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 sandag.org

# MEETING NOTICE AND AGENDA

## **TransNet INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE**

The ITOC may take action on any item appearing on this agenda.

### MEMBER AGENCIES

Cities of  
 Carlsbad  
 Chula Vista  
 Coronado  
 Del Mar  
 El Cajon  
 Encinitas  
 Escondido  
 Imperial Beach  
 La Mesa  
 Lemon Grove  
 National City  
 Oceanside  
 Poway  
 San Diego  
 San Marcos  
 Santee  
 Solana Beach  
 Vista  
 and  
 County of San Diego

### ADVISORY MEMBERS

Imperial County  
 California Department  
 of Transportation  
 Metropolitan  
 Transit System  
 North County  
 Transit District  
 United States  
 Department of Defense  
 San Diego  
 Unified Port District  
 San Diego County  
 Water Authority  
 Southern California  
 Tribal Chairmen's Association  
 Mexico

Wednesday, November 4, 2015

9:30 a.m.

SANDAG, 7th Floor Conference Room  
 401 B Street, Suite 800  
 San Diego, CA 92101

Staff Contact: José A. Nuncio  
 (619) 699-1908  
 jose.nuncio@sandag.org

### **AGENDA HIGHLIGHTS**

- **CITY OF SAN DIEGO TRANSPORTATION CAPITAL IMPROVEMENT PROGRAM STREAMLINING UPDATE**
- **OVERVIEW OF DEVELOPMENTS IN THE FINANCIAL MARKETS**

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# **TransNet INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE**

Wednesday, November 4, 2015

<b>ITEM NO.</b>		<b>RECOMMENDATION</b>
+1.	<b>APPROVAL OF MEETING MINUTES</b>	<b>APPROVE</b>
	The Independent Taxpayer Oversight Committee (ITOC) is asked to review and approve the minutes from its October 14, 2015, meeting.	Estimated Start Time: 9:30 a.m.
2.	<b>PUBLIC COMMENTS/COMMUNICATIONS/MEMBER COMMENTS</b>	
	Members of the public shall have the opportunity to address the ITOC on any issue within the jurisdiction of SANDAG that is not on this agenda. Anyone desiring to speak shall reserve time by completing a "Request to Speak" form and giving it to the meeting coordinator prior to speaking. Public speakers should notify the meeting coordinator if they have a handout for distribution to working group members. Public speakers are limited to three minutes or less per person. ITOC members also may provide information and announcements under this agenda item.	Estimated Start Time: 9:35 a.m.
<b>CONSENT</b>		
+3.	<b>2016 ITOC MEETING CALENDAR (Ariana zur Nieden)</b>	<b>APPROVE</b>
	The ITOC is asked to approve the meeting calendar for the upcoming year.	Estimated Start Time: 9:40 a.m.
<b>REPORTS</b>		
4.	<b>SUMMARY OF TRANSPORTATION COMMITTEE AND BOARD OF DIRECTORS ACTIONS ON <i>TransNet</i>-RELATED AGENDA ITEMS (Ariana zur Nieden)</b>	<b>INFORMATION</b>
	This monthly briefing is intended to keep the ITOC informed about relevant SANDAG actions taken on <i>TransNet</i> -related projects and programs. Staff will provide a summary of Transportation Committee and Board of Directors actions on agenda items that the ITOC has reviewed.	Estimated Start Time: 9:45 a.m.
5.	<b>CITY OF SAN DIEGO TRANSPORTATION CAPITAL IMPROVEMENT PROGRAM STREAMLINING UPDATE (Hasan Yousef, James Nagelvoort, and Kris McFadden, City of San Diego)</b>	<b>INFORMATION</b>
	Since 2011, City of San Diego staff has presented biannual updates to ITOC summarizing <i>TransNet</i> local street and road fund balance updates and project delivery streamlining efforts. The next biannual update is scheduled to be presented at the November 4, 2015, ITOC meeting.	Estimated Start Time: 9:50 a.m.

**+6. PROPOSED AMENDMENT TO SANDAG BOARD POLICY NO. 031: DISCUSSION**  
***TransNet* ORDINANCE AND EXPENDITURE PLAN RULES**  
**(Lisa Kondrat-Dauphin)**

Staff is proposing revisions to Rule 6 of Board Policy No. 031: *TransNet* Ordinance and Expenditure Plan Rules to clarify how the fund accounting called for under Rule 6 applies to interest accrued on funds provided under the Local Street and Road Program. This item is presented for ITOC discussion.

Estimated Start Time: 10:15 a.m.

**+7. OVERVIEW OF DEVELOPMENTS IN THE FINANCIAL MARKETS INFORMATION**  
**(Ray Major and André Douzdjian)**

Staff will provide the quarterly briefing intended to keep the ITOC informed about the latest developments in the financial markets, the economy, and sales tax revenues, and the strategies being explored and implemented to minimize possible impacts to the *TransNet* program.

Estimated Start Time: 10:35 a.m.

**8. FUTURE MEETING SCHEDULE INFORMATION**

The next regular ITOC meeting is scheduled for Wednesday, January 13, 2016, at 9:30 a.m.

Estimated Start Time: 10:55 a.m.

**9. ADJOURNMENT**

+ next to an agenda item indicates an attachment

# INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

November 4, 2015

AGENDA ITEM NO.: **1**

**Action Requested: APPROVE**

OCTOBER 14, 2015, MEETING MINUTES

File Number 1500200

The meeting of the *TransNet* Independent Taxpayer Oversight Committee (ITOC) was called to order by Chair Brad Barnum at 9:32 a.m.

1. MEETING MINUTES (APPROVE)

Action: Upon a motion by Mr. Kai Ramer, and a second by Mr. Dick Vortmann, the ITOC approved the September 9, 2015, meeting minutes. Yes – Chair Barnum, Vice Chair Stewart Halpern, Mr. Dustin Fuller, Ms. Carolyn Lee, Mr. Ramer, and Mr. Vortmann. No - None. Abstain – None. Absent – Mr. Jonathan Tibbitts.

2. PUBLIC COMMENTS/COMMUNICATIONS/MEMBER COMMENTS (INFORMATION)

Chair Barnum stated that the SANDAG Board of Directors unanimously approved San Diego Forward: The Regional Plan at its meeting on October 9, 2015.

## CONSENT

3. *TransNet* SENIOR MINI-GRANT PROGRAM STATUS UPDATE (INFORMATION)

This report provided an overview of the progress made to date by each grant recipient for the Senior Mini-Grant program.

