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Consul General, Mexico
Kim Kawada
Chief Deputy Executive Director, SANDAG

BOARD OF DIRECTORS
AGENDA
Friday, September 8, 2017
10 a.m. to 12 noon
SANDAG Board Room
401 B Street, 7th Floor
San Diego

AGENDA HIGHLIGHTS

• SANDAG EXECUTIVE DIRECTOR

• INDEPENDENT EXAMINATION OF MEASURE A REVENUE ESTIMATE COMMUNICATIONS

• 2018 SANDAG REFORM BALLOT MEASURE

• STATE ROUTE 125 SOUTH BAY EXPRESSWAY

2017 BOND ISSUANCE: REVIEW OF DRAFT BOND DOCUMENTS

PLEASE SILENCE ALL ELECTRONIC DEVICES DURING THE MEETING

YOU CAN LISTEN TO THE BOARD OF DIRECTORS MEETING BY VISITING OUR WEBSITE AT SANDAG.ORG

MESSAGE FROM THE CLERK

In compliance with Government Code §54952.3, the Clerk hereby announces that the compensation for legislative body members attending the following simultaneous or serial meetings is: Executive Committee (EC) $100, Board of Directors (BOD) $150, and Regional Transportation Commission (RTC) $100. Compensation rates for the EC and BOD are set pursuant to the SANDAG Bylaws, and the compensation rate for the RTC is set pursuant to state law.

MISSION STATEMENT

The 18 cities and county government are SANDAG serving as the forum for regional decision-making. SANDAG builds consensus; makes strategic plans; obtains and allocates resources; plans, engineers, and builds public transit; and provides information on a broad range of topics pertinent to the region’s quality of life.

San Diego Association of Governments · 401 B Street, Suite 800, San Diego, CA 92101-4231
(619) 699-1900 · Fax (619) 699-1905 · sandag.org
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Public comments regarding the agenda can be sent to SANDAG via comment@sandag.org. Please include the agenda item, your name, and your organization. Email comments should be received no later than 12 noon, two working days prior to the Board meeting. Any handouts, presentations, or other materials from the public intended for distribution at the Board meeting should be received by the Clerk of the Board no later than 12 noon, two working days prior to the meeting.

In order to keep the public informed in an efficient manner and facilitate public participation, SANDAG also provides access to all agenda and meeting materials online at www.sandag.org/meetings. Additionally, interested persons can sign up for e-notifications via our e-distribution list either at the SANDAG website or by sending an email request to webmaster@sandag.org.

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<table>
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<th>ITEM NO.</th>
<th>PUBLIC COMMENTS/COMMUNICATIONS/MEMBER COMMENTS</th>
<th>RECOMMENDATION</th>
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<tr>
<td>1.</td>
<td>Public comments under this agenda item will be limited to five public speakers. Members of the public shall have the opportunity to address the Board on any issue within the jurisdiction of SANDAG that is not on this agenda. Other public comments will be heard during the items under the heading “Reports.” Anyone desiring to speak shall reserve time by completing a “Request to Speak” form and giving it to the Clerk of the Board prior to speaking. Public speakers should notify the Clerk of the Board if they have a handout for distribution to Board members. Public speakers are limited to three minutes or less per person. Board members also may provide information and announcements under this agenda item.</td>
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+2. ACTIONS FROM POLICY ADVISORY COMMITTEES

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This item summarizes the actions taken by the Policy Advisory Committees since the last Board Business Meeting. The Board of Directors is asked to ratify these actions.

**CHAIR’S REPORT**

+3. SANDAG EXECUTIVE DIRECTOR (Laura Coté)

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<th>DISCUSSION/POSSIBLE ACTION</th>
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The Board of Directors is asked to consider next steps for the recruitment of an Executive Director.

**REPORTS**

+4. INDEPENDENT EXAMINATION OF MEASURE A REVENUE ESTIMATE COMMUNICATIONS (Vice Chair Terry Sinnott)

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The Board of Directors is asked to: (1) approve a recommendation from the independent examination subcommittee to discontinue efforts to evaluate the performance of the former Executive Director due to his departure from the agency; (2) direct the subcommittee to meet with senior personnel and report back to the Board in closed session with an advisory opinion regarding any recommended next steps; and (3) provide direction on next steps related to a performance auditor.

+5. 2018 SANDAG REFORM BALLOT MEASURE (Vice Chair Terry Sinnott; Robyn Wapner)

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The Executive Committee recommends that the Board of Directors approve moving forward with crafting a 2018 SANDAG reform ballot measure.
STATE ROUTE 125 SOUTH BAY EXPRESSWAY 2017 BOND ISSUANCE: REVIEW OF DRAFT BOND DOCUMENTS (San Marcos Mayor Jim Desmond, Transportation Committee Chair; André Douzdjian, Ray Traynor)

Staff will provide an overview of the proposed bond strategy and financing schedule for the issuance of up to $250 million in long-term, fixed-rate debt to refund the outstanding Transportation Infrastructure Finance and Innovation Act and San Diego County Regional Transportation Commission loans for State Route 125 South Bay Expressway.

CLOSED SESSION: CONFERENCE WITH LEGAL COUNSEL - SIGNIFICANT EXPOSURE TO LITIGATION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(d)(2) (TWO POTENTIAL CASES) (Ryan Kohut)

The Board of Directors will be briefed on two written claims filed by Carole Anne Quinn and Edwin Lee Quinn III alleging damages arising from personal injuries sustained in connection with construction of the Mid-Coast Corridor Transit Project in the City of San Diego.


The Board of Directors will be briefed on the status of the referenced litigation concerning California Environmental Quality Act challenges to the Environmental Impact Report for the 2050 Regional Transportation Plan and its Sustainable Communities Strategy.

CLOSED SESSION: CONFERENCE WITH LEGAL COUNSEL - SIGNIFICANT EXPOSURE TO LITIGATION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(d)(2) (TWO POTENTIAL CASES); INITIATION OF LITIGATION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(c) (TWO POTENTIAL CASES) (Julie Wiley)

The Board of Directors will be briefed on potential claims from prospective plaintiffs on two contract matters. Based on existing facts and circumstances, there is a significant exposure to litigation against SANDAG; however, the prospective plaintiffs are not aware of their potential claims at this point in time. Additionally, SANDAG may have potential claims or counterclaims it could bring against the same parties.
10. **CONTINUED PUBLIC COMMENTS**

If the five-speaker limit for public comments was exceeded at the beginning of this agenda, other public comments will be taken at this time. Subjects of previous agenda items may not again be addressed under public comment.

11. **UPCOMING MEETINGS**

The next Board Business meeting is scheduled for Friday, September 22, 2017, at 9 a.m.

12. **ADJOURNMENT**

* next to an agenda item indicates that the Board of Directors also is acting as the San Diego County Regional Transportation Commission for that item
ACTIONS FROM POLICY ADVISORY COMMITTEES

Introduction

The following actions were taken by the Policy Advisory Committees since the last Board of Directors Business meeting.

BORDERS COMMITTEE (July 28, 2017)

The Borders Committee did not take any actions or make any recommendations.

TRANSPORTATION COMMITTEE MEETING (August 4, 2017)

The Transportation Committee meeting was cancelled.

REGIONAL PLANNING COMMITTEE MEETING (August 4, 2017)

The Regional Planning Committee meeting was cancelled.

EXECUTIVE COMMITTEE MEETING (August 11, 2017)

The Executive Committee meeting was cancelled.

EXECUTIVE COMMITTEE SPECIAL MEETING (August 18, 2017)

The Executive Committee took the following actions and recommended the following approval:

- Recommended that the Board of Directors approve moving forward with crafting a 2018 ballot measure, and directed staff to provide information regarding potential costs, timing, and outreach.

- Approved the Executive Director’s request that the 120-day notice provision for resignation in his contract be waived, and authorized the manager of Human Resources to provide written notice to Mr. Gallegos of the Executive Committee’s decision.

TRANSPORTATION COMMITTEE MEETING (August 18, 2017)

The Transportation Committee meeting was cancelled.

PUBLIC SAFETY COMMITTEE MEETING (August 18, 2017)

The Public Safety Committee meeting was cancelled.

Recommendation

The Board of Directors is asked to ratify the actions of the Policy Advisory Committees.
BORDERS COMMITTEE (August 25, 2017)

The Borders Committee meeting was cancelled.

TRANSPORTATION COMMITTEE MEETING (September 1, 2017)

The Transportation Committee took the following action and made the following recommendations:

• Approved revisions made to the Social Services Transportation Advisory Council (SSTAC) charter and the appointment of five members to SSTAC.

• Recommended that the Board of Directors approve the proposed Call Box Right-Sizing Implementation Plan, and authorized the Executive Director to take the budget actions necessary to carry out the Implementation Schedule.

• Recommended that the Board of Directors approve the allocation of $4 million in FY 2018 funding for regional land management and biological monitoring, and the release of the call for projects for the ninth cycle of the TransNet Environmental Mitigation Program Land Management Grant Program.

REGIONAL PLANNING COMMITTEE MEETING (September 1, 2017)

The Regional Planning Committee took the following action and made the following recommendations:

• Approved an amendment to the San Diego Regional Military Working Group (Military Working Group) charter, adding the Metropolitan Transit System and North County Transit District as members of the Military Working Group.

• Recommended that the Board of Directors approve the proposed allocation of funds from the California Coastal Commission Public Recreational Beach Impact Mitigation Fund.

• Recommended that the Board of Directors approve the allocation of $4 million in FY 2018 funding for regional land management and biological monitoring, and the release of the call for projects for the ninth cycle of the TransNet Environmental Mitigation Program Land Management Grant Program.

KIM KAWADA
Chief Deputy Executive Director

Key Staff Contact: Victoria Stackwick, (619) 699-6926, victoria.stackwick@sandag.org
SANDAG EXECUTIVE DIRECTOR

Introduction

At its August 18, 2017, meeting, the Executive Committee approved the SANDAG Executive Director’s request that the 120-day notice provision for resignation be waived. The Board of Directors is asked to consider next steps for the recruitment of an Executive Director.

Discussion

There are various strategies that could be used for recruiting an Executive Director. The agency could conduct the recruitment in-house using established advertising and selection methods to identify a candidate, or SANDAG could contract with an outside consultant – either an executive recruiter or an executive search firm.

For the last Executive Director recruitment in 2001, SANDAG contracted with an executive search firm. The Board of Directors also created a subcommittee to provide guidance to the firm, conduct initial candidate interviews, and recommend final candidates to the Board.

Conducting an In-house Recruitment

SANDAG routinely conducts recruitments for vacant staff positions; these efforts are coordinated by the agency’s Human Resources team in collaboration with hiring managers. Human Resources prepares position announcements, advertises job openings, receives and screens applications, participates in candidate interviews, negotiates offers of employment, and coordinates onboarding activities for new employees.

This approach relies heavily on active candidates (that is, individuals actively seeking employment), and the agency may miss well-qualified candidates for the Executive Director position if they do not see the advertisement. Consultant resources to augment Human Resources staff would be needed to support the recruitment activities.

Cost and Timing

An in-house recruitment could be initiated within approximately one to three months depending on outreach efforts that may be requested by the Board of Directors. The estimated time to complete the selection of a new Executive Director could take another six to eight months, depending on the availability of the selected candidate to start in the new role. The estimated cost for advertising...
expenses and staff augmentation to support an in-house recruitment would be 25 to 30 percent of the new Executive Director’s first year compensation plus direct expenses such as public outreach, candidate travel, and relocation.

**Executive Recruiter**

An executive recruiter is an outside consultant that works on a contingent basis so that they only earn a fee when the client hires a candidate they have recommended. These recruiters typically work with a large number of clients and on many different job openings at the same time. They use mainstream advertising methods and rely on a database of known candidates to identify potential candidates, with the goal of providing as many résumés as possible to clients for their consideration.

SANDAG likely would start seeing résumés of potential candidates quickly and would be responsible for screening résumés and coordinating interviews with those candidates who are of interest. The executive recruiter would normally be responsible for negotiating the offer of employment.

**Cost and Timing**

It is anticipated that procuring an executive recruiter would take approximately two months. The estimated time to conduct the search and selection of a new Executive Director could take another six to eight months, depending on outreach efforts that may be requested by the Board and the availability of the selected candidate to start in the new role. The estimated cost to hire a search firm would be about 20 to 25 percent of the new Executive Director’s first year compensation plus direct expenses such as public outreach, candidate travel, and relocation.

**Executive Search Firm**

Executive search firms typically work under a retained services contract and act as the client’s exclusive representative throughout the search. Executive search firms are regarded for their ability to source both active and passive candidates for job openings, and coordinate with all potential candidates regardless of where or how they are sourced.

Executive search firms provide a comprehensive and custom approach to conducting recruitments for their clients. These firms typically work with the client’s Board of Directors to develop an in-depth profile of the desired candidate’s competencies and skills and recommend strategies for conducting the recruitment and selecting a final candidate.

This option also includes an opportunity for the firm to facilitate an independent public input process to gather feedback from stakeholders, such as the public, employees, and/or partner organizations, and report back to the client on behalf of those interested parties.

In addition, an executive search firm typically assists their client in identifying the best qualified candidates and facilitates interviews; they also may act as the client’s representative in subsequent steps such as checking references, conducting background checks, negotiating an employment contract, etc.
Cost and Timing

It is anticipated that procuring an executive search firm would take approximately two months. The search and selection of a new Executive Director could take another six to eight months, depending on outreach efforts that may be requested by the Board and the availability of the selected candidate to start in the new role. The estimated cost to hire a search firm would be about 30 to 35 percent of the new Executive Director’s first year compensation plus direct expenses such as public outreach, candidate travel, and relocation.

RON ROBERTS
Chair, Board of Directors

Key Staff Contact: Laura Coté, (619) 699-6947, laura.cote@sandag.org
INDEPENDENT EXAMINATION OF MEASURE A REVENUE ESTIMATE COMMUNICATIONS

Introduction

Following the presentation of the Independent Examination of Measure A Revenue Estimate Communications by Hueston Hennigan LLP on August 4, 2017, the Board of Directors approved pursuing a forensic analysis of Hana Tools and convening a closed session meeting to conduct a performance evaluation of the Executive Director, and directed the independent examination subcommittee (Subcommittee) to return to the Board of Directors with a proposal to incorporate Hueston Hennigan LLP’s recommendations for best practices, recommendations for how best to hear from the senior personnel listed in the independent examination report, and recommendations for addressing those issues identified in the report related to the TransNet Program.

Discussion

The Subcommittee convened on August 9, 2017, and August 24, 2017, and has the following updates to share with the Board of Directors.

Pursuing a Forensic Analysis of Hana Tools

A procurement for a consultant to conduct the forensic analysis is underway, with work expected to begin in the next several weeks. The vendor will be asked to review all files within Hana Tools and, if anything was deleted, to restore those files. The Subcommittee will update the Board once the outcome of this analysis is known.

Convening a Closed Session Meeting to Conduct a Performance Evaluation of the Executive Director

The Subcommittee recommends that efforts on this action be discontinued in light of Gary Gallegos’ retirement from the agency. A closed session can be held under the Brown Act to conduct a

Recommendation

The Board of Directors is asked to: (1) approve a recommendation from the independent examination subcommittee to discontinue efforts to evaluate the performance of the former Executive Director due to his departure from the agency; (2) direct the subcommittee to meet with senior personnel and report back to the Board in closed session with an advisory opinion regarding any recommended next steps; and (3) provide direction on next steps related to a performance auditor.
performance evaluation of a current employee. Since Mr. Gallegos is no longer an employee of the agency, a closed session is no longer appropriate.

Proposal to Incorporate Hueston Hennigan LLP’s Recommendations for Best Practices

The Subcommittee is actively working with staff regarding the steps that have been taken or will be taken to fully implement the recommendations that were identified in the Hueston Hennigan report. It is expected that the Subcommittee and staff will present this information at an upcoming Board meeting.

Recommendations on How Best to Hear from the Senior Personnel Listed in the Measure A Revenue Estimate Communications Independent Examination Report

The Subcommittee has requested the opinion of outside employment counsel to determine the feasibility of the request to hear from identified senior personnel and the parameters by which this could occur. To fully comply with the Brown Act and the SANDAG Employee Handbook, it is the recommendation of outside counsel that the Subcommittee meet with the senior personnel and report back to the Board of Directors in closed session with an advisory opinion regarding any recommended next steps. The inquiry of the Subcommittee would be limited to interviewing senior personnel and reviewing documents.

Should the Board choose to move forward with this process, the Subcommittee suggests that Board members identify, in writing by September 15, 2017, to the Subcommittee, the senior personnel they would like the Subcommittee to meet with and provide any questions they may have for the Subcommittee to pose to the personnel. The Subcommittee would then report back on the information learned from meeting with personnel to the Board in closed session.

Recommendations for Addressing Issues Identified in Report Related to TransNet Program

The Subcommittee is meeting with staff to further understand the nature of the issues identified in the Hueston Hennigan report related to the TransNet Program as an area that may need further investigation, and will report back to the Board at a future meeting on its recommended next steps.

Performance Auditor

At the Executive Committee meeting on August 18, 2017, the topic of a performance auditor was discussed and the Subcommittee was asked to include this in its follow-up work. The Board of Directors is asked to provide direction on potential next steps.

TERRY SINNOTT
Vice Chair, Board of Directors

Key Staff Contact: Laura Coté, (619) 699-6947, laura.cote@sandag.org
2018 SANDAG REFORM BALLOT MEASURE

Introduction

Current law provides SANDAG with the authority to call for an election on the governance of or matters related to the powers, privileges, or duties of the agency. Pursuant to Board direction, the Executive Committee discussed the placement of a 2018 measure pursuant to this authority at its meeting on August 18, 2017, and recommended that the Board of Directors approve moving forward with crafting a 2018 ballot reform measure. The Executive Committee also directed staff to provide information regarding potential timing, outreach, and costs for a 2018 reform measure based on its discussion.

At its August 18, 2017, meeting, several members of the Executive Committee also suggested that the Board of Directors consider placing AB 805 on the 2018 ballot to allow the people of San Diego to vote on the proposed changes in the final version of the bill. Recent amendments to AB 805 likely would preclude this option except as an advisory measure.

Discussion

Prior to the passage of Senate Bill 1703 (SB 1703) (Peace) in 2002, SANDAG existed as a voluntarily formed joint powers authority. In SB 1703, the Legislature codified the SANDAG governance structure and recognized SANDAG as the consolidated agency responsible for planning and implementing an efficient regional transportation system and preparing a regional comprehensive plan that meets the mobility needs and improves the quality of life for the entire San Diego region. This legislation also provides SANDAG with the authority to call for an election on matters related to the governance, powers, privileges, or duties of the agency.

On February 15, 2017, Assemblymember Lorena Gonzalez Fletcher introduced Assembly Bill 805 (AB 805), which would make various changes to state law that would significantly impact the governance, powers, privileges, and duties of SANDAG. In particular, AB 805 would alter the current voting structure of the Board of Directors, change the current voting process and terms for Board officer positions, impose new contract labor provisions, and modify current auditing practices of the agency. Of note, the most recent amendments to AB 805 place restrictions on SANDAG’s authority to enact governance changes to the organization through a public vote.

Amendments to AB 805

The most recent set of amendments to AB 805 were made on August 21 and are described below.
Removal of Local Election Authority

Section 132362 of the Public Utilities Code currently provides SANDAG the authority to “call an election, including an advisory election, in San Diego County on any ordinance or measure regarding the governance of or matters related to the powers, privileges, or duties of the consolidated agency, including, but not limited to, merger or complete consolidation of the transit boards.”

A new section has been added to AB 805 that would restrict this authority by requiring that any ordinance or measure adopted locally be consistent with and not in conflict with state law.

Officers of the SANDAG Board of Directors

AB 805 previously required that the mayors of the two largest cities alternate between serving as Chair and Vice Chair of the Board for two-year terms. The bill now states that the Chair and Vice Chair would be elected by weighted vote (instead of tally and weighted) every two years or when a vacancy exists (instead of annually). It also stipulates that the Chair and Vice Chair would not represent the same subregion.

Transportation Committee Membership

Currently, the SANDAG Transportation Committee consists of nine voting members with members and alternates representing East County, North County Coastal, North County Inland, South County, the City of San Diego, County of San Diego, San Diego Metropolitan Transit System, North County Transit District, and the San Diego County Regional Airport Authority.

On May 26, 2017, the Board of Directors approved the addition of the Unified Port of San Diego to the Transportation Committee as an advisory member. Representatives from Caltrans District 11 and the Southern California Tribal Chairmen’s Association also serve as advisory members.

AB 805 provides that a member of the governing board of the Port of San Diego would serve as a voting member of the Transportation Committee.

Member Reporting

Language was added to AB 805 that would require Board members to make an annual report to their member agencies at a public meeting that includes a summary of the activities of SANDAG, including, but not limited to, program developments, project updates, changes to voter-approved expenditure plans, and potential ballot measures.

2018 SANDAG Reform Measure

Potential Timing, Outreach, and Costs

If AB 805 is enacted, SANDAG could place governance and other matters on the ballot as binding rather than advisory measures; however, the proposed provisions could not be inconsistent or conflict with the provisions in AB 805. As such, actual timing, outreach, and costs for a 2018 reform measure will vary pending final action on the bill and further direction by the Board of Directors.
Potential Timing

The final version of AB 805 will be available as of September 15, which is the last day for the Legislature to pass bills. The last day for the Governor to sign or veto legislation is October 15.

The deadlines to provide the San Diego County Registrar with a resolution for placement of a ballot measure are March 9 for the June 2018 election and August 10 for the November 2018 election. This would provide approximately five to ten months, depending on the election, for the Board of Directors to determine what to place on the ballot and/or the level of outreach activities.

Potential Outreach

SANDAG could use a variety of methods to solicit input and provide information to the public regarding a 2018 reform measure, including, but not limited to the following:

- **Public information**: Written materials, public notices, Board reports, presentations, summary documents
- **Face-to-face interactions**: SANDAG Board and committee meetings, briefings, small group meetings, community event information booths, public workshops
- **Community-Based Organizations (CBOs)**: Partnership network with regional CBOs to reach low income, senior, and minority communities
- **Web-based interactive communications**: Website, social media, e-newsletters, text, “virtual” public workshops, visualizations
- **Media**: Earned media, media partnerships, paid media

Potential Costs

There are many factors that would determine potential costs going forward. Below are some decisions for the Board of Directors to consider.

- Would only the final version of AB 805 be placed on the ballot? If not, how many alternatives would there be?

  The number of measures placed on the ballot would impact County Registrar printing costs. The County of San Diego requires all agencies placing measures on the ballot to share in the cost of the election, including printing and translation costs, poll workers, and other expenses associated with the election. The actual Registrar cost to SANDAG for the six-page Measure A in 2016 was $654,000 and included the costs of a two-card ballot, which is not typical.

- If there are ballot reform measure(s) other than the final version of AB 805, how would they be developed? Would there be a public stakeholder process to help draft and/or vet potential reform measure(s)? If so, what would that public stakeholder process entail and who would manage it?

  The extent of internal and external staffing services needed for a 2018 reform measure would vary pending direction from the Board of Directors on how any potential reform measures would be developed.
Prior to consolidation in 2003, the Board of Directors created an Ad Hoc Working Group to develop recommendations for the Board to consider on how best to strengthen regional governance. The Working Group was composed of a subset of Board members and included the participation of State Senator Steve Peace, other local public officials, and representatives of the transit agencies. The efforts of the Working Group ultimately informed the drafting of SB 1703.

For Measure A, approximately $1.5 million was budgeted over a two and half year period for staff time. A significant portion of this staff time was related to the measure’s development, including discussions with the Policy Advisory Committees and Board of Directors, oversight and analysis of survey research and public outreach efforts, and preparation of materials and information for consideration in support of the proposed expenditure plan.

Another option would be to utilize an outside firm or independent consultant to carry out a public stakeholder process for the development of a potential reform measure(s). This would require a solicitation and management process that could be overseen by Board members and/or staff.

- Following the development phase, what should the outreach process look like?

The California Fair Political Practice Commission has advised that public agencies are permitted to use public funds to provide public education regarding a measure if it is informational in nature and presents a fair presentation of facts.

For Measure A, approximately $722,000 was budgeted for surveys, public education, and outreach efforts. Outreach on a potential reform measure could consist of the methods outlined above and/or be conducted in conjunction with outreach for the 2019 update to San Diego Forward: The Regional Plan over the next year.

Pending direction by the Board of Directors, the Contingency Reserve Fund for the Overall Work Program (OWP) is proposed as a source of funds to support a 2018 ballot reform measure. In accordance with Board Policy No. 30: Contingency Reserve Policy, this is an appropriate funding source as contingency reserve funds may be used for one-time, non-recurring purposes and for circumstances that represent an opportunity to advance urgent, high-priority needs, and/or an unanticipated need related to a crucial existing commitment.

KIM KAWADA
Chief Deputy Executive Director

Attachment: 1. AB 805

Key Staff Contact: Robyn Wapner, (619) 699-1994, robyn.wapner@sandag.org
ASSEMBLY BILL No. 805

Introduced by Assembly Member Gonzalez Fletcher
(Coauthor: Assembly Member Frazier)

February 15, 2017

An act to amend Sections 120050.2, 120051.6, 120102.5, 125102, 132351.1, 132351.2, 132351.4, 132352.3, 132354.1, and 132360.1, to add Sections 120221.5, 125222.5, and 132354.7 to, to add Article 11 (commencing with Section 120480) to Chapter 4 of Division 11 of, to add Article 9 (commencing with Section 125480) to Chapter 4 of Division 11.5 of, and to repeal Sections 120050.5 and 120051.1 of, the Public Utilities Code, relating to transportation.

LEGISLATIVE COUNSEL'S DIGEST

AB 805, as amended, Gonzalez Fletcher. County of San Diego: transportation agencies.
(1) Existing law provides for the consolidation of certain regional transportation planning, programming, and related functions in San Diego County from various existing agencies including the San Diego Association of Governments (SANDAG), the San Diego Metropolitan Transit Development Board, also known as the San Diego Metropolitan Transit System (MTS), and the North County Transit District (NCTD).

Existing law provides for the consolidated agency, commonly known as SANDAG, to be governed by a board of directors of 21 city and county members selected by the governing body of each member agency. Existing law provides that the officers of the board are the chairperson and the vice chairperson.

This bill would require the mayor and the president of the city council of the City of San Diego to serve on the board. The bill would delete the requirement for the chair of the County of San Diego Board of Supervisors to serve on the board. The bill would also revise the selection of alternate members of the board. The bill would require that the chairperson and vice chairperson be elected by the membership of the board every 2 years or when a vacancy exists by the weighted vote process and that the chairperson and the vice chairperson not represent the same subregion.

Existing law, in order for the SANDAG board to act on any item, generally requires a majority vote of the members present on the basis of one vote per agency as well as a weighted vote pursuant to a specified process, except in the case of consent items.

This bill would modify the weighted vote process.

Existing law provides for SANDAG to have 4 standing policy advisory committees named the executive, transportation, regional planning, and borders committees.

This bill would increase the membership of the transportation committee from 9 to 10 members and would additionally provide for an audit committee with specified responsibilities, including the appointment of an independent performance auditor. The bill would require SANDAG to submit an annual report to the Legislature, developed by its transportation committee, that outlines various matters related to public transit.

Existing law provides for the consolidated agency to prepare a regional comprehensive plan containing various elements, as specified.

This bill would require the regional comprehensive plan to address greenhouse gas emissions reduction targets set by the State Air Resources Board and would require the plan to include strategies that
provide for mode shift to public transportation. The bill would also require the board members of the consolidated agency to make an annual report to their member agencies at a public meeting that includes a summary of the activities of the consolidated agency, including, but not limited to, program developments, project updates, changes to voter-approved expenditure plans, and potential ballot measures.

(2) Existing law creates MTS and NCTD, with various public transit responsibilities in the southern and northern parts of the County of San Diego, respectively. Existing law provides for MTS to be governed by a board of 15 members generally consisting of city and county representatives selected by member agencies. Existing law provides that the chairperson of the MTS board is a resident of the County of San Diego selected by the board, as specified.

This bill would require one of the 4 San Diego City Council members on the MTS board to be the mayor. The bill would grant to the City of Chula Vista a 2nd member, who would be the mayor. The bill would require the chairperson of the MTS board to be selected by the board. The bill would also revise the process for selecting alternate members of the MTS board.

Existing law generally provides that official acts of the MTS or NCTD board require the affirmative vote of the majority of the members of the board, except that a weighted vote of the MTS board may be requested pursuant to a specified process.

This bill would create a similar weighted voting process for NCTD and modify the weighted voting process for the MTS.

Existing law authorizes various transportation agencies, including SANDAG, to impose a transactions and use tax for transportation purposes within its jurisdiction, subject to approval of \( \frac{2}{3} \) of the voters and various other requirements. Existing law provides for issuance of bonds backed by these tax revenues, as specified.

This bill would additionally authorize MTS and NCTD to individually impose a specified transactions and use tax within their respective portions of the County of San Diego, with revenues to be used for public transit purposes, as specified, serving their jurisdictions, and to issue bonds backed by these tax revenues, subject to similar requirements.

The bill would authorize the MTS and the NCTD to increase the amount of the necessary preparatory costs incident to the administration and operation of the ordinance imposing a transaction and use tax. The bill would also require the MTS and the NCTD to provide to the California Department of Tax and Fee Administration, within 45 days
of the approval of the ordinance by the voters, a complete alphabetical list of all streets within the affected unincorporated area of their respective jurisdictions, maintain that list on their Internet Web sites, and provide a specified legal description and a map or plat.

Existing law authorizes the board of the MTS, the NCTD, and the consolidated agency to enter into and perform all necessary contracts to construct or develop property for transit purposes, including, but not limited to, employing labor and doing all acts necessary and convenient for the full exercise of the powers granted to each of these agencies.

