceeding at any time brought against the Trustee upon any claim to the extent involving the failure of the County to fulfill its obligations under the Amended and Restated Trust Agreement; provided that the Trustee or any affected Holder at its election may appear in and defend any such suit, action or proceeding. The County will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person to the extent arising out of such failure by the County, and will indemnify and hold harmless the Trustee against any attorney's fees or other expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions under the Amended and Restated Trust Agreement, except for any loss, cost, damage or expense resulting from negligence, willful misconduct or breach of duty by the Trustee. Notwithstanding any contrary provision of the Amended and Restated Trust Agreement, this covenant shall remain in full force and effect even though all Bonds secured by the Amended and Restated Trust Agreement may have been fully paid and satisfied.

PROVISIONS WITH RESPECT TO THE INSURANCE POLICIES

Payments Under the 2002 Insurance Policy.

A. In the event that, on the second Business Day, and again on the Business Day, prior to the payment date on the Series 2002 A Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Series 2002 A Bonds due on the second following or following, as the case may be, Business Day, the Trustee shall immediately notify the 2002 Insurer or its designee on the same Business Day by telephone or telegraph, confirmed in writing by registered or certified mail, of the amount of the deficiency.

B. If the deficiency is made up in whole or in part prior to or on the payment date, the Trustee shall so notify the 2002 Insurer or its designee.

C. In addition, if the Trustee has notice that any Holder has been required to disgorge payments of principal or interest on the Series 2002 A Bond to a trustee in Bankruptcy or creditors or others pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Holder within the meaning of any applicable bankruptcy laws, then the Trustee shall notify the 2002 Insurer or its designee of such fact by telephone or telegraphic notice, confirmed in writing by registered or certified mail.

D. The Trustee is in accordance with the Amended and Restated Trust Agreement irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for Holders of the Series 2002 A Bonds as follows:

1. If and to the extent there is a deficiency in amounts required to pay interest on the Series 2002 A Bonds, the Trustee shall (a) execute and deliver to State Street Bank and Trust Company, N.A., or its successors under the 2002 Insurance Policy (the "2002 Insurance Paying Agent"), in form reasonably satisfactory to the 2002 Insurance Paying Agent, an instrument appointing the 2002 Insurer as agent for such Holders in any legal proceeding related to the payment of such interest and an assignment to the 2002 Insurer of the claims for interest to which such deficiency relates and which are paid by the 2002 Insurer, (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the 2002 Insurance Policy payment from the 2002 Insurance Paying Agent with respect to the claims for interest so assigned, and (c) disburse the same to such respective Holders; and

2. If and to the extent of a deficiency in amounts required to pay principal of the Series 2002 A Bonds, the Trustee shall (a) execute and deliver to the 2002 Insurance Paying Agent in form reasonably satisfactory to the 2002 Insurance Paying Agent an instrument appointing the 2002 Insurer as agent for such Holder

in any legal proceeding relating to the payment of such principal and an assignment to the 2002 Insurer of any of the Series 2002 A Bonds surrendered to the 2002 Insurance Paying agent of so much of the principal amount thereof as has not previously been paid or for which moneys are not held by the Trustee and available for such payment (but such assignment shall be delivered only if payment from the 2002 Insurance Paying Agent is received), (b) receive as designee of the respective Holders (and not as Trustee) in accordance with the tenor of the 2002 Insurance Policy payment therefor from the 2002 Insurance Paying Agent, and (c) disburse the same to such Holders.

The 2002 Insurer shall be deemed the Holder and shall be treated as such for purposes of any provisions requiring the consent or approval of the Holders of Series 2002 A Bonds or with respect to rights of such Holders other than the right to receive payments of principal, purchase price and interest, and tender and purchase rights under the Amended and Restated Trust Agreement, but only for so long as the 2002 Insurer is in compliance with the 2002 Insurance Policy, and if the 2002 Insurer is in default under the 2002 Insurance Policy, the 2002 Insurer shall not have those rights of consent, direction or approval granted to the 2002 Insurer under the Amended and Restated Trust Agreement, but the 2002 Insurer shall retain the rights set forth in paragraph F of this section.

E. Payments with respect to claims for interest on and principal of Series 2002 A Bonds disbursed by the Trustee from proceeds of the 2002 Insurance Policy shall not be considered to discharge the obligation of the County with respect to such Series 2002 A Bonds, and the 2002 Insurer shall become the owner of such unpaid Series 2002 A Bond and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of this subsection or otherwise.

F. Irrespective of whether any such assignment is executed and delivered, the County and the Trustee in accordance with the Amended and Restated Trust Agreement agree for the benefit of the 2002 Insurer that:

1. They recognize that to the extent the 2002 Insurer makes payments, directly or indirectly (as by paying through the Trustee), on account of principal of or interest on the Series 2002 A Bonds, the 2002 Insurer will be subrogated to the rights of such Holders to receive the amount of such principal and interest from the County, with interest thereon as provided and solely from the sources stated in the Amended and Restated Trust Agreement and the Series 2002 A Bonds; and

2. They will accordingly pay to the 2002 Insurer the amount of such principal and interest (including principal and interest recovered under subparagraph (ii) of the first paragraph of the 2002 Insurance Policy, which principal and interest shall be deemed past due and not to have been paid), with interest thereon as provided in the Amended and Restated Trust Agreement and the Series 2002 A Bond, but only from the sources and in the manner provided in the Amended and Restated Trust Agreement for the payment of principal of and interest on the Series 2002 A Bonds to Holders, and will otherwise treat the 2002 Insurer as the owner of such rights to the amount of such principal and interest.

G. In connection with the issuance of Additional Bonds, the County shall deliver to the 2002 Insurer a copy of the disclosure document, if any, circulated with respect to such Additional Bonds.

H. Copies of any amendments made to the documents executed in connection with the issuance of the Series 2002 A Bonds which are consented to by the 2002 Insurer shall be sent to Standard & Poor's Corporation.

I. The 2002 Insurer shall receive notice of the resignation or removal of the Trustee and the appointment of a successor thereto and notice of any Event of Default.

J. The 2002 Insurer shall receive copies of all notices required to be delivered to Holders and, on an annual basis, copies of the County's audited financial statements and Annual Budget.

L. Provided that no event of default shall have occurred and be continuing under the 2002 Insurance Policy, the 2002 Insurer's consent shall be required, in lieu of the consent of the Holders of the Series 2002 A Bonds, when such consent is required for the following purposes: (a) execution and delivery of any

Supplemental Trust Agreement, (b) removal of the Trustee and selection and appointment of any successor Trustee, and (c) initiation or approval of any action not described in (a) or (b) above which requires the consent of the Holders of the Series 2002 A Bonds; and any provision of the Amended and Restated Trust Agreement requiring the consent or approval of a majority or specified percentage of Holders of Outstanding Bonds shall, unless expressly stated otherwise, be satisfied by the consent or acquiescence of the 2002 Insurer in lieu of the consent of Holders, provided that such percentage shall correlate to the aggregate principal amount of Series 2002 A Bonds insured by the 2002 Insurance Policy issued by the 2002 Insurer.

M. Notwithstanding the terms of the Amended and Restated Trust Agreement as summarized herein under the caption "AMENDMENT OF THE AMENDED AND RESTATED TRUST AGREEMENT - Amendment of the Amended and Restated Trust Agreement," and provided that no event of default shall have occurred and be continuing under the 2002 Insurance Policy, the 2002 Insurer's prior written consent shall be required as a condition to any amendment of the Amended and Restated Trust Agreement; provided that such consent shall not be unreasonably withheld.

N. Anything in the Amended and Restated Trust Agreement to the contrary notwithstanding, and provided that no event of default shall have occurred and be continuing under the 2002 Insurance Policy, upon the occurrence and during the continuance of an Event of Default under the Amended and Restated Trust Agreement, the 2002 Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Series 2002 A Bonds or the Trustee for the benefit of the Holders of the Series 2002 A Bonds under the Amended and Restated Trust Agreement, including, without limitation, (i) the right to accelerate the principal of the Series 2002 A Bonds as provided in the Amended and Restated Trust Agreement, and (ii) the right to annul any declaration of acceleration, and the 2002 Insurer shall also be entitled to approve all waivers of Events of Default. Notwithstanding the Amended and Restated Trust Agreement as summarized herein under the caption "EVENTS OF DEFAULT AND REMEDIES OF HOLDERS - Events of Default and Acceleration of Maturities", the Trustee shall not declare the principal of and interest on the Series 2002 A Bonds unless the 2002 Insurer consents to such declaration.

O. The 2002 Insurer shall be included as a party in interest and as a party entitled to (a) notify the County, the Trustee, if any, or any applicable receiver of the occurrence of an event of default and (b) request the Trustee or receiver to intervene in judicial proceedings that affect the Series 2002 A Bonds. The Trustee or receiver shall be required to accept any notice of default from the 2002 Insurer.

Notices: Any notice that is required to be given to a Holder of the Series 2002 A Bond, to any Insurer, or to the Trustee pursuant to the Amended and Restated Trust Agreement shall also be provided to the 2002 Insurer. All notices required to be given to the 2002 Insurer under the Amended and Restated Trust Agreement shall be in writing and shall be sent by registered or certified mail addressed to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504 Attention: IPM - Global Public Finance (Western Division).

The County agrees to reimburse the 2002 Insurer immediately and unconditionally upon demand, to the extent permitted by law, for all reasonable expenses, including attorneys' fees and expenses, incurred by the 2002 Insurer in connection with (i) the enforcement by the 2002 Insurer of the County's obligations, or the preservation or defense of any rights of the 2002 Insurer, under the Amended and Restated Trust Agreement and any other document executed in connection with the issuance of the Series 2002 A Bonds, and (ii) any consent, amendment, waiver or other action with respect to the Amended and Restated Trust Agreement or any related document, whether or not granted or approved, together with interest on all such expenses from and including the date incurred to the date of payment at Citibank's Prime Rate plus 3% or the maximum interest rate permitted by law, whichever is less. In addition, the 2002 Insurer agrees reserves the right to charge a fee in connection with its review of any such consent, amendment or waiver, whether or not granted or approved.

<u>2004B Insurer Payment Procedures</u>.