4. *TransNet* SMART GROWTH INCENTIVE PROGRAM AND ACTIVE TRANSPORTATION GRANT PROGRAM: QUARTERLY PROGRESS REPORT AND PROPOSED GRANT AMENDMENTS (RECOMMEND)

This report provided an overview of progress made by *TransNet* Smart Growth Incentive Program (SGIP) and Active Transportation Grant Program (ATGP) recipients through June 30, 2015. The ITOC was asked to recommend that the Transportation Committee approve one no-cost, time-only schedule extension for the ATGP for the City of San Diego's Linda Vista Comprehensive Active Transportation Strategy Project. The ITOC also was asked to recommend that the Regional Planning Committee approve a no-cost, time-only schedule extension for the SGIP for the City of San Diego's Morena Boulevard Project.

Action: Upon a motion by Mr. Vortmann, and a second by Vice Chair Halpern, the ITOC approved Consent Item Nos. 3 and 4. Yes – Chair Barnum, Vice Chair Halpern, Mr. Fuller, Ms. Lee, Mr. Ramer, and Mr. Vortmann. No - None. Abstain – None. Absent – Mr. Tibbitts.

## REPORTS

### 5. SUMMARY OF TRANSPORTATION COMMITTEE AND BOARD OF DIRECTORS ACTIONS ON *TransNet*-RELATED AGENDA ITEMS (INFORMATION)

Ariana zur Nieden, Senior Regional Planner, provided this briefing to keep the ITOC informed about relevant SANDAG actions taken on *TransNet*-related projects and programs.

Ms. zur Nieden provided a summary of Transportation Committee and Board of Directors actions on agenda items that the ITOC has reviewed: *TransNet* Environmental Mitigation Program: FY 2016 – FY 2017 Work Plan and FY 2016 Annual Funding Allocation, and San Diego Forward: The Regional Plan, including its Sustainable Communities Strategy and Final Environmental Impact Report.

Action: This item was presented for information.

### 6. PROPOSED ACTIVE TRANSPORTATION PROGRAM AND *TransNet* PROGRAM FUNDS EXCHANGE (DISCUSSION)

On October 23, 2015, the SANDAG Board of Directors will consider the San Diego Regional Active Transportation Program (ATP) competition results for California Transportation Commission consideration. In order to reduce administrative burdens for regional projects, SANDAG worked with successful applicants to consolidate the allocation of ATP funds. The ITOC was asked to discuss the proposed Regional ATP and *TransNet* exchange of funds for consistency with *TransNet* Extension Ordinance provisions.

Jenny Russo, Senior Contracts and Procurement Analyst, presented the item.

Action: This item was presented for discussion.

### 7. 2014 REGIONAL TRANSPORTATION IMPROVEMENT PROGRAM: AMENDMENT NO. 8 (DISCUSSION)

On September 26, 2014, the Board of Directors adopted the 2014 Regional Transportation Improvement Program (RTIP), the multiyear program of proposed major transit, highway, arterial and bikeway projects in the San Diego region covering the period FY 2015 to FY 2019. This amendment represents a regular quarterly amendment to the 2014 RTIP and reflects changes as requested by member agencies. The ITOC was asked to review and discuss the 2014 RTIP Amendment No. 8, focusing on the *TransNet* Program of Projects.

Dawn Vettese, Financial Programming Manager, presented the item.

Action: This item was presented for discussion.

8. FY 2015 *TransNet* TRIENNIAL PERFORMANCE AUDIT UPDATE: ITOC MEMBER TERMS (DISCUSSION)

At its June 10, 2015, meeting, the ITOC accepted the final FY 2015 *TransNet* Triennial Performance Audit report and recommendations. The performance audit recommended that, to improve the effectiveness of ITOC in fulfilling its responsibilities, alternating the ending terms of ITOC members so that no more than two terms end in any given year, should be considered. The ITOC was asked to discuss the proposed options for addressing Recommendation No. 18 and whether any changes to the existing staggered term limits are warranted.

Ms. zur Nieden presented the item.

The ITOC did not find a compelling reason to change the current process and elected to not propose changes to existing ITOC member terms at this time. In addition, ITOC members requested that staff consider whether current members who were appointed to fill mid-term vacancies could serve a partial term at the end of an existing term in order to serve for a total of eight years as per the *TransNet* Extension Ordinance.

Action: This item was presented for discussion.

9. BAYSHORE BIKEWAY PROJECT UPDATE (INFORMATION)

The Bayshore Bikeway is one of the major corridors in the Regional Bike Plan. Work currently is under way on three segments of the bikeway.

Stephan Vance, Senior Regional Planner, provided an overview of the bikeway and a status report on the active projects.

Action: This item was presented for information.

10. FUTURE MEETING SCHEDULE (INFORMATION)

The next regular ITOC meeting is scheduled for Wednesday, November 4, 2015, at 9:30 a.m.

11. ADJOURNMENT

Chair Barnum adjourned the meeting at 11:11 a.m.

Meeting Start Time: 9:32 a.m.  
 Meeting Adjourned Time: 11:11 a.m.

**INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE  
 MEETING ATTENDANCE FOR SEPTEMBER 9, 2015**

JURISDICTION/ORGANIZATION	NAME	ATTENDING	COMMENTS
Licensed Civil/Traffic Engineer	Jonathan Tibbitts	No	
Finance/Budgeting	Stewart Halpern	Yes	Vice Chair
Biology/Environmental	Dustin Fuller	Yes	
Licensed Engineer	Kai Ramer	Yes	
Right of Way Acquisition	Carolyn Lee	Yes	
Private Sector	Dick Vortmann	Yes	
Contractor/Construction	Brad Barnum	Yes	Chair
ADVISORY MEMBERS LISTED BELOW (ATTENDANCE <b>NOT</b> COUNTED FOR QUORUM PURPOSES)			
San Diego County Auditor's Office	Tracy Drager (1st Alt.)	No	
SANDAG STAFF MEMBERS LISTED BELOW			
Kim Kawada, Chief Deputy Executive Director José Nuncio, <i>TransNet</i> Department Director Ariana zur Nieden, Senior Regional Planner			



# INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

November 4, 2015

AGENDA ITEM NO.: **3**

**Action Requested: APPROVE**

2016 ITOC MEETING CALENDAR

File Number 1500200

## **Introduction**

The Independent Taxpayer Oversight Committee (ITOC) typically meets every second Wednesday of the month. The proposed meeting dates for calendar year 2016 are shown below. The ITOC is asked to approve the meeting calendar for the upcoming year.