This bill would prohibit the MTS, the NCTD, and the consolidated agency from entering into a construction contract over $1,000,000 with any entity unless the entity provides to the each agency an enforceable commitment that the entity and its subcontractors at every tier will use a skilled and trained workforce to perform all work on the project or a contract that falls within an apprenticeship occupation in the building and construction trades, except as specified.

(3) Existing law provides that if the consolidated agency provides compensation to the County of San Diego for the cost of including an ordinance or measure on the ballot, the consolidated agency may call an election, including an advisory election, in the county on any ordinance or measure regarding the governance of or matters related to the powers, privileges, or duties of the consolidated agency, including, but not limited to, merger or complete consolidation of the transit boards. However, existing law also provides that a complete consolidation requires enactment of a statute by the Legislature.

This bill would require that any ordinance or measure adopted pursuant to these provisions be consistent with, and not in conflict with, any other statutory provisions governing the consolidated agency.

(4) By imposing additional requirements on local agencies, this bill would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement. This bill would provide that, if the Commission on State Mandates determines that the bill contains costs mandated by the state, reimbursement for those costs shall be made pursuant to the statutory provisions noted above.

The people of the State of California do enact as follows:

SECTION 1. Section 120050.2 of the Public Utilities Code is amended to read:

120050.2. The board consists of 15 members selected as follows:

(a) One member of the County of San Diego Board of Supervisors, appointed by the board of supervisors.

(b) One member of each city council appointed individually by the city councils of the Cities of Coronado, El Cajon, Imperial Beach, La Mesa, Lemon Grove, National City, Poway, and Santee.

(c) Four members of the City Council of the City of San Diego, one of whom shall be the mayor, and two members of the City Council of the City of Chula Vista, one of whom shall be the mayor, each appointed by their respective city council.

(d) The chairperson of the board shall be selected by a two-thirds vote of the board, a quorum being present. The chairperson shall serve for a term of two years, except that he or she is subject to removal at any time by a two-thirds vote of the board, a quorum being present.

SEC. 2. Section 120050.5 of the Public Utilities Code is repealed.

SEC. 3. Section 120051.1 of the Public Utilities Code is repealed.

SEC. 4. Section 120051.6 of the Public Utilities Code is amended to read:

120051.6. The alternate members of the board shall be appointed as follows:

(a) The County of San Diego Board of Supervisors shall appoint a county supervisor, not already appointed under Section 120051, who represents one of the two supervisorial districts with the greatest percentage of its area within the incorporated area of the County of San Diego within the area under the jurisdiction of the transit development board as defined in Section 120054, to serve as an alternate member of the transit development board.

(b) The city councils of the cities specified in subdivision (b) or (c) of Section 120050.2 shall each individually appoint a member of their respective city councils not already appointed pursuant to subdivision (b) or (c) of Section 120050.2 to serve as
an alternate member of the transit development board for each
member of the city on the board.
(c) At its discretion, a city council or the county board of
supervisors may appoint a second alternate member, in the same
manner as first alternates are appointed, to serve on the board in
the event that neither a member nor the alternate member is able
to attend a meeting of the board.
(d) An alternate member and second alternate member shall be
subject to the same restrictions and shall have the same powers,
when serving on the board, as a member.
SEC. 5. Section 120102.5 of the Public Utilities Code is
amended to read:
120102.5. (a) A majority of the members of the board
constitutes a quorum for the transaction of business. All official
acts of the board require the affirmative vote of the majority of the
members of the board present. However, after a vote of the
members is taken, a weighted vote may be called by the members
of any two jurisdictions.
(b) In the case of a weighted vote, the County of San Diego and
each city shall, in total, exercise 100 votes to be apportioned
annually based on population, except in the case of the City of San
Diego. Each of the four representatives of the City of San Diego
shall exercise $\frac{12}{2}$ weighted votes, for a total of 50 votes. The
representatives for the City of Chula Vista shall split the votes
allocated to that city evenly among its representatives.
(c) Approval under the weighted vote procedure requires the
vote of the representatives of not less than three jurisdictions
representing not less than 51 percent of the total weighted vote to
supersede the original action of the board.
(d) When a weighted vote is taken on any item that requires
more than a majority vote of the board, it shall also require the
supermajority percentage of the weighted vote.
(e) For purposes of subdivision (b), the population of the County
of San Diego is the population in the unincorporated area of the
county within the area of jurisdiction of the transit development
board pursuant to Section 120054.
(f) The board shall adopt a policy and procedure to implement
this section.
SEC. 6. Section 120221.5 is added to the Public Utilities Code,
to read:
120221.5. The board shall not enter into a construction contract over one million dollars ($1,000,000) with any entity unless the entity provides to the board an enforceable commitment that the entity and its subcontractors at every tier will use a skilled and trained workforce to perform all work on the project or a contract that falls within an apprenticeship occupation in the building and construction trades in accordance with Chapter 2.9 (commencing with Section 2600) of Part 1 of Division 2 of the Public Contract Code.

(a) This subdivision shall not apply if any of the following requirements are met:

1. The board has entered into a project labor agreement that will bind all contractors and subcontractors performing work on the project or the board has contracted to use a skilled and trained workforce and the entity has agreed to be bound by that project labor agreement.
2. The project or contract is being performed under the extension or renewal of a project labor agreement that was entered into by the board before January 1, 2017.
3. The entity has entered into a project labor agreement that will bind the entity and all its subcontractors at every tier performing the project or the entity has contracted to use a skilled and trained workforce.

(b) For purposes of subdivision (a), “project labor agreement” has the same meaning as defined in paragraph (1) of subdivision (b) of Section 2500 of the Public Contract Code.

SEC. 7. Article 11 (commencing with Section 120480) is added to Chapter 4 of Division 11 of the Public Utilities Code, to read:

Article 11. Transactions and Use Tax

1. A retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory within the area of the board pursuant to Section 120054 shall be imposed by the board in accordance with Section 120485 and Part 1.6 (commencing with Section 7251) of Division 2 of the Revenue and Taxation Code, and Section 2 of Article XIIIC of the California Constitution. The tax ordinance shall take effect at the close of the polls on the day of election at which the proposition is adopted.
The initial collection of the transactions and use tax shall take place in accordance with Section 120483.

(b) If, at any time, the voters do not approve the imposition of the transactions and use tax, this chapter remains in full force and effect. The board may, at any time thereafter, submit the same, or a different, measure to the voters in accordance with this chapter.

120481. (a) The board, in the ordinance, shall state the nature of the tax to be imposed, the tax rate or the maximum tax rate, the purposes for which the revenue derived from the tax will be used, and may set a term during which the tax will be imposed. The purposes for which the tax revenues may be used shall be limited to public transit purposes serving the area of jurisdiction of the board, as determined by the board, including the administration of this division and legal actions related thereto. These purposes include expenditures for the planning, environmental reviews, engineering and design costs, and related right-of-way acquisition. The ordinance shall contain an expenditure plan that shall include the allocation of revenues for the purposes authorized by this section.

(b) As used in this section, “public transit purposes” includes the public transit responsibilities under the jurisdiction of the board as well as any repair, redesign, or ongoing maintenance of a right-of-way upon which transit is intended to travel, or any bikeway, bicycle path, sidewalk, trail, pedestrian access, or pedestrian accessway.

120482. (a) The county shall conduct an election called by the board pursuant to Section 120480.

(b) The election shall be called and conducted in the same manner as provided by law for the conduct of elections by a county.

120483. (a) Any transactions and use tax ordinance adopted pursuant to this article shall be operative on the first day of the first calendar quarter commencing more than 150 days after adoption of the ordinance.

(b) (1) Prior to the operative date of the ordinance, the board shall contract with the California Department of Tax and Fee Administration to perform all functions incident to the administration and operation of the ordinance. The costs to be covered by the contract may also include services of the types described in Section 7272 of the Revenue and Taxation Code for preparatory work up to the operative date of the
ordinance. Any disputes as to the amount of the costs shall be
resolved in the same manner as provided in that section.

(2) Notwithstanding Section 7272 of the Revenue and Taxation
Code, the maximum amount of preparatory costs incurred may
exceed those costs as described in paragraph (1), if the increased
amount reflects necessary preparatory costs.

(c) Within 45 days from the date the ordinance is approved by
the voters, the board shall provide the California Department of
Tax and Fee Administration with a complete alphabetical list of
all streets within the affected unincorporated area under the
jurisdiction of the board pursuant to Section 120054, which shall
include beginning and ending street numbers, and shall maintain
that list on its Internet Web site. The board shall also provide a
legal description and a map or plat, that both describe the
boundaries of the applicable unincorporated territory within the
area of the board pursuant to Section 120054.

120484. The revenues from the taxes imposed pursuant to this
article may be allocated by the board for public transit purposes
consistent with the applicable regional transportation improvement
program and the applicable regional transportation plan.

120485. The board, subject to the approval of the voters, may
impose a maximum tax rate of one-half of 1 percent under this
article and Part 1.6 (commencing with Section 7251) of Division
2 of the Revenue and Taxation Code. The board shall not levy the
tax at a rate other than one-half or one-fourth of 1 percent unless
specifically authorized by the Legislature.

120486. The board, as part of the ballot proposition to approve
the imposition of a retail transactions and use tax, may seek
authorization to issue bonds payable from the proceeds of the tax.

120487. Any action or proceeding wherein the validity of the
adoption of the retail transactions and use tax ordinance provided
for in this article or the issuance of any bonds thereunder or any
of the proceedings in relation thereto is contested, questioned, or
denied, shall be commenced within six months from the date of
the election at which the ordinance is approved; otherwise, the
bonds and all proceedings in relation thereto, including the adoption
and approval of the ordinance, shall be held to be valid and in
every respect legal and incontestable.
SEC. 8. Section 125102 of the Public Utilities Code is amended to read:

125102. (a) A majority of the members of the board constitutes a quorum for the transaction of business. All official acts of the board require the affirmative vote of the majority of the members of the board present. However, after a vote of the members is taken, a weighted vote may be called by any two members.

(b) In the case of a weighted vote, the County of San Diego and each city shall, in total, exercise 100 votes to be apportioned annually based on population.

(c) Approval under the weighted vote procedure requires the vote of the representatives of not less than three jurisdictions representing not less than 51 percent of the total weighted vote to supersede the original action of the board.

(d) When a weighted vote is taken on any item that requires more than a majority vote of the board, it shall also require the supermajority percentage of the weighted vote.

(e) For purposes of subdivision (b), the population of the County of San Diego is the population in the unincorporated area of the county within the area of jurisdiction of the board pursuant to Section 125052.

(f) The board shall adopt a policy and procedure to implement this section.

SEC. 9. Section 125222.5 is added to the Public Utilities Code, to read:

125222.5. The district shall not enter into a construction contract over one million dollars ($1,000,000) with any entity unless the entity provides to the district an enforceable commitment that the entity and its subcontractors at every tier will use a skilled and trained workforce to perform all work on the project or a contract that falls within an apprenticeship occupation in the building and construction trades in accordance with Chapter 2.9 (commencing with Section 2600) of Part 1 of Division 2 of the Public Contract Code.

(a) This subdivision shall not apply if any of the following requirements are met:
(1) The district has entered into a project labor agreement that will bind all contractors and subcontractors performing work on the project or the district has contracted to use a skilled and trained workforce and the entity has agreed to be bound by that project labor agreement.

(2) The project or contract is being performed under the extension or renewal of a project labor agreement that was entered into by the district before January 1, 2017.

(3) The entity has entered into a project labor agreement that will bind the entity and all its subcontractors at every tier performing the project or the entity has contracted to use a skilled and trained workforce.

(b) For purposes of subdivision (a), “project labor agreement” has the same meaning as defined in paragraph (1) of subdivision (b) of Section 2500 of the Public Contract Code.

SEC. 10. Article 9 (commencing with Section 125480) is added to Chapter 4 of Division 11.5 of the Public Utilities Code, to read:

Article 9. Transactions and Use Tax

125480. (a) A retail transactions and use tax ordinance applicable in the incorporated and unincorporated territory within the area of the board pursuant to Section 125052 shall be imposed by the board in accordance with Section 125485 and Part 1.6 (commencing with Section 7251) of Division 2 of the Revenue and Taxation Code, and Section 2 of Article XIIIC of the California Constitution. The tax ordinance shall take effect at the close of the polls on the day of election at which the proposition is adopted. The initial collection of the transactions and use tax shall take place in accordance with Section 125483.

(b) If, at any time, the voters do not approve the imposition of the transactions and use tax, this chapter remains in full force and effect. The board may, at any time thereafter, submit the same, or a different, measure to the voters in accordance with this chapter.

125481. (a) The board, in the ordinance, shall state the nature of the tax to be imposed, the tax rate or the maximum tax rate, the purposes for which the revenue derived from the tax will be used, and may set a term during which the tax will be imposed. The purposes for which the tax revenues may be used shall be limited to public transit purposes serving the area of jurisdiction of the
board, as determined by the board, including the administration of this division and legal actions related thereto. These purposes include expenditures for the planning, environmental reviews, engineering and design costs, and related right-of-way acquisition. The ordinance shall contain an expenditure plan that shall include the allocation of revenues for the purposes authorized by this section.

(b) As used in this section, “public transit purposes” includes the public transit responsibilities under the jurisdiction of the district as well as any repair, redesign, or ongoing maintenance of a right-of-way upon which transit is intended to travel, or any bikeway, bicycle path, sidewalk, trail, pedestrian access, or pedestrian accessway.

125482. (a) The county shall conduct an election called by the board pursuant to Section 125480.

(b) The election shall be called and conducted in the same manner as provided by law for the conduct of elections by a county.

125483. (a) Any transactions and use tax ordinance adopted pursuant to this article shall be operative on the first day of the first calendar quarter commencing more than 150 days after adoption of the ordinance.

(b) (1) Prior to the operative date of the ordinance, the board shall contract with the State Board of Equalization California Department of Tax and Fee Administration to perform all functions incident to the administration and operation of the ordinance. The costs to be covered by the contract may also include services of the types described in Section 7272 of the Revenue and Taxation Code for preparatory work up to the operative date of the ordinance. Any disputes as to the amount of the costs shall be resolved in the same manner as provided in that section.

(2) Notwithstanding Section 7272 of the Revenue and Taxation Code, the maximum amount of preparatory costs incurred may exceed those costs as described in paragraph (1), if the increased amount reflects necessary preparatory costs.

(c) Within 45 days from the date the ordinance is approved by the voters, the board shall provide the California Department of Tax and Fee Administration with a complete alphabetical list of all streets within the affected unincorporated area under the jurisdiction of the board pursuant to Section 125052, which shall include beginning and ending street numbers, and shall maintain
that list on its Internet Web site. The board shall also provide a legal description and a map or plat, that both describe the boundaries of the applicable unincorporated territory within the area of the board pursuant to Section 125052.

125484. The revenues from the taxes imposed pursuant to this article may be allocated by the board for public transit purposes consistent with the applicable regional transportation improvement program and the applicable regional transportation plan.

125485. The board, subject to the approval of the voters, may impose a maximum tax rate of one-half of 1 percent under this article and Part 1.6 (commencing with Section 7251) of Division 2 of the Revenue and Taxation Code. The board shall not levy the tax at a rate other than one-half or one-fourth of 1 percent unless specifically authorized by the Legislature.

125486. The board, as part of the ballot proposition to approve the imposition of a retail transactions and use tax, may seek authorization to issue bonds payable from the proceeds of the tax.

125487. Any action or proceeding wherein the validity of the adoption of the retail transactions and use tax ordinance provided for in this article or the issuance of any bonds thereunder or any of the proceedings in relation thereto is contested, questioned, or denied, shall be commenced within six months from the date of the election at which the ordinance is approved; otherwise, the bonds and all proceedings in relation thereto, including the adoption and approval of the ordinance, shall be held to be valid and in every respect legal and incontestable.

125488. The board has no power to impose any tax other than the transactions and use tax imposed upon approval of the voters in accordance with this article.

SEC. 11. Section 132351.1 of the Public Utilities Code is amended to read:

132351.1. (a) A board of directors consisting of 21 members shall govern the consolidated agency.

(b) For purposes of this chapter, “governing body” means the board of supervisors, council, council and mayor where the mayor is not a member of the council, authority, trustees, director, commission, committee, or other policymaking body, as appropriate, that exercises authority over an entity represented on the board of the consolidated agency.
(c) All powers, privileges, and duties vested in or imposed upon the consolidated agency shall be exercised and performed by and through a board of directors provided, however, that the exercise of all executive, administrative, and ministerial power may be delegated and redelegated by the board, to any of the offices, officers, or committees created pursuant to this chapter or created by the board acting pursuant to this chapter.

(d) The board shall be composed of one primary representative selected by the governing body of each city in the county and a member of the San Diego County Board of Supervisors. However, the City of San Diego and the County of San Diego shall each have a primary and secondary representative, which for the City of San Diego shall be the mayor of the City of San Diego and the president of the city council. Each director shall be a mayor, councilperson, or supervisor, as applicable, of the governing body that selected him or her, and shall serve until recalled by the governing body of the city or county. Vacancies shall be filled in the same manner as originally selected. Each city or county shall also select one alternate to serve on the board when the primary or secondary representative, if applicable, is not available. The alternate shall be subject to the same restrictions and have the same powers, when serving on the board, as the representative for whom he or she is substituting. The alternate shall be a mayor, councilperson, or supervisor, as applicable, of his or her governing body.

(e) Notwithstanding subdivision (d), in those years when the primary representative of the San Diego County Board of Supervisors is from a district that is substantially an incorporated area, a supervisor who represents a district that is substantially an unincorporated area shall be appointed to the board as the secondary representative. Alternatively, in those years when the primary representative of the San Diego County Board of Supervisors is from a district that is substantially an unincorporated area, a supervisor who represents a district that is substantially an incorporated area shall be appointed to the board as the secondary representative.

(f) At its discretion, each city or county may select a second alternate, in the same manner as the first alternate, to serve on the board in the event that neither the primary representative nor the first alternate is able to attend a meeting of the board. This alternate
shall be subject to the same restrictions and have the same powers, when serving on the board, as the primary representative.

(g) The board may allow for the appointment of advisory representatives to sit with the board but in no event shall those representatives be allowed a vote. The current advisory representatives to the San Diego Association of Governments may continue their advisory representation on the consolidated agency at the discretion of their governing body. The governing bodies of the County of Imperial and the cities in that county may collectively designate an advisory representative to sit with the board.

SEC. 12. Section 132351.2 of the Public Utilities Code is amended to read:

132351.2. (a) A majority of the member agencies constitute a quorum for the transaction of business. In order to act on any item, the affirmative vote of the majority of the members of the board present is required. However, after a vote of the members is taken, a weighted vote may be called by the members of any two jurisdictions.

(b) The governing body of the City of San Diego and the County of San Diego shall allocate their weighted votes equally between their primary and secondary members.

(c) For the weighted vote, there shall be a total of 100 votes, except additional votes shall be allowed pursuant to subdivision (h). Each member agency shall have that number of votes determined by the following apportionment formula, provided that each agency shall have at least one vote, no agency shall have more than 50 votes, and there shall be no fractional votes:

(1) If any agency has 50 percent or more of the total population of the San Diego County region, allocate 50 votes to that agency and follow paragraph (2), and if not, follow paragraph (3).

(2) Total the population of the remaining agencies determined in paragraph (1) and compute the percentage of this total that each agency has.

(A) Multiply each percentage derived above by 50 to determine fractional shares.

(B) Boost fractions that are less than one to one and add the whole numbers.

(C) If the answer to subparagraph (B) is 50, drop all fractions and the whole numbers are the votes for each agency.
(D) If the answer to subparagraph (B) is less than 50, the remaining vote is allocated one each to the agency having the highest fraction excepting those whose vote was increased to one pursuant to subparagraph (B).

(E) If the answer to subparagraph (B) is more than 50, the excess vote is taken one each from the agency with the lowest fraction. In no case shall a vote be reduced to less than one.

(3) Total the population determined in paragraph (1) and compute the percentage of this total that each agency has.

(A) Boost fractions that are less than one to one and add the whole numbers.

(B) If the answer to subparagraph (A) is 100, drop all fractions and the whole numbers are the votes for each agency.

(C) If the answer to subparagraph (A) is less than 100, the remaining vote is allocated one each to the agency having the highest fraction excepting those whose vote was increased to one pursuant to subparagraph (A).

(D) If the answer to subparagraph (A) is more than 100, the excess vote is taken one each from the agency with the lowest fraction. In no case shall a vote be reduced to less than one.

(d) When a weighted vote is taken on any item that requires more than a majority vote of the board, it shall also require the supermajority percentage of the weighted vote.

(e) Approval under the weighted vote procedure requires the vote of the representatives of not less than four members from representing separate jurisdictions representing and not less than 51 percent of the total weighted vote to supersede the original action of the board.

(f) For purposes of subdivision (c), the population of the County of San Diego is the population in the unincorporated area of the county.

(g) The weighted vote formula under subdivision (c) shall be recomputed every July 1.

(h) Any newly incorporated city shall receive one vote under the weighted vote procedure until the next recomputation of the weighted vote formula under subdivision (c), at which time the new agency shall receive votes in accordance with the recomputed formula. Until this recomputation, the total weighted vote may exceed 100.
SEC. 13. Section 132351.4 of the Public Utilities Code is amended to read:

132351.4. (a) The consolidated agency shall have five standing policy advisory committees named the executive, transportation, regional planning, borders, and audit committees. The responsibilities of the committees shall be established by the board. Committee membership may be expanded by the consolidated agency, and shall be selected in accordance with a process established by the consolidated agency. The membership shall be as follows:

(1) The executive committee shall consist of six voting members with board members representing east county, north county coastal, north county inland, south county, and the representative, or the representative’s alternate in their absence, from the City of San Diego and the county. The chairperson and the vice chairperson of the consolidated agency shall each be one of the six voting members.

(2) (A) The transportation committee shall consist of nine voting members with board members or alternates representing east county, north county coastal, north county inland, south county and the mayor or a council member from the City of San Diego, a supervisor from the County of San Diego, a member of the board of the MTDB appointed by the board of the MTDB, a member of the board of the NCTD appointed by the board of the NCTD, a member of the governing board of the San Diego Unified Port District appointed by the board of the port, and a member of the San Diego County Regional Airport Authority appointed by the airport authority.

(B) Among its transportation responsibilities, the transportation committee shall provide a strong focus and commitment to meeting the public transit needs of the San Diego region, set transit funding criteria and recommend transit funding levels, and undertake transit responsibilities resulting from consolidation, as delegated by the board.

(C) The board shall provide a report, developed by the transportation committee, to the Legislature on or before July 1 of each year that outlines the public transit needs, transit funding criteria, recommended transit funding levels, and additional work on public transit, as delegated to the transportation committee by the board. The report shall specify the funds spent explicitly on
public transportation. The report shall be submitted consistent with
Section 9795 of the Government Code.

(3) The regional planning committee shall consist of six voting
members with board members or alternates representing east
county, north county coastal, north county inland, south county,
and the mayor or a council member from the City of San Diego,
and a supervisor from the County of San Diego.

(4) The borders committee shall consist of seven voting
members with board members or alternates representing east
county, north county coastal, north county inland, south county,
the mayor or a council member from the City of San Diego, a
supervisor from the County of San Diego, and a mayor, council
member, or supervisor from the County of Imperial.

(5) The audit committee shall consist of five voting members
with two board members and three members of the public to be
appointed by the board. The audit committee shall recommend to
the board the contract of the firm conducting the annual financial
statement audits and the hiring of the independent performance
auditor and approve the annual audit plan after discussion with the
independent performance auditor pursuant to subdivision (b) of
Section 132354.1.

(b) The board may appoint other standing and ad hoc working
groups to advise it in carrying out its responsibilities.

(c) No board member may serve as a member of more than two
standing policy advisory committees at any one time, except those
board members serving on the audit committee.

SEC. 14. Section 132352.3 of the Public Utilities Code is
amended to read:

132352.3. The officers of the board are the chairperson and
the vice chairperson. The mayors of the largest city and the
second-largest city shall alternate between serving as chairperson
and vice chairperson for two year terms. The chairperson and vice
chairperson shall be elected by the membership of the board every
two years or when a vacancy exists, by means of the weighted vote
pursuant to Section 132351.2. The chairperson and vice
chairperson shall not represent the same subregion, with the
subregions being east county, north county coastal, north county
inland, south county, the City of San Diego, and the County of San
Diego. The board may create additional officers and elect members
to those positions. However, no member may hold more than one
office. The term of office for any officers of the board other than
the chairperson and the vice chairperson shall be established by
the board.
SEC. 15. Section 132354.1 of the Public Utilities Code is
amended to read:
132354.1. (a) The board shall arrange for a post audit of the
financial transactions and records of the consolidated agency to
be made at least annually by a certified public accountant.
(b) (1) The audit committee shall appoint an independent
performance auditor, subject to approval by the board, who may
only be removed for cause by a vote of at least two-thirds of the
audit committee and the board.
(2) The independent performance auditor shall have authority
to conduct or to cause to be conducted performance audits of all
departments, offices, boards, activities, agencies, and programs of
the consolidated agency. The auditor shall prepare annually an
audit plan and conduct audits in accordance therewith and perform
those other duties as may be required by ordinance or as provided
by the California Constitution and general laws of the state. The
auditor shall follow government auditing standards. All officers
and employees of the consolidated agency shall furnish to the
auditor unrestricted access to employees, information, and records,
including electronic data, within their custody regarding powers,
duties, activities, organization, property, financial transactions,
contracts, and methods of business required to conduct an audit
or otherwise perform audit duties. It is also the duty of any
consolidated agency officer, employee, or agent to fully cooperate
with the auditor, and to make full disclosure of all pertinent
information.
(3) The auditor shall have the power to appoint, employ, and
remove assistants, employees, and personnel as deemed necessary
for the efficient and effective administration of the affairs of the
office and to prescribe their duties, scope of authority, and
qualifications.
(4) The auditor may investigate any material claim of financial
fraud, waste, or impropriety within the consolidated agency and
for that purpose may summon any officer, agent, or employee of
the consolidated agency, any claimant, or other person, and
examine him or her upon oath or affirmation relative thereto. All
consolidated agency contracts with consultants, vendors, or
agencies will be prepared with an adequate audit provision to allow
the auditor access to the entity’s records needed to verify
compliance with the terms specified in the contract. Results of all
audits and reports shall be made available to the public in
accordance with the requirements of the California Public Records
Act (Chapter 3.5 (commencing with Section 6250) of Division 7
of the Title 1 of the Government Code).

(c) The board shall develop and adopt internal control guidelines
to prevent and detect financial errors and fraud based on the internal
control guidelines developed by the Controller pursuant to Section
12422.5 of the Government Code and the standards adopted by
the American Institute of Certified Public Accountants.

(d) The board shall develop and adopt an administration policy
that includes a process to conduct staff performance evaluations
on a regular basis to determine if the knowledge, skills, and abilities
of staff members are sufficient to perform their respective
functions, and shall monitor the evaluation process on a regular
basis.

(e) The board members shall make an annual report to their
member agencies at a public meeting pursuant to Chapter 9
(commencing with Section 54950) of Part 1 of Division 2 of Title
5 of the Government Code, that includes a summary of activities
by the consolidated agency including, but not limited to, program
developments, project updates, changes to voter-approved
expenditure plans, and potential ballot measures.

SEC. 16. Section 132354.7 is added to the Public Utilities
Code, to read:

132354.7. The consolidated agency shall not enter into a
construction contract over one million dollars ($1,000,000) with
any entity unless the entity provides to the consolidated agency
an enforceable commitment that the entity and its subcontractors
at every tier will use a skilled and trained workforce to perform
all work on the project or a contract that falls within an
apprenticeship occupation in the building and construction trades
in accordance with Chapter 2.9 (commencing with Section 2600)
of Part 1 of Division 2 of the Public Contract Code.

(a) This subdivision shall not apply if any of the following
requirements are met:

(1) The consolidated agency has entered into a project labor
agreement that will bind all contractors and subcontractors
performing work on the project or the consolidated agency has contracted to use a skilled and trained workforce and the entity has agreed to be bound by that project labor agreement.

(2) The project or contract is being performed under the extension or renewal of a project labor agreement that was entered into by the consolidated agency before January 1, 2017.

(3) The entity has entered into a project labor agreement that will bind the entity and all its subcontractors at every tier performing the project or the entity has contracted to use a skilled and trained workforce.

(b) For purposes of subdivision (a), “project labor agreement” has the same meaning as defined in paragraph (1) of subdivision (b) of Section 2500 of the Public Contract Code.

SEC. 17. Section 132360.1 of the Public Utilities Code is amended to read:

132360.1. In preparing and updating the regional comprehensive plan, it is the intent of the Legislature that:

(a) The regional comprehensive plan preserve and improve the quality of life in the San Diego region, maximize mobility and transportation choices, and conserve and protect natural resources.

(b) The regional comprehensive plan shall address the greenhouse gas emissions reduction targets set by the State Air Resources Board as required by Section 65080 of the Government Code and include strategies that provide for mode shift to public transportation.

(c) The regional comprehensive plan shall identify disadvantaged communities as designated pursuant to Section 39711 of the Health and Safety Code and include transportation strategies to reduce pollution exposure in these communities.

(d) In formulating and maintaining the regional comprehensive plan, the consolidated agency shall take account of and shall seek to harmonize the needs of the region as a whole, the plans of the county and cities within the region, and the plans and planning activities of organizations that affect or are concerned with planning and development within the region.

(e) The consolidated agency shall engage in a public collaborative planning process. The recommendations resulting from the public collaborative planning process shall be made available to and considered by the consolidated agency for integration into the draft regional comprehensive plan. The
consolidated agency shall adopt a procedure to carry out this process including a method of addressing and responding to recommendations from the public.