(a) If, on the third Business Day prior to the related scheduled Interest Payment Date, there is not on deposit in the Interest Account moneys sufficient to pay the interest on the Series 2004B Bonds or on deposit in the Principal Account moneys sufficient to pay the principal of the Series 2004B Bonds due on such Interest Payment Date, the County shall give notice to the 2004B Insurer and to its designated agent (if any) (the "Insurer's

Fiscal Agent"), by telephone or telecopy, of the amount of such deficiency by 10:00 a.m., New York City time, on such Business Day. If, on the Business Day prior to the related Interest Payment Date, there is not on deposit with the Trustee moneys sufficient to pay the principal of, and interest on, the Series 2004B Bonds due on such Interest Payment Date, the Trustee shall make a claim under the 2004B Insurance Policy and give notice to 2004B Insurer and Insurer's Fiscal Agent (if any) by telephone of the amount of any deficiency in the amount available to pay principal and interest, and the allocation of such deficiency between the amount required to pay interest on the Series 2004B Bonds and the amount required to pay principal of the Series 2004B Bonds, confirmed in writing to the 2004B Insurer and the 2004B Insurer's Fiscal Agent by 10:00 a.m., New York City time, on such Business Day, by delivering the Notice of Nonpayment and Certificate.

(b) For the purposes of subsection (a) above, "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from the Trustee to the 2004B Insurer, which notice shall specify (1) the name of the entity making the claim, (2) the policy number, (3) the claimed amount and (4) the date such claimed amount will become Due for Payment. "Nonpayment" means the failure of the County to have provided sufficient funds to the Trustee for payment in full of all principal of, and interest on, the Series 2004B Bonds that are Due for Payment. "Due for Payment", when referring to the principal of the Series 2004B Bonds, means when the stated maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments, acceleration or other advancement of maturity, unless the 2004B Insurer shall elect, in its sole discretion, to pay such principal due upon such acceleration); and when referring to interest on Series 2004B Bonds, means when the stated date for payment of interest has been reached. "Certificate" means a certificate in form and substance satisfactory to the 2004B Insurer as to the Trustee's right to receive payment under the 2004B Insurance Policy.

(c) The Trustee shall designate any portion of payment of principal on the Series 2004B Bonds paid by the 2004B Insurer at maturity on its books as a reduction in the principal amount of Series 2004B Bonds registered to the then current Holder, whether DTC or its nominee or otherwise, and shall issue a replacement Series 2004B Bond to the 2004B Insurer, registered in the name of 2004B Insurer, as the case may be, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Series 2004B Bond shall have no effect on the amount of principal or interest payable by the County on any Series 2004B Bond or the subrogation rights of 2004B Insurer.

(d) The Trustee shall keep a complete and accurate record of all funds deposited by 2004B Insurer into the Policy Payments Account (as defined herein and in the Amended and Restated Trust Agreement) and the allocation of such funds to payment of interest on and principal paid with respect to any Series 2004B Bond. 2004B Insurer shall have the right to inspect such records at reasonable times upon reasonable notice to the Trustee.

(e) Upon payment of a claim under the Insurance Policy, the Trustee shall establish a separate special purpose trust account for the benefit of Holders of Series 2004B Bonds referred to in the Amended and Restated Trust Agreement as the "Policy Payments Account" and over which the Trustee shall have exclusive control and sole right of withdrawal. The Trustee shall receive any amount paid under the 2004B Insurance Policy in trust on behalf of Holders of Series 2004B Bonds and shall deposit any such amount in the Policy Payments Account and distribute such amount only for purposes of making the payments for which a claim was made. Such amounts shall be disbursed by the Trustee to Holders of Series 2004B Bonds in the same manner as principal and interest payments are to be made with respect to the Series 2004B Bonds under the sections of the Amended and Restated Trust Agreement regarding payment of Series 2004B Bonds. It shall not be necessary for such payments to be made by checks or wire transfers separate from the check or wire transfer used to pay debt service with other funds available to make such payments.

(f) Funds held in the Policy Payments Account shall not be invested by the Trustee and may not be applied to satisfy any costs, expenses or liabilities of the Trustee.

(g) Any funds remaining in the Policy Payments Account following an Interest Payment Date shall promptly be remitted to 2004B Insurer.

Rights of the 2004 Insurers; 2004 Insurers Deemed Holders.

(a) The 2004A Insurer shall be deemed the Holder of all of the Series 2004 A Bonds and all of the Series 2004 C Bonds and shall be treated as such (1) for purposes of any provisions requiring the consent or approval of the Holders of the Series 2004 A Bonds and the Series 2004 C Bonds, (2) for purposes of the provisions of the Amended and Restated Trust Agreement governing events of default and remedies (except the giving of notice of default to the Holders of the Series 2004 A Bonds and the Series 2004 C Bonds), and (3) with respect to rights of such Holders other than the right to receive payments of principal, purchase price and interest, and tender and purchase rights under the Amended and Restated Trust Agreement, but only for so long as the 2004A Insurer is in compliance with the 2004A Insurance Policy, and if the 2004A Insurer is in default under the 2004A Insurance Policy, the 2004A Insurer shall not have any rights granted to the 2004A Insurer under the Amended and Restated Trust Agreement.

(b) The 2004B Insurer shall be deemed the Holder of all of the Series 2004 B Bonds and shall be treated as such (1) for purposes of any provisions requiring the consent or approval of the Holders of the Series 2004 B Bonds, (2) for purposes of the provisions of the Amended and Restated Trust Agreement governing events of default and remedies (except the giving of notice of default to the Holders of the Series 2004 B Bonds), and (3) with respect to rights of such Holders other than the right to receive payments of principal, purchase price and interest, and tender and purchase rights under the Amended and Restated Trust Agreement, but only for so long as the 2004B Insurer is in compliance with the 2004B Insurance Policy, and if the 2004B Insurer is in default under the 2004B Insurance Policy, the 2004B Insurer shall not have any rights granted to the 2004B Insurer under the Amended and Restated Trust Agreement.

2004 Insurers Control Rights and Remedies.

(a) For so long as the 2004A Insurer is in compliance with its obligations under the 2004A Insurance Policy, upon the occurrence and continuance of an event of default, the 2004A Insurer, acting alone, shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Series 2004 A Bonds and the Series 2004 C Bonds or the Trustee for the benefit of the Holders of the Series 2004 A Bonds and the Series 2004 C Bonds under the Amended and Restated Trust Agreement, including, without limitation, (i) the right to accelerate the principal of the Series 2004 A Bonds and Series 2004 C Bonds as described in the Amended and Restated Trust Agreement; and (ii) the right to annul any declaration of acceleration, and the 2004A Insurer shall also be entitled to approve all waivers of events of default. The Trustee shall be entitled to rely upon a certificate of an authorized officer of the 2004A Insurer to the effect that the 2004A Insurer is in compliance with its obligations under the 2004A Insurance Policy.

(b) For so long as the 2004B Insurer is in compliance with its obligations under the 2004B Insurance Policy, upon the occurrence and continuance of an event of default, the 2004B Insurer, acting alone, shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Series 2004 B Bonds or the Trustee for the benefit of the Holders of the Series 2004 B Bonds under the Amended and Restated Trust Agreement, including, without limitation, (i) the right to accelerate the principal of the Series 2004 B Bonds as described in the Amended and Restated Trust Agreement; and (ii) the right to annul any declaration of acceleration, and the 2004B Insurer shall also be entitled to approve all waivers of events of default. The Trustee shall be entitled to rely upon a certificate of an authorized officer of the 2004B Insurer to the effect that the 2004B Insurer is in compliance with its obligations under the 2004B Insurance Policy.

Parties In Interest. The 2004 Insurers shall each be included as a party in interest and as a party entitled to (a) notify the County, the Trustee, if any, or any applicable receiver of the occurrence of an event of default and (b) request the Trustee or receiver to intervene in judicial proceedings that affect the Series 2004 A Bonds and the Series 2004 C Bonds, in the case of the 2004A Insurer, or the Series 2004 B Bonds, in the case of the 2004B Insurer. The Trustee or receiver shall be required to accept any notice of default from the 2004 Insurers.

Amendments.

(a) Notwithstanding the terms of the Amended and Restated Trust Agreement as summarized herein under the caption "AMENDMENT OF THE AMENDED AND RESTATED TRUST AGREEMENT -

Amendment of the Amended and Restated Trust Agreement," and provided that no event of default shall have occurred and be continuing under the 2004A Insurance Policy, the 2004A Insurer's prior written consent shall be required as a condition to any amendment of the Amended and Restated Trust Agreement; provided that such consent shall not be unreasonably withheld.

(b) Notwithstanding the terms of the Amended and Restated Trust Agreement as summarized herein under the caption "AMENDMENT OF THE AMENDED AND RESTATED TRUST AGREEMENT - Amendment of the Amended and Restated Trust Agreement," and provided that no event of default shall have occurred and be continuing under the 2004B Insurance Policy, the 2004B Insurer's prior written consent shall be required as a condition to any amendment of the Amended and Restated Trust Agreement; provided that such consent shall not be unreasonably withheld.

(c) The County in accordance with the Amended and Restated Trust Agreement agrees that it will send to each Rating Agency then rating any of the Series 2004 Bonds a copy of any amendment to the Amended and Restated Trust Agreement at least 15 days before its execution and delivery by the County. The County in accordance with the Amended and Restated Trust Agreement agrees that it will send to each of the 2004 Insurers a copy of any executed amendments to the Amended and Restated Trust Agreement reasonably promptly after execution thereof.

Notifications and Reports.

(a) The County shall send to each of the 2004 Insurers written notice of the resignation or removal of the Trustee and the appointment of any successor thereto.

(b) The Trustee and the County in accordance with the Amended and Restated Trust Agreement severally agree that they will each send written notice to the 2004 Insurers of event of default known them within 30 days of the Trustee's or the County's respective knowledge thereof.