- January 13, 2016
- February 10, 2016
- March 9, 2016
- April 13, 2016
- May 11, 2016
- June 8, 2016
- July 13, 2016
- August 10, 2016
- September 14, 2016
- October 12, 2016
- November 9, 2016
- December 14, 2016

Meeting dates in August and December 2016 are included in the list above; however, typically the ITOC has not held meetings in both of these months. Consistent with prior ITOC direction, agendas and monthly meetings will continue to be managed so that when a potential meeting agenda includes only information items or action items that are not time sensitive, cancelling that meeting and rescheduling those items to the next regular meeting will be considered.

Key Staff Contact: Ariana zur Nieden, (619) 699-6961, [ariana.zurnieden@sandag.org](mailto:ariana.zurnieden@sandag.org)

# INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

November 4, 2015

AGENDA ITEM NO.: **6**

**Action Requested: DISCUSSION**

PROPOSED AMENDMENT TO SANDAG BOARD POLICY NO. 031:  
*TransNet* ORDINANCE AND EXPENDITURE PLAN RULES

File Number 1500100

## **Introduction**

SANDAG Board Policy No. 031: *TransNet* Ordinance and Expenditure Plan Rules sets forth a number of rules to implement the provisions of the original *TransNet* Ordinance (San Diego Transportation Commission Ordinance 87-1) and the *TransNet* Extension Ordinance (San Diego Transportation Commission Ordinance 04-01). Rule 6 of this Policy, "Fund Accounting and Interest Allocation" includes a requirement that each recipient agency create a separate fund for *TransNet* revenues or implement another similar method to maintain separate accountability for *TransNet* revenue and expenditures.

Section 2.C.1. of the *TransNet* Extension Ordinance establishes funding for the Local Street and Road Program. Under this section, a minimum of 70 percent of such funding should be allocated to construction of new or expanded facilities, major rehabilitation and reconstruction of roadways, traffic signal coordination and related traffic operations improvements, transportation-related community infrastructure improvements to support smart growth development, capital improvements needed to facilitate transit services and facilities, and operating support for local shuttle and circulator routes and other services. No more than 30 percent of the remaining funding provided under this Program may be allocated for local street and road maintenance purposes.

In order to clarify how the fund accounting called for under Rule 6 applies to interest accrued on funds provided under the Local Street and Road Program, language is proposed to be added to Rule 6 (Attachment 1) clarifying that all interest earned on Local Street and Road Programs is subject to the 70/30 split described above. This would treat interest income the same as other revenues under the Program, and is consistent with current practice.

The ITOC is asked to discuss the proposed changes to SANDAG Board Policy No. 031, in substantially the same form as Attachment 1.

**Next Steps**

Proposed amendments to Board Policy No. 031 are scheduled for consideration by the Executive Committee on November 6, 2015, and by the Board of Directors thereafter.

Attachment: 1. Excerpts of SANDAG Board Policy No. 031 with Proposed Amendments to Rule 6

Key Staff Contact: Lisa Kondrat-Dauphin, (619) 699-1942, [lisa.kondrat-dauphin@sandag.org](mailto:lisa.kondrat-dauphin@sandag.org)

**Rule #6: Fund Accounting and Interest Allocation**

**Adoption Date:** March 23, 1990 (Resolution RC90-35)

**Amendment:** Amended November 18, 2005, ~~and~~ July 27, 2012, and 2015

**Text:** For the purposes of determining compliance with Section 12 of Ordinance 87-1 and Section 13 of Ordinance 04-01, each agency shall maintain a separate fund (fund accounting) for *TransNet* revenues, if possible. Where the creation of a separate fund is not possible due to accounting methodology used by the agency, an alternative approach to maintaining separate accountability for *TransNet* revenue and expenditures must be developed and submitted to the Commission staff for concurrence. Interest earned on *TransNet* revenues received by the agency must be allocated to the *TransNet* fund and used only for projects approved by the Commission in the Program of Projects. Except as allowed below for the Local Street and Road Program and Transit System Service Improvements Program, interest accrued must be applied to each active project that carries an outstanding balance. The agency can determine the method of the interest distribution to be validated by the audit.

For the Local Street and Road Program and Transit System Service Improvements Program that receive annual funding allocations, interest accrued may be pooled and must be applied to one or more active projects in accordance with the RTIP process. All interest earned on Local Street and Road Programs is subject to Section 2.C.1. of Ordinance 04-01.

**Rule #7: Program of Projects Approval Process and Amendments**

**Adoption Date:** March 23, 1990 (Resolution RC90-35)

**Amendments:** Amended November 18, 2005, December 15, 2006, December 21, 2007, and September 26, 2008

**Text:** Each local agency shall develop a five-year list of projects to be funded with *TransNet* revenues under Section 2D of Ordinance 87-1 and Section 4D of Ordinance 04-01 in accordance with the Regional Transportation Improvement Program (RTIP) update schedule. All projects a local agency wishes to include in its Program of Projects (POP) must be consistent with the long-range Regional Transportation Plan and approved by the Commission for inclusion in the RTIP. A local agency's projects shall not receive Commission approval until the Commission receives a resolution from the local agency that documents that the local agency held a noticed public meeting with an agenda item that clearly identified the proposed list of projects prior to approval by the local agency's legislative body of the projects. The language that must be included in the resolution and the deadlines for submission shall be prescribed by the Commission. The resolution shall contain the provisions set forth in Rule #15.

A POP amendment shall be initiated when a local agency desires to revise the approved POP, which includes but is not limited to, adding a new project, deleting an existing project, revising the project scope, or otherwise changing the *TransNet*

# INDEPENDENT TAXPAYER OVERSIGHT COMMITTEE

November 4, 2015

AGENDA ITEM NO.: **7**

**Action Requested: INFORMATION**

OVERVIEW OF DEVELOPMENTS IN THE FINANCIAL MARKETS

File Number 1500200

## Introduction

Staff provides quarterly briefings intended to keep the Independent Taxpayer Oversight Committee (ITOC) informed about the latest developments in the financial markets, the economy, sales tax revenues, and the strategies being explored and implemented to minimize possible impacts to the *TransNet* program. At the November 4, 2015, ITOC meeting, staff will provide an update on municipal market conditions, the current SANDAG debt portfolio, the economy, and sales tax revenues.