(f) In formulating and maintaining the regional comprehensive plan, the consolidated agency shall seek the cooperation and consider the recommendations of all of the following:

1. Its member agencies and other agencies of local government within the jurisdiction of the consolidated agency.
2. State and federal agencies.
3. Educational institutions.
4. Research organizations, whether public or private.
5. Civic groups.
6. Private individuals.
7. Governmental jurisdictions located outside the region but contiguous to its boundaries.

(g) The consolidated agency shall make the regional comprehensive plan, policies, and objectives available to all local agencies and facilitate consideration of the regional comprehensive plan in the development, implementation, and update of local general plans. The consolidated agency shall provide assistance and enhance the opportunities for local agencies to develop, implement, and update general plans in a manner that recognizes, at a minimum, land use, transportation compatibility, and a jobs-to-housing balance within the regional comprehensive plan.

(h) The consolidated agency shall maintain the data, maps, and other information developed in the course of formulating the regional comprehensive plan in a form suitable to assure a consistent view of developmental trends and other relevant information for the availability of and use by other government agencies and private organizations.

(i) The components of the regional comprehensive plan may include, but are not limited to, transportation, housing, water quality and supply, infrastructure, air quality, energy, solid waste, economy, and open space, including habitat. Performance standards and measurable criteria shall be established through a public process to ensure that the regional comprehensive plan is prepared consistent with these measures as well as in determining achievement of the regional comprehensive plan goals throughout its implementation.
(j) Any water supply component or provision of the regional infrastructure strategy regarding water supply contained in the regional comprehensive plan shall be consistent with the urban water management plan and other adopted regional water facilities and supply plans of the San Diego County Water Authority.

SEC. 18. Section 132362 of the Public Utilities Code is amended to read:

132362. (a) In addition to the authority set forth in Article 5 (commencing with Section 132300) and Article 6 (commencing with Section 132320) of Chapter 2 of Division 12.7, if the consolidated agency provides compensation to San Diego County for the cost of including an ordinance or measure on the ballot, the consolidated agency may call an election, including an advisory election, in San Diego County on any ordinance or measure regarding the governance of or matters related to the powers, privileges, or duties of the consolidated agency, including, but not limited to, merger or complete consolidation of the transit boards.

(b) The ordinance or measure shall be consistent with, and shall not be in conflict with, any other provision of this chapter.

SEC. 19. If the Commission on State Mandates determines that this act contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code.
STATE ROUTE 125 SOUTH BAY EXPRESSWAY
2017 BOND ISSUANCE: REVIEW OF DRAFT BOND DOCUMENTS

Introduction

In December 2011, SANDAG purchased the State Route 125 South Bay Expressway (SR 125) toll road franchise from its private sector owner, Southbay Expressway, LP. The Board of Directors’ purpose in purchasing the franchise was to reduce the tolls and improve mobility in the region by optimizing use of SR 125 and reducing congestion and the need for infrastructure improvements on other parallel roads. To carry out the transaction, SANDAG secured a loan from the San Diego County Regional Transportation Commission (RTC) to purchase the franchise in the form of a promissory note and was required to assume the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan that the private sector owner had used to finance construction of the road. As of June 30, 2017, the TIFIA loans had an outstanding value of $115.4 million and the RTC loan is outstanding in the amount of $62.4 million.

This report provides an overview of the proposed bond strategy and financing schedule for the issuance of up to $250 million in long-term, fixed-rate debt to refund the outstanding TIFIA and RTC loans for SR 125. The proposed bond issuance would provide funds, together with other available monies, to refinance indebtedness incurred by SANDAG in connection with the acquisition of SR 125, to fund a reserve account, and to pay the costs of issuance of the bonds.

The current market provides SANDAG the opportunity to pre-pay its current obligations to lower its long-term borrowing costs and provide a more conservative level debt repayment structure. When compared to the outstanding obligations, the refunding bonds would reduce total debt service by approximately $54.9 million1 on a present value basis.

Discussion

At its annual retreat in February, the Board of Directors reviewed the strategy for the proposed 2017 bond financing, including an overview of SR 125 financial performance, its current debt profile, and the preliminary plans to take advantage of favorable market conditions and the willingness of the TIFIA Office to allow SANDAG to pre-pay the outstanding loans.

1 The debt service savings are based on market conditions as of August 25, 2017.
Current Debt Portfolio

SR 125 current outstanding long-term debt as of June 30, 2017, consists of four TIFIA loans with a current value of $115.4 million, and a $62.4 million loan with the RTC. The TIFIA loan principal amount ‘accrètes’ or grows in size semi-annually, leading to increasing payments over time.

Planned 2017 Bond Issuance

Approximately $205 million in Series 2017 Bonds are proposed to be sold as traditional tax-exempt, fixed-rate bonds, taking advantage of the low, long-term fixed rates in the current market. The current expectation is that the bonds will be conservatively structured with level debt service and a final maturity in FY 2043 (or calendar year 2042), the year that the Development Franchise Agreement currently is slated to expire. The level debt service structure is expected to provide greater long-term budgetary flexibility compared to the existing TIFIA loans, which have an ascending debt service repayment schedule.

The refunding bonds would be sold with a call feature, allowing SANDAG to call (refinance) and restructure the bonds, without paying a premium, after a certain number of years (traditionally ten, but the financing team will evaluate shorter call options). The Series 2017 Bonds would be sold with a debt service reserve fund, in order to secure the lowest cost of borrowing for such securities.

Included as Attachment 1 is a memorandum from the SANDAG financial advisor, Public Financial Management, Inc. (PFM), which provides more detailed information related to the proposed bonds.

Estimated Costs of Issuance

The selection of bond counsel, disclosure counsel, trustee, and financial advisor was completed through a competitive process, and fees were negotiated. Rating agency fees are subject to published rates. The total of these issuance costs is estimated at $1 million.

The selection of the underwriters also was completed through a competitive process, and the fees are calculated as a percentage of the total amount of debt issued. Assuming a bond issuance of $205 million, underwriting fees would total approximately $800,000.

Total estimated issuance costs of $1.8 million amount to approximately 0.88 percent of the bond issuance amount. Final costs of issuance would be paid out of bond proceeds at the closing of the transaction.

Credit Rating Agency Reviews

SR 125 currently maintains a single private rating on its TIFIA loans of “A-” from Fitch Ratings (Fitch). The ratings on the Series 2017 Bonds would be the first public ratings on SR 125 obligations. In addition to requesting a Fitch rating, SANDAG also is approaching Standard and Poor’s (S&P) to provide a second rating on the Series 2017 Bonds. Two ratings are consistent with market standards for similar credits and will help improve the marketability of the proposed Series 2017 Bonds.
**Responsibilities for Review**

Attached to this report for review and information are the preliminary bond documents for the proposed 2017 bond issuance (Attachments 2 through 5). Additionally, Attachment 6 provides an updated forecast of annual traffic and toll revenue for SR 125 through FY 2043.

The Board of Directors has the ultimate responsibility for approving the 2017 transaction. Before making a decision regarding the bond issuance, Board members should review all of the documents to become familiar with their contents. Board members should pay particular attention to the information contained in the Preliminary Official Statement (Attachment 3) to ensure there are no inaccuracies or material omissions concerning SANDAG.

Board members also should ensure that to the best of their knowledge all of the factual statements are true and correct in all material respects and that the information does not contain any untrue or misleading statement of a material fact or omit to state any material fact that would make the information in any of the documents regarding SANDAG misleading. When carrying out their fiduciary responsibilities, public officials may rely upon employees, bond counsel, disclosure counsel, and other professionals to assure that they are in compliance with the antifraud provisions of the federal securities laws, as long as the reliance is reasonable. In order for the reliance to be considered reasonable, the public official must: (1) make complete disclosure to the appropriate professional of any potentially material mistake or omission in the documents; (2) request the professional’s advice as to what disclosure is proper; (3) receive advice regarding the appropriate disclosure; and (4) rely in good faith on that advice.

SANDAG bond counsel (Orrick, Herrington & Sutcliffe LLP), disclosure counsel (Nixon Peabody LLP), and financial advisor (PFM) will be present at the September 22, 2017, Board of Directors meeting to provide information regarding proper disclosure. The Chief Deputy Executive Director (Kim Kawada), Director of Finance (André Douzdjian), Director of Operations (Ray Traynor), and General Counsel (John Kirk) have all reviewed the draft bond documents, and to the best of staff’s knowledge, all of the statements are true and correct in all material respects, and the information does not contain any untrue or misleading statement of a material fact or omit to state any material fact that would make the information in those documents regarding SANDAG misleading.

**Next Steps**

The remaining schedule for the planned 2017 bond issuance is as follows:

- **September 15:** Transportation Committee – review and consider recommendation of bond documents to Board of Directors
- **Mid-September:** Anticipated notification of credit ratings from S&P and Fitch
- **September 22:** Board of Directors – final review and consideration of bond documents
- **Early October:** Anticipated pricing date
- **Mid-October:** Anticipated closing date

KIM KAWADA  
Chief Deputy Executive Director
Attachments:  1. Memorandum from PFM  
2. Draft Resolution No. 2018-03  
3. Draft Preliminary Official Statement  
4. Draft Master Indenture  
5. Draft First Supplemental Indenture  
6. South Bay Expressway Traffic and Revenue Study Update

Key Staff Contacts:  André Douzdjian, (619) 699-6931, andre.douzdjian@sandag.org  
Ray Traynor, (619) 699-4001, ray.traynor@sandag.org
Memorandum

To: SANDAG Board of Directors

From: Peter Shellenberger, PFM Financial Advisors LLC
      Robert Rich, PFM Financial Advisors LLC
      Darren Hodge, PFM Financial Advisors LLC

Re: SR-125 Toll Revenue Bonds

INTRODUCTION

PFM Financial Advisors LLC ("PFM"), as the financial advisor to SANDAG, has worked with SANDAG staff to provide an update on the proposed Series 2017 SR-125 Toll Revenue Bonds ("Series 2017 Bonds"). SR-125 is a 9.2 mile divided limited access toll road in southern San Diego County. It was originally developed and constructed by an entity formed by the Macquarie Group known as South Bay Expressway, LLC and originally funded by a combination of equity and loans from banks and US DOT’s TIFIA loan program. Tolling operations commenced on January 4, 2008, the same year as the Great Recession. The impact of the Great Recession caused the private operator of SR-125 to file a petition under Chapter 11 of the Bankruptcy Code in April 2010. Through this process a reorganization plan was approved and the lenders became owners of SR-125. Shortly after this reorganization plan was approved, SANDAG submitted a formal offer to purchase SR-125 as part of its mission to serve the transportation needs of the citizens of San Diego County.

On December 21, 2011 SANDAG formalized its purchase of SR-125 as part of this mission. Through the acquisition SANDAG took on several obligations:

- $95.6 million of TIFIA loan that “accretes” over time leading to increasing payments over time, and
- $62.4 million (as revised in 2012) through a loan from the TransNet program

The current market provides SANDAG an opportunity to pre-pay these obligations in order to:

i) lower the long-term borrowing cost
ii) provide a more conservative debt repayment structure, and
iii) repay TransNet early allowing for additional funding for transportation projects within the Expenditure Plan.

When compared to the outstanding obligations the refunding bonds will reduce total debt service by $54.9 million\(^1\) on a present value basis. The proposed Series 2017 Bonds will consist of tax-exempt, long-term, fixed rate bonds and are expected to be sold in October 2017. The Series 2017 Bonds will be secured solely by Revenues from the SR-125 Toll Road and will not be secured by TransNet Sales Tax Revenues. Presented below are a brief market overview and update on the anticipated financing.

\(^1\)Savings are calculated by discounting the difference between current debt service and proposed debt service at an appropriate discount rate
MARKET UPDATE

For the purpose of tracking municipal interest rates over time, we use the AAA Municipal Market Data Index ("AAA MMD"), which serves as the benchmark against which most tax-exempt, fixed-rate transactions are priced. The chart below tracks the 30-year maturity over the past ten years. The current market provides a favorable borrowing environment amid continued global and domestic volatility, and advantageous municipal market supply/demand.

HISTORICAL 30-YEAR AAA MMD YIELDS

As shown in the chart above tax-exempt interest rates remain at very low levels. The current 30-year AAA MMD yield is 2.73%, 0.91% below its ten-year average.

OVERVIEW OF SERIES 2017 BONDS

SANDAG conducted a competitive RFP process to select the underwriting and legal team. The underwriters selected for the transaction include J.P. Morgan Securities LLC, Citigroup Global Markets Inc. and Barclays. Bond Counsel is Orrick, Herrington & Sutcliffe LLP and Disclosure Counsel is Nixon Peabody LLP. Additionally, SANDAG engaged Stantec to refresh the Traffic and Revenue ("T&R") study which was recommended by the financing team given the substantial changes since the last T&R was conducted. SANDAG, its financial advisor, banking team, T&R consultant and legal team kicked-off the Series 2017 financing on March 15, 2017 and discussed timing, execution, and related matters. The team has worked over the following months to prepare documents, rating agency presentations, and other materials in preparation for the sale.

Size and Structure: As mentioned earlier, the Series 2017 Bonds are being undertaken to lower SR-125’s long-term borrowing costs, provide a more conservative debt service structure and repay the TransNet loan. The bonds are proposed to be sold as traditional tax-exempt, fixed-rate bonds, taking advantage of the low long-term fixed rates in the current market. The current expectation is that the bonds will be structured with a final maturity of 2042 – the year that the Franchise Agreement is currently stated to expire – and debt service will be conservatively
structured as level debt service. This resulting level debt service structure will provide greater long-term budgetary flexibility compared to the existing TIFIA loan which accretes and has an increasing debt service repayment schedule. A graph of the pre- and post-refunding debt service is presented below. The bonds will be sold with a call feature, allowing SANDAG to call and restructure the bonds, at par, after a certain number of years (traditionally ten, but the financing team will evaluate shorter call options). The Series 2017 Bonds will be sold with a Debt Service Reserve Fund which is required to secure the lowest cost of borrowing for such securities.

ANNUAL DEBT SERVICE CHART

The financing team will continue to work with SANDAG as we approach pricing to evaluate any structural adjustments that would benefit SANDAG. The structure described above is what is currently anticipated, but is subject to change.

Rating Agency Strategy: SR-125 currently maintains a single private rating on its TIFIA loans of ‘A-‘ from Fitch. The ratings on the Series 2017 Bonds will be the first public ratings on SR-125 obligations. In addition to requesting a Fitch rating, SANDAG is also approaching S&P to provide a second rating on the Series 2017 Bonds. Two ratings are consistent with market standards for similar credits and will help improve the marketability of the Series 2017 Bonds.

Documents and Schedule: The SANDAG legal team has drafted documents in connection with the Series 2017 Bonds. These include: the Indenture, First Supplemental Indenture, Resolution, Preliminary Official Statement, and Bond Purchase Agreement. These documents will be presented for Board approval at the September 22, 2017 Board meeting.

Following Board approval and upon receipt of the ratings, SANDAG and its financing team will release the Preliminary Official Statement and embark on a marketing strategy prior to pricing the bonds. The current schedule has pricing slated for early October with the closing later that month; however, the financing team will continuously evaluate market conditions and will remain flexible with respect to when to enter the market.

Summary: The current True Interest Cost (“TIC”) is approximately 3.77% in today’s market. Annual debt service will be level at approximately $14.6 million. When compared against the forecasted debt service obligations currently outstanding (TIFIA tranches A, B, C and D as well as
the TransNet loan), present value savings are approximately $54.9 million. Unaudited FY 2017 Net Toll Revenues was $27.4 million, resulting in estimated annual debt service coverage of 1.89 times.
RESOLUTION AUTHORIZING THE ISSUANCE AND SALE OF NOT TO EXCEED $250,000,000 AGGREGATE PRINCIPAL AMOUNT OF SAN DIEGO ASSOCIATION OF GOVERNMENTS TOLL REVENUE BONDS IN ONE OR MORE SERIES, INCLUDING THE EXECUTION AND DELIVERY OF A MASTER INDENTURE, FIRST SUPPLEMENTAL INDENTURE, A BOND PURCHASE CONTRACT, AN OFFICIAL STATEMENT, AND A CONTINUING DISCLOSURE AGREEMENT, AND THE TAKING OF ALL OTHER ACTIONS NECESSARY IN CONNECTION THEREWITH

WHEREAS, the San Diego Association of Governments (“SANDAG”) is a consolidated regional transportation agency organized and existing pursuant to the San Diego Regional Transportation Consolidation Act, being Chapter 3 of Division 12.7 of the Public Utilities Code of the State of California (Section 132350 et seq.), and as it may be amended from time to time hereafter (the “Act”);

WHEREAS, SANDAG is authorized pursuant to Sections 143 and 143.1 of the Streets and Highways Code of the State of California (the “Toll Road Act”), that certain Amended and Restated Development Franchise Agreement for a Privatized Transportation Project, dated as of February 1, 2013 (the “Franchise Agreements”), by and between SANDAG and California Department of Transportation, and certain related agreements (collectively, the “Toll Agreements”), to operate, set, collect and continue to collect tolls along the demonstration toll road project known as the South Bay Expressway (the “SR 125 Project”), in the County of San Diego;

WHEREAS, the Act, including Section 132370 and following thereof, authorizes SANDAG to issue one or more series of bonds or other obligations (the “Toll Revenue Obligations”) pursuant to the terms and conditions of a resolution adopted by a majority vote of SANDAG, which obligations may be payable from the revenues of such tolls (the “Toll Revenues”) and any other source of revenues available to SANDAG and pledged as security for the Toll Revenue Obligations;

WHEREAS, SANDAG in 2011 acquired from South Bay Expressway, LLC (“SBX”) all of SBX’s right, title and interest in the SR 125 Project;

WHEREAS, in connection with SANDAG’s financing of its acquisition of the SR 125 Project, SANDAG entered into: (i) a TransNet Loan Agreement, dated December 21, 2011 (the “TransNet Loan Agreement”), by and between SANDAG and the San Diego County Regional Transportation Commission (the “Commission”), (ii) a Second Amended and Restated Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Agreement, dated December 21, 2011 (the “TIFIA Loan Agreement”), by and between SANDAG and the United States Department of Transportation, acting by and through the Federal Highway Administrator (“TIFIA”), (iii) the Series D Agreement, dated December 21, 2011 (the “Series D Agreement”), by and between SANDAG and TIFIA, and (iv) the Master Trust Agreement, dated as of December 21, 2011 (the “Master Trust Agreement”), by and between SANDAG and U.S. Bank National Association, as trustee;
WHEREAS, the Series 2011 Note 4 (TransNet) (First Subordinated Obligation) (the “TransNet Note”), issued and payable pursuant to and secured by the Master Trust Agreement and the TransNet Loan Agreement, is currently outstanding in an aggregate principal amount of $62,354,510;

WHEREAS, the Series 2011 Note 1-A, Series 2011 Note 1-A (TIFIA Tranche A-2 Loan) (Senior Obligation), Series 2011 Note 1-B (TIFIA Tranche B-2 Loan) (Senior Obligation), and Series 2011 Note 1-C, (TIFIA Tranche C-2 Loan) (Senior Obligation) (collectively, the “TIFIA Notes”), issued and payable pursuant to and secured by the Master Trust Agreement and the TIFIA Loan Agreement, are currently outstanding and, as of June 30, 2017, had an aggregate accrued principal amount of $112,352,579;

WHEREAS, the loan payable pursuant to and secured by the Series D Agreement (the “Series D Loan”), is currently outstanding and, as of June 30, 2017, had an aggregate accrued principal amount of $3,052,568;

WHEREAS, SANDAG now desires to refund the TransNet Note, the TIFIA Notes and the Series D Loan and has determined to issue its Bonds (the “Bonds”) pursuant to the Act and in accordance with Article 10 and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (Section 53570 et seq.) (the “Refunding Bond Law”) in order to: (i) pay, or reimburse SANDAG for the payment of, a portion of the Project Costs (as hereinafter defined), including by refunding the TransNet Note, the TIFIA Notes and the Series D Loan, (ii) fund a reserve deposit, and (iii) pay the Costs of Issuance (as hereinafter defined) of such Bonds;

WHEREAS, in order to establish the terms and conditions for the refunding of such obligations, SANDAG will obtain the consent of the Commission and TIFIA to the refunding of the TransNet Note, the TIFIA Notes and the Series D Loan, and, upon the prepayment thereof, the Master Trust Agreement, the TransNet Loan Agreement, the TIFIA Loan Agreement and the Series D Agreement shall be satisfied and discharged and the estate and rights granted under the Master Trust Agreement shall cease, determine, and become void;

WHEREAS, the following documents have been prepared and presented to SANDAG (collectively, the “Financing Documents”):

(1) a proposed form of Master Indenture (the “Indenture”), by and between SANDAG and U.S. Bank National Association, as trustee (the “Trustee”), providing for the issuance and security of the San Diego Association of Governments Toll Revenue Bonds;

(2) a proposed form of First Supplemental Indenture (the “First Supplemental Indenture”), by and between SANDAG and the Trustee, providing for the issuance of the San Diego Association of Governments Toll Revenue Bonds, Series 2017 (the “Bonds”);

(3) a proposed form of bond purchase agreement setting forth the terms of sale of the Bonds (the “Purchase Contract”), in an aggregate principal amount not to exceed two hundred and fifty million dollars ($250,000,000), which SANDAG proposes to enter into with J.P. Morgan Securities LLC, as representative, acting
on behalf of itself and Barclays Capital Inc., and Citigroup Global Markets, Inc. (collectively, the “Underwriters”);

(4) a proposed form of official statement in preliminary form to be distributed in connection with the offering and sale of the Bonds (the “Official Statement”); and

(5) a proposed form of Continuing Disclosure Agreement (the “Continuing Disclosure Agreement”) to be executed and delivered by SANDAG to assist the Underwriters in satisfying their respective obligations under Rule 15c2-12 promulgated by the Securities and Exchange Commission; and

WHEREAS, the Indenture permits SANDAG to adopt from time to time an Operation and Maintenance Reserve Fund Policy Limit determining the limit of funds to be held in the Operation and Maintenance Reserve Fund established under the Indenture, and the Indenture establishes a Capital Expenditures Fund to fund certain costs of capital projects relating to the SR 125 Project;

WHEREAS, SANDAG has engaged Orrick, Herrington & Sutcliffe LLP as bond counsel, Nixon Peabody LLP, as disclosure counsel and Public Financial Management, Inc. as municipal advisor with respect to the Bonds;

WHEREAS, SANDAG deems it necessary and desirable to sell the Bonds by negotiated sale to the Underwriters, in order to provide flexibility in the timing of the sale of the Bonds, increase the ability to pre-market the Bonds, achieve a more desirable debt structure and aim for an overall lower cost of borrowing;

WHEREAS, SANDAG has been presented with proposed forms of the Financing Documents relating to the financing and the refunding of the TIFIA Notes, the TransNet Note and the Series D Loan described herein (collectively, the “Toll Financing”), and SANDAG has examined and approved each document and desires to authorize and direct the execution of such documents as are specified herein and such other documents as are necessary in connection with the Toll Financing and to authorize and direct the consummation of the Toll Financing; NOW THEREFORE

BE IT RESOLVED

Section 1. SANDAG finds and determines that the foregoing recitals are true and correct and makes them an effective part of this Resolution by incorporating them herein by reference.

Section 2. The issuance by SANDAG of not to exceed $250,000,000 aggregate principal amount of San Diego Association of Governments Toll Revenue Bonds, Series 2017, in accordance with the provisions set forth in the Indenture and the First Supplemental Indenture, in one or more series or subseries, is hereby authorized and approved.

Section 3. The proposed form of Indenture presented to this meeting and the terms and conditions thereof are hereby approved. The Executive Director is hereby authorized and directed, for and in the name and on behalf of SANDAG, to execute and deliver the Indenture, in substantially said form, with such changes therein as the officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.
Section 4. The proposed form of First Supplemental Indenture presented to this meeting and the terms and conditions thereof are hereby approved. The structure, date, maturity date or dates (not to exceed July 1, 2042), fixed interest rate or rates, true interest cost (such true interest cost not to exceed a maximum of 5.00%), interest payment dates, forms, registration privileges, place or places of payment, terms of redemption, mandatory purchase, additional series designation and number thereof and other terms of the Bonds shall be (subject to the foregoing limitations) as provided in the Indenture and the First Supplemental Indenture as finally executed and delivered.

The Executive Director is hereby authorized and directed, for and in the name and on behalf of SANDAG, to execute and deliver the First Supplemental Indenture, in substantially said form, with such changes therein as the officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 5. The proposed form of Purchase Contract presented to this meeting and the terms and conditions thereof are hereby approved. The Executive Director is hereby authorized and directed, for and in the name and on behalf of SANDAG, to sell the Bonds to the Underwriters pursuant to the Purchase Contract, with the Underwriters’ compensation not to exceed 0.425 percent of the principal amount of the Bonds, and to execute and deliver the Purchase Contract, in substantially said form, with such changes therein as the officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 6. The proposed form of Official Statement presented to this meeting is hereby approved. The Executive Director is hereby authorized and directed to execute and deliver the Official Statement in substantially said form with such changes, insertions and deletions as may be approved by the Executive Director, said execution being conclusive evidence of such approval; and the Executive Director is hereby authorized to execute a certificate confirming that the Official Statement in preliminary form is “deemed final” by SANDAG for purposes of Securities and Exchange Commission Rule 15c2-12. The distribution by the Underwriters of copies of the Official Statement in final form to all actual purchasers of the Bonds, and the distribution by the Underwriters of the Official Statement in preliminary form to potential purchasers of the Bonds, is hereby authorized and approved.

Section 7. The proposed form of Continuing Disclosure Agreement presented to this meeting is hereby approved. The Executive Director is hereby authorized and directed, for and in the name and on behalf of SANDAG, to execute and deliver the Continuing Disclosure Agreement in substantially said form, with such changes therein as such officer executing the same may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 8. SANDAG hereby adopts an Operation and Maintenance Reserve Fund Policy Limit in an amount equal to the projected Operation and Maintenance Expenses, as such term is defined in the Indenture, for the next two succeeding Fiscal Years as determined from time to time by SANDAG. SANDAG hereby authorizes to be funded initially from proceeds of toll revenues currently held by or on behalf of SANDAG, in an amount equal to approximately $22,972,204. Following such deposit, SANDAG further authorizes a deposit of the balance of any proceeds of toll revenues held by or on behalf of SANDAG into the Capital Expenditures Fund established by the Indenture or the reserve fund or account established in connection with the issuance of the Bonds.
Section 9. Each of the Executive Director, the Chief Deputy Executive Director of SANDAG or the Director of Finance of SANDAG, acting singly (each an “Authorized Officer”), is hereby authorized to execute all approvals, consents, directions, notices, orders, requests, amendments and other actions permitted or required by any of the documents authorized by this Resolution or the Toll Agreements to effect the Toll Financing, whether before or after the issuance of the Bonds, including, without limitation, any amendment of any of the Toll Agreements or documents authorized by this Resolution, or other agreements related thereto, that may be necessary or desirable in connection with any investment of proceeds of the Bonds, or in connection with the addition, substitution or replacement of underwriters, or any agreements with paying agents, escrow agents or verification agents, the removal or replacement of the Trustee or any similar action may be given or taken by an Authorized Officer, without further authorization or direction by SANDAG, and each Authorized Officer, acting singly, is hereby authorized and directed to give any such approval, consent, direction, notice, order, request, or other action and to execute such documents and take any such action which such Authorized Officer may deem necessary or desirable to further the purposes of this Resolution.

Section 10. All actions heretofore taken by the officers and agents of SANDAG with respect to the Toll Financing and the issuance and sale of the Bonds, are hereby ratified, confirmed and approved. If at the time of execution of any of the documents authorized herein, the Executive Director is unavailable, such documents may be executed by the Chief Deputy Executive Director of SANDAG or the Director of Finance in lieu of the Executive Director. The Chair of the Board or, in the Chair’s absence, a Vice Chair of the Board, is hereby authorized to execute and deliver the Bonds. The Executive Director of SANDAG is hereby authorized to execute and attest to the execution of the Bonds. The Clerk of the Board is hereby authorized to attest to the execution by an Authorized Officer of any of such documents as said officers deem appropriate.

The officers and agents of SANDAG are hereby authorized and directed, jointly and severally, for and in the name and on behalf of SANDAG, to adopt or amend written procedures relating to its bonds and to do any and all things and to take any and all actions and to execute and deliver any and all agreements, certificates and documents, including, without limitation, signature certificates, certificates concerning the contents of the Official Statement and the representations and warranties in the Purchase Contract, any tax certificates or agreements, any agreements for depository or verification services, and any agreements for rebate compliance services, which they, or any of them, may deem necessary or advisable in order to consummate the Toll Financing and the issuance and sale of the Bonds and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the Act, the Toll Agreements, the Indenture, the Bonds and the other documents approved hereby.

Section 11. All Authority herein vested in the Executive Director is likewise invested in the Chief Deputy Executive Director, and, without limitation, the Chief Deputy Executive Director may take any action, make any approval and execute or attest any document, including the Bonds, which the Executive Director is authorized to take or perform herein, with the same force and effect.
Section 12. This Resolution shall take effect immediately upon its adoption and approval.

PASSED AND ADOPTED this 22nd of September 2017.

CHAIR

ATTEST:

SECRETARY

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: California Department of Transportation, Metropolitan Transit System, North County Transit District, Imperial County, U.S. Department of Defense, San Diego Unified Port District, San Diego County Water Authority, Southern California Tribal Chairmen’s Association, and Mexico.
NEW ISSUE – BOOK ENTRY ONLY

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

SAN DIEGO ASSOCIATION OF GOVERNMENTS
SOUTH BAY EXPRESSWAY
TOLL REVENUE FIRST SENIOR LIEN BONDS, 2017 SERIES A

Dated: Date of Delivery

The San Diego Association of Governments (“SANDAG”) is issuing its $[________] South Bay Expressway Toll Revenue First Senior Lien Bonds, 2017 Series A (the “Bonds”) for the purpose of providing funds, together with other available moneys, to refinance indebtedness incurred by SANDAG in connection with the acquisition of the South Bay Expressway, to fund a reserve account, and to pay the costs of issuance of the Bonds.