(c) The County in accordance with the Amended and Restated Trust Agreement agrees that it will send to the 2004 Insurers the following:

(i) Notice of the redemption, other than mandatory sinking fund redemption, or any defeasance pursuant to the Amended and Restated Trust Agreement as summarized herein in subsection (b) under the caption "DEFEASANCE - Discharge of Bonds" of any of the Series 2004 Bonds, including the principal amount, 2004 Accreted Value, maturities, and CUSIP numbers thereof, provided, that notice need only be sent to the 2004A Insurer if the Series 2004 A Bonds or Series 2004 C Bonds are affected and to the 2004B Insurer if the Series 2004 B Bonds are affected;

(ii) Notice of the downgrading by any Rating Agency then rating the County's underlying rating on the Series 2004 Bonds to "non-investment grade";

(iii) Notice of any material events pursuant to Rule 15c2-12 under the Securities Exchange Act of 1934, as amended; and

(iv) Such additional information as either of the 2004 Insurers may reasonable request from time to time.

(d) The County in accordance with the Amended and Restated Trust Agreement agrees that it will pay or reimburse the 2004 Insurers for any and all charges, fees, costs, and expenses that the 2004 Insurers may reasonably pay or incur in connection with the following: (i) the administration, enforcement, defense, or preservation of any rights or security under the Amended and Restated Trust Agreement; (ii) the pursuit of any remedies under the Amended and Restated Trust Agreement; (iii) any amendment, waiver, or other action with respect to or related to the Amended and Restated Trust Agreement whether or not executed or completed; (iv) the violation by the County of any law, rule, or regulation or any judgment, order or decree applicable to it; (v) any advances or payments made by the 2004 Insurers to cure defaults of the County under the Amended and Restated

Trust Agreement; or (vi) any litigation or other dispute in connection with the Amended and Restated Trust Agreement or the issuance of the Series 2004 Bonds, other than amounts resulting from the failure of either of the 2004 Insurers to honor their respective payment obligations under the 2004A Insurance Policy or the 2004B Insurance Policy, as applicable; provided, that to the extent that Section 1717 of the California Civil Code governs the payment of litigation expenses, that section shall apply. The 2004 Insurers reserve their respective rights to charge a reasonable fee as a condition to executing any amendment, waiver, or consent proposed in respect of the Amended and Restated Trust Agreement. The obligations of the County to the 2004 Insurers shall survive discharge and termination of the Amended and Restated Trust Agreement.

Defeasance Provisions.

(a) If, in connection with any defeasance pursuant to the Amended and Restated Trust Agreement as summarized herein in subsection (b) under the caption "DEFEASANCE - Discharge of Bonds" with respect to any of the Series 2004 Bonds, a forward supply contract is employed in connection with such defeasance, (i) the opinion of the Independent Certified Public Accountant referenced in the Amended and Restated Trust Agreement as summarized herein in subsection (b) under the caption "DEFEASANCE - Discharge of Bonds" shall expressly state that the adequacy of the escrow to accomplish the defeasance relies solely on the initial escrowed investments and the maturing principal thereof and interest income thereon and does not assume performance under or compliance with the forward supply contract, and (ii) the applicable escrow agreement shall provide that in the event of any discrepancy or difference between the terms of the forward supply contract and the escrow agreement (or the Amended and Restated Trust Agreement, if no separate escrow agreement is utilized), the terms of the escrow agreement or the Amended and Restated Trust Agreement, if applicable, shall be controlling.

(b) Notwithstanding the Amended and Restated Trust Agreement as summarized herein in subsection (b) under the caption "DEFEASANCE - Discharge of Bonds", to defease any of the Series 2004 Bonds pursuant to the terms of the Amended and Restated Trust Agreement as summarized herein in subsection (b) under the caption "DEFEASANCE - Discharge of Bonds", then, in addition to having met the requirements of clauses (1) and (3) therein, there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient or (B) Federal Securities which are not subject to redemption prior to maturity, the interest on and principal of which when paid will provide money which, together with the money, if any, deposited with the Trustee at the same time, shall be sufficient, in the opinion of an Independent Certified Public Accountant, to pay when due the interest to become due on such Series 2004 Bonds on and prior to the maturity date or redemption date thereof, as the case may be, and the principal of, 2004 Accreted Value, and redemption premiums, if any, on such Series 2004 Bonds.

Subrogation.

(a) If principal, interest or both due on any Series 2004 A Bonds or the Series 2004 C Bonds shall be paid by the 2004A Insurer, such Series 2004 A Bonds or the Series 2004 C Bonds, as applicable, shall remain outstanding under the Amended and Restated Trust Agreement for all purposes, and shall not be deemed defeased or otherwise satisfied, or paid by the County, and all covenants, agreements and other obligations of the County to the Holders of such Series 2004 A Bonds or the Series 2004 C Bonds, as applicable, shall continue to exist and shall run to the benefit of the 2004A Insurer, and the 2004A Insurer shall be subrogated to the rights of such Holders.

(b) If principal, interest or both due on any Series 2004 B Bonds shall be paid by the 2004B Insurer, such Series 2004 B Bonds shall remain outstanding under the Amended and Restated Trust Agreement for all purposes, and shall not be deemed defeased or otherwise satisfied, or paid by the County, and all covenants, agreements and other obligations of the County to the Holders of such Series 2004 B Bonds shall continue to exist and shall run to the benefit of the 2004B Insurer, and the 2004B Insurer shall be subrogated to the rights of such Holders.

Consent to Acceleration; Determination of Default.

(a) Notwithstanding the Amended and Restated Trust Agreement as summarized herein under the caption "EVENTS OF DEFAULT AND REMEDIES OF HOLDERS - Events of Default and Acceleration of Maturities", the Trustee shall not declare the principal and 2004 Accreted Value of any of the Series 2004 A Bonds or the Series 2004 C Bonds and the interest accrued thereon to be due and payable unless the 2004A Insurer so consents, and shall not declare the principal of any of the Series 2004 B Bonds and the interest accrued thereon to be due and payable unless the 2004B Insurer so consents.

(b) In determining whether an event of default described under subsections (a) or (b) of the Amended and Restated Trust Agreement as summarized herein under the caption "EVENTS OF DEFAULT AND REMEDIES OF HOLDERS - Events of Default and Acceleration of Maturities", no effect shall be given to payments made under the 2004A Insurance Policy or the 2004B Insurance Policy, as the case may be.

2008 FIRST SUPPLEMENTAL TRUST AGREEMENT

PURCHASE OF SERIES 2008B BONDS BEFORE MATURITY

Liquidity Facility. A Liquidity Facility, in an amount equal to the sum of outstanding principal and interest calculated at the Maximum Bond Interest Rate for 36 days, or such other amount as may be approved by the Rating Agencies, shall be maintained by the County for Series 2008B Bonds bearing interest at the Weekly Interest Rate, the Daily Interest Rate or Bond Interest Term Rates and, if and to the extent that the County shall elect, for Series 2008B Bonds bearing interest at the Long-Term Interest Rate.

(a) Requests to Pay Tender Price. If by 10:45 a.m., New York, New York time, on a Tender Date on which Series 2008B Bonds are required to be purchased pursuant to the First Supplemental Trust Agreement there is not a sufficient amount of money available to pay the Tender Price pursuant to the First Supplemental Trust Agreement, then by 11:00 a.m., New York, New York time on such Tender Date the Tender Agent shall (i) notify the County and the Trustee by telephone, promptly confirmed in writing, as to the aggregate Tender Price of Series 2008B Bonds to be purchased and as to the Funding Amount, and (ii) make a Request or Requests under the Liquidity Facility in accordance with its terms to receive immediately available funds not later than 2:30 p.m., New York, New York time on the Tender Date sufficient to pay the balance of the Tender Price. The Tender Agent agrees to deposit the proceeds of such Request or Requests in the Liquidity Facility Purchase Account pursuant to the First Supplemental Trust Agreement pending application of that money to the payment of the Tender Price. As soon as practicable after its receipt of funds from the Liquidity Facility Provider, as described in the preceding sentence, the Tender Agent shall notify the County, the Trustee, the Remarketing Agent and the Liquidity Facility Provider by telephone promptly confirmed by a written notice if, after receipt and application of such funds there is a deficiency in the Funding Amount. In determining the amount of the Tender Price then due, the Tender Agent shall not take into consideration any Bank Bonds or County Bonds. No Requests shall be made under a Liquidity Facility to pay the Tender Price of Bank Bonds or County Bonds or, to the best knowledge of the Tender Agent, Series 2008B Bonds registered in the name of any nominees for (or any Person who owns such Series 2008B Bonds for the sole benefit of) any of the foregoing. Bank Bonds and County Bonds may not be tendered for purchase at the option of the Liquidity Facility or the County, respectively.

(b) Surrender of Liquidity Facility. If an Alternate Liquidity Facility is delivered to the Tender Agent and accepted pursuant to the First Supplemental Trust Agreement, then the Tender Agent shall surrender the Liquidity Facility previously held for cancellation, provided that no Liquidity Facility shall be surrendered until after the date on which Series 2008B Bonds required to be purchased pursuant to the First Supplemental Trust Agreement have been purchased or deemed purchased in accordance with the First Supplemental Trust Agreement. If a Liquidity Facility automatically terminates or is no longer required to be maintained under the First Supplemental Trust Agreement, the Tender Agent shall surrender such Liquidity Facility to the issuer thereof for cancellation in accordance with the terms of the Liquidity Facility. Upon the defeasance of the Series 2008B Bonds pursuant to the Amended and Restated Trust Agreement and if, at such time, the Series 2008B Bonds are no longer subject to tender for purchase, the Tender Agent shall surrender the Liquidity Facility, if any, to the Liquidity Facility Provider for cancellation in accordance with the terms of that Liquidity Facility. The Tender Agent shall comply with the procedures set forth in each Liquidity Facility relating to the termination thereof and shall deliver any certificates reducing the stated amount of the Liquidity Facility in accordance with the provisions thereof.

Alternate Liquidity Facility.