## Discussion

### *Market Review and Update*

#### *Overview*

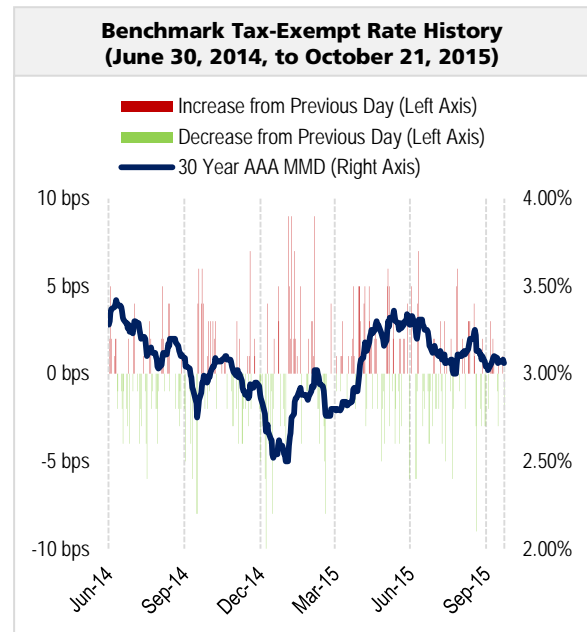
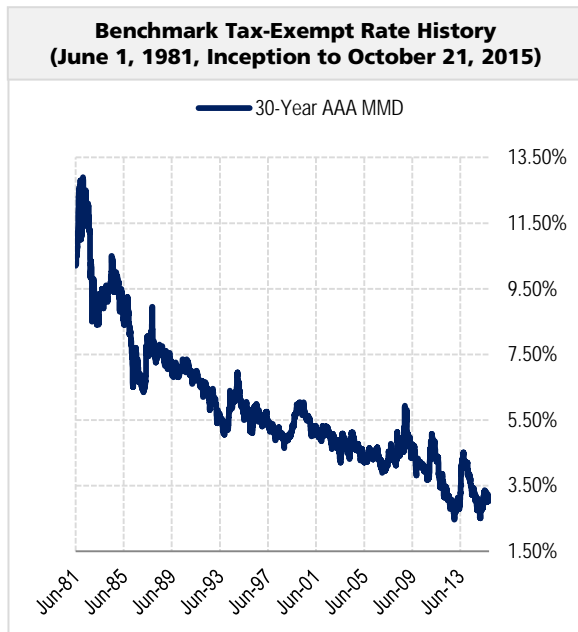
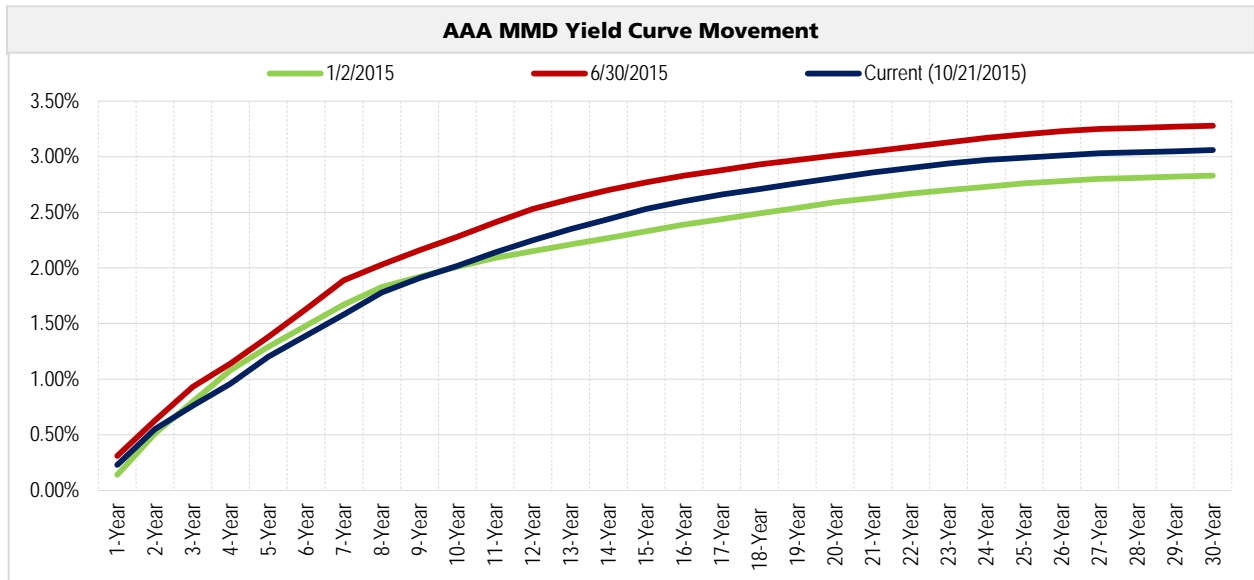
The U.S. economy continued its forward progress, albeit more haltingly. Second quarter gross domestic product was revised upward to 3.9 percent as strong consumer spending continued to drive improving U.S. economic conditions, but more recent economic releases suggest the U.S. economy is slowing from this pace. The labor market exhibited surprising weakness as the two-month increase in jobs averaged 142,000, down from the recent pace of adding more than 200,000 jobs per month.

2015 AAA MMD Rate Movements					
Maturity	12/31/14	3/31/15	6/30/15	9/30/15	10/21/15
3-Year	0.78%	0.82%	0.93%	0.79%	0.76%
5-Year	1.32%	1.35%	1.38%	1.27%	1.20%
10-Year	2.04%	1.96%	2.28%	2.03%	2.02%
20-Year	2.58%	2.45%	3.01%	2.80%	2.81%
30-Year	2.86%	2.80%	3.28%	3.04%	3.06%

The Federal Open Market Committee (FOMC) chose not to raise the federal funds target rate at its September meeting. Although the U.S. economy has avoided the recent global volatility, the FOMC cited concern about “recent global economic and financial developments.” However, FOMC officials continue to condition investors for a rate hike before the end of the year.

While periods surrounding the September Federal Reserve decision featured heightened volatility—there was a sharp increase in yields increase ahead of the FOMC meeting, but the move was quickly reversed after the “no hike” decision—the fixed-income markets have traded in a relatively tight range since the last ITOC meeting—both 30-year tax-exempt and taxable benchmark rates have been

trading within a 25 basis point band. Currently, the 30-year AAA MMD is 3.06 percent—this rate has been lower only 3.95 percent of the time since the inception of the AAA MMD index.