The South Bay Expressway is an approximately 10-mile contiguous tolled segment of State Route 125 from Otay Mesa Road/State Route 905/State Route 11 in the south to State Route 54 in the north. The South Bay Expressway connects Otay Mesa, the largest area of industrial-zoned land remaining in San Diego County, with eastern Chula Vista and points north and east, reducing commute times and providing convenient access to downtown San Diego, Sorrento Valley, Santee, I-8 and I-15, and Mexico. The South Bay Expressway is owned by the California Department of Transportation and operated by SANDAG pursuant to a Franchise Agreement.

The Bonds will mature in the principal amounts on the dates and in the years, and will bear interest at the respective rates of interest per annum, as set forth on the inside cover page hereof. SANDAG will pay interest on the Bonds on [___] 1 and [___] 1 of each year, commencing [___] 1, 2018.

The Bonds are subject to optional and mandatory redemption prior to their respective stated maturities, as described herein.

The Bonds are limited obligations of SANDAG payable, as to principal thereof, and redemption premium, if any, upon the redemption of any thereof, and interest thereon, solely from the Trust Estate as provided in the Indenture and SANDAG is not obligated to pay them except from the Trust Estate. The Trust Estate consists of, among other things, Toll Revenues and amounts in specified Funds and Accounts under the Indenture. Toll Revenues include toll revenues, user fees, fines, rents or other similar charges payable to SANDAG for use of the South Bay Expressway.

The Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of the valid, legal and binding nature of the Bonds by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for SANDAG by Nixon Peabody LLP, Los Angeles California, Disclosure Counsel to SANDAG, for the Underwriters by their counsel, Norton Rose Fulbright US LLP, and for the Trustee, by its counsel. It is anticipated that the Bonds will be available for delivery through the facilities of The Depository Trust Company on or about _____, 2017.

J.P. Morgan

Barclays

Citigroup

Dated: ________, 2017

* Preliminary, subject to change.
# MATURITY SCHEDULE

SAN DIEGO ASSOCIATION OF GOVERNMENTS

SOUTH BAY EXPRESSWAY

TOLL REVENUE FIRST SENIOR LIEN BONDS, 2017 SERIES A

<table>
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<th>Maturity ([___] 1)</th>
<th>Principal Amount $</th>
<th>Interest Rate %</th>
<th>Yield %</th>
<th>Price</th>
<th>CUSIP No.† (___)</th>
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* Preliminary, subject to change.
† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor’s Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriters, the Financial Advisor or SANDAG is responsible for the selection or correctness of the CUSIP numbers set forth herein.
+ Priced to par call on ____.

‡4824-2241-4406.9
Limitations Regarding Offering. No broker, dealer, salesperson or any other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by SANDAG. This Official Statement does not constitute an offer to sell, or the solicitation from any person of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction where such offer, solicitation or sale would be unlawful. The information set forth herein is subject to change without notice. The delivery of this Official Statement at any time does not imply that information herein is correct or complete as of any time after its date.

Forward-Looking Statements. This Official Statement contains forecasts, projections, estimates and other forward-looking statements that are based on current expectations. The words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions are intended to identify forward-looking statements. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results. Any such forward-looking statements inherently are subject to a variety of risks and uncertainties that could cause actual results or performance to differ materially from those that have been forecast, estimated or projected. These forward-looking statements speak only as of the date of this Official Statement. SANDAG disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the SANDAG’s expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Underwriters’ Disclaimer. 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 responsibilities 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.

No Securities Registration. The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption from the registration requirements contained in such Act. The Bonds have not been registered or qualified under the securities laws of any state.

Websites Not Incorporated. SANDAG maintains a website and the information presented on that website is not incorporated by reference as part of this Official Statement and should not be relied upon in making investment decisions with respect to the Bonds. Any references to internet websites contained in this Official Statement are shown for reference and convenience only; the information contained in such websites is not incorporated herein by reference and does not constitute a part of this Official Statement.
[MAP OF SR-125]
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VICE-CHAIR: Hon. Terry Sinnott

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(A) Hon. Bill Horn, Supervisor
Hon. Ron Roberts, Supervisor
(A) Hon. Greg Cox, Supervisor
(A) Hon. Kristin Gaspar, Vice Chair

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(A) Mark Baza, Imperial County Transportation Commission

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(A) Laurie Berman, District 11 Director
(A) Ann Fox, Deputy Director

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(A) Hon. Mona Rios

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(A) Steve Chung, Navy Region Southwest

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(A) Hon. Rafael Castellanos, Commissioner

San Diego County Water Authority
Mark, Muir, Chair
(A) Jim Madalferi, Vice Chair
(A) Christy Guerin, Director

Southern California Tribal Chairmen’s Association
Hon. Cody Martinez, Chairman, Sycuan Band of the Kumeyaay Nation
Hon. Robert Smith, Chairman, Pala Band of Mission Indians

Mexico
Hon. Marcela Celorio, Consul General of Mexico
Vacant, Deputy Consul General of Mexico
(A) Ruth Alicia Lopez, Vice Consul
SAN DIEGO ASSOCIATION OF GOVERNMENTS

MANAGEMENT

Chief Deputy Executive Director
Kim Kawada

General Counsel
John F. Kirk

Director of Finance
André Douzdjian

Chief Economist and Director of Technical Services
Ray Major

Director of Operations
Ray Traynor

SPECIAL SERVICES

Municipal Advisor
PFM Financial Advisors LLC
San Francisco, California

Bond Counsel
Orrick, Herrington & Sutcliffe LLP
San Francisco, California

Disclosure Counsel
Nixon Peabody LLP
Los Angeles, California

Trustee
U.S. Bank National Association
Los Angeles, California
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SAN DIEGO ASSOCIATION OF GOVERNMENTS
SOUTH BAY EXPRESSWAY
TOLL REVENUE FIRST SENIOR LIEN BONDS, 2017 SERIES A

INTRODUCTION

General

The purpose of this Official Statement is to set forth information concerning the issuance and sale of the San Diego Association of Governments South Bay Expressway Toll Revenue First Senior Lien Bonds, 2017 Series A, in the aggregate principal amount of $________ (the “Bonds”) pursuant to a Master Indenture, dated as of _________ 1, 2017, (the “Master Indenture”) as supplemented by the First Supplemental Indenture dated as of ______ 1, 2017 (the “Supplemental Indenture” together with the Master Indenture, the “Indenture”), between the San Diego Association of Governments (“SANDAG”) and U.S. Bank National Association, as trustee (the “Trustee”).

San Diego Association of Governments

SANDAG is a consolidated regional transportation agency organized and existing pursuant to the San Diego Regional Transportation Act, beginning Chapter 2 of Division 12.7 of the Public Utilities Code of the State of California (Section 132350 et seq.). SANDAG is governed by a Board of Directors composed of mayors, councilmembers, and county supervisors from the County of San Diego (the “County”) and each city in the County. SANDAG serves as a regional decision making forum for the San Diego area for issues including transportation, environmental management, housing, open space, air quality, energy, fiscal management, economic development, and public safety.

South Bay Expressway

The South Bay Expressway is an approximately 10-mile contiguous tolled segment of State Route 125 (“SR-125”) from Otay Mesa Road/State Route 905 (“SR-905”)/State Route 11 (“SR-11”) in the south to State Route 54 (“SR-54”) in the north. The South Bay Expressway connects Otay Mesa, the largest area of industrial-zoned land remaining in San Diego County, with eastern Chula Vista and points north and east, reducing commute times and providing convenient access to downtown San Diego, Sorrento Valley, Santee, I-8 and I-15, and Mexico. The South Bay Expressway is owned by the California Department of Transportation (“Caltrans”) and was originally developed and constructed by South Bay Expressway, LLC (together with its predecessor entities, “SBX”), a private entity that filed for bankruptcy in April 2010. SANDAG acquired the South Bay Expressway from the SBX bankruptcy estate in December 2011. SANDAG operates, maintains and tolls the South Bay Expressway pursuant to an Amended and Restated Development Franchise Agreement between Caltrans and SANDAG dated February 1, 2013 (the “Franchise Agreement”). When SANDAG acquired the South Bay Expressway, Caltrans and SANDAG amended the Franchise Agreement pursuant to Section 24.

* Preliminary, subject to change.
143.1 of the California Streets and Highway Code, which also provides that SANDAG may operate the South Bay Expressway beyond the term of the Franchise Agreement if specified conditions are satisfied. See “DESCRIPTION OF SOUTH BAY EXPRESSWAY” herein.

Use of Proceeds

Proceeds of the Bonds, together with other available funds, will be used to (i) refund all of SANDAG’s outstanding indebtedness incurred to finance SANDAG’s acquisition of the South Bay Expressway, (ii) fund a Reserve Account, and (iii) pay the costs of issuance of the Bonds. See “PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS.”

Security and Sources of Payment for the Bonds

The Bonds are limited obligations of SANDAG payable, as to principal thereof, and redemption premium, if any, upon the redemption of any thereof, and interest thereon, solely from the Trust Estate as provided in the Indenture and SANDAG is not obligated to pay them except from the Trust Estate. The Trust Estate consists of, among other things, Toll Revenues and amounts in specified Funds and Accounts under the Indenture. Toll Revenues include toll revenues, user fees, fines, rents or other similar charges payable to SANDAG for use of the South Bay Expressway. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

PLAN OF FINANCE

Proceeds of the Bonds, together with other available funds, will be used to (i) refinance indebtedness SANDAG incurred to acquire the South Bay Expressway (“Acquisition Debt”), consisting of the obligations in the table below, (ii) fund a Reserve Account, and (iii) pay the costs of issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS.”

The Acquisition Debt consists of the following obligations:

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<tbody>
<tr>
<td>Series 2011 Note 1-A (TIFIA Tranche A-2 Loan) (Senior Obligation) issued under the Second Amended and Restated TIFIA Loan Agreement, dated December 21, 2011 (the “TIFIA Loan Agreement”), by and between SANDAG and the United States Department of Transportation, acting by and through the Federal Highway Administrator (“TIFIA”)</td>
<td>$55,063,101</td>
</tr>
<tr>
<td>Series 2011 Note 1-B (TIFIA Tranche B-2 Loan) (Senior Obligation) issued under the TIFIA Loan Agreement</td>
<td>52,591,223*</td>
</tr>
<tr>
<td>Series 2011 Note 1-C, (TIFIA Tranche C-2 Loan) (Senior Obligation) issued under the TIFIA Loan Agreement</td>
<td>4,698,254*</td>
</tr>
</tbody>
</table>
Obligation | Outstanding Amount
--- | ---
Series D Notes issued pursuant to the Series D Agreement, dated December 21, 2011, by and between SANDAG and TIFIA | 3,052,568*
Series 2011 Note 4 (*TransNet*) (First Subordinated Obligation) issued pursuant to the *TransNet* Loan Agreement, dated December 21, 2011, by and between SANDAG and the San Diego County Regional Transportation Commission | 62,352,510

**Total Outstanding Acquisition Debt**
$177,757,656

* Value accreted through June 30, 2017.

At the time of issuance of the Bonds and the application of Bond proceeds, no debt incurred in connection with SANDAG’s financing of its acquisition of the South Bay Expressway, including its Acquisition Debt, will remain outstanding.

**ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources and uses of funds with respect to the Bonds are as follows:

**Sources:**
- Principal Amount
- Original Issue Premium
- Cash on Hand

Total Sources

**Uses:**
- Refinancing of Acquisition Debt
- Deposit to Reserve Account
- Costs of Issuance\(^{(1)}\)

Total Uses

\(^{(1)}\) Includes fees of Bond Counsel, Disclosure Counsel, the Trustee, Underwriters’ discount, consulting fees, rating agency fees, printing costs and certain miscellaneous expenses.

**SAN DIEGO ASSOCIATION OF GOVERNMENTS**

**General**

SANDAG, consisting of 19 local government members, serves as the forum for regional decision-making. SANDAG builds consensus; makes strategic plans; obtains and allocates resources; plans, engineers, and builds public transportation, and provides information on a broad range of topics pertinent to the region’s quality of life.
SANDAG and the San Diego Regional Transportation Commission (the “Commission”) share the same Board of Directors. The Commission has issued several series of sales tax revenues bonds. The Bonds do not constitute a debt or liability of the Commission and are neither payable nor secured by the sales tax revenues of the Commission.

Executive Staff

Key staff members, the position held by each and a brief statement of the background of each staff member are set forth below.

Kim Kawada, Chief Deputy Executive Director. Ms. Kawada’s major responsibilities include managing the ongoing operations of SANDAG. She is responsible for overseeing the day-to-day activities of an agency with more than a $1 billion budget and about 350 employees, including the Administration, Finance, Land Use and Transportation Planning, Mobility Management and Project Implementation, Operations, Technical Services, and TransNet Departments. She joined SANDAG in 1995, serving in a variety of leadership roles at the agency for more than 22 years. Ms. Kawada works with other local, regional, state, and federal agencies on regional infrastructure planning, programming and implementation issues. She has extensive experience working with elected leaders throughout the region to build consensus to achieve wide-ranging regional goals. Prior to her current role, Ms. Kawada served as TransNet and Legislative Affairs Program Director managing and directing the operations of the SANDAG TransNet program and federal and state legislative affairs. Ms. Kawada has played an instrumental role in many of the agency’s programs and projects, ranging from long-term transportation planning to budgeting to setting public policy priorities. Her leadership on legislative efforts enabled SANDAG to operate new toll and managed lanes to expand travel choices, and to use innovative project delivery methods to save money and accelerate completion. She is a graduate of Brown University with a Bachelor of Arts in American History.

John F. Kirk, General Counsel. Mr. Kirk was appointed General Counsel for SANDAG in January 2012. Mr. Kirk was originally hired by SANDAG as Deputy General Counsel in June 2006. Between 1990 and 2006 Mr. Kirk served the City of San Diego as a Deputy City Attorney. Mr. Kirk holds a Bachelors’ degree from Wabash College and a Juris Doctorate from Pepperdine University’s School of Law.

André Douzdjian, Director of Finance. Mr. Douzdjian serves as SANDAG’s Chief Financial Officer and directs all financial and budgeting functions for SANDAG. Mr. Douzdjian returned to SANDAG in June of 2012. During the previous 12 years, Mr. Douzdjian worked in the capacity of Chief Financial Officer for two privately-held staffing companies, where he was a co-founder and shareholder of those businesses. Prior to that, Mr. Douzdjian was the Financial Services Manager at SANDAG, a position that he held for almost 10 years, from 1991 to 2000. Prior to his employment at SANDAG, Mr. Douzdjian was a Senior Accountant for KPMG, LLP, a certified accounting firm. Mr. Douzdjian received a Bachelor of Business Administration (B.A.) degree in Accounting in 1988 from the University of San Diego and a Master’s degree in Business Administration (M.B.A.) with an emphasis in Finance in 1996 from San Diego State University and is a Certified Public Accountant. Mr. Douzdjian is a member of the Government Finance Officers Association.
Ray Major, Chief Economist and Director of Technical Services. Mr. Major originally joined SANDAG in 1987 as a Research Analyst and economist responsible for SANDAG’s econometric and economic impact models, custom analytic research projects, and for developing the San Diego region’s comprehensive Economic Prosperity Strategy. He left SANDAG in 1994 and joined the Nielsen companies where he served as a senior executive holding numerous positions including Chief Marketing Officer, Chief Customer Officer, and product strategist. Mr. Major oversaw the product development of Claritas, a major provider of demographic and segmentation data. As General Manager of Integras, he ran the division of Claritas specializing in Business Intelligence (BI) and predictive analytics, geo-spatial and economic modeling services. In 2010, Mr. Major moved to Halo BI, a state-of-the-art business intelligence and predictive modeling software and service provider where he served as CMO, COO, and CEO. Mr. Major rejoined SANDAG in 2015 where he now serves as the Director of Technical Services. Mr. Major holds both graduate and undergraduate degrees in economics from San Diego State University, with an emphasis in developmental economics, and econometrics.

Ray Traynor, Director of Operations, South Bay Expressway. Mr. Traynor serves as Director of Operations of the South Bay Expressway. Mr. Traynor’s responsibilities include managing SANDAG’s toll operations program; information technology; intelligent transportation systems; and transportation demand management. In this role, Ray is responsible for overseeing the day-to-day activities of SANDAG’s toll operations which includes the South Bay Expressway and the Interstate 15 Express Lanes. Prior to joining SANDAG in 2012, Ray, served as Vice President General Manager of Axiom xCell, a software development company, where he managed all aspects of the business. Prior to joining Axiom xCell, Mr. Traynor served as SANDAG’s Manager of Mobility which included overseeing the Interstate 15 Express Lanes toll operations and intelligent transportation systems programs. Prior to his experience at SANDAG, Ray was the Product Manager at Novatel Wireless, a global provider of solutions for the Internet of Things and fleet telematics markets; in his role Ray managed the development of wireless data modems. Earlier in his career, Ray worked at Caltrans District 11 where he served as Project Manager and was responsible for the delivery of the region’s Border Capital Program, which included leading the development of State Route 7 and State Route 905. Mr. Traynor holds a Master’s degree in Business Administration (M.B.A.) from San Diego State University, and a Bachelor’s degree in Landscape Architecture from Cal Poly San Luis Obispo.

Independent Examination of Measure A Revenue Estimates

In 2016, the SANDAG Board of Directors endorsed Measure A, which sought to establish a new half-cent retail sales tax for the San Diego region. The supporters of Measure A campaigned for its passage with the representation that the additional sales tax would generate roughly $18 billion in revenue, which would be used for transportation needs throughout the region. The estimates of potential revenue from the passage of Measure A were over-estimated, a fact that was reported by the press in October 2016. The following month, Measure A was defeated at the polls.

The SANDAG Board of Directors commissioned an independent inquiry on April 14, 2017, to determine which individuals within SANDAG knew that the revenue estimates were over-stated, when those individuals gained that knowledge, and with whom that information was
shared. A report on the independent inquiry was presented to the SANDAG Board of Directors on August 4, 2017. The report found that a computer input error in 2004 caused projections of sales tax receipts to be erroneously high. Several staff members questioned the projections and advised against using them. However, it was not until two days after the November 2016 election that staff discovered the source of the error. The report found that no one at SANDAG intended to misrepresent the revenue forecast and makes a series of policy and procedural recommendations to avoid such issues in the future. The SANDAG Board of Directors is expected to provide direction to staff based on the findings of the independent investigation. The report is available on the SANDAG website as part of the SANDAG Board of Directors’ special meeting agenda minutes for the August 4, 2017.

The public reaction to the circumstances surrounding the November 2016 election have had an impact on SANDAG. A bill has been introduced (but not yet passed) into the State Legislature to make changes to SANDAG’s governance structure and provide additional oversight. In addition, SANDAG Executive Director Gary L. Gallegos retired, effective August 18, 2017. Under SANDAG Board policy, the Chief Deputy Executive Director has all of the authority of the Executive Director. It remains possible that SANDAG will continue to experience additional changes as a result of the reaction, including in the governance or management of SANDAG. See “RISK FACTORS—The State Legislature can adopt laws that can impact SANDAG’s governance and management” below.

DESCRIPTION OF THE BONDS

General

The Bonds will be dated their date of delivery, will mature in the principal amounts on the dates and in the years, and will bear interest, on the basis of a 360-day year of twelve 30-day months, at the rates set forth on the inside front cover page of this Official Statement. SANDAG will pay interest on the Bonds on [___] 1 and [___] 1 of each year, commencing [___] 1, 2018.

Redemption

Optional Redemption. The Bonds are subject to redemption prior to their respective stated maturities, at the option of SANDAG, from any source of available funds, as a whole or in part, on any date on or after [_______ 1, 20__] at the principal amount of the Bonds called for redemption plus accrued interest to the date fixed for redemption, without premium.

Mandatory Redemption. The Bonds maturing on [_______ 1, 20__] are also subject to mandatory redemption prior to their respective stated maturities, in part, by lot, from Sinking Fund Installments on each [___] 1] a Sinking Fund Installment is due as specified in the Indenture, in the principal amount equal to the Sinking Fund Installment due on such date and at a redemption price equal to 100% of the principal amount thereof, plus accrued but unpaid interest to the redemption date, without premium.

The Sinking Fund Installments for the Series 2017 Term Bond maturing on [_______ 1, 20__] shall be due in the amounts and on the dates as follows:

<table>
<thead>
<tr>
<th>Sinking Fund</th>
<th>Sinking Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4824-2241-4406.9

29
On or before the date such Sinking Fund Installments are due, the Trustee shall deposit such amounts to the Principal Account and amounts so transferred shall be applied as provided in the Indenture.

Selection of Bonds for Redemption. SANDAG shall designate which maturities of the Bonds are to be called for redemption pursuant to the Indenture and what Sinking Fund Installments are to be reduced as allocated to such redemptions. Whenever provision is made in the Indenture for the redemption of less than all of the Bonds maturing on a specific maturity date, the Trustee shall select the Bonds of such maturity to be redeemed, from the Outstanding Bonds of such maturity and Series not previously called for redemption, in minimum denominations of $5,000 (of principal), by lot in any manner which the Trustee in its sole discretion shall deem appropriate. In the event Term Bonds are designated for redemption, SANDAG may designate the Sinking Fund Installments under the Indenture, or portions thereof, that are to be reduced as allocated to such redemption. The Trustee shall promptly notify SANDAG in writing of the Bonds of such series so selected for redemption.

Notice of Redemption. A notice of redemption shall be mailed by the Trustee, not less than twenty (20) nor more than sixty (60) days prior to the redemption date, to each Owner and to the MSRB. Notice of redemption to the Owners shall be given by first class mail. Each notice of redemption shall state the date of such notice, the date of issue of the Series of Obligations to which such notice relates, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, in the case of a redemption in part only, the identity of the Bonds to be redeemed. Except in the case of conditional optional redemption, each such notice shall also state that on said date there will become due and payable on each of said Bonds the redemption price thereof, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered at the address or addresses of the Trustee specified in the redemption notice. Neither SANDAG nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bonds or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither SANDAG nor the Trustee shall be liable for any inaccuracy in such numbers. Failure of any Owner to receive any notice of redemption or any defect therein shall not affect the sufficiency of any proceedings for redemption.
**Conditional Notice of Redemption; Rescission.** Any optional redemption of the Bonds and notice thereof shall be conditional and shall be rescinded and cancelled pursuant to the provisions of the Indenture if for any reason on the date fixed for redemption moneys are not available in the Redemption Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the Bonds called for redemption.

**Effect of Redemption.** Notice of redemption having been duly given, and moneys for payment of the redemption price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the redemption price specified in the Master Indenture, together with interest accrued thereon to the date fixed for redemption, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Master Indenture, and the Owners of said Bonds shall have no rights in respect thereof except to receive payment of said redemption price and accrued interest to the date fixed for redemption.

**Partial Redemption of Obligations.** Upon surrender of any Bonds to be redeemed in part only, SANDAG shall execute, and the Trustee shall authenticate and deliver to the Owner of such Bonds, at the expense of SANDAG, a new Bond or Bonds of Authorized Denominations equal in Bond Obligation to the unredeemed portion of the Bond surrendered, of the same Series, maturity and terms as the surrendered Bond.

**SECURITY AND SOURCES OF PAYMENTS FOR THE BONDS**

**General**

The Bonds are being issued as First Senior Lien Obligations and are the first Series of First Senior Lien Obligations issued by SANDAG under the Master Indenture. The Bonds are limited obligations of SANDAG payable, as to principal thereof, and redemption premium, if any, upon the redemption of any thereof, and interest thereon, solely from the Trust Estate as provided in the Indenture and SANDAG is not obligated to pay them except from the Trust Estate. The Trust Estate consists of, among other things, Toll Revenues and amounts in specified Funds and Accounts under the Indenture. Toll Revenues include toll revenues, user fees, fines, rents or other similar charges payable to SANDAG for use of the South Bay Expressway.

**Trust Estate**

Under the Master Indenture, the Trust Estate consists of (a) the Toll Revenues, (b) all interest or other income from investment of money in the Funds and Accounts established under the Master Indenture (excluding the Rebate Fund and the Distribution Fund, and any Fund or Account established to hold the proceeds of a drawing on any Credit Support Instrument), (c) all Swap Revenues, and (d) all amounts (including the proceeds of Obligations) held in each Fund and Account established under the Master Indenture (except for amounts on deposit in the Rebate Fund and the Distribution Fund, and amounts on deposit in any Fund or Account established to hold the proceeds of a drawing on any Credit Support Instrument).
Toll Revenues are comprised of (a) toll revenues, user fees, fines, rents or other similar charges payable to SANDAG for use of the Toll Road (as defined in the Master Indenture), as well as fines and penalties and interest thereon collected as a result of a failure to pay any such amounts, (b) proceeds of insurance payable to or received by SANDAG with respect to the Toll Road (whether by way of claims, return of premiums, *ex gratia* settlements or otherwise), including proceeds from business interruption insurance and loss of advance profits insurance, except for proceeds of fire and other casualty insurance that are deposited to the Insurance and Condemnation Proceeds Account of the Project Fund and actually applied or reserved for application to the repair, restoration or replacement of the Toll Road, (c) proceeds of any condemnation awards with respect to the Toll Road, except to the extent deposited to the Insurance and Condemnation Proceeds Account of the Project Fund and actually applied or reserved for application to the replacement of the South Bay Expressway, (d) liquidated damages for delayed completion of a Project payable to SANDAG under a construction contract relating to the Toll Road or a portion thereof, (e) proceeds of credit support provided by a Toll Operator pursuant to an operating agreement, and (f) any other incidental or related fees or charges; but excluding therefrom cash advances representing deposits against future toll payments from users or potential users of the Toll Road. Toll Revenues do not include *TransNet* sales tax revenues or any other SANDAG source.

**Additional Toll Road Facilities**

Under the Master Indenture, the term “Toll Road” initially means the South Bay Expressway. However, under the definition of “Toll Road” in the Master Indenture, “Toll Road” can potentially include streets, roads or highways in addition to the South Bay Expressway if SANDAG has all right, power and authority pursuant to law to impose tolls, and upon which tolls are imposed by SANDAG. Under the terms of the Master Indenture, “Toll Road” does not include any Special Project, which means any project so designated by SANDAG.