(a) Delivery by County of Alternate Liquidity Facility. (i) Prior to the expiration or termination of a Liquidity Facility in accordance with the terms of that Liquidity Facility, the County may provide for the delivery to the Tender Agent of an Alternate Liquidity Facility which has a term of at least 364 days. Any such Alternate Liquidity Facility shall be rated by each Rating Agency then rating the Series 2008 B Bonds and shall be of sufficient strength to cause the short-term ratings for the Series 2008 B Bonds to be A-1+ by S&P and VMIG-1 by Moody's. Any Liquidity Facility Provider whose long-term rating drops below A- (S&P) or A3 (Moody's) shall be replaced. Any Alternate Liquidity Facility delivered to the Tender Agent pursuant to the First Supplemental Trust Agreement shall be delivered and become effective not later than 10 days prior to the date on which the former Liquidity Facility, if any, terminates or expires and shall contain administrative provisions reasonably acceptable to the Tender Agent and the Remarketing Agent. On or prior to the date of the delivery of the Alternate Liquidity Facility to the Tender Agent, the County shall furnish to the Tender Agent (A) if the Alternate Liquidity Facility is issued by a Liquidity Facility Provider other than a domestic commercial bank, an opinion of Counsel addressed to the County, the Trustee, the Tender Agent and the Remarketing Agent and satisfactory to the Trustee and the Remarketing Agent that no registration of the Alternate Liquidity Facility is required under the Securities Act, and no qualification of the Amended and Restated Trust Agreement is required under the Trust Indenture Act, or that all applicable registration or qualification requirements have been fulfilled and (B) an opinion of Counsel addressed to the County, the Trustee, the Tender Agent and the Remarketing Agent and satisfactory to the Trustee to the effect that such Alternate Liquidity Facility is a valid and enforceable obligation of the issuer thereof.

(ii) In lieu of the opinion of Counsel required by clause (A) of subparagraph (i) above, there may be delivered an opinion of Counsel addressed to the County, the Trustee, the Tender Agent and the Remarketing Agent and satisfactory to the Trustee and the Remarketing Agent to the effect that either (A) at all times during the term of the Alternate Liquidity Facility, the Series 2008B Bonds will be offered, sold and held by Holders in transactions not constituting a public offering of the Series 2008B Bonds or the Alternate Liquidity Facility under the Securities Act, and accordingly no registration of the Alternate Liquidity Facility under the Securities Act nor qualification of the Amended and Restated Trust Agreement under the Trust Indenture Act will be required in connection with the issuance and delivery of the Alternate Liquidity Facility or the remarketing of the Series 2008B Bonds with the benefits thereof, or (B) the offering and sale of the Series 2008B Bonds, to the extent evidencing the Alternate Liquidity Facility, has been registered under the Securities Act and any trust agreement required to be qualified with respect thereto under the Trust Indenture Act has been so qualified. If the opinion described in clause (A) of this subparagraph (ii) is given, the Series 2008B Bonds and any transfer records relating to the Series 2008B Bonds shall be noted indicating the restrictions on sale and transferability described in clause (A).

(b) Acceptance by Tender Agent of Alternate Liquidity Facility. If at any time there is delivered to the Tender Agent (i) an Alternate Liquidity Facility covering all of the Series 2008B Bonds, (ii) the information, opinions and data required by the First Supplemental Trust Agreement, and (iii) all information required to give the notice of mandatory tender for purchase of the Series 2008B Bonds, then the Tender Agent shall accept such Alternate Liquidity Facility. If a Liquidity Facility is then in effect, the Tender Agent shall surrender the Liquidity Facility pursuant to the First Supplemental Trust Agreement.

(c) Rights and Duties under Liquidity Facility. The Tender Agent, by accepting its appointment as such, agrees without further direction, to make Requests under the Liquidity Facility then in effect, if any, for the payment or purchase of Series 2008B Bonds in accordance with the terms and conditions set forth in the Amended and Restated Trust Agreement and that Liquidity Facility at the times, in the manner and for the purposes set forth therein.

(d) Notice of Expiration, Termination, or Proposed Replacement of Liquidity Facility. The Trustee shall give notice by first class mail to the Holders of the Series 2008B Bonds secured by a Liquidity Facility (i) on or before the 10th day preceding the expiration or termination of such Liquidity Facility (except in the case of a termination resulting from an event referred to in the following paragraph) in accordance with its terms or the proposed replacement of such Liquidity Facility, or (ii) in the case of any Mandatory Standby Tender under such Liquidity Facility, as soon as reasonably possible, but no later than the Business Day following the receipt by the Trustee of notice of the Mandatory Standby Tender. Such notice shall (A) state the date of such expiration, termination or proposed replacement of such Liquidity Facility, (B) state that the Series 2008B Bonds are subject to mandatory tender for purchase as a result of such expiration, termination or proposed replacement, including any termination as a result of a Mandatory Standby Tender, (C) state the date on which such purchase will occur pursuant to the First Supplemental Trust Agreement and set forth the Tender Price and the place of delivery for purchase of such Series 2008B Bonds, and (D) provide any other information required by the First Supplemental Trust Agreement. The County shall provide the Trustee with written notice of any information required to enable the Trustee to give the foregoing notice. The Trustee shall send a copy of the foregoing notice to the County, the Tender Agent, the Remarketing Agent and the Liquidity Facility Provider.

If there should occur any event resulting in the immediate termination or suspension of the obligation of the Liquidity Facility Provider to purchase Series 2008B Bonds under the terms of any Liquidity Facility, then the Trustee shall as soon as practicably possible thereafter notify the County, the Tender Agent, the Remarketing Agent and the Holders of all the Series 2008B Bonds then outstanding that: (i) the Liquidity Facility has been terminated or suspended, as the case may be; (ii) the Tender Agent will no longer be able to purchase Series 2008B Bonds with moneys available under the Liquidity Facility; and (iii) the Liquidity Facility Provider is under no obligation to purchase Series 2008B Bonds or to otherwise advance moneys to fund the purchase of Series 2008B Bonds.

Notices from County and Trustee.

(a) Notices from County. The County shall give notice to the Trustee, the Remarketing Agent, the Tender Agent, the Liquidity Facility Provider (if any) and the County promptly upon the occurrence of any of the following events: (i) the extension of the Expiration Date; and (ii) the proposed delivery of a Liquidity Facility or an Alternate Liquidity Facility.

(b) Notices from Trustee. Promptly upon receipt of notice from the County of the extension of the Expiration Date, the Trustee shall give notice by first-class mail to the Holders of the Series 2008B Bonds and the Rating Agencies of such extension.

Remarketing Agent; Tender Agent.

(a) Remarketing Agent. The initial Remarketing Agent for the Series 2008B-1 Bonds shall be Citigroup Global Markets Inc. The initial Remarketing Agent for the Series 2008B-2 Bonds shall be E. J. De La Rosa & Co., Inc. The County shall appoint any successor Remarketing Agent for the Series 2008B Bonds, subject to the conditions set forth in the First Supplemental Trust Agreement and the approval of the Liquidity Facility Provider. Each Remarketing Agent appointed by the County shall designate its principal office in the Remarketing Agreement. The Remarketing Agent shall signify its acceptance of the duties and obligations imposed upon it under the Amended and Restated Trust Agreement by a written instrument of acceptance (which may be the Remarketing Agreement) delivered to the County, the Trustee, the Tender Agent and the Liquidity Facility Provider, under which the Remarketing Agent shall agree, particularly, to keep such books and records related to the remarketing of the Series 2008B Bonds as shall be consistent with prudent industry practice and to make such books and records related to the remarketing of the Series 2008B Bonds available for inspection by the County, the Trustee, the Tender Agent and the Liquidity Facility Provider at all reasonable times. Promptly upon receipt of such acceptance by a Remarketing Agent, the Trustee shall give notice by first-class mail to the Holders of the Series 2008B Bonds of the appointment of such Remarketing Agent, except the initial Remarketing Agent.

(b) Tender Agent. The initial Tender Agent for the Series 2008B Bonds shall be The Bank of New York Mellon Trust Company, N.A. The County shall appoint any successor Tender Agent for the Series 2008B Bonds, subject to the conditions set forth in the First Supplemental Trust Agreement. Each Tender Agent appointed by the County shall designate its principal office for delivery of notices and delivery of Series 2008B Bonds and signify its acceptance of the duties and obligations imposed upon it under the Amended and Restated Trust Agreement by a written instrument of acceptance delivered to the County, the Trustee, the Remarketing Agent and the Liquidity Facility Provider. Promptly upon receipt of such acceptance by a Tender Agent, the Trustee shall give notice by first-class mail to the Holders of the Series 2008B Bonds of the appointment of such Tender Agent, except the initial Tender Agent. By acceptance of its appointment under the Amended and Restated Trust Agreement, the Tender Agent agrees:

(i) to hold all Series 2008B Bonds delivered to it pursuant to Section 15.04 as agent and bailee of, and in escrow for the benefit of, the respective Holders which have delivered such Series 2008B Bonds until money representing the Tender Price of such Series 2008B Bonds shall have been delivered to or for the account of or to the order of such Holders;

(ii) to hold all Series 2008B Bonds registered in the name of the new Holders thereof which have been delivered to it by the Trustee for delivery to the Remarketing Agent in accordance with the First Supplemental Trust Agreement;

(iii) to hold Bank Bonds for the account of the Liquidity Facility Provider as stated in the First Supplemental Trust Agreement; and

(iv) to keep such books and records as shall be consistent with corporate trust industry practice and to make such books and records available for inspection by the County, the Trustee, the Remarketing Agent and the Liquidity Facility Provider at all reasonable times.

The County shall pay to the Tender Agent its fees for performing its duties as Tender Agent and shall reimburse the Tender Agent for any out-of-pocket expenses (including reasonable legal expenses) incurred by the Tender Agent in connection with such performance. The Tender Agent waives all rights of set-off or banker's lien which it may have under applicable law against any money from time to time held by it, as Tender Agent, for the purchase of Series 2008B Bonds pursuant to the Amended and Restated Trust Agreement, with respect to the payment of its fees or expenses or any indebtedness due to the Tender Agent by the County.

<u>Qualifications of Remarketing Agent and Tender Agent; Resignation and Removal of Remarketing Agent and Tender Agent</u>.

(a) <u>Remarketing Agent</u>. Each Remarketing Agent shall be a member of the National Association of Securities Dealers and authorized by law to perform all the duties imposed upon it by the Amended and Restated Trust Agreement and the Remarketing Agreement. A Remarketing Agent may at any time resign and be discharged of the duties and obligations created by the Amended and Restated Trust Agreement by giving notice to the County, the Trustee, the Tender Agent and the Liquidity Facility Provider. Such resignation shall take effect on the 30th day after the receipt by the County of the notice of resignation. A Remarketing Agent may be removed at any time on 15 days prior written notice, by an instrument signed by the County, approved by the Liquidity Facility Provider and delivered to such Remarketing Agent, the County, the Trustee and the Tender Agent. In such event, the County shall promptly appoint a successor Remarketing Agent. Notwithstanding the provisions of this paragraph, if a Liquidity Facility is required to be maintained pursuant to the First Supplemental Trust Agreement and no Liquidity Facility is in effect, the Remarketing Agent may not be removed unless it consents to such removal or the successor Remarketing Agent agrees to purchase any Series 2008B Bonds owned by the Remarketing Agent as of the effective date of such removal at a purchase price equal to the principal amount thereof plus accrued interest from the immediately preceding Interest Accrual Date to the effective date of such removal.