**Municipal Market Supply<sup>1</sup>**

Municipal market supply has been getting lighter as the year has progressed. While the first quarter of 2015 experienced municipal bond issuance at a level 66.6 percent higher than the same time period last year, the next three months saw supply slow down to a pace 28.7 percent higher than the same period last year. And the third quarter saw supply slow down to a pace 13.4 percent higher than the third quarter of 2014.

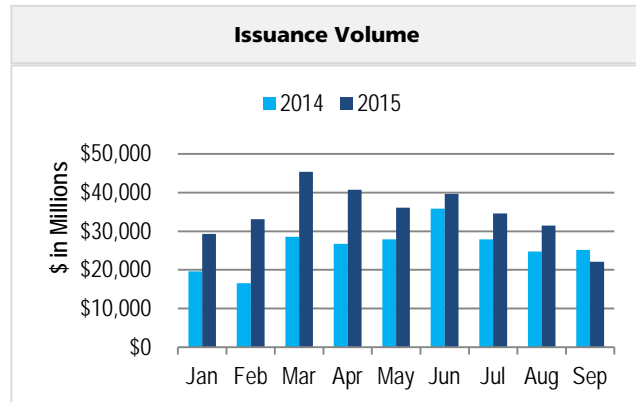
<sup>1</sup> Issuance data from Thomson Reuters

In September, municipal bond issuance volume decreased by 12.2 percent to \$22.1 billion compared to \$25.2 billion in September 2014.

Long-term municipal bond issuance volume through the third quarter of 2015 increased by 34.1 percent to \$312.5 billion in 10,075 issues compared to \$233.0 billion in 8,016 issues through the same period in 2014.

Refunding transactions continue to dominate the increase in supply compared to last year. In the first nine months of 2015, refunding volume has increased by 62.8 percent to \$134.8 billion from \$82.8 billion last year and new-money volume increased by 4.7 percent to \$110.8 billion from \$105.8 billion last year.

The transportation sector's issuance volume has decreased by 9.2 percent in the first three quarters of 2015 to \$33.3 billion in 363 issues from \$36.7 billion in 375 issues in the same period last year.



**Interest Rate Forecasts**

Weakness in emerging market economies, most notably China, changed market psychology, triggering more volatility and trades designed to reduce investor risk. This affected equities most directly (they lost value), but also credit markets (where treasuries and other high quality sovereign debt gained value, while high-yield and emerging market debt were punished). The concern even filtered into the FOMC's recent decision.

As mentioned earlier, the FOMC chose not to raise the federal funds target rate at its September meeting. However, FOMC officials continue to condition investors for a rate hike before the end of the year. The disconnect has increased between the FOMC's outlook for the economy and that of investors, with the central bank forecasting a trend of solid growth that would support a hike in short term rates later this year, while investors are betting on no increase before 2016.

While the Federal Reserve had indicated that it plans to raise rates slower than previously predicted, it is still expected that when the eventual monetary policy tightening commences, increases on the short-end of the yield curve will outpace increases on the long-end. This could create opportunities for SANDAG's short-term investments while continuing to support relatively low long-term borrowing rates in the market, which SANDAG can choose to take advantage of, if desired.

The table below provides an average of interest rate forecasts by industry professionals. These are surveyed and compiled by Bloomberg. As noted, the ten-year US Treasury rate is forecast to increase to 2.31 percent by the fourth quarter of calendar year 2015. The 30-year US Treasury is forecast to increase to 3.07 percent by the fourth quarter of calendar year 2015. The two-year US Treasury is forecasted to increase to 0.92 percent by the fourth quarter of 2015. All these levels are lower than what we showed was forecast in our last ITOC update.

The Street's Interest Rate Forecast <sup>2</sup>							
Forecast	10/21/15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17
30-Year UST	2.86%	3.07%	3.21%	3.31%	3.42%	3.53%	3.64%
10-Year UST	2.03%	2.31%	2.44%	2.59%	2.74%	2.86%	3.00%
2-Year UST	0.63%	0.92%	1.13%	1.34%	1.54%	1.71%	1.94%
3M LIBOR	0.32%	0.45%	0.66%	0.89%	1.14%	1.32%	1.57%
Fed Funds Target Rate	0.25%	0.40%	0.60%	0.80%	1.05%	1.25%	1.45%

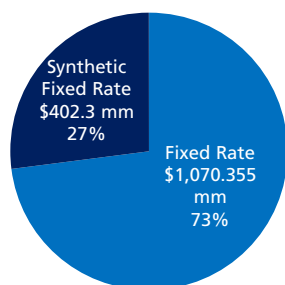
## Debt Portfolio Overview and Update

### Outstanding Debt Overview

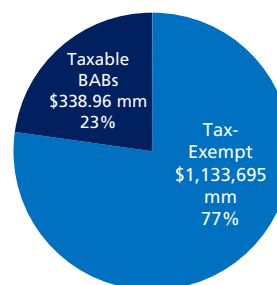
SANDAG has \$1.47 billion of outstanding long-term debt, consisting of the Series 2008 variable-rate bonds, the 2010 Series A taxable Build America Bonds, the 2010 Series B tax-exempt fixed-rate bonds, the 2012 Series A tax-exempt fixed-rate bonds, and the 2014 Series A tax-exempt fixed-rate bonds. Of the total debt portfolio, 27 percent consists of synthetic fixed-rate bonds (variable-rate bonds hedged with fixed-payer interest rate swaps) and the remaining 73 percent are fixed-rate bonds. A summary of the outstanding bonds is tabulated and graphically presented below.