**Flow of Funds**

Under the Master Indenture, the following funds and accounts are established; the Capital Expenditures Fund, the Distribution Fund, the Operations and Maintenance Fund, the Operations and Maintenance Reserve Fund, the Project Fund, the Rebate Fund, the Redemption Fund, the First Senior Lien Obligations Fund, the First Senior Lien Obligations Reserve Fund, the Second Senior Lien Obligations Fund, the Second Senior Lien Obligations Reserve Fund, the Subordinate Obligations Fund, the Subordinate Obligations Reserve Fund, and the Toll Revenue Fund. The Trustee is obligated to make the following transfers and payments from the Toll Revenue Fund in the amounts, at the times and only for the purposes specified in the Indenture and in the following order of priority (it being agreed that no amount shall be transferred on any date pursuant to any clause below until amounts sufficient as of that Monthly Funding Date (to the extent applicable) for all the purposes specified under the Indenture shall have been transferred or set aside):

First, on each Monthly Funding Date, to the Operation and Maintenance Fund, the amount necessary to increase the balance of the Operation and Maintenance Fund to an amount equal to the Operation and Maintenance Expenses then due and payable, plus one-twelfth (1/12)
of the Operation and Maintenance Expenses projected in accordance with the most recently-adopted Annual Operating Budget of SANDAG to be due and payable during the Fiscal Year continuing or commencing on the day after such Monthly Funding Date;

Second, on each Monthly Funding Date, any payments then due and payable by SANDAG to the Rebate Fund or any similar rebate fund established with respect to any future tax-exempt borrowing transaction under the Master Indenture;

Third, (x) on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, to the First Senior Lien Obligations Interest Account the sum of (A)(1) in the case of Outstanding First Senior Lien Obligations with semiannual interest payment dates, one-sixth (1/6) of the amount of the interest payable on such First Senior Lien Obligations on the next interest payment date; (2) in the case of Outstanding First Senior Lien Obligations with quarterly interest payment dates, one-third (1/3) of the amount of the interest payable on such First Senior Lien Obligations on the next interest payment date; and (3) in the case of Outstanding First Senior Lien Obligations with monthly interest payment dates, the amount of interest payable on such First Senior Lien Obligations on the next interest payment date; plus (B) the sum of any continuing shortfall in transfers required to have been made to the First Senior Lien Obligations Interest Account on any preceding Monthly Funding Date; plus (C) if such Monthly Funding Date is also an interest payment date or the last Monthly Funding Date before an interest payment date on any First Senior Lien Obligations, any other amount required to make the amount credited to the First Senior Lien Obligations Interest Account equal to the amount payable on such First Senior Lien Obligations on such interest payment date; and (y) on each Monthly Funding Date, to the applicable Swap Parties, scheduled Hedging Obligations due under any Qualified Swap Agreements, if any, net of any scheduled amounts payable to SANDAG with respect to such scheduled Hedging Obligations;

Fourth, on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, commencing 12 months before the first annual principal payment date (including any mandatory sinking fund redemption date) or six months before the first semi-annual principal payment date (including any mandatory sinking fund redemption date), to the First Senior Lien Obligations Principal Account, the sum of (A)(1) in the case of Outstanding First Senior Lien Obligations with annual principal or mandatory sinking fund payment dates, one-twelfth (1/12) of the principal and mandatory sinking fund redemptions due on such First Senior Lien Obligations; and (2) in the case of Outstanding First Senior Lien Obligations with semi-annual principal or mandatory sinking fund payment dates, one-sixth (1/6) of the principal and mandatory sinking fund redemptions due on such First Senior Lien Obligations; and (B) the sum of any shortfall in transfers required to have been made to the First Senior Lien Obligations Principal Account on any previous Monthly Funding Date; and (C) if the Monthly Funding Date is also a principal payment date (or mandatory sinking fund redemption date) or the last Monthly Funding Date before a principal payment date (or mandatory sinking fund redemption date) on any First Senior Lien Obligations, any other amount required to make the amount credited to the First Senior Lien Obligations Principal Account equal to the amount of principal due on such First Senior Lien Obligations on such principal payment date or mandatory sinking fund redemption date;
Fifth, on each Monthly Funding Date, to the First Senior Lien Obligations Reserve Fund (or the applicable Account therein) the amount necessary so that the balance therein equals the applicable First Senior Lien Obligations Reserve Requirement; provided, however, that in the event that the Trustee shall have withdrawn moneys in the First Senior Lien Obligations Reserve Fund or any Account therein for the purpose of paying principal of or interest on the applicable First Senior Lien Obligations when due as provided in the Master Indenture, the Trustee shall limit such deposit to the First Senior Lien Obligations Reserve Fund or the applicable Account therein, on each of the next 12 Monthly Funding Dates after such withdrawal, to an amount equal to one-twelfth (1/12th) of the aggregate amount of each such withdrawal until the amount on deposit in the First Senior Lien Obligations Reserve Fund (or the applicable Account therein) is equal to the applicable First Senior Lien Obligations Reserve Requirement; provided further however, that in the event such requirements cannot be fully funded, the funds available shall be transferred to each Account in the First Senior Lien Obligations Reserve Fund ratably in accordance with its respective shortfall;

Sixth, (x) on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, to the Second Senior Lien Obligations Interest Account the sum of (A)(1) in the case of Outstanding Second Senior Lien Obligations with semiannual interest payment dates, one-sixth (1/6) of the amount of the interest payable on such Second Senior Lien Obligations on the next interest payment date; (2) in the case of Outstanding Second Senior Lien Obligations with quarterly interest payment dates, one-third (1/3) of the amount of the interest payable on such Second Senior Lien Obligations on the next interest payment date; and (3) in the case of Outstanding Second Senior Lien Obligations with monthly interest payment dates, the amount of interest payable on such Second Senior Lien Obligations on the next interest payment date; plus (B) the sum of any continuing shortfall in transfers required to have been made to the Second Senior Lien Obligations Interest Account on any preceding Monthly Funding Date; plus (C) if such Monthly Funding Date is also an interest payment date or the last Monthly Funding Date before an interest payment date on any Second Senior Lien Obligations, any other amount required to make the amount credited to the Second Senior Lien Obligations Interest Account equal to the amount payable on such Second Senior Lien Obligations on such interest payment date, and (y) on each Monthly Funding Date, to the applicable Swap Parties, scheduled payments due under any Hedging Obligations, if any, net of any scheduled amounts payable to SANDAG with respect to such scheduled Hedging Obligations, under any Swaps entered into in connection with such Second Senior Lien Obligations;

Seventh, on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, commencing 12 months before the first annual principal payment date (including any mandatory sinking fund redemption date) or six months before the first semi-annual principal payment date (including any mandatory sinking fund redemption date), to the Second Senior Lien Obligations Principal Account, the sum of (A)(1) in the case of Outstanding Second Senior Lien Obligations with annual principal or mandatory sinking fund payment dates, one-twelfth (1/12) of the principal and mandatory sinking fund redemptions due on such Second Senior Lien Obligations; and (2) in the case of Outstanding Second Senior Lien Obligations with semi-annual principal or mandatory sinking fund payment dates, one-sixth (1/6) of the principal and mandatory sinking fund redemptions due on such Second Senior Lien Obligations; (B) the sum of any shortfall in transfers required to have been made to the Second
Senior Lien Obligations Principal Account on any previous Monthly Funding Date; and (C) if the Monthly Funding Date is also a principal payment date (or mandatory sinking fund redemption date) or the last Monthly Funding Date before a principal payment date (or mandatory sinking fund redemption date) on any Second Senior Lien Obligations, any other amount required to make the amount credited to the Second Senior Lien Obligations Principal Account equal to the amount of principal due on such Second Senior Lien Obligations on such principal payment date or mandatory sinking fund redemption date;

Eighth, on each Monthly Funding Date, to the Second Senior Lien Obligations Reserve Fund (or the applicable Account therein), the amount necessary so that the balance therein equals the applicable Second Senior Lien Obligations Reserve Requirement; provided, however, that in the event that the Trustee shall have withdrawn moneys in the Second Senior Lien Obligations Reserve Fund therein for the purpose of paying principal of or interest on the applicable Second Senior Lien Obligations secured thereby when due as provided in the Master Indenture, the Trustee shall limit such deposit to the Second Senior Lien Obligations Reserve Fund, on each of the next 12 Monthly Funding Dates after such withdrawal, to an amount equal to one-twelfth (1/12th) of the aggregate amount of each such unreplished withdrawal until the amount on deposit in the Second Senior Lien Obligations Reserve Fund is equal to the applicable Second Senior Lien Obligations Reserve Requirement; provided, further however, that in the event such requirements cannot be fully funded, the funds available shall be transferred to each Account in the Second Senior Lien Obligations Reserve Fund ratably in accordance with its respective shortfall;

Ninth, on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, to the Subordinate Obligations Interest Account the sum of (A)(1) in the case of Outstanding Subordinate Obligations with semi-annual interest payment dates, one-sixth (1/6) of the interest payable on such Subordinate Obligations on the next interest payment date; (2) in the case of Outstanding Subordinate Obligations with quarterly interest payment dates, one-third (1/3) of the amount of the interest payable on such Subordinate Obligations on the next interest payment date; and (3) in the case of Outstanding Subordinate Obligations with monthly interest payment dates, the interest payable on such Subordinate Obligations on the next interest payment date; plus (B) the sum of any continuing shortfall in transfers required to have been made to the Subordinate Obligations Interest Account on any preceding Monthly Funding Date; plus (C) if such Monthly Funding Date is also an interest payment date or the last Monthly Funding Date before an interest payment date on any Subordinate Obligations, any other amount required to make the amount credited to the Subordinate Obligations Interest Account equal to the interest payable on such Subordinate Obligations on such interest payment date;

Tenth, on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, commencing 12 months before the first annual principal payment date (including any mandatory sinking fund redemption date) or six months before the first semi-annual principal payment date (including any mandatory sinking fund redemption date), to the Subordinate Obligations Principal Account the sum of (A)(1) in the case of Outstanding Subordinate Obligations with annual principal payment dates, one-twelfth (1/12) of the principal due on such Subordinate Obligations on the next principal payment date; and (2) in the case of Outstanding Subordinate Obligations with semi-annual principal payment dates, one-
sixth (1/6) of the principal redemptions due on such Subordinate Obligations on the next principal payment date; plus (B) the sum of any shortfall in transfers required to have been made to the Subordinate Obligations Principal Account on any previous Monthly Funding Date; plus (C) if the Monthly Funding Date is also a principal payment date or the last Monthly Funding Date before a principal payment date (or mandatory sinking fund redemption date) on any Subordinate Obligations, any other amount required to make the amount credited to the Subordinate Obligations Principal Account equal to the amount of principal due on such Subordinate Obligations on such principal payment date or mandatory sinking fund redemption date;

Eleventh, on each Monthly Funding Date, to the Subordinate Obligations Reserve Fund (or the applicable Account therein), the amount, if any, necessary to increase the balance therein (taking into account amounts then on deposit therein) to the Subordinate Obligations Reserve Requirement;

Twelfth, on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, to the counterparties to Qualified Swap Agreements or Swaps, an amount equal to any Hedging Termination Obligations payable upon a termination of any such Qualified Swap Agreements or Swaps;

Thirteenth, on each Monthly Funding Date, and only to the extent that funds are then available after application of funds for the purposes specified in the prior First through Twelfth clauses on such Monthly Funding Date, to the Operation and Maintenance Reserve Fund any remaining amounts as may be necessary to increase the amount on deposit therein to equal the Operation and Maintenance Reserve Fund Policy Limit; and

Fourteenth, on each Monthly Funding Date, and only to the extent funds are then available after application of funds for the purposes specified in the prior First through Thirteenth clauses on such Monthly Funding Date, to the Capital Expenditures Fund, all remaining amounts, if any.

(a) To the extent that on any Calculation Date or any other date of determination requested by SANDAG, SANDAG determines that (i) the amounts on deposit in the First Senior Lien Obligations Reserve Fund are in excess of the applicable First Senior Lien Obligations Reserve Requirement, (ii) the amounts on deposit in the Second Senior Lien Obligations Reserve Fund are in excess of the applicable Second Senior Lien Obligations Reserve Requirement, or (iii) amounts on deposit in the Subordinate Obligations Reserve Fund are in excess of the applicable Subordinate Obligations Reserve Requirement, then in each such case, as applicable, the excess amounts are required to be transferred into the Toll Revenue Fund.

(b) To the extent that on any Calculation Date or any other date of determination requested by SANDAG, SANDAG determines that the amounts on deposit in the Operation and Maintenance Reserve Fund are in excess of the Operation and Maintenance Reserve Fund Policy Limit, the excess amount shall be transferred into the Capital Expenditures Fund pursuant to a Written Request of SANDAG.
**Toll and Revenue Covenants**

*Rate Covenant.* SANDAG covenants in the Master Indenture that it will at all times establish, levy, maintain and collect tolls in connection with the Toll Road and establish such charges for use of the property constituting part of the Toll Road, including, without limitation and as permitted by law, leasehold payments, concession payments, rents and other charges, as shall be sufficient, collectively, to produce Net Revenue in each Fiscal Year equal to or in excess of the ratios set forth below:

1. one hundred fifty percent (150%) of the Annual Debt Service in such Fiscal Year on all Outstanding First Senior Lien Obligations;
2. one hundred thirty-five percent (135%) of the Annual Debt Service in such Fiscal Year on all Outstanding First Senior Lien Obligations and Second Senior Lien Obligations;
3. one hundred fifteen percent (115%) of the Annual Debt Service in such Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations; and
4. one hundred percent (100%) of the Annual Debt Service in such Fiscal Year on all Outstanding Obligations, plus the amounts required to be deposited into the First Senior Lien Obligations Reserve Fund, the Second Senior Lien Obligations Reserve Fund, the Subordinate Obligations Reserve Fund and any other Fund established by a Supplemental Indenture to be funded by Revenue on a mandatory basis.

In making the calculations above, SANDAG may take into consideration as a credit against Annual Debt Service any amounts received, or reasonably expected to be received, in the Fiscal Year from or as a result of any additional security irrevocably granted or pledged to the Bondholders by SANDAG with respect to the Obligations in accordance with requirements set forth in the Master Indenture; provided, that if such grant or pledge is not for the benefit of all Obligations, the amounts expected to be received may only be taken into account when making the calculation with respect to the Obligations receiving the benefit of such grant or pledge.

SANDAG further covenants in the Master Indenture: (a) to compute projected Net Revenue for each Fiscal Year and the projected ratios described in “Toll and Revenue Covenants – Rate Covenant” (each, a “Coverage Ratio”) within 10 Business Days after the beginning of that Fiscal Year (such date of computation being hereinafter referred to as a “Coverage Calculation Date”); (b) to furnish promptly to the Trustee a Certificate of SANDAG setting forth the results of such computations; and (c) if any Coverage Ratio is less than the applicable requirement, to take such action as promptly as practicable after the Coverage Calculation Date (including, without limitation, increasing Toll Revenues through toll increases) as SANDAG projects is necessary to cause each projected Coverage Ratio for each Fiscal Year to equal or exceed the requirement for each such Fiscal Year.

Within 60 days after the end of each Fiscal Year, SANDAG will file with the Trustee a report setting forth the Net Revenue for such Fiscal Year. The failure of toll rates to yield an amount sufficient to achieve each Coverage Ratio shall not be deemed to constitute an Event of Default so long as SANDAG complies with the requirements set forth below in this section. If
any such report indicates that the Net Revenue for such Fiscal Year was less than the amount required pursuant to “Toll and Revenue Covenants – Rate Covenant”, then as soon as practicable after delivering such report to the Trustee SANDAG is obligated to employ a Traffic Consultant to review and analyze the operations of the South Bay Expressway and to submit to the Board, as soon as practicable (but not later than such date as will enable the Board to act upon it within 180 days after the end of the Fiscal Year in question), a written report which shall include the actions that the Traffic Consultant recommends should be taken by SANDAG with respect to (a) revising the toll rates, (b) altering its methods of operation, or (c) taking other action projected to produce the amount so required to comply in each year with each Coverage Ratio (or, if less, the maximum amount deemed feasible by the Traffic Consultant and that the Traffic Consultant estimates will not adversely affect the amount of Net Revenue). Promptly upon its receipt of such written report (and, in any case, within 180 days after the end of the Fiscal Year in question), after giving due consideration thereto, SANDAG will revise the toll rates, as permitted by law, alter its methods of operation, or take such other action as it deems appropriate. Such revisions, alterations, or actions need not comply with the recommendations of the Traffic Consultant so long as Net Revenue projected by the Traffic Consultant to be produced by the revisions, alterations or actions then taken by SANDAG are at least equal to the amount required under the Master Indenture. The Trustee shall have no responsibility to review any such written report.

SANDAG further covenants in the Master Indenture that such toll rates for traffic using the South Bay Expressway will be established and maintained in a reasonable way to cover all traffic (other than vehicles used for maintaining the South Bay Expressway; police, fire, and other public emergency vehicles; buses owned and operated by any public agency; vehicles with multiple passengers or which allow for a limited number of passengers, including motorcycles, according to applicable policies, if any, determined by the federal government, the State or SANDAG; electric, hybrid-electric and other vehicles that meet applicable emission-reduction policies, if any, determined by the federal government, the State or SANDAG; vehicles which are otherwise exempt from payment of tolls under State or federal law; and any vehicles during a public emergency declared by SANDAG) consistent with the requirements of the Master Indenture, but with such classifications as SANDAG may deem appropriate.

Notwithstanding any provision in the Master Indenture to the contrary, nothing in this section “Toll and Revenue Covenant” will be deemed to require SANDAG to collect tolls and other fees with respect to which SANDAG has determined, based upon a report from a Traffic Consultant, that the costs of collection would exceed the amount of tolls and other fees expected to be collected; and provided further that nothing contained in “Toll and Revenue Covenants – Rate Covenant” shall prevent SANDAG from temporarily reducing or eliminating tolls and other fees in connection with programs which it intends to use to increase Net Revenue.

First Senior Lien Obligations Reserve Fund

The 2017A Account in the First Senior Lien Obligations Reserve Fund is established under the Master Indenture and secures payment of principal and interest on the Bonds. As of the date of delivery of the Bonds, approximately $____ will be on deposit in the 2017A Account in the Senior Lien Obligations Reserve Fund. Monies on deposit in the 2017A Account in the Senior Lien Obligations Reserve Fund will be applied by the Trustee to the payment of principal
and interest of the Bonds if there are insufficient funds to pay principal or interest on the Bonds when due. See APPENDIX C—“SUMMARY OF INDENTURE.”

Additional First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations

After issuance of the Bonds, the Bonds will constitute the sole First Senior Lien Obligations and no other First Senior Lien Obligations or Second Senior Lien Obligations will be outstanding.

Restrictions on Issuance of Additional First Senior Lien Obligations. After the initial issuance of the Bonds, additional First Senior Lien Obligations may be issued if the requirements of (a) or (b) below are met.

(a) The First Senior Lien Obligations are issued for purposes of refunding Outstanding First Senior Lien Obligations by providing funds for the payment of any or all of the following:

1. The Bond Obligation, redemption or purchase price (including premium, if any) of the Outstanding First Senior Lien Obligations to be refunded;

2. All expenses incident to the calling, retiring or paying of such Outstanding First Senior Lien Obligations, the Costs of Issuance of such refunding First Senior Lien Obligations, and any termination payments or other payments to the holders of obligations of SANDAG entered into pursuant to California Government Code Section 5922 (or any similar statute) related to such Outstanding Obligations;

3. Interest on all Outstanding First Senior Lien Obligations to be refunded to the date such First Senior Lien Obligations will be called for redemption or paid at maturity;

4. Interest on the refunding First Senior Lien Obligations from the date thereof to the date of payment or redemption of the First Senior Lien Obligations or to be refunded;

provided that SANDAG delivers a Certificate of SANDAG to the effect that SANDAG projects that the Average Annual Debt Service on all Outstanding Obligations following the issuance of the proposed additional First Senior Lien Obligations will be less than the Average Annual Debt Service on all Outstanding Obligations prior to the issuance of such proposed First Senior Lien Obligations; and provided further, that, if the maturity date of such additional First Senior Lien Obligations to be issued extends to a date later than the stated final maturity date of the Obligations being refunded, then Net Revenue in each Fiscal Year from and after the stated final maturity date of such refunded Obligations satisfies the requirements set forth above, as evidenced by a Certificate of SANDAG, which may be based upon the findings of a report of the Traffic Consultant.

(b) SANDAG delivers either a Certificate of SANDAG, which may be based upon the findings of a report of the Traffic Consultant to the effect that, as of the date of issuance of the additional First Senior Lien Obligations, either one of the following two requirements is met:

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(1) Net Revenue in the preceding Fiscal Year equals or exceeds (i) one hundred seventy-five percent (175%) of Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, including the additional First Senior Lien Obligations to be issued, (ii) one hundred thirty-five percent (135%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations and Second Senior Lien Obligations, including the additional First Senior Lien Obligations to be issued, and (iii) one hundred fifteen percent (115%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations, including the additional First Senior Lien Obligations to be issued; or

(2) projected Net Revenue for each Fiscal Year in which Obligations, including the additional First Senior Lien Obligations to be issued, will be Outstanding is expected to equal or exceed (i) one hundred seventy-five percent (175%) of Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, including the additional First Senior Lien Obligations to be issued, (ii) one hundred thirty-five percent (135%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations and Second Senior Lien Obligations, including the additional First Senior Lien Obligations to be issued, and (iii) one hundred fifteen percent (115%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations, including the additional First Senior Lien Obligations to be issued; provided in each case that if, in connection with the issuance of such additional First Senior Lien Obligations, the South Bay Expressway will be expanded, improved, upgraded, enlarged, or enhanced and such calculations rely upon projected Toll Revenues from such expansion, improvement, upgrade, enlargement or enhancement to satisfy the requirements set forth in this section, then SANDAG shall deliver a report of a Traffic Consultant setting forth such projected Toll Revenues and not solely a Certificate of SANDAG.

Proceedings for Issuance of Additional First Senior Lien Obligations. Whenever SANDAG determines to issue additional First Senior Lien Obligations file with or provide to the Trustee:

(a) a certificate of SANDAG stating that no Event of Default specified in the Master Indenture has occurred and is then continuing;

(b) a certificate of SANDAG stating that the applicable requirements set forth under “SECURITY AND SOURCES OF PAYMENT — Additional First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations” have been satisfied;

(c) such amount, in cash or in the form of a Reserve Facility, as shall equal the First Senior Lien Obligations Reserve Requirement, if any, for such First Senior Lien Obligations for deposit in the First Senior Lien Obligations Reserve Fund, as calculated by SANDAG; and

(d) an Opinion of Bond Counsel to the effect that the Supplemental Indenture creating such First Senior Lien Obligations has been executed and delivered by SANDAG in accordance with the Master Indenture and that such First Senior Lien Obligations, when duly
executed by SANDAG and authenticated and delivered by the Trustee, will be valid and binding obligations of SANDAG.

Restrictions on Issuance of Second Senior Lien Obligations. Second Senior Lien Obligations may be issued if the requirements of (a) or (b) below are met.

(a) The Second Senior Lien Obligations are issued for purposes of refunding Outstanding First Senior Lien Obligations or Second Senior Lien Obligations by providing funds for the payment of any or all of the following:

(1) The Bond Obligation, redemption or purchase price (including premium, if any) of the Outstanding First Senior Lien Obligations or Second Senior Lien Obligations to be refunded;

(2) All expenses incident to the calling, retiring or paying of such Outstanding First Senior Lien Obligations or Second Senior Lien Obligations, the Costs of Issuance of such refunding Second Senior Lien Obligations, and any termination payments or other payments to the holders of obligations of SANDAG entered into pursuant to California Government Code Section 5922 (or any similar statute) related to such Outstanding First Senior Lien Obligations or Second Senior Lien Obligations;

(3) Interest on all Outstanding First Senior Lien Obligations or Second Senior Lien Obligations to be refunded to the date such First Senior Lien Obligations or Second Senior Lien Obligations will be called for redemption or paid at maturity;

(4) Interest on the refunding Second Senior Lien Obligations from the date thereof to the date of payment or redemption of the Second Senior Lien Obligations to be refunded;

provided that SANDAG delivers a Certificate of SANDAG to the effect that SANDAG projects that the Average Annual Debt Service on all Outstanding Obligations following the issuance of the proposed additional Second Senior Lien Obligations will be less than the Average Annual Debt Service on all Outstanding Obligations prior to the issuance of such proposed Second Senior Lien Obligations; and provided further, that, if the maturity date of such additional Second Senior Lien Obligations to be issued extends to a date later than the stated final maturity date of the Obligations being refunded, then Net Revenue in each Fiscal Year from and after the stated final maturity date of such refunded Obligations satisfies the requirements set forth in the Master Indenture, as evidenced by either a Certificate of SANDAG or a report of the Traffic Consultant. See “SECURITY AND SOURCES OF PAYMENTS FOR THE BONDS — Additional First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations.”

(b) SANDAG delivers either a Certificate of SANDAG or a report of the Traffic Consultant to the effect that, as of the date of issuance of the additional Second Senior Lien Obligations, either one of the following two requirements is met:

(1) Net Revenue in the preceding Fiscal Year equals or exceeds (i) one hundred thirty-five percent (135%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations and Second Senior Lien Obligations,
including the additional Second Senior Lien Obligations to be issued, and (iii) one hundred fifteen percent (115%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations, including the additional Second Senior Lien Obligations to be issued; or

(2) projected Net Revenue for each Fiscal Year in which Obligations, including the additional Second Senior Lien Obligations, will be Outstanding is expected to equal or exceed (i) one hundred thirty-five percent (135%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations and Second Senior Lien Obligations, including the additional Second Senior Lien Obligations to be issued, and (ii) one hundred fifteen percent (115%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations, including the additional Second Senior Lien Obligations to be issued; provided that if, in connection with the issuance of such additional Second Senior Lien Obligations, the Toll Road will be expanded, improved, upgraded, enlarged, or enhanced and such calculations rely upon projected Toll Revenues from such expansion, improvement, upgrade, enlargement or enhancement to satisfy the requirements set forth in the Master Indenture, then SANDAG shall deliver a report of a Traffic Consultant demonstrating such satisfaction and not solely a Certificate of SANDAG.

Restrictions on Issuance of Subordinate Obligations. Subordinate Obligations (including Subordinate Obligations in the form of or securing payment of one or more TIFIA Loans) may be issued if the requirements of (a) or (b) below are met.

(a) The Subordinate Obligations are issued for purposes of refunding Outstanding First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations by providing funds for the payment of any or all of the following:

(1) The Bond Obligation, redemption or purchase price (including premium, if any) of the Outstanding First Senior Lien Obligations, Second Senior Lien Obligations or Outstanding Subordinate Obligations to be refunded;

(2) All expenses incident to the calling, retiring or paying of such Outstanding First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations, the Costs of Issuance of such refunding Subordinate Obligations, and any termination payments or other payments to the holders of obligations of SANDAG entered into pursuant to California Government Code Section 5922 (or any similar statute) related to such Outstanding First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations;

(3) Interest on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations to be refunded to the date such First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations will be called for redemption or paid at maturity;
(4) Interest on the refunding Subordinate Obligations from the date thereof to the date of payment or redemption of the First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations to be refunded;

provided that SANDAG delivers a Certificate of SANDAG to the effect that SANDAG projects that the Average Annual Debt Service on all Outstanding Obligations following the issuance of the proposed additional Subordinate Obligations will be less than the Average Annual Debt Service on all Outstanding Obligations prior to the issuance of such proposed Subordinate Obligations; and provided further, that, if the maturity date of such additional Subordinate Obligations to be issued extends to a date later than the stated final maturity date of the Obligations being refunded, then Net Revenue in each Fiscal Year from and after the stated final maturity date of such refunded Obligations satisfies the requirements set forth in the Master Indenture, as evidenced by either a Certificate of SANDAG or a report of the Traffic Consultant.

(b) SANDAG delivers either a Certificate of SANDAG or a report of the Traffic Consultant to the effect that, as of the date of issuance of the additional Subordinate Obligations, either one of the following two requirements is met:

(1) Net Revenue in the preceding Fiscal Year equals or exceeds one hundred fifteen percent (115%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations, including the additional Subordinate Obligations to be issued; or

(2) projected Net Revenue for each Fiscal Year in which Obligations, including the additional Subordinate Obligations to be issued, will be Outstanding is expected to equal or exceed one hundred fifteen percent (115%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations, including the additional Subordinate Obligations to be issued; provided in each case that if, in connection with the issuance of such additional Subordinate Obligations, the Toll Road will be expanded, improved, upgraded, enlarged, or enhanced and such calculations rely upon projected Toll Revenues from such expansion, improvement, upgrade, enlargement or enhancement to satisfy the requirements set forth in the Master Indenture, then SANDAG shall deliver a report of a Traffic Consultant demonstrating such satisfaction and not solely a Certificate of SANDAG.

Springing Liens. SANDAG may issue additional Second Senior Lien Obligations or Subordinate Obligations pursuant to a Supplemental Indenture providing that such Second Senior Lien Obligations or Subordinate Obligations become Parity Obligations having a lien on Revenue on a parity with the First Senior Lien Bonds following the occurrence of a Bankruptcy Related Event of SANDAG but (i) solely to the extent specified in the applicable TIFIA Loan Agreement, if such Second Senior Lien Obligations or Subordinate Obligations are in the form of or securing payment of a TIFIA Loan and (ii) solely to the extent provided by law if such Second Senior Lien Obligations or Subordinate Obligations are in other forms, and further, in each case, solely to the extent SANDAG has contracted to make those payments as Parity Obligations.
Upon the occurrence of a Bankruptcy Related Event of which the Trustee shall be notified in writing, any Account within the Second Senior Lien Obligations Reserve Fund or the Subordinate Obligations Reserve Fund that secures payment of the principal and interest on a Second Senior Lien Obligation or a Subordinate Obligation, respectively, in the forms described in the first paragraph of this section, will become an Account within the First Senior Lien Obligations Reserve Fund unless otherwise specified in the applicable Supplemental Indenture, and will be funded on a parity with any other Accounts within the First Senior Lien Obligations Reserve Fund and will be available only to pay principal and interest on such Second Senior Lien Obligation or Subordinate Obligations as a Parity Obligation following the Bankruptcy Related Event, provided that such obligations will not be secured by any other Account within the First Senior Lien Obligations Reserve Fund.

**DEBT SERVICE**

Scheduled payments of principal and interest on the Bonds are as follows:

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DESCRIPTION OF THE SOUTH BAY EXPRESSWAY

General

The South Bay Expressway is an approximately 10-mile contiguous tolled segment of SR-125 from Otay Mesa Road/SR-905/SR-11 in the south to SR-54 in the north. The South Bay Expressway connects Otay Mesa, the largest area of industrial-zoned land remaining in San Diego County, with eastern Chula Vista and points north and east, reducing commute times and providing convenient access to downtown San Diego, Sorrento Valley, Santee, I-8 and I-15, and Mexico.

Currently, the South Bay Expressway has five intermediate interchanges, which are at Birch Road, Olympic Parkway, Otay Lakes Road, East H Street, and San Miguel Ranch Road. The longest segment is over four miles long between Otay Mesa Road and Birch Road at the South Bay Expressway’s southern end. The second longest segment is over three miles long between SR-54 and San Miguel Ranch Road at its northern end. The roadway is located primarily in suburban Chula Vista with the southern end located in San Diego, less than two miles from the Otay Mesa border crossing to Mexico.

Currently, SANDAG expects that two additional intermediate interchanges will be constructed on the South Bay Expressway. The City of Chula Vista is planning to construct an interchange with Otay Valley Road by 2035, and the City of San Diego is planning to construct an interchange with Lone Star Road by 2037. In addition, Caltrans and SANDAG are jointly constructing two connectors, which will connect the South Bay Expressway with eastbound SR-905 and eastbound SR-11. SANDAG expects these connectors will be completed by 2020. SANDAG also expects that Caltrans will construct a third connector between the South Bay Expressway and westbound SR-905 by 2022.

Transportation Advantages of the South Bay Expressway

Existing Conditions. Many users of the South Bay Expressway use the toll road as a commuter route to employment hubs in the greater San Diego area. For residents east of the South Bay Expressway, it represents the fastest route available for accessing employment and other opportunities in the rest of the county. According to data from the 2014 American Community Survey, residents in Chula Vista, particularly those residing in the South Bay Expressway corridor, have some of the longest commute times in San Diego County. Within the South Bay Expressway corridor, households are concentrated in the City of Chula Vista, north of Otay Ranch, and in the Otay Ranch development. Environmental and topographical constraints limit the amount of development in the South Bay Expressway corridor. Most of Chula Vista, outside of Otay Ranch, is already at build out, and will only add additional households through redevelopment and intensification. However, there are significant portions of Otay Ranch that have not yet been developed. Presently, there are approximately 15,300 households residing in the master planned community, with additional projects under construction or in the design review phase. There are currently 5,700 households in the Otay Mesa region of San Diego. These households are concentrated in the western portion near I-805, outside of the South Bay Expressway. Future plans for the development of the Otay Mesa encourage a continuation of the
existing development patterns, with housing largely located in the western portion of the region, and industrial uses in the east.