(b) <u>Tender Agent</u>. Each Tender Agent shall be a commercial bank, national banking association with trust powers or a trust company duly organized under the laws of the United States of America or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $15,000,000 and authorized by law to perform all the duties imposed upon it by the Amended and Restated Trust Agreement. A Tender Agent may at any time resign and be discharged of the duties and obligations created by the Amended and Restated Trust Agreement by giving at least 60 days' notice to the County, the Trustee, the Remarketing Agent and the Liquidity Facility Provider. A Tender Agent may be removed at any time by an instrument signed by the County, and delivered to such Tender Agent, the County, the Trustee, the Remarketing Agent and the Liquidity Facility Provider. Notwithstanding the provisions of this paragraph, such resignation or removal shall not take effect prior to the date that a successor Tender Agent has been appointed by the County and has accepted such appointment, and the Liquidity Facility, if any, has been transferred, in accordance with its terms, to that successor.

Upon the effective date of resignation or removal of a Tender Agent, such Tender Agent shall deliver any Series 2008B Bonds and money held by it in such capacity to its successor and shall assign all of its rights under the Liquidity Facility, if any, then in effect to its successor. All of the provisions of the Amended and

Restated Trust Agreement related to the protections and immunities from liability afforded the Trustee shall apply to the Tender Agent.

Notice of Series 2008B Bonds Delivered for Purchase; Purchase of Series 2008B Bonds; Deposit of Tender Price.

(a) Determination by Tender Agent; Notice of Tender. For purposes of the provisions of the First Supplemental Trust Agreement summarized under the caption "– Purchase of Series 2008B Bonds," the Tender Agent shall determine timely and proper delivery of Series 2008B Bonds pursuant to the Amended and Restated Trust Agreement and the proper endorsement of Series 2008B Bonds delivered. That determination shall be binding on the Holders of those Series 2008B Bonds, the County, the Liquidity Facility Provider and the Remarketing Agent, absent manifest error.

In the case of a Series 2008B Bond bearing interest at a Weekly Interest Rate, as soon as practicable upon receipt from a Holder or Participant of a notice pursuant to the First Supplemental Trust Agreement, but not later than 12:00 Noon, New York, New York time, on the day following receipt of such notice, the Tender Agent shall notify the Remarketing Agent, the Liquidity Facility Provider, the Trustee and the County by telephone, promptly confirmed in writing, or by telecopy, of receipt of such notice, the name of such Holder or Participant, the principal amount of Series 2008B Bonds to be purchased and the date on which such Series 2008B Bonds are to be purchased in accordance therewith.

In the case of a Series 2008B Bond bearing interest at a Daily Interest Rate, as soon as practicable upon receipt from a Holder or Participant of a notice pursuant to the First Supplemental Trust Agreement, but not later than 11:15 a.m., New York, New York time, on the day of receipt of such notice, the Tender Agent shall notify the Remarketing Agent, the Liquidity Facility Provider, the Trustee and the County by telephone, promptly confirmed in writing, or by telecopy, of receipt of such notice, the name of such Holder or Participant, the principal amount of Series 2008B Bonds to be purchased and the date on which such Series 2008B Bonds are to be purchased in accordance therewith.

The Tender Agent shall notify the Remarketing Agent of a mandatory tender for purchase pursuant to the provisions of the First Supplemental Trust Agreement summarized under the caption " – Purchase of Series 2008B Bonds – Mandatory Tender for Purchase on Day Next Succeeding Last Day of Each Bond Interest Term" not later than 3:00 p.m., New York, New York time, on the last Business Day prior to the Tender Date, and of a mandatory tender for purchase pursuant to the First Supplemental Trust Agreement not later than 11:00 a.m., New York, New York time, on the last Business Day prior to the Tender Date.

(b) Purchase of Series 2008B Bonds; Sources and Deposits of Tender Price. Series 2008B Bonds required to be purchased in accordance with the First Supplemental Trust Agreement shall be purchased from the Holders thereof, on the Tender Date and at the Tender Price. Funds for the payment of the Tender Price shall be received by the Tender Agent from the following sources and used in the order of priority indicated:

(i) proceeds of the sale of Series 2008B Bonds remarketed pursuant to the First Supplemental Trust Agreement and the Remarketing Agreement and furnished to the Tender Agent by the Remarketing Agent for deposit into the Remarketing Account of the Bond Purchase Fund; and

(ii) money furnished by the Liquidity Facility Provider to the Tender Agent for deposit into the Liquidity Facility Purchase Account of the Bond Purchase Fund from Requests on the Liquidity Facility, if any (provided that moneys from Requests on the Liquidity Facility shall not be used to purchase Bank Bonds or County Bonds).

(iii) money, if any, furnished by the County to the Tender Agent for deposit into the County Purchase Account of the Bond Purchase Fund for the purchase of Series 2008B Bonds by the County.

Money held in the Bond Purchase Fund shall be held uninvested by the Tender Agent.

(c) Undelivered Series 2008B Bonds; Tender Price. If any Holder of a Series 2008B Bond who has given notice of tender of purchase pursuant to the First Supplemental Trust Agreement or any Holder of a Series 2008B Bond subject to mandatory tender for purchase pursuant to the First Supplemental Trust Agreement, shall fail to deliver that Series 2008B Bond to the Tender Agent at the place and on the Tender Date and at the time specified, or shall fail to deliver that Series 2008B Bond properly endorsed, that Series 2008B Bond shall constitute an Undelivered Bond. If funds in the amount of the Tender Price of the Undelivered Bond are available for payment to the Holder thereof on the Tender Date and at the time specified, then from and after the Tender Date and time of that required delivery (A) the Undelivered Bond shall be deemed to be purchased and shall no longer be deemed to be Outstanding under the Amended and Restated Trust Agreement; (B) interest shall no longer accrue on the Undelivered Bond; and (C) funds in the amount of the Tender Price of the Undelivered Bond shall be held uninvested by the Tender Agent for the benefit of the Holder thereof (provided that the Holder shall have no right to any investment proceeds derived from such funds), to be paid on delivery (and proper endorsement) of the Undelivered Bond to the Tender Agent at its principal office as provided in the First Supplemental Trust Agreement for delivery of Series 2008B Bonds. Any money which the Tender Agent segregates and holds in trust for the payment of the Tender Price of any Series 2008B Bond which remains unclaimed for 2 years after the date of purchase shall be paid to the County. After the payment of such unclaimed money to the County, the former Holder of such Series 2008B Bond shall look only to the County for the payment thereof. The County shall not be liable for any interest on unclaimed money and shall not be regarded as a trustee of such money.

Remarketing of Series 2008B Bonds; Notice of Interest Rates.

(a) Remarketing. Upon receipt of a notice of tender from the Tender Agent pursuant to the First Supplemental Trust Agreement (other than a Mandatory Standby Tender), the Remarketing Agent shall offer for sale and use its best efforts to sell such Series 2008B Bonds (including Bank Bonds) on the same date designated for purchase thereof in accordance with the First Supplemental Trust Agreement and, if not remarketed on such date, thereafter until sold, at a price equal to par plus accrued interest, with such interest component of the sales price being determined by the Remarketing Agent, with consent of the Tender Agent, in order to best facilitate remarketing. Series 2008B Bonds subject to a Mandatory Standby Tender shall not be remarketed unless such Series 2008B Bonds are converted to a Long-Term Interest Rate Period to their Maturity Date, unless an Alternate Liquidity Facility is in full force and effect or unless the Liquidity Facility Provider has reinstated the Liquidity Facility with respect to which such Mandatory Standby Tender was declared and such Liquidity Facility is in full force and effect. Series 2008B Bonds shall not be remarketed to the County.

As soon as practicable, but in any event by no later than 10:00 A.M. on the date any Bank Bond is to be remarketed, the Remarketing Agent shall notify the Trustee, the Tender Agent and the Liquidity Facility Provider by telephone of the principal amount of the Bank Bond to be remarketed and the amount of accrued interest that will be included in the sales price therefor. Upon receipt of such notice from the Remarketing Agent, the Liquidity Facility Provider shall promptly, but not later than 11:00 A.M. on such remarketing date, notify the Trustee, the Tender Agent and the County by telephone of the Bank Bond Interest Differential Amount. Upon receipt of such notice from the Liquidity Facility Provider, the County shall immediately, and in no event later than 3:00 P.M. on such remarketing date, pay the Bank Bond Interest Differential Amount to the Liquidity Facility Provider.

(b) Notice of Rates and Terms. The Remarketing Agent shall determine the rate of interest for Series 2008B Bonds during each Interest Rate Period and each Bond Interest Term relating thereto and the Bond Interest Terms for Series 2008B Bonds during each Short-Term Interest Rate Period relating thereto as provided in the First Supplemental Trust Agreement and shall furnish to the Trustee and the County no later than the Business Day next succeeding the date of determination each rate of interest and Bond Interest Term so determined by Electronic Means; provided that during a Daily Interest Rate Period such information need be provided only once a week. In lieu of the notification provided in the preceding sentence, the Remarketing Agent may make such information available by readily accessible electronic means.