Summary of Outstanding Debt						
Series	Tax Status	Coupon Type	Original Issue Size	Outstanding Par	Call Option	Final Maturity
2008A	Tax-Exempt	Variable-Rate	\$150,000,000	\$100,575,000	Current	4/1/2038
2008B	Tax-Exempt	Variable-Rate	\$150,000,000	\$100,575,000	Current	4/1/2038
2008C	Tax-Exempt	Variable-Rate	\$150,000,000	\$100,575,000	Current	4/1/2038
2008D	Tax-Exempt	Variable-Rate	\$150,000,000	\$100,575,000	Current	4/1/2038
2010A	Taxable BABs	Fixed-Rate	\$338,960,000	\$338,960,000	Make-Whole	4/1/2048
2010B	Tax-Exempt	Fixed-Rate	\$11,040,000	\$8,230,000	4/1/2020	4/1/2030
2012A	Tax-Exempt	Fixed-Rate	\$420,585,000	\$373,165,000	4/1/2022	4/1/2048
2014A	Tax-Exempt	Fixed-Rate	\$350,000,000	\$350,000,000	4/1/2024	4/1/2048
<b>Total</b>				<b>\$1,472,655,000</b>		

Outstanding Par Breakdown by Fixed and Hedged



Outstanding Par Breakdown by Tax Status

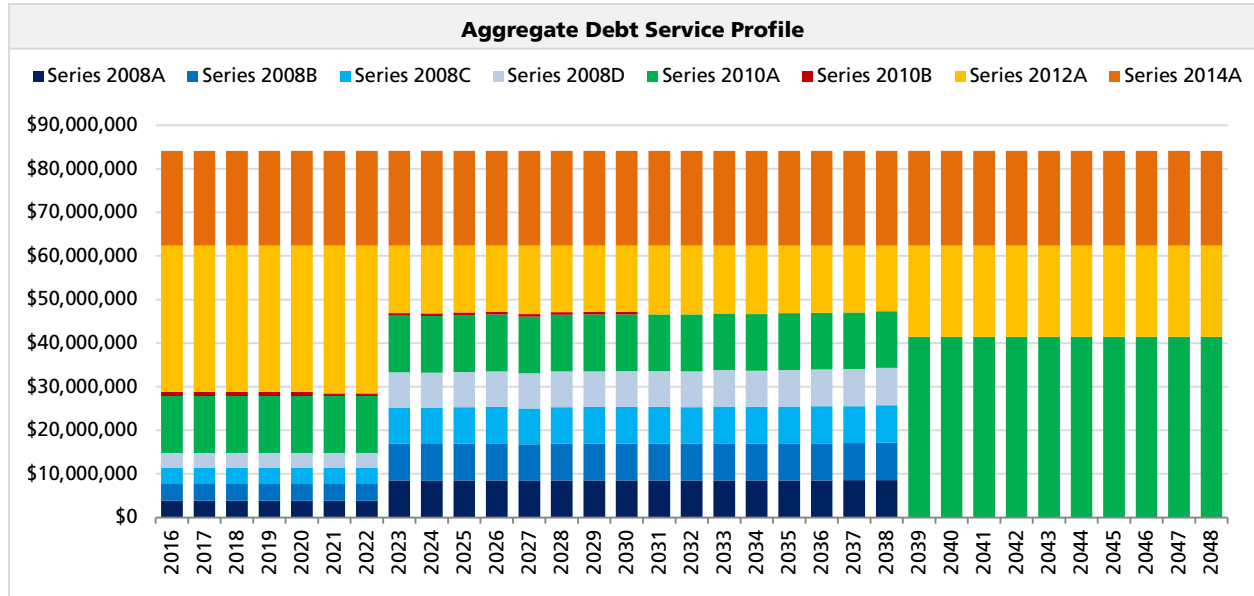


<sup>2</sup> Bloomberg survey compilation as of October 21, 2015



## Debt Service and Coverage

As seen in the figure below, SANDAG has an aggregate level debt service profile with approximately \$84.1 million in debt service per year through FY 2048, including the newly issued Series 2014A. Debt service coverage, using sales tax receipts of \$272.1 million for the last 12 months ended September 30, 2014, is 3.24 times. For every \$1.00 of debt service, SANDAG received \$3.24 of sales tax revenue providing ample coverage. This high debt service coverage, together with the level annual debt service payment and fairly conservative debt portfolio are critical factors that support the SANDAG triple-A ratings from Fitch and S&P.



## Recent Variable-Rate Demand Bond and Swap Mark-to-Market Performance

SANDAG has \$402.3 million of outstanding variable-rate demand bonds (Series 2008 A, B, C, and D), as shown below. These variable-rate demand bonds (VRDBs) are backed by Standby Bond Purchase Agreements (SBPA) from certain financial institutions. The interest rate on these bonds resets weekly through a remarketing process. SANDAG VRDBs have been trading well, with their interest rate resets at or below the Securities Industry and Financial Markets Association (SIFMA) Index (the benchmark short-term municipal index) resets. On average, SANDAG VRDBs have reset at a rate of 0.08 percent to 0.10 percent since September 29, 2011. In June, SANDAG and State Street renewed the SBPA supporting the Series 2008D bonds. The SBPA has a four-year term and a fee of 34 basis points. The renewed SBPA fee is lower by 31 basis points and saves SANDAG \$311,783 annually.

SANDAG Series 2008ABCD VRDB Resets Since September 29, 2011					
Series	SBPA Provider	Remarketing Agent	Reset Average	SIFMA Average	Spread to SIFMA
2008A	J.P. Morgan Chase Bank NA	Barclays Capital Inc.	0.08%	0.09%	-1 bps
2008B	J.P. Morgan Chase Bank NA	Goldman Sachs & Company	0.09%	0.09%	0 bps
2008C	Mizuho Corporate Bank	J.P. Morgan Securities LLC	0.08%	0.09%	-1 bps

**SANDAG Series 2008ABCD VRDB Resets Since September 29, 2011**

Series	SBPA Provider	Remarketing Agent	Reset Average	SIFMA Average	Spread to SIFMA
2008D	State Street	E.J. De La Rosa & Company	0.08%	0.09%	-1 bps