**Impact of Future Development.** In the Traffic and Revenue Study, Stantec discusses the potential for future development in the South Bay Expressway corridor in which Stantec makes the following points, among others:

- Future development in the South Bay Expressway corridor will be strongest in the Otay Ranch and Otay Mesa areas where there is a greater availability of developable land.

- A major shift from the existing conditions will be the addition of significant and more diversified employment opportunities. Whereas existing conditions show more than seven persons per job, Stantec states that population and employment forecasts estimate 4.6 persons per job in the corridor. Most of these jobs will be located within the Otay Ranch development, as well as continued growth in industrial uses in Otay Mesa. Increasing employment opportunities has the potential to shorten commute times for many residents who will now be able to work closer to home.

The Traffic and Revenue Study contains a more-detailed explanation of the population and developments in the South Bay Expressway corridor. In particular, Stantec discusses how future development and population changes will impact traffic on the South Bay Expressway. See APPENDIX A—“TRAFFIC AND REVENUE STUDY” below.

**Ownership and Operation of the South Bay Expressway**

The South Bay Expressway is owned by Caltrans and was originally developed and constructed by SBX, a private entity that filed for bankruptcy in April 2010. Following the bankruptcy of SBX, SANDAG acquired the South Bay Expressway from SBX during its bankruptcy, and acquired all of SBX’s right, title and interest in the South Bay Expressway. SANDAG operates, maintains and tolls the South Bay Expressway pursuant to the Franchise Agreement and Section 143.1 of the California Streets and Highway Code. See “—The Franchise Agreement” below.

**Toll Collection and Revenue Management System**

SANDAG uses an integrated toll collection and revenue management system (“Toll Collection System”) for the South Bay Expressway. Using common transponders, a centralized computer system and common personnel, the Toll Collection System uses mechanisms for separate usage-based revenue collection and cost allocation. SANDAG staff operates and maintains the Toll Collection System.

**AVI System, FasTrak and ExpressAccount**

In accordance with State law, the South Bay Expressway was designed to encourage maximum use of the automatic vehicle identification (“AVI”) collection system that allowed
vehicles to automatically pay toll charges without stopping at toll booths. SANDAG’s AVI system offers drivers both FasTrak transponder-based and license plate-based toll collection.

Under FasTrak, transponder-based toll collection, a motorist can prepay (currently using cash or a credit card), into a FasTrak account, a pre-established dollar amount and receive a transponder, which is then mounted on the vehicle. As a transponder-equipped vehicle passes through each toll plaza, the AVI system identifies the account and debits the appropriate toll charge against the motorist’s prepaid account. When the balance of prepaid tolls in a motorist’s account falls below a minimum threshold, depending on the arrangement with the motorist, SANDAG either notifies the motorist and requests a replenishment payment or charges the motorist’s credit card account to automatically replenish the account.

For non-FasTrak users, automated cash and credit card machines are located at northbound entrance and southbound exit ramps on the South Bay Expressway to accept toll payments. Attendants also greet customers in the main tollbooths at the Otay Mesa Toll Plaza between 6 a.m. and 8 p.m. during weekdays, and provide change and a receipt. At times when toll attendants are not on duty, or if road users do not pass by the Otay Mesa Toll Plaza, users can toss coins into the coin basket, insert dollar bills into the bill acceptor or swipe a credit card in the card reader, watch for the green light, and drive on through. The automated cash machines do not give change, so drivers need to pay the toll using exact change or a major credit card.

Non-FasTrak users also have the option of Pay-by-Plate, an easy way to pay tolls if users do not have a FasTrak account and did not pay by cash or credit card at the toll plaza or at one of the automated cash or credit card machines. Options for Pay-by-Plate payment include through the South Bay Expressway website, by bringing in or mailing payments to the office or by calling during normal business hours. The Pay-by-Plate toll schedule is $2 higher than using the automated cash or credit card machines and if Pay-by-Plate toll payment is not received within four business days by any of the options listed, the owner of the vehicle is charged a violation penalty. See “FINANCIAL AND RELATED INFORMATION OF SOUTH BAY EXPRESSWAY—Other Revenue—Violation Revenue” below.

The FasTrak transponders currently in use on the South Bay Expressway are designed to meet the Caltrans standard specification for electronic toll facilities in the State. California law also requires that such transponders have interoperability capabilities with other toll collection and revenue management systems that may be established in the State. SANDAG has entered into Cooperative User Fee Processing Agreements with the Orange County Transportation Authority, Los Angeles County Metropolitan Transportation Authority, Bay Area Toll Authority, the Foothill/Eastern Transportation Agency and the San Joaquin Hills Transportation Corridor Agency, which allow patrons using a transponder issued by any of the above entities to use the various toll facilities of the signatories. The Cooperative User Fee Processing Agreements provide for daily reporting by each party to the other parties for such toll transactions. The daily reporting allows the parties to collect the reported tolls from the member who issued the transponder to the patron.
**Enforcement**

According to State statutes, where video imaging or a photo is used for enforcement, the toll agency can pursue the vehicle’s owner for collection of the toll plus administrative fees. Such enforcement measures are to be taken when the vehicle owner is not a FasTrak customer, has insufficient funds in his or her account, or has a closed account.

Pursuant to the South Bay Expressway’s Toll Collection System, vehicle and license plate images are captured whenever a vehicle passes under a toll gantry. SANDAG staff is responsible for performing image reviews to identify and verify license plate numbers. Such license plate numbers may be linked to valid accounts resulting in the related transaction being posted as a toll charge to the account and no violation notice being issued. If the license plate numbers are not linked to valid accounts and it is determined that a violation has occurred, SANDAG’s back office system sends the information to the State Department of Motor Vehicles (“DMV”) to obtain the owner’s vehicle registration information, including name and address. SANDAG’s staff administers the processing of violations, including tracking violations, mailing violation notices, and violation payment processing. If violation notices are ignored and violation payments remain uncollected for longer than the requisite 90-day notice period, SANDAG has the right to (1) place the vehicle registration on hold with the DMV, whereby the owner of the vehicle must settle all outstanding amounts before obtaining registration renewal (2) choose to pursue tax offset through the California Franchise Tax Board, whereby the California Franchise Tax Board offsets the penalty against any State tax refund owed to the owner of the vehicle, or (3) engage a collection agency. SANDAG also has the right to pursue civil judgments but does not currently use this enforcement approach.

**The Franchise Agreement**

The following summarizes several of the key provisions of the Franchise Agreement. For a more complete summary of the Franchise Agreement, see APPENDIX D – “SUMMARY OF FRANCHISE AGREEMENT.”

**Term.** Pursuant to the Franchise Agreement, SANDAG operates, maintains and tolls the South Bay Expressway. The Franchise Agreement is scheduled to terminate in 2042. Before the scheduled expiration of the Franchise Agreement, SANDAG has the right to terminate the Franchise Agreement in its sole discretion and convey all of its rights therein to Caltrans. Caltrans may terminate the Agreement upon occurrence of a Termination Event, as defined in the Franchise Agreement, and the taking of the other steps provided therein. When SANDAG acquired the South Bay Expressway, Caltrans and SANDAG amended the Franchise Agreement pursuant to Section 143.1 of the California Streets and Highway Code, which also provides that SANDAG may operate the South Bay Expressway beyond the term of the Franchise Agreement if specified conditions are satisfied.

**Exclusivity.** Under the Franchise Agreement, SANDAG is granted exclusive right to operate in the Franchise Zone, as defined in the Franchise Agreement. Caltrans agrees to refrain from endorsing, franchising or authorizing any private transportation facilities in the exclusive zone as well as refrain from constructing competitive facilities. Following 120 day written notice, the exclusivity obligations of Caltrans under the Franchise Agreement terminate if the
traffic on the South Bay Expressway falls below an “E” level of service designation for at least two consecutive hours per day on at least 150 days during a two year period or all debt incurred with the development, financing or refinancing of the South Bay Expressway has been repaid and SANDAG is not diligently pursuing development of additional capacity of the roadway.

Maintenance. SANDAG is responsible for maintaining the South Bay Expressway in accordance with Caltrans standards. SANDAG is permitted to delegate its maintenance and traffic management obligations under the Franchise Agreement. Any agreements with private parties to provide maintenance services are subject to Caltrans approval and those private services must be of comparable quality to service levels that would be provided by Caltrans. Alternatively, SANDAG may contract with Caltrans to perform or supervise maintenance management or traffic management. The terms of any such contract with Caltrans shall be substantially similar to the terms offered by Caltrans to cities and counties.

Tolls. SANDAG may, in its sole discretion, establish toll rates applicable to classes of vehicles, number of occupants, times of use, portion of road used. SANDAG may install traffic surveillance and toll collection devices. The speed limits, oversize, overweight and overlength restrictions set by SANDAG with respect to the South Bay Expressway may not exceed the limits established for State transportation facilities.

For a more complete description of the Franchise Agreement, see APPENDIX D–“SUMMARY OF FRANCHISE AGREEMENT.”

HISTORICAL TOLL TRANSACTIONS

Toll Rate Policy

SANDAG acquired the South Bay Expressway in 2012 with the intent of using it to manage regional congestion and currently expects to utilize the road in this manner for the foreseeable future. With this goal in mind, the SANDAG Board has approved a toll policy which maintains the operational and financial integrity of the road as well as meets the purpose for which the road was purchased and continues to be operated. While SANDAG retains the ability and right to increase tolls at its discretion, the toll policy broadly allows for tolls to be raised to support operating and maintenance costs, fund current and future capital and rehab projects, ensure a minimum level of service related to traffic and meet all legal requirements within outstanding bond documents.

Toll Rates

In June 2012, SANDAG lowered toll rates for the South Bay Expressway with an aim to manage regional congestion, which also assisted in increasing toll transactions and overall traffic on the South Bay Expressway. Since then, the toll rates established in June 2012 have been sufficient to pay operating, capital, debt service and other costs of the South Bay Expressway.

The following table sets forth the current toll rates for the South Bay Expressway, which have been in effect since June 2012:
CURRENT TOLL RATES
(for two-axle vehicles)

<table>
<thead>
<tr>
<th>ORIGIN/DESTINATION</th>
<th>FasTrak</th>
<th>Cash/ Credit Card</th>
</tr>
</thead>
<tbody>
<tr>
<td>From Otay Mesa Road to SR-54</td>
<td>$2.75</td>
<td>$3.50</td>
</tr>
<tr>
<td>From Otay Mesa Road to East H Street</td>
<td>2.00</td>
<td>3.50</td>
</tr>
<tr>
<td>From Otay Mesa Road to Birch Road, Olympic Parkway, Otay Lakes/ Telegraph Canyon Road or East H Street</td>
<td>1.95</td>
<td>3.50</td>
</tr>
<tr>
<td>Any local trip between Birch Road and East H Street</td>
<td>0.50</td>
<td>2.50</td>
</tr>
<tr>
<td>Birch Road, Olympic Parkway, Otay Lakes/ Telegraph Canyon Road or East H Street to SR-54</td>
<td>1.70</td>
<td>2.50</td>
</tr>
<tr>
<td>From San Miguel Ranch Road to SR-54</td>
<td>1.55</td>
<td>2.00</td>
</tr>
</tbody>
</table>

Source: SANDAG.

Historical Traffic

The following table sets forth the annual trips for Fiscal Years ending June 30, 2012 through June 30, 2017.

HISTORICAL TRAFFIC
FISCAL YEARS ENDING JUNE 30, 2012 THROUGH JUNE 30, 2017
(IN THOUSANDS)\(^{(1)}\)

<table>
<thead>
<tr>
<th>FISCAL YEAR</th>
<th>ANNUAL TRIPS(^{(2)})</th>
<th>FasTrak TRANSACTIONS(^{(3)})</th>
<th>Cash/Credit Transactions(^{(4)})</th>
<th>VIOLATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012(^{(5)})</td>
<td>9,145</td>
<td>6,509</td>
<td>2,384</td>
<td>248</td>
</tr>
<tr>
<td>2013</td>
<td>11,359</td>
<td>8,215</td>
<td>2,883</td>
<td>257</td>
</tr>
<tr>
<td>2014</td>
<td>13,192</td>
<td>9,755</td>
<td>3,148</td>
<td>284</td>
</tr>
<tr>
<td>2015</td>
<td>14,374</td>
<td>10,801</td>
<td>3,240</td>
<td>330</td>
</tr>
<tr>
<td>2016</td>
<td>15,770</td>
<td>11,949</td>
<td>3,430</td>
<td>388</td>
</tr>
<tr>
<td>2017(^{(6)})</td>
<td>16,917</td>
<td>12,877</td>
<td>3,556</td>
<td>483</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Does not include an immaterial number of unmatched transactions.
\(^{(2)}\) Trips represent any instance where a vehicle travels on the South Bay Expressway and effects entry and exit toll transactions in a given direction.
\(^{(3)}\) Represents toll transactions paid through FastTrak accounts.
\(^{(4)}\) Represents toll transactions paid through cash or credit card.
\(^{(5)}\) As discussed above, toll rates on the South Bay Expressway were reduced in June 2012.
\(^{(6)}\) Unaudited.

Source: SANDAG.
The following table sets forth average weekday trip patterns for Fiscal Year ending June 30, 2016.

### AVERAGE WEEKDAY TRIP PATTERNS
**FOR FISCAL YEAR ENDING JUNE 30, 2016**

<table>
<thead>
<tr>
<th>ORIGIN</th>
<th>SR54</th>
<th>SAN MIGUEL RANCH</th>
<th>EAST H STREET</th>
<th>OTAY LAKES</th>
<th>OLYMPIC PKWY</th>
<th>BIRCH</th>
<th>OTAY MESA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR54</td>
<td>-</td>
<td>1,591</td>
<td>4,477</td>
<td>4,931</td>
<td>3,252</td>
<td>2,278</td>
<td>1,440</td>
<td>17,969</td>
</tr>
<tr>
<td>San Miguel Ranch</td>
<td>1,904</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,904</td>
</tr>
<tr>
<td>East H Street</td>
<td>4,601</td>
<td>-</td>
<td>-</td>
<td>463</td>
<td>326</td>
<td>381</td>
<td>636</td>
<td>6,406</td>
</tr>
<tr>
<td>Otay Lakes</td>
<td>5,498</td>
<td>721</td>
<td>-</td>
<td>423</td>
<td>-</td>
<td>187</td>
<td>932</td>
<td>7,760</td>
</tr>
<tr>
<td>Olympic Pkwy</td>
<td>4,165</td>
<td>338</td>
<td>691</td>
<td>246</td>
<td>-</td>
<td>1,023</td>
<td>6,464</td>
<td></td>
</tr>
<tr>
<td>Birch</td>
<td>2,329</td>
<td>312</td>
<td>214</td>
<td>325</td>
<td>1,191</td>
<td></td>
<td>4,371</td>
<td></td>
</tr>
<tr>
<td>Otay Mesa</td>
<td>1,413</td>
<td>-</td>
<td>883</td>
<td>909</td>
<td>1,459</td>
<td>-</td>
<td>5,226</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>19,911</td>
<td>1,591</td>
<td>6,410</td>
<td>7,181</td>
<td>5,235</td>
<td>4,550</td>
<td>5,222</td>
<td>50,101</td>
</tr>
</tbody>
</table>

Source: SANDAG.

The following table sets forth average weekday transactions by vehicle type for Fiscal Year ending June 30, 2016.

### AVERAGE WEEKDAY TRANSACTIONS BY VEHICLE TYPE
**FOR FISCAL YEAR ENDING JUNE 30, 2016**

<table>
<thead>
<tr>
<th>VEHICLE TYPE</th>
<th>TRANSACTIONS</th>
<th>PERCENTAGE OF TOTAL TRANSACTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile</td>
<td>49,641</td>
<td>99.08%</td>
</tr>
<tr>
<td>Truck</td>
<td>460</td>
<td>0.92</td>
</tr>
<tr>
<td>All Vehicles</td>
<td>50,101</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

Source: SANDAG.
The following table sets forth average weekday revenue by trip for Fiscal Year ending June 30, 2016.

### AVERAGE WEEKDAY REVENUE BY TRIP FOR FISCAL YEAR ENDING JUNE 30, 2016

<table>
<thead>
<tr>
<th>DESTINATION</th>
<th>SR54</th>
<th>SAN MIGUEL RANCH</th>
<th>EAST H STREET</th>
<th>OTAY LAKES</th>
<th>OLYMPIC PKWY</th>
<th>BIRCH</th>
<th>OTAY MESA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR54</td>
<td>$ 0</td>
<td>$ 2,604</td>
<td>$ 8,395</td>
<td>$ 9,388</td>
<td>$ 6,219</td>
<td>$ 4,243</td>
<td>$ 4,563</td>
<td>$ 35,412</td>
</tr>
<tr>
<td>San Miguel Ranch</td>
<td>3,108</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3,108</td>
</tr>
<tr>
<td>East H Street</td>
<td>8,562</td>
<td>0</td>
<td>0</td>
<td>490</td>
<td>230</td>
<td>259</td>
<td>1,443</td>
<td>10,984</td>
</tr>
<tr>
<td>Otay Lakes</td>
<td>10,408</td>
<td>0</td>
<td>662</td>
<td>0</td>
<td>406</td>
<td>127</td>
<td>2,204</td>
<td>13,806</td>
</tr>
<tr>
<td>Olympic Pkwy</td>
<td>7,837</td>
<td>0</td>
<td>239</td>
<td>617</td>
<td>0</td>
<td>251</td>
<td>2,322</td>
<td>11,267</td>
</tr>
<tr>
<td>Birch</td>
<td>4,339</td>
<td>0</td>
<td>208</td>
<td>144</td>
<td>291</td>
<td>0</td>
<td>2,813</td>
<td>7,796</td>
</tr>
<tr>
<td>Otay Mesa</td>
<td>4,476</td>
<td>0</td>
<td>1,301</td>
<td>2,111</td>
<td>2,109</td>
<td>3,428</td>
<td>0</td>
<td>13,424</td>
</tr>
<tr>
<td>Total</td>
<td>$ 38,730</td>
<td>$ 2,604</td>
<td>$ 10,805</td>
<td>$ 12,751</td>
<td>$ 9,254</td>
<td>$ 8,308</td>
<td>$ 13,345</td>
<td>$ 95,798</td>
</tr>
</tbody>
</table>

Source: SANDAG.

The following table sets forth average weekday revenue by vehicle type for Fiscal Year ending June 30, 2016.

### AVERAGE WEEKDAY REVENUE BY VEHICLE TYPE FOR FISCAL YEAR ENDING JUNE 30, 2016

<table>
<thead>
<tr>
<th>VEHICLE TYPE</th>
<th>REVENUE</th>
<th>PERCENTAGE OF TOTAL REVENUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile</td>
<td>$93,601</td>
<td>97.71%</td>
</tr>
<tr>
<td>Truck</td>
<td>$2,197</td>
<td>2.29%</td>
</tr>
</tbody>
</table>

All Vehicles | $95,798 | 100.00%

Source: SANDAG.

### FINANCIAL AND RELATED INFORMATION OF THE SOUTH BAY EXPRESSWAY

#### Historical Revenues and Expenditures

The following table sets forth the revenues and expenditures of the South Bay Expressway for Fiscal Years ending June 30, 2012 through June 30, 2017.
HISTORICAL REVENUES AND EXPENDITURES
FISCAL YEARS ENDED JUNE 30, 2012 THROUGH JUNE 30, 2017
(IN THOUSANDS)

<table>
<thead>
<tr>
<th></th>
<th>2012(3)</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toll Revenues(1)</td>
<td>$24,067</td>
<td>$22,155</td>
<td>$25,226</td>
<td>$27,249</td>
<td>$29,669</td>
<td>$31,367</td>
</tr>
<tr>
<td>Violation Revenues</td>
<td>3,779</td>
<td>3,327</td>
<td>3,638</td>
<td>3,952</td>
<td>4,387</td>
<td>4,703</td>
</tr>
<tr>
<td>Other Revenues(2)</td>
<td>617</td>
<td>682</td>
<td>916</td>
<td>1,005</td>
<td>1,291</td>
<td>1,566</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>28,463</td>
<td>26,164</td>
<td>29,780</td>
<td>32,206</td>
<td>35,347</td>
<td>37,636</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>12,888</td>
<td>8,888</td>
<td>9,217</td>
<td>8,907</td>
<td>9,150</td>
<td>10,200</td>
</tr>
<tr>
<td>Net Revenue</td>
<td>15,575</td>
<td>17,276</td>
<td>20,563</td>
<td>23,299</td>
<td>26,197</td>
<td>27,436</td>
</tr>
<tr>
<td>Less: Subordinate Debt Service</td>
<td>(454)</td>
<td>(2,789)</td>
<td>(3,202)</td>
<td>(2,650)</td>
<td>(2,650)</td>
<td>(2,650)</td>
</tr>
<tr>
<td>Net Income</td>
<td>$13,261</td>
<td>$10,811</td>
<td>$13,170</td>
<td>$15,698</td>
<td>$18,742</td>
<td>$20,262</td>
</tr>
</tbody>
</table>

(1) See “—Toll Revenues” below.
(2) See “—Other Revenue” below.
(3) As discussed above, toll rates on the South Bay Expressway were reduced in June 2012 following SANDAG’s acquisition of the South Bay Expressway.
(4) Unaudited.

Historical Gross Toll Revenue and Net Toll Revenue

The following table sets forth the gross toll revenues and net toll revenues for Fiscal Years ending June 30, 2012 through June 30, 2017.

<table>
<thead>
<tr>
<th></th>
<th>2012(3)</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Toll Revenue(1)</td>
<td>$25,450,453</td>
<td>$23,331,612</td>
<td>$26,591,211</td>
<td>$28,674,297</td>
<td>$31,301,823</td>
<td>$33,329,713</td>
</tr>
<tr>
<td>Less Non-Pursuable Transactions(2)</td>
<td>(660,368)</td>
<td>(579,916)</td>
<td>(667,402)</td>
<td>(723,093)</td>
<td>(853,178)</td>
<td>(979,571)</td>
</tr>
<tr>
<td>Less Non-Revenue Trips(3)</td>
<td>(50,868)</td>
<td>(3,676)</td>
<td>(4,191)</td>
<td>(4,951)</td>
<td>(4,805)</td>
<td>(4,524)</td>
</tr>
<tr>
<td>Less Violation Toll Trips(4)</td>
<td>(672,582)</td>
<td>(521,731)</td>
<td>(579,532)</td>
<td>(656,063)</td>
<td>(769,235)</td>
<td>(953,864)</td>
</tr>
<tr>
<td>Net Toll Revenue(5)</td>
<td>$24,066,634</td>
<td>$22,155,171</td>
<td>$25,226,349</td>
<td>$27,248,524</td>
<td>$29,669,093</td>
<td>$31,366,943</td>
</tr>
<tr>
<td>% of Gross Toll Revenue(6)</td>
<td>94.6%</td>
<td>95.0%</td>
<td>94.9%</td>
<td>95.0%</td>
<td>94.8%</td>
<td>94.1%</td>
</tr>
</tbody>
</table>

(1) Gross toll revenue is potential revenue earned for the Fiscal Year, which is calculated by using a blended average toll rate.
(2) Non-Pursuable transactions are trips by vehicles with no license plates; unreadable image; or license plates that cannot be identified by the DMV. Non-Pursuable Transactions are calculated using a blended average toll rate.
(3) Non-Revenue Trips include SANDAG employees; emergency response vehicles; and vehicles rerouted by the California Highway Patrol during major incidents. Non-Revenue Trips are calculated using a blended average toll rate.
(4) Violation Toll Trips are trips identified through image reviews that are not linked to FasTrak account holders. Violation Toll Trips are calculated using a blended average toll rate.
(5) Net Toll Revenue - is Gross Toll Revenue net of Non-Pursuable, Non-Revenue and Violation Toll transactions.
(6) Percentage of Gross Toll Revenue is the percentage of trips that are billable through FasTrak accounts or paid by cash or credit card.
Source: SANDAG.

Toll Revenues

Toll revenues generally include toll charges paid from an active FasTrak account or by cash or credit. With respect to FasTrak customer accounts, prepaid tolls are held as customer...
deposits until the customer travels the South Bay Expressway and incurs a toll charge at which
time the toll charge is recognized as toll revenue. Toll charges paid by cash or credit cards are
recognized when the transactions occur. Both toll charges and any related violation penalties
relating to toll violators and Pay-by-Plate users are included in violation revenues and not toll
revenues. See “—Other Revenue—Violation Revenue” below.

Other Revenue

Violation Revenue. To ensure collection of toll revenue, SANDAG uses a violation
enforcement system capable of identifying vehicle license plates at any operating speed. Persons
who fail to pay their tolls may be charged a toll penalty in addition to the toll charge. See
“DESCRIPTION OF THE SOUTH BAY EXPRESSWAY—Enforcement” above for a more
detailed description of enforcement of toll charges.

Violation revenues have consistently exceeded the combined total of toll revenues lost
due to unprocessable images and pursuable violations. Section 40258 of the California Vehicle
Code limits fees for first toll evasion violation to $100. Violation penalties have been set
pursuant to an ordinance by SANDAG and are adjusted by SANDAG from time to time. The
penalty for a driver’s first toll evasion is presently assessed at an amount equal to the sum of the
evacated toll plus $40. The driver is charged an additional $60 assessment if SANDAG delivers a
second notice (for a total of $100).

Each Fiscal Year, SANDAG accrues violation revenue in amount equal to toll penalties
actually collected plus an amount of outstanding violation penalties that SANDAG expects to
collect the following Fiscal Year. Revenue from toll penalties on the South Bay Expressway was
$4.4 million in Fiscal Year 2015-16 and $4.7 million in Fiscal Year 2016-17.

Account and Maintenance Fees. During Fiscal Year 2016-17, approximately 76% of all
transactions on the South Bay Expressway were processed through the FasTrak automatic
vehicle identification system. The South Bay Expressway currently charges a monthly fee of
$1.00 per transponder to FasTrak account holders if monthly tolls incurred on the South Bay
Expressway are less than $3.50 per account. Revenue from account maintenance fees for the
South Bay Expressway was $0.5 million in Fiscal Year 2015-16 and $0.6 million in Fiscal Year
2016-17. Account maintenance fees are included within Toll Revenues under the Master
Indenture. See “DESCRIPTION OF THE SOUTH BAY EXPRESSWAY—Toll Collection and
Revenue Management System” above.

Other. Other revenues of the South Bay Expressway include ancillary fees such as
account deactivation fees, fees incurred under the Cooperative User Fee Processing
Agreements, damaged or lost transponder fees, nonsufficient funds and chargebacks, rental and
interest income.

Operating Expenses

Operating Expenses for the South Bay Expressway are composed primarily of costs
associated with maintaining and operating the toll equipment, software and systems, customer
service centers, toll collection processing, as well as toll systems and equipment purchases, and
an allocated portion of SANDAG’s administrative costs, including insurance, salaries and
benefits, marketing, consulting, legal, and office expense. Construction and administration expenditures allocated to construction and nonoperating activities are not Operating Expenses.

SANDAG develops the South Bay Expressway annual operations expenses by establishing goals and priorities that support its strategic goals and areas of emphasis. Operating expenses fund prioritized efforts and ensure cost-effective, efficient management of the toll facility. The final budget is reviewed and adopted by the SANDAG Board of Directors by June 30 each year. A five-year strategic work program is also prepared and updated annually as part of the budgeting process to identify and prioritize future operating needs.

**Capital Maintenance Plan and Capital Improvement Plan**

**Capital Maintenance Plan.** SANDAG has developed a plan for the capital maintenance of the South Bay Expressway. The capital assets of the South Bay Expressway include approximately 57 lane miles (mainline, shoulders and ramps) of roadway and 19 bridges, as well as numerous facilities to accommodate toll collection, customer service, toll operations and roadway maintenance. SANDAG has organized its operations and maintenance plans to address infrastructure and operations needs of the roadway.

**State of Good Repair.** As a requirement of the Franchise Agreement, SANDAG maintains the South Bay Expressway assets in a state of good repair. To facilitate the maintenance of a state of good repair, SANDAG entered into a Maintenance Agreement with Caltrans, whereby Caltrans conducts weekly, annual and biennial inspections of the South Bay Expressway facilities. Caltrans prepares regular inspection reports which are submitted to SANDAG for action.

Pavement is surveyed annually to identify areas where resurfacing or repairs is needed to maintain serviceability. To ensure that maintenance funds are spent wisely and cost-effectively, the annual maintenance and improvement programs are comprised of projects prioritized in order of urgency in a manner that maintains public safety and the serviceability of the roadway and bridges. Bridges are inspected biennially by Caltrans Division of Structures Maintenance.

Preventive maintenance and maintenance repairs are carried out through a combination of South Bay Expressway Roadway Maintenance staff; a maintenance contract with Caltrans; and capital projects for the more significant projects. Under the maintenance agreement with Caltrans, Caltrans workforce provides repair services for all manner of repairs, including pavement repairs; bridge repairs; traffic control devices; and overhead and roadside signs. For more significant projects, contracts are awarded for all categories of repair and maintenance activities. In Fiscal Year 2017, the amount of funding spent on maintenance and repairs, whether performed by SANDAG or Caltrans staff, and contracts totaled $1.9 million. In Fiscal Year 2018, that amount is increased to approximately $8.2 million.