Notice of Purchase and Remarketing. As soon as practicable, but in any event by no later than 10:45 a.m., New York, New York time, on the Tender Date in the case of Series 2008B Bonds to be purchased pursuant to the provisions of the First Supplemental Trust Agreement summarized herein under the captions "– Purchase of Series 2008B Bonds – During Daily Interest Rate Period" and " – Purchase of Series 2008B Bonds –

Mandatory Tender for Purchase on Day Next Succeeding Last Day of Each Bond Interest Term" and by no later than 4:00 p.m., New York, New York time, on the last Business Day prior to the Tender Date in the case of Series 2008B Bonds to be purchased pursuant to provisions of the First Supplemental Trust Agreement summarized herein under the captions "– Purchase of Series 2008B Bonds – During Weekly Interest Rate Period, " " – Purchase of Series 2008B Bonds – Mandatory Tender for Purchase on First Day of Each Interest Rate Period," " – Purchase of Series 2008B Bonds – Mandatory Tender for Purchase upon Termination, Replacement or Expiration of Liquidity Facility; Mandatory Standby Tender" and " – Purchase of Series 2008B Bonds – Mandatory Tender for Purchase at the Direction of the County," the Remarketing Agent shall give notice by Electronic Means to the Trustee and the Tender Agent of the aggregate principal amount of Series 2008B Bonds tendered for purchase which have not been remarketed. By 11:00 a.m., New York, New York time, on the Tender Date, the Remarketing Agent shall cause the Tender Price of the Series 2008B Bonds to be delivered to the Tender Agent for deposit into the Remarketing Account of the Bond Purchase Fund and shall give notice by Electronic Means to the Trustee and the Tender Agent on each date on which Series 2008B Bonds have been purchased pursuant to the remarketing provisions of the First Supplemental Trust Agreement specifying the principal amount of such Series 2008B Bonds, if any, sold by it pursuant to the remarketing provisions of the First Supplemental Trust Agreement along with a list of the purchasers showing the names and denominations in which such Series 2008B Bonds shall be registered, and the addresses and social security or taxpayer identification numbers of such purchasers. Upon receipt from the Remarketing Agent of such information, the Trustee shall prepare Series 2008B Bonds in accordance with such information received from the Remarketing Agent for registration of transfer and redelivery to the Remarketing Agent. Promptly upon receipt of such latter notice from the Remarketing Agent, the Tender Agent shall notify the Liquidity Facility Provider and the County as to the projected Funding Amount, if any.

Delivery of Series 2008B Bonds.

(a) Series 2008B Bonds purchased with money described in the First Supplemental Trust Agreement shall be made available by the Tender Agent to the Remarketing Agent for delivery to the purchasers thereof against payment therefor.

(b) Series 2008B Bonds purchased with money described in the First Supplemental Trust Agreement shall be registered in the name of the Liquidity Facility Provider and delivered in certificated form to the Liquidity Facility Provider as soon as practical following their purchase or held by the Tender Agent as agent for the Liquidity Facility Provider, as directed by the Liquidity Facility Provider.

(c) Series 2008B purchased with money described in the First Supplemental Trust Agreement shall be held in escrow by the Tender Agent for the account of the County until the Tender Agent receives further instructions from the County regarding disposition of those County Bonds.

(d) Series 2008B Bonds delivered as provided under this caption shall be registered in the manner directed by the recipient thereof.

(e) When any Bank Bonds are remarketed, the Tender Agent shall not release Series 2008B Bonds so remarketed to the Remarketing Agent until the Tender Agent has received and forwarded to the Liquidity Facility Provider the proceeds of such remarketing and (unless the Liquidity Facility is no longer to remain in effect) the Liquidity Facility has been reinstated.

Delivery of Proceeds of Sale. The proceeds of the sale by the Remarketing Agent of any Series 2008B Bonds (including Bank Bonds) shall be delivered to the Tender Agent for deposit into the Remarketing Account of the Bond Purchase Fund.

Election Not to Sell Bank Bonds. The Liquidity Facility Provider (or any subsequent owner of a Bank Bond) shall have the right, by written notice or by telephonic notice, promptly confirmed in writing to the Remarketing Agent, the Trustee and the Tender Agent, to elect not to sell the Bank Bonds or any portion thereof to a purchaser identified by the Remarketing Agent. From and after any such election not to sell the Bank Bonds, such Series 2008B Bonds shall cease to be Bank Bonds and shall bear interest as provided in the First Supplemental Trust Indenture for Series 2008B Bonds other than Bank Bonds.

Inadequate Funds for Tenders. If sufficient funds are not available for the purchase of all Series 2008B Bonds tendered or deemed tendered and required to be purchased on any Tender Date, all tendered Series 2008B Bonds shall be returned to their respective Holders and shall bear interest at the Maximum Bond Interest Rate from the date of such failed purchase until all such Series 2008B Bonds are purchased as required in accordance with the Amended and Restated Trust Agreement. Thereafter, the Trustee shall continue to take all such action available to it to obtain remarketing proceeds from the Remarketing Agent and sufficient other funds from the Liquidity Facility Provider or the County.

Creation of Funds and Accounts.

(a) Mandatory Sinking Accounts.

(i) *Creation of Series 2008A Bond Mandatory Sinking Accounts*. The Trustee shall establish and maintain within the Principal Account separate subaccounts for each of the two series of the Series 2008A Bonds, respectively. Subject to the terms and conditions set forth in the First Supplemental Trust Agreement, each of the two series of the Series 2008A Bonds shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking account payments in the amounts and upon the dates established by the First Supplemental Trust Indenture for each of the two series of the Series 2008A Bonds, respectively, as provided in the First Supplemental Trust Agreement.

(ii) *Creation of Series 2008B Bond Mandatory Sinking Accounts*. The Trustee shall establish and maintain within the Principal Account separate subaccounts for each of the two subseries of the Series 2008B Bonds, respectively. Subject to the terms and conditions set forth in the First Supplemental Trust Agreement, each of the two subseries of the Series 2008B Bonds shall be redeemed (or paid at maturity, as the case may be) by application of mandatory sinking account payments in the amounts and upon the dates established by the First Supplemental Trust Indenture for each of the two series of the Series 2008B Bonds, respectively, as provided in the First Supplemental Trust Agreement.

(b) Series 2008 Bond Costs of Issuance Fund. The Trustee shall establish and maintain until the date provided in the First Supplemental Trust Agreement, the Series 2008 Bond Costs of Issuance Fund. All money in the Series 2008 Bond Costs of Issuance Fund shall be disbursed, upon the Written Request of the County, to pay or reimburse the County for the Costs of Issuance of the Series 2008 Bonds. On the date provided in the First Supplemental Trust Agreement, or upon the earlier Written Request of the County, any remaining balance in the Series 2008 Bond Costs of Issuance Fund shall be transferred to the Bond Fund.

The Trustee shall have the right to establish such other Funds and Accounts as it shall deem necessary and appropriate to administer the trusts established under the First Supplemental Trust Indenture.

(c) Bond Purchase Fund. There is created and established with the Tender Agent a trust fund to be designated as the "Series 2008B Bond Purchase Fund." The Tender Agent shall further establish within the Bond Purchase Fund a separate trust account to be referred to in the First Supplemental Trust Indenture as a "Remarketing Account," a separate trust account to be referred to in the First Supplemental Trust Indenture as a "Liquidity Facility Purchase Account" and a separate trust account to be referred to in the First Supplemental Trust Indenture as a "County Purchase Account".

(i) *Remarketing Account*. Upon receipt of the proceeds of a remarketing of Series 2008B Bonds on a Tender Date pursuant to the First Supplemental Trust Agreement, the Tender Agent shall deposit such proceeds in the Remarketing Account of the Bond Purchase Fund for application to the Tender Price of such Series 2008B Bonds in accordance with the First Supplemental Trust Agreement and, if the Tender Agent is not a paying agent with respect to such Series 2008B Bonds, shall transmit such proceeds to the Trustee for such application. Only proceeds derived from the remarketing of Series 2008B Bonds shall be deposited into the Remarketing Account and such moneys shall not be commingled with moneys derived from any other sources. Notwithstanding the foregoing, upon receipt of the proceeds of a remarketing of Bank Bonds, the Tender Agent shall immediately pay such proceeds to the Liquidity Facility Provider.

(ii) *Liquidity Facility Purchase Account*. Upon receipt from the Liquidity Facility Provider of the immediately available funds transferred to the Tender Agent pursuant to the First Supplemental Trust Agreement, the Tender Agent shall deposit such money in the Liquidity Facility Purchase Account of the Bond Purchase Fund for application to the Tender Price of the Series 2008B Bonds required to be purchased on a Tender Date in accordance with the First Supplemental Trust Agreement to the extent that the money on deposit in the Remarketing Account of the Bond Purchase Fund shall not be sufficient. Only moneys received from the Liquidity Facility Provider pursuant to the Liquidity Facility shall be deposited into the Liquidity Facility Purchase Account and such moneys shall not be commingled with moneys derived from any other sources. Any amounts deposited in the Liquidity Facility Purchase Account and not needed with respect to any Tender Date for the payment of the Tender Price for any Series 2008B Bonds shall be immediately returned to the Liquidity Facility Provider.

(iii) *County Purchase Account*. Upon receipt from the County under the First Supplemental Trust Agreement of any funds for the purchase of tendered Series 2008B Bonds, the Tender Agent shall deposit such money, if any, in the County Purchase Account of the Bond Purchase Fund for application to the Tender Price of the Series 2008B Bonds required to be purchased on a Tender Date in accordance with the First Supplemental Trust Agreement to the extent that the money on deposit in the Remarketing Account and the Liquidity Facility Purchase Account of the Bond Purchase Fund shall not be sufficient. Only moneys received from the County shall be deposited into the County Purchase Account and such moneys shall not be commingled with moneys derived from any other sources. Any amounts deposited in the County Purchase Account and not needed with respect to any Tender Date for the payment of the Tender Price for any Series 2008B Bonds shall be immediately returned to the County.

(d) Investment of Moneys in Bond Purchase Fund. All amounts held in the Bond Purchase Fund by the Tender Agent shall be held uninvested and separate and apart from all other funds and accounts.

Authorized Application of Funds; Moneys to be Held in Trust. All moneys required to be deposited with or paid to the Trustee for the account of any fund or account referred to in any provision of the Amended and Restated Trust Agreement shall be held by the Trustee in trust, and shall, while held by the Trustee, be subject to the lien and security interest created by the First Supplemental Trust Indenture, except as otherwise specifically provided in the First Supplemental Trust Agreement.