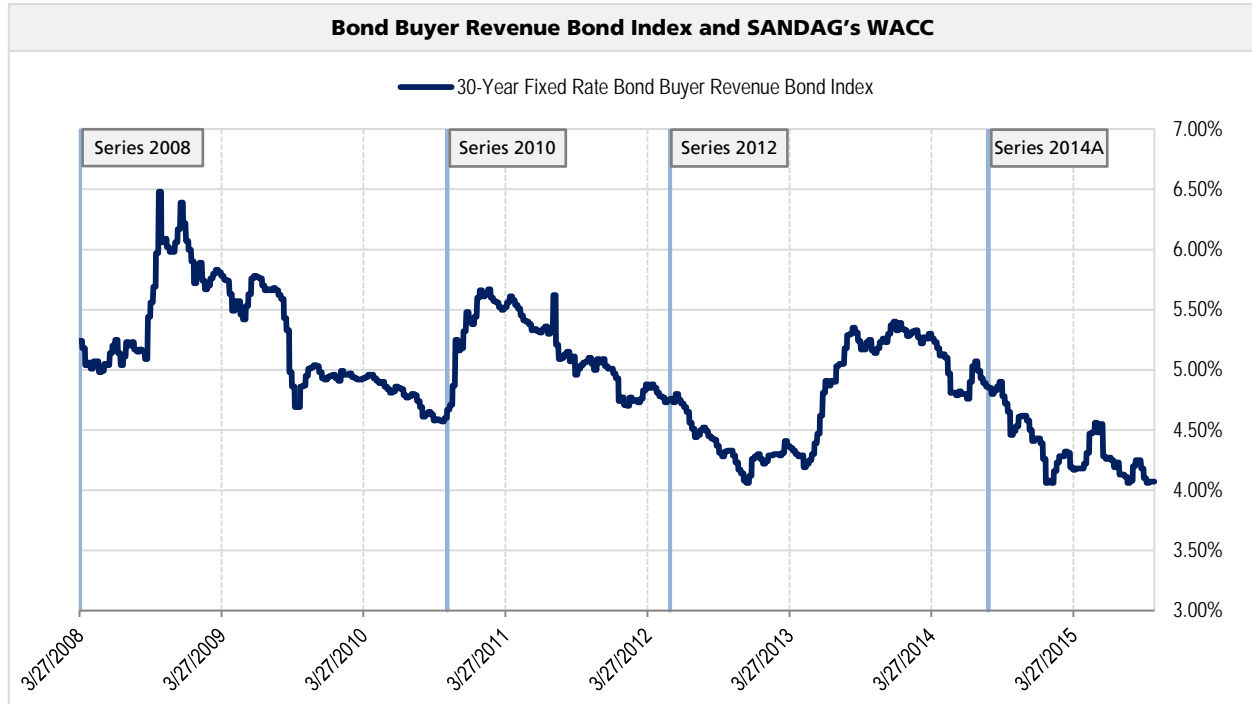
SANDAG also has \$402.3 million of fixed-payer interest rate swaps outstanding (listed on the next page), the purpose of which is to hedge the interest rate variability associated with the \$402.3 million of variable-rate bonds. Additionally, SANDAG has \$313.2 million of basis swaps outstanding. Under the basis swaps, which become effective on April 1, 2018, when the existing fixed-payer swaps were originally scheduled to convert from the London Interbank Offered Rate (LIBOR) to the SIFMA based indices, SANDAG will pay its counterparty a floating interest rate payment based upon the SIFMA Index and will receive a floating payment based upon 107.4 percent of three-month LIBOR. The market value of the SANDAG swap portfolio changes with interest rate fluctuations. The mark-to-market valuation, as of October 16, 2015, is approximately (\$88,344,673); meaning SANDAG would need to pay approximately \$88.3 million to terminate the entire swap portfolio in the current market. However, the swaps are performing as expected and currently there are no reasons that SANDAG would terminate the swaps. On an annual basis and in accordance with Board Policy No. 032: San Diego County Regional Transportation Commission Interest Rate Swap Policy, an annual written description of the swaps and an evaluation of the risks associated with outstanding interest rate swaps are presented to the Board for review.

**Swap Portfolio Overview**

Associated Series	SANDAG Pays	SANDAG Receives	Trade Date	Effective Date	Maturity Date	MTM Value (As of 10/16/15)	Notional Outstanding	Bank Counterparty
Series 2008	3.8165%	65% of USD-LIBOR 'til 04/18; SIFMA Swap Index thereafter	05/23/2012	05/23/2012	04/01/2038	(\$35,241,381)	\$134,100,000	Bank of America, N.A. (A1/A/A+)
Series 2008	3.8165%	65% of USD-LIBOR 'til 04/18; SIFMA Swap Index thereafter	05/23/2012	05/23/2012	04/01/2038	(\$35,241,381)	\$134,100,000	Goldman Sachs Mitsui Marine Derivative Products, L.P. (Aa2/AAA/ )
Series 2008	3.4100%	65% of USD-LIBOR	05/23/2012	05/23/2012	04/01/2038	(\$36,143,604)	\$134,100,000	Bank of America, N.A. (A1/A/A+)
<b>Total Fixed Payer Swaps</b>						<b>(\$105,626,366)</b>	<b>\$402,300,000</b>	
Series 2008	SIFMA Swap Index	107.4% of 3 Month LIBOR	03/19/2009	04/01/2018	04/01/2038	\$9,140,846	\$156,600,000	Barclays Bank PLC (A2/A-/A)
Series 2008	SIFMA Swap Index	107.4% of 3 Month LIBOR	03/19/2009	04/01/2018	04/01/2038	\$9,140,846	\$156,600,000	Barclays Bank PLC (A2/A-/A)
<b>Total Index Conversion Swaps</b>						<b>\$18,281,692</b>	<b>\$313,200,000</b>	
<b>Total Combined</b>						<b>(\$88,344,673)</b>	<b>\$715,500,000</b>	

## Cost of Capital

SANDAG has a very attractive weighted average cost of capital (WACC) of 3.88 percent. This cost can vary based upon swap performance and the cost of liquidity to support the variable-rate debt.



The 2008A-D bonds with the current swap rate and associated fees provide a cost of capital equal to 4.10 percent. Last year, SANDAG staff with PFM negotiated lower SBPA fees on the Series 2008A and Series 2008B Bonds with J.P. Morgan and closed on a renewal of the Series 2008C SBPA at a lower fee with Mizuho. SANDAG and PFM also negotiated a lower fee on the Series 2008D SBPA with State Street in June. The 2010A bonds were issued as taxable Build America Bonds and have a borrowing cost of 3.89 percent. The 2010B tax-exempt bonds have a borrowing cost of 3.14 percent. The 2012A bonds were sold at an all-in cost of 3.72 percent and the most recent Series 2014A bonds were sold at an all-in cost of 3.85 percent. Taken together, SANDAG has issued approximately \$1.52 billion in bonds, to accelerate project delivery, for a weighted average cost of 3.88 percent.