As a result of SANDAG’s diligence, the conditions of the South Bay Expressway’s 19 bridges range from “good” to “very good”; terms that are defined in the Federal Highway Administration Coding Guide for the Inventory and Appraisal of the Nation's Bridges. All bridges are capable of safely supporting the heaviest legal loads of the state and nation.
SANDAG’s pavement maintenance starts with the design criteria that SANDAG has adopted which conforms to Caltrans standards. The design of the pavement section ensures that the roadway can withstand the daily impact of the traffic thereby helping to minimize future capital expenditure needs. The pavement section design for the mainline consists of a 0.6’ asphalt concrete surface course on top of an asphalt base course. The next layer below the asphalt base course is an aggregate base course. The combination of asphalt and aggregate base courses give the pavement its strength to support the expected volume of traffic. These layers are then constructed on top of a Grade A embankment material. The Grade A material allows any water infiltration away from the pavement subbase immediately. This feature reduces the amount of water being trapped under the pavement section which causes damage to the asphalt courses.

The pavement on the mainline roadway, shoulders and ramps was originally completed in 2007. The mainline roadway and shoulders will be repaved for the first time in September 2017 at a total contract construction cost of $6,405,000. The pavement rehabilitation project involves the installation of a Bonded Wearing Course, which is a high-performance surface placed over existing asphalt concrete pavement. The one-pass construction process moves quickly, allowing for a rapid return of traffic and results in minimal delay to roadway users. The planned pavement rehabilitation cycle is every 12 years, and SANDAG expects to set aside reserves in future years to ensure sufficient funding is available to maintain the normally expected lifecycle of the pavement consistent with Caltrans standards.

The ongoing inspections, annual maintenance and minor repairs are primarily funded through Roadway Maintenance Operating Funds. Some projects however, that are more significant in project scope, are funded through a capital program.

*Capital Improvement Program.* SANDAG prepares and updates on an annual basis a capital improvement program (CIP) to fund the maintenance and repairs needed to maintain the South Bay Expressway in a state of good repair. The CIP also includes capital improvements that improve access to the South Bay Expressway, such as tollway-to-freeway connectors, that better integrate the South Bay Expressway into the San Diego region’s transportation network, as well as identifies SANDAG’s contribution toward the capital construction of interchange improvements that provide local road access to the South Bay Expressway.

HNTB Corporation, consulting engineers to SANDAG, based on its knowledge of industry best practices, conducted a review of the South Bay Expressway CIP for the period from Fiscal Year 2018 through Fiscal Year 2042, when the Franchise Agreement expires. The purpose of the review was to determine the reasonableness of the CIP to sustain the South Bay Expressway’s roadway infrastructure and operations in a state of good repair over the review period. HNTB has concluded that the forecasts provided for in the CIP are reasonable. The program accounts for a reasonable schedule for repair and replacement of assets to maintain the roadway and associated infrastructure in a state of good repair.

The projects that comprise the South Bay Expressway CIP can generally be divided into three categories: Connectors/Interchange Improvements; Roadway Improvements; and Facilities Improvements. As seen in the breakdown of the CIP below, it is a mix of projects which will increase traffic capacity and operational efficiencies while also maintaining the system in a state
of good repair. The breakdown of the CIP over the term of the Franchise Agreement is as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (^{(1)})</th>
<th>Percentage of Program (^{(1)})</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connectors/Interchange Improvements</td>
<td>$57,975,672</td>
<td>20.7%</td>
</tr>
<tr>
<td>Roadway Improvements</td>
<td>77,030,849</td>
<td>27.5</td>
</tr>
<tr>
<td>Facilities Improvements</td>
<td>145,243,545</td>
<td>51.8</td>
</tr>
<tr>
<td>Total</td>
<td>$280,250,066</td>
<td>100%</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Figures assume 2.77% inflation beginning in Fiscal Year 2019.  
Source: SANDAG

As of June 30, 2017, SANDAG has approximately $56 million that it has set aside in reserves for the payment of capital maintenance and improvement projects. In addition, SANDAG expects to set aside amounts in future Fiscal Years, which together with the amounts in such reserves will be sufficient to pay expected capital maintenance and improvement expenditures.

**Projected Revenues, Operating Expenses and Debt Service Coverage Ratio**

The following table sets forth forecasts of the revenues, operating expenses and debt service coverage ratio for the South Bay Expressway for Fiscal Years ending June 30, 2018 through June 30, 2042.

The projections are based on assumptions concerning future events and circumstances that may impact revenues and expenses and represent SANDAG’s best estimates of results at this time. See footnotes to the following table for relevant assumptions. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur. Therefore, the actual results achieved during the projection period will vary from the projections and the variations may be material.

4824-2241-4406.9
PROJECTED REVENUES, OPERATING EXPENSES AND DEBT SERVICE COVERAGE RATIO
Fiscal
Toll
Violation
Year(1)
Revenues(2)
Revenues(3)
2018
$32,419,651
$4,703,116
2019
33,266,290
4,703,116
2020
33,959,407
4,703,116
2021
34,573,205
4,703,116
2022
35,147,606
4,703,116
2023
35,924,981
4,703,116
2024
36,947,421
4,703,116
2025
38,319,190
4,703,116
2026
39,667,685
4,703,116
2027
40,629,600
4,703,116
2028
41,620,469
4,703,116
2029
42,639,977
4,703,116
2030
43,670,084
4,703,116
2031
44,745,984
4,703,116
2032
45,831,977
4,703,116
2033
46,945,477
4,703,116
2034
48,086,178
4,703,116
2035
49,403,797
4,703,116
2036
50,758,033
4,703,116
2037
51,972,974
4,703,116
2038
53,719,699
4,703,116
2039
56,070,084
4,703,116
2040
58,513,370
4,703,116
2041
60,631,586
4,703,116
2042
62,376,305
4,703,116
2043(9)
32,082,869
2,351,558
__________________________

Other
Income(4)
$1,705,942
1,822,143
1,703,650
1,649,325
1,794,258
1,943,858
1,908,674
1,970,442
2,116,474
2,310,162
2,489,124
2,631,666
2,746,097
2,722,380
2,823,629
2,989,004
3,221,607
3,429,123
3,574,667
3,816,979
4,005,279
4,125,793
4,210,207
4,400,880
1,705,942
2,463,717

Total
Revenues
$38,828,710
39,791,548
40,366,174
40,925,646
41,644,980
42,571,955
43,559,211
44,992,748
46,487,275
47,642,877
48,812,709
49,974,759
51,119,297
52,171,481
53,358,722
54,637,598
56,010,901
57,536,037
59,035,816
60,493,069
62,428,094
64,898,994
67,426,694
69,735,582
38,828,710
36,898,145

Operating
Expenses(5)
$10,827,679
11,260,786
11,711,218
12,179,667
12,666,853
13,173,527
13,700,468
14,248,487
14,818,427
15,411,164
16,027,610
16,668,715
17,335,463
18,028,882
18,750,037
19,500,039
20,280,040
21,091,242
21,934,891
22,812,287
23,724,778
24,673,770
25,660,720
26,687,149
27,754,635
14,432,410

Net
Revenues(6)
$28,001,030
28,530,762
28,654,956
28,745,980
28,978,127
29,398,428
29,858,743
30,744,261
31,668,848
32,231,714
32,785,098
33,306,044
33,783,834
34,142,599
34,608,685
35,137,559
35,730,861
36,444,795
37,100,925
37,680,782
38,703,316
40,225,224
41,765,973
43,048,433
44,049,300
22,465,735

Debt Service
on Bonds(7)
$2,454,805
13,345,050
14,475,275
14,453,400
14,446,400
14,415,500
14,412,875
14,401,875
14,396,875
14,387,125
14,381,875
14,375,250
14,366,500
14,354,875
14,344,500
14,334,375
14,323,500
14,315,750
14,300,125
14,290,500
14,275,625
14,264,250
14,250,000
14,231,625
14,217,625
14,201,375

Debt Service
Coverage Ratio(8)
11.4
2.1
2.0
2.0
2.0
2.0
2.1
2.1
2.2
2.2
2.3
2.3
2.4
2.4
2.4
2.5
2.5
2.5
2.6
2.6
2.7
2.8
2.9
3.0
3.1
1.6

Source: SANDAG
(1)
Fiscal Years end June 30.
(2)
Toll Revenues are now forecasted revenues netting out forecasted violation trips, which are estimated at 2.4% of trips. See “TRAFFIC AND REVENUE STUDY” below. Forecasted Toll Revenues
are not intended to be inclusive of all fees and charges included in the definition of Toll Revenues provided in the Indenture. Forecasted Toll Revenues are not reduced by projected Non-Revenue
Trips, which can also be a source of reduction. See “HISTORICAL GROSS TOLL REVENUE AND NET TOLL REVENUE” table above.
(3)
Violation revenues are recorded in the year in which they are collected. Violation revenues are assumed to remain the same during the entire forecasted period.
(4)
Other Revenues includes (a) minimum monthly fees, (b) damaged, lost, forfeited transponder fees, (c) excess video toll usage penalties, (d) account statement fees, (e) account deactivation fees,
(f) chargeback and non-sufficient fees and (g) rent income. Other Revenues also include interest on balances in O&M Reserve and Capital Expenditure Fund. Other Revenues, with the exception of
interest income, is assumed to account for 2.9% of Toll Revenues and hence grows at the same rate as Toll Revenues since some of the components such as transponders grow with traffic. See “—
Other Revenue” above. SANDAG has provided the forecasted amounts.
(5)
Operating Expenses is assumed to grow at 4.0% annually. See “— Operating Expenses” above.
(6)
Represents the difference between the sum of Total Revenues and Operating Expenses.
(7)
Amounts represent scheduled payments of principal and interest on the Bonds. Debt Service projections are preliminary and subject to change.
(8)
Represents the amount of Net Revenues divided by debt service on the Bonds. Debt Service projections are preliminary and subject to change.
(9)
Projections for 2043 include only the first six months of the Fiscal Year.

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TRAFFIC AND REVENUE STUDY

General

SANDAG has retained the firm of Stantec Consulting Services Inc. (“Stantec”) to conduct a traffic and revenue study (the “Traffic and Revenue Study”) for the South Bay Expressway to forecast future traffic and potential revenue-generating capability of the South Bay Expressway for the period from Fiscal Years ending June 30, 2018 through June 30, 2043. The Traffic and Revenue Study is an update to a traffic and revenue study completed by Stantec in December 2011. The Traffic and Revenue Study is included as APPENDIX A – “TRAFFIC AND REVENUE STUDY” hereto. As stated in the Traffic and Revenue Study, the future toll revenue requirements are based upon assumptions regarding future conditions, including, without limitation, the toll rate structure. Stantec believes the assumptions upon which it relies in the Traffic and Revenue Study are reasonable. The following sets forth several of the key assumptions that Stantec has made in preparing the forecasted traffic and revenue of the South Bay Expressway:

- Characteristics of the South Bay Expressway including lane configuration, facility type, and lane widths remain the same for the life of the forecast.

- The following improvements to the South Bay Expressway are completed:
  - the interchange with SR-11 and SR-905 is completed by 2022;
  - the SBX six-ramp partial cloverleaf interchange with Otay Valley is completed in 2035; and
  - the half-diamond interchange with Lone Star is completed in 2037.

- The revenue constrained projects will be constructed as outlined in Appendix A of SANDAG’s 2050 Regional Transportation Plan. Stantec checked SANDAG’s ABM model to ensure that it contained all revenue constrained projects that could impact the SBX’s traffic and revenue stream. Most projects listed in the RTP were represented in the ABM correctly. Stantec made the following changes to the model to follow the RTP more accurately:
  - Compress SR-52 HOV lanes between I-15 and SR-125 in 2050 from either 2 or 9 lanes per direction to 1 lane per direction.
  - Widen SR-125 from 4 to 5 lanes per direction between SR-94 and I-8 by 2050.
  - Compress SR-52 between Mast Boulevard and SR-125 from 3 lanes per direction to 2 lanes per direction in 2025 and 2030.
  - Compress SR-94 between Jamacha Boulevard and Steele Canyon Road from 3 lanes per direction to 2 lanes per direction.
• The toll rates on the South Bay Expressway will not change and vehicles with three or more axles will continue to pay two times the 2-axle toll rate.

Investors are advised to review carefully the Traffic and Revenue Study in its entirety, including the assumptions made by Stantec therein. See “RISK FACTORS” and APPENDIX A – “TRAFFIC AND REVENUE STUDY.”

The Traffic and Revenue Study projects gross transactional toll revenues during the forecast period, assuming no annual increases in toll rates. These revenue projections do not give effect to inflation or certain other revenues or adjustments, including violation penalty revenues, losses due to unprocessable images and non-revenue transactions, account maintenance fees, interest earnings or other income, all of which may affect amounts available for the payment of the Bonds.

Stantec

Stantec has a professional staff of approximately 22,000 employees and 160 offices throughout North America and has been serving public and private clients since 1954. Stantec has a group of over 1,000 transportation professionals of which more than 25 professionals are actively involved with toll facility clients. Stantec’s toll facility experience includes working with more than 100 clients in more than 20 states and internationally.

RISK FACTORS

This section provides a general overview of certain risk factors which investors should consider, in addition to the other matters set forth in this Official Statement, in evaluating an investment in the Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. In addition, this section provides risks that are specific to the South Bay Expressway and an investment in the Bonds and does not include risks that are general in nature. Potential investors in the Bonds are advised to consider the following factors, among others, and to review this entire Official Statement to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could adversely affect the financial condition of the South Bay Expressway or SANDAG’s ability to make scheduled payments on the Bonds. SANDAG cannot assure investors that other risk factors not discussed herein will not become material in the future.

Economic, demographic or technological changes can cause material declines in traffic on the South Bay Expressway.

The overall level of traffic on the South Bay Expressway depends on economic and demographic conditions in the County of San Diego and, in particular, the communities who benefit from the South Bay Expressway. Any material change in those conditions may have a material adverse impact on toll revenues. Any deterioration of the economic condition of the County of San Diego, such as economic recession or increases in fuel prices, can impact the overall levels of traffic on the South Bay Expressway either directly through reduced demand
for commuting or indirectly by reducing congestion on freeways and reducing the value of the South Bay Expressway to commuters. In addition, any adverse change in the demographics in the County of San Diego or communities surrounding the South Bay Expressway can cause material declines in the level of traffic and toll transactions. These include population declines but also population shifts such as a change in the number of commuters who work or live in places for which the South Bay Expressway operates as a key link. In addition, technological or social changes can also reduce traffic on the South Bay Expressway, such as telecommuting or other changes that reduce the need for daily commuting.

_Toll Revenues depend on effective enforcement of tolls._

The ability of SANDAG to generate Toll Revenues depends on effective enforcement of the payment of tolls. Effective enforcement, in turn, largely depends on the legal ability of SANDAG to establish effective levels of penalties for violators and effective enforcement mechanisms to collect those penalties. The State Legislature can further limit penalties SANDAG may assess to violators and also could change the current enforcement process. Importantly, effective enforcement of violators depends on requiring the payment of violation penalties in connection with car registration with the DMV and the ability of SANDAG to request the California Franchise Tax Board to offset tax refunds with toll penalties. If the State Legislature materially changes these enforcement tools, then SANDAG’s sole enforcement mechanism may be lawsuits in State court, which may prove burdensome and ineffective. Any material impact on the ability of SANDAG to enforce the toll charges may reduce overall toll transactions and thereby Toll Revenues. See “DESCRIPTION OF THE SOUTH BAY EXPRESSWAY—Enforcement” and “FINANCIAL AND RELATED INFORMATION OF THE SOUTH BAY EXPRESSWAY—Other Revenue—Violation Revenue” above.

_Caltrans may terminate the Franchise Agreement and may terminate SANDAG’s exclusivity._

Under the terms of the Franchise Agreement, Caltrans has the right to terminate the Franchise Agreement if SANDAG defaults in the performance of any material obligation under the Franchise Agreement. In addition, Caltrans has the right to terminate its exclusivity obligations under the Franchise Agreement if the traffic on the South Bay Expressway falls below an “E” level of service designation for at least two consecutive hours per day on at least 150 days during a two-year period and SANDAG is not diligently pursuing development of additional capacity of the roadway. According to the 2000 Highway Capacity Manual, an “E” level of service is described as unstable traffic flow with speeds that vary greatly and are unpredictable. At an “E” level of service, vehicle spacing is about 6 car lengths, but speeds are still at or above 50 mi/h (80 km/h). Any disruption to traffic flow, such as merging ramp traffic or lane changes, will create a shock wave affecting traffic upstream. Any incident will create serious delays. Drivers' level of comfort may become poor. The South Bay Expressway is not projected to reach this level of traffic before 2050. See APPENDIX D – “SUMMARY OF THE FRANCHISE AGREEMENT.”
Competing transportation options can materially decrease traffic on the South Bay Expressway.

As a toll road, traffic on the South Bay Expressway is sensitive to competing transportation routes, particularly freeways and other roads that do not require the payment of a toll. Alleviation in traffic congestion on existing routes for any reason and construction of new transportation routes can all cause the levels of traffic and toll transactions on the South Bay Expressway to materially decrease.

Net Revenues of the South Bay Expressway can materially decline as a result of a variety of operating risks.

The collection of toll revenues will be subject to the risks inherent in the establishment and operation of any toll facility, including, among other things, the volume of traffic that uses SANDAG’s toll facilities, the ability of SANDAG and its computer systems to accurately process data and the ability of SANDAG to manage toll evasion and implement effective toll collection and enforcement practices. Other operating risks include the ability of SANDAG to control expenses and the availability of adequately-trained personnel.

Casualty events can materially damage the South Bay Expressway.

The South Bay Expressway could sustain damage as a result of earthquakes, terrorist attacks, extreme weather events and other natural occurrences, fires and explosions, spills of hazardous substances, strikes and lockouts, sabotage, wars, blockades and riots. Material casualty events that damage all or any portion of the South Bay Expressway may force temporary or indefinite closures, which could cause a material decline in toll revenues. In addition, any casualty events may require additional debt secured from Toll Revenues to repair any damage.

SANDAG may add additional toll roads to the definition of “Toll Road” in the Indenture.

Under the Master Indenture, the term “Toll Road” initially means the South Bay Expressway. But, under the definition of “Toll Road” in the Master Indenture, “Toll Road” can potentially include other streets, roads or highways in addition to the South Bay Expressway if SANDAG has all right, power and authority pursuant to law to impose tolls, and upon which tolls are imposed by SANDAG. Under the terms of the Master Indenture, “Toll Road” does not include any Special Project, which means any project so designated by SANDAG. Any toll facilities that become part of the definition of Toll Road can encounter financial or operational challenges which may materially adversely impact the ability of SANDAG to pay debt service on the Bonds even if the financial and operational condition of the South Bay Expressway were unaffected.

The State Legislature can adopt laws that can impact SANDAG’s governance and management.

SANDAG was created by State statute and the State Legislature can alter the governance and structure of SANDAG. Recently, a bill was proposed in the State Legislature that, if it
became law, would have changed the composition of the Board of Directors of SANDAG and provided additional oversight. The State Legislature can adopt statutory changes that could materially impact the composition of the Board of Directors or composition of management, or impose new requirements or standards, any of which could cause fundamental changes in the mission of SANDAG, its policy objectives or how it operates. Any of these changes, in turn, could change how SANDAG approaches its management of the South Bay Expressway, including the levels of toll rates, construction of improvements, or levels or enforcement of toll penalties.

**Change in Tax-Exempt Status.**

The President of the United States and the United States Congress, and the California State Legislature could propose in the future, legislation that, if enacted, could cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. Clarifications of the Internal Revenue Code of 1986, as amended (the “Code”), or court decisions may also cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation. The introduction or enactment of any such legislative proposals or any clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion. See “TAX MATTERS.”

**Bankruptcy Risks.**

SANDAG is authorized to file for bankruptcy under Chapter 9 of the United States Bankruptcy Code if it meets certain requirements of State law and the Bankruptcy Code. In any bankruptcy of SANDAG, if Toll Revenues are determined to be “special revenues” under the Bankruptcy Code, then Toll Revenues collected after the date of any bankruptcy filing should be subject to the lien of the Master Indenture. “Special revenues” are defined to include, among other things, receipts derived from the ownership or operation of projects or systems that are or are intended to be primarily used to provide transportation services. While the Toll Revenues appear to satisfy this definition and thus be “special revenues,” there remains a relative dearth of Chapter 9 bankruptcy cases. If, in any SANDAG bankruptcy, the court were to find that the Toll Revenues are not “special revenues,” the lien on Toll Revenues set forth in the Indenture would no longer be effective.

In addition, even if a bankruptcy court were to determine that the Toll Revenues constitute “special revenues,” the Bankruptcy Code provides that revenues generated by the debtor’s projects or systems may, if circumstances require it, be applied first to the necessary operating expenses of the project or system, before they are applied to debt service or other obligations and regardless of the terms of any indenture or other governing bond issuance document. Accordingly, the court could apply Toll Revenues to a much more significant amount of operating expenses than set forth in the Indenture before any Toll Revenues would be available to pay debt service on the Bonds.
If SANDAG is in bankruptcy, the parties (including the holders of the Bonds) may be prohibited from taking any action to collect any amount from SANDAG or to enforce any obligation of SANDAG, unless the permission of the bankruptcy court is obtained. These restrictions may also prevent the Trustee from making payments to the holders of the Bonds from funds in the Trustee’s possession.

SANDAG as a debtor in bankruptcy may be able to borrow additional money that is secured by a lien on any of its property (including Toll Revenues), which lien could have priority over the lien of the Indenture, or to cause some Toll Revenues to be released to it, free and clear of lien of the Indenture, in each case provided that the bankruptcy court determines that the rights of the Trustee and the holders of the Bonds will be adequately protected. SANDAG may also be able, without the consent and over the objection of the Trustee and the holders of the Bonds, to alter the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Indenture and the Bonds, provided that the bankruptcy court determines that the alterations are fair and equitable.

There may be delays in payments on the Bonds while the bankruptcy court considers any of these issues. There may be other possible effects of a bankruptcy of SANDAG that could result in delays or reductions in payments on the Bonds, or result in losses to the holders of the Bonds. Regardless of any specific adverse determinations in a SANDAG bankruptcy proceeding, the fact of a SANDAG bankruptcy proceeding could have an adverse effect on the liquidity and value of the Bonds.

**FINANCIAL STATEMENTS OF THE SOUTH BAY EXPRESSWAY**

The financial statements of the South Bay Expressway for the Fiscal Year ended June 30, 2016, included in Appendix B of this Official Statement, have been audited by Davis Farr LLP, certified public accountants, as stated in their report therein. Davis Farr LLP has not performed any post-audit review of the financial condition or operations of the South Bay Expressway and has not reviewed this Official Statement. SANDAG is not required to and has not requested the consent of the auditors to the inclusion of its audited financial statements in this Official Statement.

The financial statements of South Bay Expressway for the Fiscal Year ended June 30, 2017, also included in Appendix B of this Official Statement, have not been audited by Davis Farr LLP, or any other certified public accountants.

The financial statements of the South Bay Expressway have not been prepared with a view reflecting how revenues and expenditures or assets and liabilities are treated under the Indenture. All Toll Revenues are applied as provided in the Indenture and the Bonds are secured by such funds and accounts under the Indenture provided therein.

**CONTINUING DISCLOSURE**

SANDAG will execute a continuing disclosure agreement (the “Continuing Disclosure Agreement”), pursuant to which SANDAG will covenant for the benefit of the owners of the Bonds to provide certain unaudited financial information and operating data relating to the South
Bay Expressway by not later than ninety (90) days following the end of each fiscal quarter, commencing with the fiscal quarter ending December 31, 2017 (the “Quarterly Report”), to provide annually certain financial information and operating data relating to the South Bay Expressway by not later than six months after the end of the prior fiscal year, commencing with the fiscal year ending June 30, 2017 (the “Annual Report”), and to provide notice of the occurrence of certain enumerated events (the “Notice Events”) in a timely manner. The Annual Reports and Notice Events will be filed with the Municipal Securities Rulemaking Board Electronic Municipal Market Access system. These covenants will be made to assist the Underwriters in complying with Rule 15c2-12, as amended, adopted by the SEC under the Securities and Exchange Act of 1934, as amended. See APPENDIX F —“FORM OF CONTINUING DISCLOSURE AGREEMENT.”

TAX MATTERS

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

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

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date)
(“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

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

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

UNDERWRITING

SANDAG has entered into a Bond Purchase Agreement (the “Purchase Agreement”) with respect to the Bonds with J.P. Morgan Securities LLC on behalf of itself and as representative of the underwriters set forth on the cover page hereof (collectively, the “Underwriters”). The Underwriters have agreed to purchase the Bonds for an aggregate purchase price of $______ (representing the principal amount of the Bonds of $_______, [plus/less] an original issue [premium/discount] of $______, less an Underwriters’ discount of $______).

The Purchase Agreement provides that (i) the Underwriters will purchase all (but not less than all) of the Bonds, and (ii) the obligations to make such purchases are subject to certain terms and conditions set forth in such Purchase Agreement including, among others, the approval of certain legal matters by counsel.

The Underwriters have provided the following paragraphs to SANDAG relating to their distribution practices or other affiliations for inclusion in this Official Statement. The State does not guarantee the accuracy or completeness of the information contained those paragraphs and the information therein is not to be construed as a representation of SANDAG.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a “Dealer Agreement”) with each of Charles Schwab & Co., Inc. (“CS&Co.”) and LPL Financial LLC (“LPL”) for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

Citigroup Global Markets Inc., an Underwriter of the Bonds, has entered into a retail distribution agreement with UBS Financial Services Inc. (“UBSFS”). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS. As part of this arrangement, Citigroup Global Markets Inc. may compensate UBSFS for its selling efforts with respect to the Bonds.
LEGAL MATTERS

Certain legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to SANDAG. Certain legal matters will be passed upon for SANDAG by Nixon Peabody LLP, Disclosure Counsel, and for the Underwriters by Norton Rose Fullbright US LLP, Underwriters’ Counsel. Bond Counsel expects to deliver an opinion at the time of issuance of the Bonds substantially in the form set forth in Appendix E. Bond Counsel is not passing upon and undertakes no responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance of the Bonds or in any way contesting or affecting the validity of the Bonds or any proceedings of SANDAG taken with respect to the execution, delivery or sale thereof.

In addition, there is no litigation pending or threatened against SANDAG which, in the opinion of SANDAG, would materially adversely affect the South Bay Expressway or the ability of SANDAG to pay debt service on the Bonds.

MUNICIPAL ADVISOR

PFM Financial Advisors LLC (the “Municipal Advisor”) serves as municipal advisor to SANDAG in connection with the issuance of the Bonds. The Municipal Advisor has assisted in the preparation of the debt issuance plan for the financing based on information provided by SANDAG. In addition, it has assisted in the preparation of this Official Statement. The Municipal Advisor has not undertaken to make an independent verification of, or to assume responsibility for, the accuracy, completeness or fairness of the information contained in this Official Statement.

RATINGS

S&P Global Ratings (“S&P”), and Fitch Ratings (“Fitch”) are expected to assign the Bonds their long-term ratings of “[___]” and “[___],” respectively.

Such credit ratings reflect only the views of such organizations and any desired explanation of the significance of such credit ratings should be obtained from the rating agency furnishing the same, at the following addresses: S&P Global Ratings, 55 Water Street, New York, New York 10041; and Fitch Ratings, 33 Whitehall Street, New York, New York 10004. Generally, a rating agency bases its credit rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Such credit ratings may not continue for any given period and may be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any downward revision or withdrawal of such credit ratings could have an adverse effect on the market price of the Bonds.
MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between SANDAG and holders of any of the Bonds. All quotations from and summaries and explanations of the Indenture, the Franchise Agreement, other documents and any statutes contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions.

SAN DIEGO ASSOCIATION OF GOVERNMENTS

By

Chief Deputy Executive Director
APPENDIX B

AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING JUNE 30, 2016 AND UNAUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDING JUNE 30, 2017
APPENDIX C

SUMMARY OF INDENTURE
APPENDIX D

SUMMARY OF FRANCHISE AGREEMENT
APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered by the San Diego Association of Governments (“SANDAG”) and Digital Assurance Certification LLC, as dissemination agent (the “Dissemination Agent”) in connection with the issuance of $[_____] aggregate principal amount of the San Diego Association of Governments South Bay Expressway Toll Revenue First Senior Lien Bonds, 2017 Series A (the “Bonds”). The Bonds are being issued pursuant to the Indenture, dated as of [____] 1, 2017 (as amended and supplemented, including by a First Supplemental Indenture, dated as of [____] 1, 2017, collectively, the “Indenture”), between SANDAG and U.S. Bank National Association, as trustee. Pursuant to the Indenture, SANDAG and the Dissemination Agent covenant and agree as follows:

Section 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by SANDAG for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined herein).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by SANDAG pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Audited Financial Statements” means the audited financial results of the South Bay Expressway for the applicable Fiscal Year.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“Business Day” shall mean a day other than (a) Saturday or Sunday, (b) a day on which banking institutions in the city in which the Principal Office of the Trustee is located are authorized or required by law to be closed, and (c) a day on which the New York Stock Exchange is authorized or obligated by law or executive order to be closed.

“Disclosure Representative” shall mean the designee of SANDAG designated to act as the Disclosure Representative, or such other person as SANDAG shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” means an entity selected and retained by SANDAG, or any successor thereto selected by SANDAG. The initial Dissemination Agent shall be Digital Assurance Certification LLC.
“EMMA” shall mean the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System for Municipal Securities disclosures, maintained on the internet at [http://emma.msrb.org](http://emma.msrb.org)

“Listed Events” shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the EMMA website of the MSRB, currently located at http://emma.msrb.org.

“Participating Underwriter” shall mean any original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Quarterly Report” shall mean any Quarterly Report provided by SANDAG pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Repository” shall mean, until otherwise designated by the SEC, EMMA.

“Rule” shall mean Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934, as amended from time to time.

“State” shall mean the State of California.