Nonpresentment of Bonds. In the event any Bond shall not be presented for payment when the principal thereof becomes due, either at maturity, or at the date fixed for redemption thereof, or otherwise, if moneys sufficient to pay any such Bond shall have been deposited with the Trustee for the benefit of the Holder thereof, all liability of the County to the Holder thereof for the payment of such Bond shall forthwith cease, determine and be completely discharged, and thereupon it shall be the duty of the Trustee to hold such funds, uninvested or invested in Federal Securities maturing overnight, but in any event without liability for interest thereon, for the benefit of the Holder of such Bond which shall thereafter be restricted exclusively to such funds for any claim of whatever nature on its part under the Amended and Restated Trust Agreement with respect to such Bond.

Any moneys so deposited with and held by the Trustee not so applied to the payment of Bonds within two years after the date on which the same shall have become due shall be repaid by the Trustee to the County upon written direction of an County Representative, and thereafter Holders shall be entitled to look only to the County for payment, and then to the extent of the amount so repaid, and all liability of the Trustee with respect to such money shall thereupon cease, and the County shall not be liable for any interest thereon and shall not be regarded as a trustee of such money.

DEFEASANCE OF SERIES 2008B BONDS

Defeasance of Series 2008B Bonds. Outstanding Series 2008B Bonds shall be deemed to have been paid within the meaning of this caption if the Trustee shall be holding in trust for and shall have irrevocably committed to the payment of such Outstanding Series 2008B Bonds, either (i) Available Moneys, or (ii) if the Series 2008B Bonds bear interest at a Long-Term Rate to the maturity date of the Series 2008B Bonds, Federal Securities the payments on which when due, without reinvestment, together with any Available Moneys so held and so committed, will be, in the opinion of a firm of certified public accountants or other verification agent acceptable to the Trustee and the County, sufficient for the payment of all principal of and interest and premium, if any, on such Series 2008B Bonds to the date of maturity or redemption, as the case may be; provided, however, that if any of such Series 2008B Bonds are deemed to have been paid prior to the earlier of the redemption or the maturity thereof, notice of such redemption shall have been duly given to the Holders or irrevocable provision satisfactory to the Trustee shall have been duly made for the giving of such notice to the Holders.

Limitations set forth elsewhere in the Amended and Restated Trust Agreement regarding the investment of moneys held by the Trustee in the Bond Fund shall not be construed to prevent the depositing and holding in the Bond Fund of the Federal Securities described in preceding paragraph for the purpose of defeasing the lien of the Amended and Restated Trust Agreement as to Outstanding Series 2008B Bonds which have not yet become due and payable. Notwithstanding any other provision of the Amended and Restated Trust Agreement to the contrary, all Available Moneys deposited with the Trustee as provided under this caption and held in the Bond Fund or a separate escrow may be invested and reinvested, at the direction of the County, in Federal Securities (or, if the Series 2008B Bonds do not bear interest at a Long-Term Rate to the maturity date of the Series 2008B Bonds, in a money market fund that invests solely in Federal Securities and is rated in the highest category by one of Fitch, Moody's or S&P and, if more than one of such rating agencies then rates such money market fund, is rated no less than the highest rating category by each of such rating agencies then rating such money market fund) maturing in the amounts and times as set forth in the Amended and Restated Trust Agreement, and all income from all Federal Securities (or money market fund) in the hands of the Trustee pursuant to this caption which is not required for the payment of the Series 2008B Bonds and interest and redemption premium, if any, thereon with respect to which such moneys shall have been so deposited shall be deposited in the Bond Fund or such separate escrow as and when realized and collected for use and application as are other moneys deposited in the Bond Fund or such separate escrow. Notwithstanding the foregoing provisions of this paragraph, if the Series 2008B Bonds are rated by S&P at the time a deposit of Available Moneys is made under this caption, such Available Moneys may be invested solely in Federal Securities maturing or to be available to be withdrawn at par no later than the earlier of the maturity date, a mandatory purchase date, redemption date or the next possible optional tender date.

Notwithstanding any other provision of the Amended and Restated Trust Agreement to the contrary, if an Outstanding Series 2008B Bond has been deemed to be paid under this caption and the Holder or Beneficial Owner of such Series 2008B Bond delivers an optional tender notice with respect to such Series 2008B Bond that would result in a purchase of such Series 2008B Bond pursuant to the First Supplemental Trust Agreement prior to its maturity or redemption date: (1) the Remarketing Agent shall not remarket such Series 2008B Bond; (2) the Trustee shall transfer to the Tender Agent, not later than 2:30 p.m. on the Tender Date for such Series 2008B Bond, Available Moneys from the deposit made under the First Supplemental Trust Agreement sufficient to pay the Tender Price of such Series 2008B Bond; (3) the Tender Agent shall purchase such Series 2008B Bond on the Tender Date applicable to such Series 2008B Bond; and (4) such Series 2008B Bond shall be delivered to the Trustee for cancellation and shall be cancelled.

Notwithstanding any other provision of the Amended and Restated Trust Agreement to the contrary, if Outstanding Series 2008B Bonds have been deemed to be paid because a deposit of Available Moneys has been made under the First Supplemental Trust Agreement, the Interest Rate Period may not thereafter be converted to another Interest Rate Period by the County.

MISCELLANEOUS

Consents, etc., of Holders. Any consent, request, direction, approval, objection or other instrument required by the Amended and Restated Trust Agreement to be signed and executed by the Holders may be in any number of concurrent documents and may be executed by such Holders in person or by agent appointed in writing. Proof of the execution of any such consent, request, direction, approval, objection or other instrument or of the written appointment of any such agent or of the ownership of Series 2008B Bonds, if made in the following manner, shall be sufficient for any of the purposes of the Amended and Restated Trust Agreement, and shall be conclusive in favor of the Trustee with regard to any action taken by it under such request or other instrument. The fact and date of the execution by any person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by an officer authorized by law to take acknowledgments of deeds certifying that the person signing such instrument or writing acknowledged to him the execution thereof. The fact of ownership of Series 2008B Bonds and the amount or amounts, numbers and other identification of such Series 2008B Bonds, and the date of owning the same shall be proved by the registration books of the County maintained by the Trustee pursuant to the Amended and Restated Trust Agreement.

Limitation of Rights. With the exception of any rights expressly conferred in the First Supplemental Trust Indenture, nothing expressed or mentioned in or to be implied from the Amended and Restated Trust Agreement or the Series 2008B Bonds is intended or shall be construed to give to any person or company other than the parties to the First Supplemental Trust Indenture, the Holders, any legal or equitable right, remedy or claim under or with respect to the Amended and Restated Trust Agreement or any covenants, conditions and provisions contained in the First Supplemental Trust Indenture; the Amended and Restated Trust Agreement and all of the covenants, conditions and provisions of the First Supplemental Trust Indenture being intended to be and being for the sole and exclusive benefit of the parties to the First Supplemental Trust Indenture, the Holders as provided in the First Supplemental Trust Indenture.

Payments Due on Saturdays, Sundays and Holidays. In any case where a Payment Date is not a Business Day, then payment of interest or principal and any premium due on such day need not be made by the Trustee on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the Payment Date.

Extent of County Covenants; No Personal Liability. No covenant, stipulation, obligation or agreement of the County contained in the Amended and Restated Trust Agreement shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, director, officer, employee or agent of the County in his or her individual capacity; and no such person (including any such person executing the Series 2008 Bonds) shall be liable personally on the Series 2008 Bonds or be subject to any personal liability by reason of their issuance. No recourse shall be had by the County, the Trustee or any Holder for any claim based on the Amended and Restated Trust Agreement against any member, director, officer, employee or agent of the County alleging personal liability on the part of such person unless such claim is based upon the willful dishonesty of or intentional violation of law by such person.

Series 2008B Bonds Owned by County. In determining whether Holders of the requisite aggregate principal amount of the Series 2008B Bonds have concurred in any direction, consent or waiver under the Amended and Restated Trust Agreement, Series 2008B Bonds which are owned by the County (unless one or more of such Persons own all of the Series 2008B Bonds which are then outstanding, determined without regard to the provisions of the First Supplemental Trust Agreement summarized under this caption) shall be disregarded and deemed not to be outstanding for the purpose of any such determination, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only Series 2008B Bonds which the Trustee knows are so owned shall be so disregarded. Series 2008B Bonds so owned which have been pledged in good faith may be regarded as outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Series 2008B Bonds and that the pledgee is not the County (unless one or more of such Persons own all of the Series 2008B Bonds which are then outstanding, determined without regard to the provisions of the First Supplemental Trust Agreement summarized under this caption). In case of a dispute as to such right, any decision by the Trustee taken in good faith upon the advice of counsel shall be full protection to the Trustee in accordance with its standards of performance under the First Supplemental Trust Indenture. Upon request of the Trustee, the County shall specify in a certificate to the Trustee those Bonds disqualified pursuant to this caption and the Trustee may conclusively rely on such certificate.

Terms of Series 2008 Bonds Subject to the Amended and Restated Trust Agreement. Except as expressly provided in the First Supplemental Trust Agreement, every term and condition contained in the Amended and Restated Trust Agreement shall apply to this First Supplemental Trust Agreement and to the Series 2008 Bonds with the same force and effect as if the same were set forth at length in the First Supplemental Trust Indenture, with such omissions, variations and modifications thereof as may be appropriate to make the same conform to the Amended and Restated Trust Agreement.

The First Supplemental Trust Agreement and all the terms and provisions contained in the First Supplemental Trust Indenture shall form part of the Amended and Restated Trust Agreement as fully and with the same effect as if all such terms and provisions had been set forth in the Amended and Restated Trust Agreement. The Amended and Restated Trust Agreement is ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as supplemented and amended by the First Supplemental Trust Indenture.

Governing Law; Sealed Instrument. The validity and interpretation of this First Supplemental Trust Agreement and the Series 2008 Bonds shall be governed by the laws of the State. It is the intention of the County and the Trustee that the situs of the trust created by this First Supplemental Trust Agreement be, and it be administered, in the state in which is located the principal office of the Trustee from time to time acting under this First Supplemental Trust Agreement.

Effective Date of First Supplemental Trust Agreement. This First Supplemental Trust Agreement shall take effect upon its execution and delivery and the issuance of the Series 2008 Bonds.