<b>SANDAG's WACC Calculations</b>					
<b><i>Synthetic Fixed Rate:</i></b>					
<b>Series</b>	<b>Par Post '12 Refunding</b>	<b>Swap Rate</b>	<b>SBPA Fee</b>	<b>Remarketing Agent Fee</b>	<b>Cost of Capital</b>
2008A	\$100,575,000	3.8165%	0.390%	0.06%	4.2665%
2008B	\$100,575,000	3.8165%	0.390%	0.06%	4.2665%
2008C1	\$67,050,000	3.8165%	0.320%	0.06%	4.1965%
2008C2	\$33,525,000	3.4100%	0.320%	0.06%	3.7900%
2008D	\$100,575,000	3.4100%	0.340%	0.06%	3.8100%
<b>2008 Weighted Avg.</b>					<b>4.1010%</b>

<b>SANDAG's WACC Calculations</b>					
<b><i>Fixed Rate:</i></b>					
<b>Series</b>	<b>Original Par</b>	-	-	-	<b>All-in TIC</b>
2010A	\$338,960,000	-	-	-	3.8871%
2010B	\$11,040,000	-	-	-	3.1434%
2012A	\$420,585,000	-	-	-	3.7167%
2014A	\$350,000,000	-	-	-	3.8507%
<b>Total Weighted Avg.</b>					<b>3.8828%</b>

### ***Commercial Paper***

In addition to the long-term debt, SANDAG has a short-term commercial paper program supported by a Letter of Credit from Union Bank. The commercial paper program was authorized at \$100 million and has a current outstanding balance of \$29.2 million as of September 30, 2015. The paper was most recently remarketed out 44 days at a rate of four basis points.

SANDAG staff and PFM completed negotiations with Union Bank for a renewal of the existing Letter of Credit that supports the commercial paper program. The fee was negotiated two basis points lower and the Letter of Credit expiration was extended out to September 2016.

### ***Looking Ahead***

SANDAG and its financing team submitted a Transportation Infrastructure Finance and Innovation Act (TIFIA) Letter of Interest to the Federal Highway Administration in mid-December 2014. SANDAG along with its financing team also had several conference calls with the TIFIA team in the first quarter of 2015 to discuss project overview and answer any outstanding questions. In June, SANDAG and team received a rating from S&P on a proposed TIFIA loan structure and met with representatives from the TIFIA office in Washington D.C. on June 18, 2015. SANDAG and its financing team continue to work closely with the TIFIA office to progress through the loan application process.

SANDAG and its advisors will continue to monitor the municipal bond market and identify opportunities that best allow SANDAG to meet its financing needs and objectives.

### ***The Local Economy and Sales Tax Revenue***

The performance of the national economy continued to improve at a slow but steady pace during 2015, and economists expect that moderate economic growth in the United States will continue in the second half of the year. Overall growth in Gross Domestic Product (GDP) for the first half of 2015 was 2.2 percent, and GDP is expected to grow about 2.7 percent over the second half of the year, resulting in an overall growth rate of 2.5 percent for the full year, slightly ahead of 2014's pace. The core inflation also is expected to remain low at about 2.1 percent in 2015. In addition, the unemployment rate, which posted at 5.1 percent, in October of 2015, is close to the level the Federal Reserve defines as being consistent with full employment. Strong consumer spending is playing a big role in driving the economic resurgence, aided by strong gains in disposable income and lower gasoline prices. Other factors include a ramp-up of construction activity, including home building driven by pent-up demand, an increase in household formations, a stronger job market, and rising wages.

The strong U.S. dollar and the strength of the U.S. economy relative to other nation's economies are discouraging exports and encouraging imports. The slowdown in China is and will continue to be a drag on U.S. exports, and a poor jobs report in August and September will likely delay the Federal Reserve's first rate hike in recent years until at least December 2015. The 142,000 jobs added in September and 136,000 in August were far below the average of 214,000 monthly jobs recorded from January to July of this year, raising questions about the possibility of an economic slowdown and tempering any significant interest rate change by the Federal Reserve. Declining exports and low energy prices are hurting employment in manufacturing and mining. A comparatively solid economy and strong dollar make the United States an attractive market for the rest of the world, leading to an increasing trade deficit. Foreign firms are shipping everything they can to the United States, and the strong dollar is causing pain for American exporters.

The drought is one of the most serious challenges California has faced in decades. More than 400,000 acres of some of the world's most productive farmland have been fallowed in recent years, and new water use restrictions have been put in place throughout the state. The reduction in agricultural acreage has contributed to the loss of 20,000 jobs in 2014. On the plus side, the state is proactive and has taken aggressive steps to help mitigate the effects of the drought in ways that produce minimal economic disruptions. Much of the emphasis has been on conserving water in urban areas. Important investments in storage, water treatment facilities, and recycling programs also have been enacted. San Diego's economy is less impacted by the drought than the state as a whole and conservation programs in the region have been successful.

Locally, the increase in jobs has outpaced the national rate. The San Diego region recorded 60,500 new payroll jobs January through December 2014, a rise of 4.6 percent, which is more than two percentage points above the national rate of increase. In addition, the local unemployment rate dropped more than the nation's during 2014, falling to 5.5 percent, which is the first time it's been below the national level since the start of the Great Recession in December 2007. The local unemployment rate has fallen further during the second quarter of 2015 to 5.1 percent. Since 2012, San Diego's economy has been outpacing the nation and has continued to do so during the second quarter of 2015.

The much improved trend for job growth is somewhat dampened by lingering concerns about the volatility of the national economic recovery and state of economic growth globally. Additional concerns about the recovery include weakness in wage rate growth and the average number of hours worked. These trends, combined with the types of jobs (part-time, temporary with low pay) that have been created since the end of the recession, have contributed to keeping real per capita disposable income stagnant for the past four years. This in turn, has led to weak growth in consumer spending, which makes up more than 70 percent of the economy and is a primary driver of sales tax revenue. Even the recent decline in gas and energy prices is expected to shift consumer expenditures to different categories, after a lag, rather than push overall spending up in the near term. Additional economic headwinds are expected from the slowing of economic growth globally and in turn, the effect on the trade value of the dollar. Most of the United States' major trading partners are experiencing slower economic growth, including China, Japan, Europe, Mexico, Brazil, and Russia, and in turn, the trade value of the dollar is rising making our goods in these markets more expensive and reducing our exports, which eventually would slow the national economy.

These economic headwinds and volatility are affecting consumer spending habits. Locally, for example, taxable retail sales over the first three-quarters of FY 2016 have increased 3.3 percent which is below the 5 percent expected. Much of the local slowdown is from the reduction in gas prices and relatively weak auto sales. During the last quarter of this fiscal year (2016) gas prices are expected to rise as the inventory of crude oil and gas supplies stabilize. Finally, in light of the relatively high number of jobs created over the past year and the decline in the unemployment rate, during the last quarter of FY 2016 taxable sales are expected to pick up as consumer confidence and economic status improve, pulling the overall trend closer to the expected 5 percent increase expected for FY 2016.

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