Effect of First Supplemental Trust Agreement. The First Supplemental Trust Agreement and all of the terms and provisions contained in the First Supplemental Trust Indenture shall form part of the Amended and Restated Trust Agreement as fully and with the same effect as if all such terms and provisions had been set forth in the Amended and Restated Trust Agreement. The Amended and Restated Trust Agreement is ratified and confirmed and shall continue in full force and effect in accordance with the terms and provisions thereof, as heretofore amended and supplemented, and as amended and supplemented by the First Supplemental Trust Indenture. If there shall be any conflict between the terms of the First Supplemental Trust Agreement and the terms of the Amended and Restated Trust Agreement (as in effect on the day prior to the effective date of the First Supplemental Trust Agreement), the terms of this First Supplemental Trust Agreement shall prevail.

Severability. If any provision of the First Supplemental Trust Agreement is held to be in conflict with any applicable constitution or statue or rule of law, or is otherwise held to be unenforceable for any reason, such circumstance shall not have the effect of rendering the provision in question inoperative or unenforceable in any other part or circumstance, or of rendering any other provision or provisions contained in this First Supplemental Trust Agreement invalid, inoperative or unenforceable to any extent whatsoever. The invalidity of any one or more phrases, sentences, clauses or Sections of this First Supplemental Trust Agreement will not affect the remaining portions of this First Supplemental Trust Agreement.

Governing Law. The First Supplemental Trust Agreement shall be governed by and interpreted in accordance with internal laws of the State without regard to conflicts of laws principles.

Prosecution and Defense of Suits. The County will defend against every suit, action or, proceeding at any time brought against the Trustee upon any claim to the extent involving the failure of the County to fulfill its obligations under the Amended and Restated Trust Agreement; provided that the Trustee or any affected Holder at its election may appear in and defend any such suit, action or proceeding. The County will indemnify and hold harmless the Trustee against any and all liability claimed or asserted by any person to the extent arising out of such failure by the County, and will indemnify and hold harmless the Trustee against any attorney's fees or other expenses which it may incur in connection with any litigation to which it may become a party by reason of its actions under the Amended and Restated Trust Agreement, except for any loss, cost, damage or expense resulting from negligence, willful misconduct or breach of duty by the Trustee. Notwithstanding any contrary provision of the First Supplemental Trust Indenture, this covenant shall remain in full force and effect even though all Series 2008 Bonds secured by the First Supplemental Trust Indenture may have been fully paid and satisfied.

APPENDIX D

FORM OF BOND COUNSEL APPROVING OPINION

Upon issuance of the Series 2008A Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel, proposes to render its final approving opinion with respect to the Series 2008A Bonds in substantially the following form:

[Date of Delivery]

County of San Diego
San Diego, California

County of San Diego
Taxable Pension Obligation Bonds
Series 2008
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the County of San Diego (the "County") of $443,515,000 aggregate principal amount of County of San Diego Taxable Pension Obligation Bonds, Series 2008A and Series 2008B (collectively, the "Series 2008 Bonds"), pursuant to Articles 10 and 11 of Chapter 3 of Division 2 of Title 5 of the California Government Code (the "Act") and an Amended and Restated Trust Agreement (the "Amended and Restated Trust Agreement"), as supplemented by that certain 2008 First Supplemental Trust Agreement (the "2008 Supplemental" and, together with the Amended and Restated Trust Agreement, the "Trust Agreement"), each dated as of August 1, 2008, by and between the County and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee").

In such connection, we have reviewed the Trust Agreement, the opinions of counsel to the Trustee and the County, certificates of the County, the Trustee and others and such other documents, matters and opinions to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, including the default judgment rendered on December 16, 1993, by the Superior Court of the County of San Diego in the action entitled *County of San Diego v. All Persons*, No. 670668, filed November 10, 1993, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Series 2008 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. We call attention to the fact that the rights and obligations under the Series 2008 Bonds and the Trust Agreement may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2008 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2008 Bonds constitute the valid and binding limited obligations of the County.

2. The Trust Agreement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the County.

3. The Series 2008 Bonds do not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation, and neither the Series 2008 Bonds nor the obligation of the County to make payment of the interest on or the principal of the Series 2008 Bonds constitutes an indebtedness of the County or the State, or any of its political subdivisions, in contravention of any constitutional or statutory debt limitation or restriction.

4. Interest on the Series 2008 Bonds is not excludable 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. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2008 Bonds.

Faithfully yours,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM AND GLOBAL CLEARANCE PROCEDURES

THE INFORMATION IN THIS APPENDIX E CONCERNING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK AND ITS BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE COUNTY AND THE UNDERWRITERS BELIEVE TO BE RELIABLE, BUT THE COUNTY AND THE UNDERWRITERS TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2008A Bonds. The Series 2008A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Series 2008A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, credit providers, 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, credit providers, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 2008A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2008A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmations from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2008A Bonds, except in the event that use of the book-entry system for the Series 2008A Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2008A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008A Bonds: DTC records reflect only the identity of the Direct Participants to whose accounts such Series 2008A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. The County will not have any responsibility or obligation to such Direct Participants and Indirect Participants or the persons for whom they act as nominees with respect to the Series 2008A Bonds. Beneficial Owners of the Series 2008A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2008A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2008A Bond documents. For example, Beneficial Owners of the Series 2008A Bonds may wish to ascertain that the nominee holding the Series 2008A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Series 2008A Bonds of a particular maturity are being redeemed, DTC's usual practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2008A Bonds of such maturity to be redeemed. However, the County understands that, in the case of a partial redemption of taxable bonds of a particular issue maturing on a particular date that are subject to proportional redemption among owners (such as the Series 2008A Bonds), DTC will reduce the position of each Direct Participant to whose DTC account the taxable bonds of such issue and maturity are credited on a proportional basis, subject to the authorized denominations. In addition, the County understands that, in such case, Direct Participants and Indirect Participants to whose accounts interests in such taxable bonds are credited also will reduce the positions of the persons owning beneficial interests in such taxable bonds on a proportional basis, subject to the authorized denominations. Neither the County nor the Trustee can provide any assurance that DTC, the Direct Participants or the Indirect Participants will allocate redemptions of the Series 2008A Bonds of a particular maturity among Beneficial Owners on such a proportional basis.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2008A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2008A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2008A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE COUNTY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2008A BONDS (I) PAYMENTS OF PRINCIPAL OF AND INTEREST ON THE SERIES 2008A BONDS (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SERIES 2008A BONDS OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2008A BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON SERIES 2008A BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE TRUST AGREEMENT; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SERIES 2008A BONDS.

DTC may discontinue providing its services as depository with respect to the Series 2008A Bonds at any time by giving reasonable notice to the County or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2008A Bonds are required to be printed and delivered.

The County may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2008A Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof.

GLOBAL CLEARANCE PROCEDURES

The information that follows is based solely on information provided by the Euroclear Operator. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Clearstream, Luxembourg and Euroclear. The Series 2008A Bonds sold in offshore transactions will be initially issued to investors through the book-entry facilities of DTC, or Clearstream, Luxembourg and Euroclear in Europe if the investors are participants in those systems, or indirectly through organizations that are participants in the systems. For any of such Bonds, the record holder will be DTC's nominee. Clearstream, Luxembourg and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream, Luxembourg's and Euroclear's names on the books of their respective depositories. The depositories, in turn, will hold positions in customers' securities accounts in the depositories' names on the books of DTC.

Because of time zone differences, the securities account of a Clearstream, Luxembourg or Euroclear Participant as a result of a transaction with a participant, other than a depository holding on behalf of

Clearstream, Luxembourg or Euroclear, will be credited during the securities settlement processing day, which must be a business day for Clearstream, Luxembourg or Euroclear, as the case may be, immediately following the DTC settlement date. These credits or any transactions in the securities settled during the processing will be reported to the relevant Euroclear Participant or Clearstream, Luxembourg Participant on that business day. Cash received in Clearstream, Luxemborg or Euroclear as a result of sales of securities by or through a Clearstream Participant or Euroclear Participant to a DTC Participant, other than the depository for Clearstream, Luxembourg or Euroclear, will be received with value on the DTC settlement date, but will be available in the relevant Clearstream, Luxembourg or Euroclear cash account only as of the business day following settlement in DTC.

Transfers between participants will occur in accordance with DTC rules. Transfers between Clearstream, Luxembourg Participants or Euroclear Participants will occur in accordance with their respective rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg Participants or Euroclear Participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by the relevant depositories; however, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in the system in accordance with its rules and procedures and within its established deadlines in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Clearstream, Luxembourg Participants or Euroclear Participants may not deliver instructions directly to the depositories.

Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its participating organizations ("Clearstream, Luxembourg Participants") and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg Participants through electronic book-entry changes in accounts of Clearstream, Luxembourg Participants, thereby eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to its Clearstream, Luxembourg Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic markets in several countries. As a professional depository, Clearstream, Luxembourg is subject to regulation by the Luxembourg Monetary Institute. Clearstream, Luxembourg Participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream, Luxembourg Participant, either directly or indirectly.

Euroclear was created to hold securities for participants of the Euroclear system ("Euroclear Participants") and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. The Euroclear system includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described above. Euroclear is operated by Euroclear Bank S.A./N.V. (the "Euroclear Operator"), under contract with Euroclear Clearance System, S.C., a Belgian cooperative corporation (the "Cooperative"). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for the Euroclear system on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks, securities brokers and dealers and other professional financial intermediaries).

Indirect access to the Euroclear system is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

The Euroclear Operator is the Belgian branch of a New York banking corporation which is a member bank of the Federal Reserve System. As such, it is regulated and examined by the Board of Governors of the Federal Reserve System and the New York State Banking Department, as well as the Belgian Banking Commission. Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear Systems and applicable Belgian law (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within the Euroclear system, withdrawal of securities and cash from the Euroclear system, and receipts of payments with respect to securities in the Euroclear system. All securities in the Euroclear system are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

THE COUNTY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 2008A BONDS (I) PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE SERIES 2008A BONDS (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SERIES 2008A BONDS OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SERIES 2008A BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR, EUROCLEAR PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON THE SERIES 2008A BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CLEARSTREAM, CLEARSTREAM PARTICIPANTS, EUROCLEAR OR EUROCLEAR PARTICIPANTS OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS UNDER THE TERMS OF THE TRUST AGREEMENT; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SERIES 2008A BONDS.

COUNTY OF SAN DIEGO • TAXABLE PENSION OBLIGATION BONDS, SERIES 2008A

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