“SEC” shall mean the Securities and Exchange Commission.

Section 3. Provision of Reports.

(a) SANDAG shall, or shall cause the Dissemination Agent to, not later than one hundred and eighty (180) days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2017, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement. If SANDAG’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

(b) SANDAG shall, or shall cause the Dissemination Agent to, not later than ninety (90) days after the end of fiscal quarter ending on each September 30, December 31, March 31 and June 30, commencing with the fiscal quarter ending December 31, 2017, provide to the Repository a Quarterly Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Quarterly Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement.

(c) Not later than one Business Day prior to the date specified in subsection (a) for providing the Annual Report to the Repository, SANDAG shall provide the Annual Report to the
Dissemination Agent (if other than SANDAG). SANDAG shall provide, or cause the preparer of the Annual Report to provide, a written certificate with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished to it hereunder. The Dissemination Agent may conclusively rely upon such certification and shall have no duty or obligation to review such Annual Report.

(d) Not later than one Business Day prior to the date specified in subsection (b) for providing the Quarterly Report to the Repository, SANDAG shall provide the Quarterly Report to the Dissemination Agent (if other than SANDAG). SANDAG shall provide, or cause the preparer of the Quarterly Report to provide, a written certificate with each Quarterly Report furnished to the Dissemination Agent to the effect that such Quarterly Report constitutes the Quarterly Report required to be furnished to it hereunder. The Dissemination Agent may conclusively rely upon such certification and shall have no duty or obligation to review such Quarterly Report.

(e) If SANDAG is unable to provide to the Repository an Annual Report or Quarterly Report by the date required in subsection (a) or subsection (b), SANDAG shall send, or shall cause the Dissemination Agent to send, a notice to the Repository or to the MSRB, in substantially the form attached as Exhibit A.

(f) The Dissemination Agent shall:

(i) determine the electronic filing address of, and then-current procedures for submitting Annual Reports and Quarterly Reports to, the MSRB each year prior to the date for providing the Annual Report and Quarterly Report; and

(ii) file a report with SANDAG certifying that the Annual Report and Quarterly Reports have been provided to the MSRB pursuant to this Disclosure Agreement, and stating the date it was provided.

Section 4 Content of Reports.

(a) The Annual Report shall contain or include by reference the following:

(i) Financial Statements. The Audited Financial Statements of the South Bay Expressway for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Audited Financial Statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, dated [—], 2017 relating to the Bonds (the “Official Statement”) and the Audited Financial Statements shall be filed in the same manner as the Annual Report when such Audited Financial Statements become available.

(ii) The debt service schedule for the Bonds, if there have been any unscheduled redemptions, retirements or defeasances, and the debt service on any additional parity bonds issued, in each case during the prior Fiscal Year.

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(iii) To the extent not contained in the financial statements, for the most recently ended fiscal year, the financial information and operating data, substantially in the form presented in the Official Statement as follows: (A) the table “Current Toll Rates,” (B) the table “Historical Traffic,” (C) the table “Average Weekday Trip Patterns” (D) the table “Average Weekday Transactions by Vehicle Type,” (E) the table “Average Weekday Revenue by Trip,” (F) the table “Historical Revenues and Expenditures,” (G) the table “Historical Gross Toll Revenue And Net Toll Revenue,” and (H) the information for the then immediately past fiscal year, as presented in the table “Projected Revenues, Expenditures and Debt Service Coverage Ratio.

(b) The Quarterly Report shall contain or include by reference the following:

(i) Unaudited Quarterly Financial Statements. In the case of the Quarterly Report, the Unaudited Quarterly Financial Statements of the South Bay Expressway for the prior Fiscal Quarter, prepared in a format similar to the financial statements contained in the Official Statement.

(ii) To the extent not contained in the unaudited quarterly financial statements, for the most recently ended fiscal quarter, the financial information, substantially in the form presented in the Official Statement in the table “Historical Traffic.”

Any or all of the items required to be included in the Annual Report on the Quarterly Report may be included by specific reference to other documents, including official statements of debt issues of SANDAG or related public entities, which have been submitted to the Repository or the SEC. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. SANDAG shall clearly identify each such other document so included by reference.

Section 5. Reporting of Listed Events.

(a) Pursuant to the provisions of this Section 5, SANDAG shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

(1) principal and interest payment delinquencies;
(2) defeasances;
(3) tender offers;
(4) rating changes;
(5) adverse tax opinions or the issuance by the Internal Revenue Service of a proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax- status of the Bonds or other material events affecting the tax status of the Bonds;
(6) unscheduled draws on the debt service reserves reflecting financial difficulties.
unscheduled draws on credit enhancements reflecting financial difficulties;
substitution of credit or liquidity providers or their failure to perform; or
bankruptcy, insolvency, receivership or similar proceedings.

For these purposes, any event described in the immediately preceding paragraph (9) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for SANDAG in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of SANDAG, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of SANDAG.

(b) Pursuant to the provisions of this Section 5, SANDAG shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

(1) consummation of a merger, consolidation or acquisition involving SANDAG or the sale of all or substantially all of the assets of the obligated persons, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(2) appointment of a successor or additional trustee or the change of the name of a trustee;

(3) non-payment related defaults;

(4) modifications to the rights of Owners;

(5) optional, unscheduled or contingent Bond calls; or

(6) release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever SANDAG obtains knowledge of the occurrence of a Listed Event, described in subsection (b) of this Section 5, SANDAG shall as soon as possible determine if such event would be material under applicable Federal securities law.

(d) If SANDAG determines that knowledge of the occurrence of a Listed Event described in subsection (b) of this Section 5 would be material under applicable federal securities law, SANDAG shall, in a timely manner not more than ten (10) Business Days after its occurrence, notify the Dissemination Agent in writing and instruct the Dissemination Agent to report the occurrence to the Repository in a timely manner not more than ten (10) Business Days after occurrence of the Listed Event.
(e) If the Dissemination Agent has been instructed by SANDAG to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB.

Section 6. **Filings with the MSRB.** All information, operating data, financial statements, notices and other documents provided to the MSRB in accordance with this Disclosure Agreement shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. **Termination of Reporting Obligation.** SANDAG’s obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, SANDAG shall give notice of such termination in the same manner as for a Listed Event under Section 5(e).

Section 8. **Dissemination Agent.** SANDAG may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days written notice to SANDAG.

Section 9. **Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, SANDAG may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that in the opinion of nationally recognized bond counsel, such amendment or waiver is permitted by the Rule.

Section 10. **Additional Information.** Nothing in this Disclosure Agreement shall be deemed to prevent SANDAG from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If SANDAG chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, SANDAG shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. **Default.** In the event of a failure of SANDAG to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause SANDAG to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of SANDAG or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 12. **Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and SANDAG agrees to indemnify and save the Dissemination Agent, its officers,
directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their respective powers and duties hereunder, including the costs and expenses (including attorneys’ fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent’s negligence or willful misconduct. The Dissemination Agent shall be paid compensation by SANDAG for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for SANDAG, the Trustee, the Holders, or any other party. The obligations of SANDAG under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 13. Notices. Any notices or communications herein required or permitted to be given shall be in writing and shall be delivered in such manner and to such addresses as are specified in the Indenture.

Section 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of SANDAG, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.
Date: [___], 2017

SAN DIEGO ASSOCIATION OF GOVERNMENTS

By:_______________________________________

DIGITAL ASSURANCE CERTIFICATION LLC, as Dissemination Agent

By:_______________________________________

By:_______________________________________
APPENDIX G

BOOK-ENTRY SYSTEM ONLY

The information in this Appendix G regarding DTC’s Book-Entry System has been provided by DTC for use in securities offering documents, and SANDAG takes no responsibility for the accuracy or completeness thereof. SANDAG cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the bonds (the “Bonds”). The 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 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any such maturity exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such maturity.

2. DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through
or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC’s records reflect only the identity of the Direct Participants to whose accounts such 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.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the 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.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to
SANDAG 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, principal and interest payments on the 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 SANDAG, on the 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 SANDAG, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of SANDAG, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to SANDAG. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

10. SANDAG may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that SANDAG believes to be reliable, but SANDAG takes no responsibility for the accuracy thereof.
MASTER INDENTURE

between

SAN DIEGO ASSOCIATION OF GOVERNMENTS

and

U.S. BANK NATIONAL ASSOCIATION

as Trustee

Dated as of [____ 1, 2017]

San Diego Association of Governments
South Bay Expressway Toll Revenue Bonds
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FORM OF FUNDS TRANSFER CERTIFICATE | A-1 |
This MASTER INDENTURE, dated as of [____ 1, 2017] (this “Master Indenture”), between the SAN DIEGO ASSOCIATION OF GOVERNMENTS, a public entity duly existing under the laws of the State of California (as further defined herein, “SANDAG”), and U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, as trustee (together with any successor thereto the “Trustee”);

W I T N E S S E T H:

WHEREAS, SANDAG is a consolidated regional transportation agency organized and existing pursuant to the San Diego Regional Transportation Act, being Chapter 3 of Division 12.7 of the Public Utilities Code of the State of California (Section 132350 et seq.), and as it may be amended from time to time hereafter, the “Act”);

WHEREAS, SANDAG is authorized pursuant to Section 143.1 of the Streets and Highways Code of the State of California (the “Toll Road Act”) to, among other things, collect tolls along the demonstration toll road project known as the South Bay Expressway, in the County of San Diego;

WHEREAS, SANDAG is authorized pursuant to the Act, including Section 132370 and following thereof, to issue bonds or other obligations (as further defined herein, the “Obligations”) pursuant to the terms and conditions of a resolution adopted by a majority vote of SANDAG, which Obligations may be payable from the revenues of such tolls (as further defined herein, the “Toll Revenues”) and any other revenue pledged hereunder;

WHEREAS, pursuant to a Development Franchise Agreement for a Privatized Transportation Project, dated January 6, 1991 (the “Original Franchise Agreement”), by and between the California Department of Transportation (“Caltrans”) and California Transportation Ventures, Inc., a California corporation (“CTV”), and Section 143 of the California Streets and Highways Code, as then in effect, CTV agreed to, among other things, develop, construct, maintain and operate the SR-125 Project for a period of 35 years, in consideration for the right to set and collect tolls on the SR-125;

WHEREAS, CTV assigned its interest in the Original Franchise Agreement to South Bay Expressway, LLC (“SBX”), as successor in interest to South Bay Expressway, L.P., formerly known as San Diego Expressway, L.P., pursuant to an assignment letter dated August 18, 1992 and acknowledged by Caltrans on September 9, 1992;

WHEREAS, the initial development and construction of the South Bay Expressway Project (the “SR-125 Project”), including the divided, limited access toll road in San Diego County, California, approximately 9.2 miles (15 kilometers) long, which extends from the interchange with Otay Mesa Road to San Miguel Ranch Road, and related tolling facilities, was substantially completed on November 16, 2007 at which time the SR-125 Project opened to traffic;

WHEREAS, pursuant to the Original Franchise Agreement, SBX transferred title in the SR-125 Project to Caltrans upon substantial completion thereof and leased the SR-125 Project back from Caltrans pursuant to a Lease Agreement, dated as of November 16, 2007 (the
“Original Lease Agreement”), by and between Caltrans, as lessor, and SBX, as lessee;

WHEREAS, pursuant to an Asset Purchase and Sale Agreement, dated as of December 21, 2011 (the “Acquisition Agreement”), SANDAG acquired from SBX, and SBX sold, conveyed, assigned, transferred and delivered to SANDAG, all of SBX’s right, title and interest in the SR-125 Project, including the Original Lease Agreement, the Original Franchise Agreement and certain other assets as set forth in the Acquisition Agreement;

WHEREAS, SANDAG and Caltrans entered into an Amended and Restated Development Franchise Agreement for a Privatized Transportation Project, dated as of [February 1, 2013], pursuant to which SANDAG operates, maintains and tolls the SR-125 Project[, and [AMENDED LEASE?]];

WHEREAS, in connection with SANDAG’s financing of its acquisition of the SR-125 Project, SANDAG entered into: (i) a TransNet Loan Agreement, dated December 21, 2011 (the “TransNet Loan Agreement”), by and between SANDAG and the San Diego County Regional Transportation Commission (the “Commission”), (ii) a Second Amended and Restated TIFIA Loan Agreement, dated December 21, 2011 (the “TIFIA Loan Agreement”), by and between SANDAG and the United States Department of Transportation, acting by and through the Federal Highway Administrator (“TIFIA”), (iii) the Series D Agreement, dated December 21, 2011 (the “Series D Agreement”), by and between SANDAG and TIFIA, and (iv) the Master Trust Agreement, dated as of December 21, 2011, by and between SANDAG and U.S. Bank National Association, as master trustee, as it has been supplemented by the First Supplemental Master Agreement, dated as of December 21, 2011, by and between SANDAG and U.S. Bank National Association, as master trustee, the Second Supplemental Master Agreement, dated as of December 21, 2011, by and between SANDAG and U.S. Bank National Association, as master trustee, and the Third Supplemental Master Agreement, dated as of December 21, 2011, by and between SANDAG and U.S. Bank National Association, as master trustee (collectively, and as so supplemented, the “Master Trust Agreement”);

WHEREAS, the Series 2011 Note 4 (TransNet) (First Subordinated Obligation) (the “TransNet Note”), payable pursuant to and secured by the Master Trust Agreement and the TransNet Loan Agreement, is currently outstanding in the aggregate principal amount of $58,686,491, with a deferred interest obligation due and owing in the aggregate amount of $[3,666,019];

WHEREAS, the Series 2011 Note 1-A, Series 2011 Note 1-A (TIFIA Tranche A-2 Loan) (Senior Obligation), the Series 2011 Note 1-B (TIFIA Tranche B-2 Loan) (Senior Obligation), and the Series 2011 Note 1-C, (TIFIA Tranche C-2 Loan) (Senior Obligation), payable pursuant to and secured by the Master Trust Agreement and the TIFIA Loan Agreement, are currently outstanding in the aggregate principal amount of $[112, 352,579], and the Series D Note, payable pursuant to and secured by the Master Trust Agreement and the TIFIA Loan Agreement, is currently outstanding with an accreted value due of $[_______] (collectively, the “TIFIA Notes”);

WHEREAS, SANDAG now desires to refund the TransNet Note and the TIFIA Notes and has determined to issue its First Senior Lien Bonds pursuant to the Act and in
accordance with Article 10 and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (Section 53570 et seq.) (the “Refunding Bond Law”) in order to: (i) pay, or reimburse SANDAG for the payment of, a portion of the Project Costs (as hereinafter defined), including by refunding the TransNet Note and the TIFIA Notes, (ii) fund a deposit to the 2017 Bonds Reserve Account established within the First Senior Lien Obligations Reserve Fund, and (iii) pay the Costs of Issuance (as hereinafter defined) of such Bonds;

WHEREAS, [SANDAG has obtained the consent of the Commission and TIFIA to] the refunding of the TransNet Note and the TIFIA Notes, and, upon the prepayment thereof, the Master Trust Agreement, the TransNet Loan Agreement, the TIFIA Loan Agreement and the Series D Agreement shall be satisfied and discharged and the estate and rights granted under the Master Trust Agreement shall cease, determine, and become void;

WHEREAS, SANDAG has determined to enter into this Master Indenture and one or more Supplemental Indentures (collectively, the “Indenture”) to provide for (i) the authentication and delivery of First Senior Lien Bonds, entitled “San Diego Association of Governments Toll Revenue First Senior Lien Bonds,” to establish and declare the terms and conditions upon which the First Senior Lien Bonds and other obligations secured by toll revenues and other sources of funds shall be issued and secured and to secure the payment of the principal, premium (if any), and interest on the First Senior Lien Bonds and other obligations secured by toll revenues on a parity with the First Senior Lien Bonds (as more fully defined in Section 1.01, the “Parity Obligations”); (ii) the authentication and delivery of Second Senior Lien Obligations, entitled “San Diego Association of Governments Toll Revenue Second Senior Lien Bonds,” to establish and declare the terms and conditions upon which the Second Senior Lien Obligations may be issued and secured and to secure the payment of the principal, premium (if any), and interest on the Second Senior Lien Obligations, and (iii) the authentication and delivery of Subordinate Obligations, entitled “San Diego Association of Governments Toll Revenue Subordinate Obligations,” to establish and declare the terms and conditions upon which the Subordinate Obligations may be issued and secured and to secure the payment of the principal, premium (if any), and interest on the Subordinate Obligations;

WHEREAS, the execution and delivery of this Master Indenture has in all respects been duly and validly authorized by resolution duly passed and approved by SANDAG; and

WHEREAS, SANDAG certifies that all acts that are necessary to make the Obligations, when executed by SANDAG and authenticated and delivered by the Trustee, duly issued and the valid, legal and binding obligations of SANDAG payable in accordance with their terms, and to constitute this Master Indenture a valid and binding agreement of the parties hereto, have been done and taken, and the execution and delivery of this Master Indenture have been duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

SANDAG, to secure the payment of the Obligations as the same become due and payable, whether at maturity or by prior redemption, and the performance and observance of all of the covenants and conditions herein contained, and in consideration of the premises and the
acceptance by the Trustee of the trusts hereby created and of the purchase and acceptance of the Obligations by the Holders thereof and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, SANDAG does hereby grant, mortgage, grant a security interest in, assign, transfer in trust, and pledge to the Trustee, and to its successors in trust hereunder, and to them and their assigns forever, all rights, title, interest and privileges of SANDAG in, to and under (i) the Toll Revenues, (ii) all interest or other income from investment of money in the Funds and Accounts established hereunder (excluding the Rebate Fund and the Distribution Fund, and any Fund or Account established to hold the proceeds of a drawing on any Credit Support Instrument), (iii) all Swap Revenues, and (iv) all amounts (including the proceeds of Obligations) held in each Fund and Account established under this Indenture (except for amounts on deposit in the Rebate Fund and the Distribution Fund, and amounts on deposit in any Fund or Account established to hold the proceeds of a drawing on any Credit Support Instrument);

TO HAVE AND TO HOLD all the same (herein called the “Trust Estate”) with all privileges and appurtenances hereby granted and assigned, or agreed or intended so to be, to the Trustee and its successors in trust and to them and their assigns forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth,

FIRST: for the equal and proportionate benefit and security of all First Senior Lien Obligations, all of which, regardless of the time or times of their delivery, maturity or other due date, shall be of equal rank without preference, priority or distinction as to lien or otherwise of any First Senior Lien Obligation over any other First Senior Lien Obligation, except as otherwise permitted by or provided for in this Indenture or in a Supplemental Indenture; provided, that any funds held by the Trustee for the payment of specific First Senior Lien Obligations which are deemed to have been paid pursuant to the provisions of Article X and any funds deposited with the Trustee hereunder specifically to be held in escrow or otherwise to provide additional security or an additional source of payment for specified First Senior Lien Obligations shall be held and used only to pay or provide security for the First Senior Lien Obligations for which such deposit was made and shall not be held as security on a parity for any other First Senior Lien Obligations; and provided further, that the Trustee shall apply the Trust Estate hereunder to the payment of the principal of, and interest on, or Maturity Value of, and other payments with respect to the First Senior Lien Obligations and for the purposes and uses and in the order of priority set forth herein prior to the payment of the principal of, and interest on, or Maturity Value of, and other payments with respect to Second Senior Lien Obligations, Subordinate Obligations or other Obligations; and

SECOND: subject to the security interest in the Trust Estate pledged for the security and payment of the First Senior Lien Obligations and the Second Senior Lien Obligations, for the equal and proportionate benefit and security of all Second Senior Lien Obligations, all of which, regardless of the time or times of their delivery, maturity or other due date, shall be of equal rank without preference, priority or distinction as to lien or otherwise of any Second Senior Lien Obligation over any other Second Senior Lien Obligation, except as otherwise permitted by or provided for in this Indenture or in a Supplemental Indenture; provided, that any funds held by the Trustee for the payment of specific Second Senior Lien Obligations that are deemed to have been paid pursuant hereto and any funds deposited with the
Trustee hereunder specifically to be held in escrow or otherwise to provide additional security or an additional source of payment for specified Second Senior Lien Obligations shall be held and used only to pay or provide security for the Second Senior Lien Obligations for which such deposit was made and shall not be held as security on a parity for any other Second Senior Lien Obligations; and provided further, that the Trustee shall apply the Trust Estate hereunder to the payment of the principal of, and interest on, or Maturity Value of, and other payments with respect to the Second Senior Lien Obligations and for the purposes and uses and in the order of priority set forth herein subordinate to the payment of the First Senior Lien Obligations and the Second Senior Lien Obligations but prior to the payment of the principal of, and interest on, or Maturity Value of, and other payments with respect to Subordinate Obligations and other Obligations; and

THIRD: subject to the security interest in the Trust Estate pledged for the security and payment of the First Senior Lien Obligations and the Second Senior Lien Obligations, for the equal and proportionate benefit and security of all Subordinate Obligations, all of which, regardless of the time or times of their delivery, maturity or other due date, shall be of equal rank without preference, priority or distinction as to lien or otherwise of any Subordinate Lien Obligation over any other Subordinate Lien Obligation, except as otherwise permitted by or provided for in this Indenture or in a Supplemental Indenture; provided, that any funds held by the Trustee for the payment of specific Subordinate Obligations which are deemed to have been paid pursuant to the provisions hereof and any funds deposited with the Trustee hereunder specifically to be held in escrow or otherwise to provide additional security or an additional source of payment for specified Subordinate Obligations shall be held and used only to pay or provide security for the Subordinate Obligations for which such deposit was made and shall not be held as security on a parity for any other Subordinate Obligations; and provided further, that the Trustee shall apply the Trust Estate hereunder to the payment of the principal of, and interest on, or Maturity Value of, and other payments with respect to the Subordinate Obligations and for the purposes and uses and in the order of priority set forth herein subordinate to the payment of the First Senior Lien Obligations and the Second Senior Lien Obligations but prior to the payment of the principal of and interest on, or Maturity Value of, and other payments with respect to other Obligations;

PROVIDED, HOWEVER, that if SANDAG, its successors or assigns, shall well and truly pay, or cause to be paid, or provide fully for payment as herein provided of the principal of the Obligations and the interest due or to become due thereon (together with premium, if any), at the time and in the manner set forth in the Obligations according to the true intent and meaning thereof, or shall provide, as permitted hereby, for the payment thereof by depositing with the Trustee sums sufficient for payment of the entire amount due or to become due thereon as herein provided, and shall well and truly keep, perform and observe all the covenants and conditions pursuant to the terms of this Indenture to be kept, performed and observed by it, and shall pay to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions hereof, then this Indenture and the rights hereby granted shall cease, terminate and be void except as otherwise provided herein.

THIS indentURE FURTHER WITNESSETH, and it is expressly declared, that all Obligations issued and secured hereunder are to be issued, authenticated and delivered and all payments, revenues, income and funds hereby pledged and assigned, and are subject to
the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes as hereinafter expressed, and SANDAG has agreed and covenanted, and does hereby covenant and agree with the Trustee, for the benefit of the owners from time to time of the Obligations issued hereunder and the Secured Creditors, as follows:

**ARTICLE I**

**DEFINITIONS**

**Section 1.01 Definitions.** In addition to terms elsewhere defined in this Indenture, the following terms shall have the following meanings unless the context or use clearly indicates another meaning. These definitions shall apply to the singular and plural forms of these defined terms.

“**Account**” means each account established in accordance with the terms of this Indenture.

“**Accreted Value**” means, with respect to any Capital Appreciation Obligations or Convertible Capital Appreciation Obligations, the principal amount thereof plus the interest accrued thereon at and prior to the maturity or earlier redemption thereof, in the case of a Capital Appreciation Obligation, or at and prior to the date of conversion of such Obligation to a Current Interest Obligation, in the case of a Convertible Capital Appreciation Obligation, compounded on the basis of a 360-day year of twelve 30-day months at the approximate interest rate thereon on each compounding date specified therein. The Accreted Value of an Obligation at any date of computation shall be an amount equal to the principal amount of such Obligation plus interest accrued thereon from the date of issuance, such interest to accrue at the rate per annum established as provided in a Supplemental Indenture and be compounded periodically, plus, if such date of computation shall not be a compounding date, the ratable portion of the difference between the Accreted Value computed as of the immediately preceding compounding date (or the date of issuance thereof if the date of computation is prior to the first compounding date succeeding the date of issuance) and the Accreted Value computed as of the immediately succeeding compounding date, calculated based on the assumption that the Accreted Value increases during any period in equal daily amounts (with straight-line interpolation between compounding dates).

“**Act**” means the San Diego Regional Transportation Act, being Chapter 3 of Division 12.7 of the Public Utilities Code of the State of California (Section 132350 et seq.), and as such may be amended from time to time hereafter.

“**Annual Debt Service**” means the amount of payments due on the applicable Outstanding Obligations for any Calculation Period, as calculated by SANDAG, utilizing the following assumptions about payments on such Obligations (and if more than one such assumption may apply, using the relevant assumptions selected by SANDAG):

(i) in determining the principal amount of an Obligation due in each year, payment shall be assumed to be made in accordance with the amortization schedule established for such principal, including any minimum sinking fund or account payments;
(ii) if 40 percent or more of the principal of a Series of Obligations is not due until the final stated maturity of that Series of Obligations, the principal of and interest on such Obligations may be treated as if such principal and interest were due based upon a level amortization of such principal and interest over the term of that Series of Obligations;

(iii) if the Obligation is supported by a line of credit or a letter of credit, principal may be treated as if it were due based upon the level amortization of such principal over the maximum term of repayment of borrowings under such line of credit or letter of credit;

(iv) if an Outstanding Obligation bears a variable interest rate, the interest rate shall be assumed to be the greater of (a) the daily average interest rate during the 12 months ending with the month preceding the date of calculation, or during such shorter period that the Obligation has been Outstanding, or (b) the rate of interest on that Obligation on the date of calculation;

(v) if Obligations proposed to be issued will be variable interest rate obligations, the interest on which is excluded from gross income for federal income tax purposes, then such obligations shall be assumed to bear interest at an interest rate equal to the average SIFMA Index during the three months preceding the month of calculation, or if SIFMA Index is no longer published, at an interest rate equal to 75% of the average One Month USD LIBOR Rate during that three month period, or if the One Month USD LIBOR Rate is not available for such period, another similar rate or index selected by SANDAG and the TIFIA Lender, if any;

(vi) if Obligations proposed to be issued will be variable interest rate obligations, the interest on which is included in gross income for federal income tax purposes, then such obligations shall be assumed to bear interest at an interest rate equal to the average One Month USD LIBOR Rate during the three months preceding the month of calculation, or if the One Month USD LIBOR Rate is not available for such period, another similar rate or index selected by SANDAG and the TIFIA Lender, if any;

(vii) if Obligations proposed to be issued are part of a Commercial Paper Program, the principal of such Obligations may be treated as if such principal were due based upon a 30-year level amortization of principal from the date of calculation and the interest on such Obligations shall be calculated as if such Obligations were variable interest rate Obligations;

(viii) if the variable interest on any Obligation plus the variable payments due to SANDAG and fixed payments due from SANDAG under a Qualified Swap Agreement or a Swap designated by SANDAG are treated by SANDAG as synthetic fixed rate debt, the variable interest rate Obligation may be treated as bearing such synthetic fixed rate for the duration of the synthetic fixed rate;

(ix) if the fixed interest on any Obligation plus the fixed payments due to SANDAG and variable payments due from SANDAG under a Qualified Swap Agreement or a Swap designated by SANDAG are treated by SANDAG as synthetic variable rate debt, the fixed interest rate Obligation may be treated as bearing such synthetic variable rate for the duration of
the synthetic variable rate and such synthetic variable rate shall be calculated using the principles of clauses (iv), (v) or (vi) hereof;

(x) if any of the Obligations are Short-Term Put Obligations, the principal of such obligations may be treated as if such principal were due based upon a 30-year level amortization of principal from the date of calculation and the interest on such obligations may be calculated as if such obligations were variable interest rate Obligations;

(xi) principal and interest payments on Obligations may be excluded to the extent such payments are to be paid from amounts then currently on deposit with the Trustee or another fiduciary in escrow specifically and irrevocably therefor and interest payments on any Obligations may be excluded to the extent that such interest payments are to be paid from capitalized interest held by the Trustee or another fiduciary specifically to pay such interest, including amounts held on deposit to pay capitalized interest on one or more Series of Obligations;

(xii) if any of the Obligations are, or upon issuance will be, obligations for which SANDAG is entitled to receive Subsidy Payments, as evidenced by an Opinion of Bond Counsel delivered with respect to such Obligations, the obligations may be treated as bearing an interest rate equal to the rate of interest borne or assumed to be borne, as applicable, by the obligations for the period of determination minus the Subsidy Payments to which SANDAG is entitled for such period;

(xiii) any payment obligation under an Obligation that was or is optional or contingent (such as the obligation to make a termination payment under a Qualified Swap Agreement or a Swap), whether or not the option is exercised or the contingency occurs, and any payments that are not scheduled payments, may be excluded; and

(xiv) if any of the Obligations are, or upon issuance will be, obligations payable in a currency other than lawful currency of the United States of America, then such obligations shall be assumed to be payable in lawful currency of the United States at the rate payable by SANDAG pursuant to SANDAG’s related currency swap or contract entered into in connection with such obligations or, in the absence of such swap or contract, at the rate determined by SANDAG using a currency market conversion factor selected by SANDAG.

“Annual Operating Budget” means the annual budget required by Section 6.04 hereof.

“Authorized Denominations” means, with respect to a Series of Obligations, the denomination or denominations designated as such in a Supplemental Indenture providing for the issuance of such Obligations.

“Authorized Representative” means the Executive Director of SANDAG, any Deputy Executive Director of SANDAG, the Director of Finance of SANDAG, the Director of Operations of SANDAG or any other employee of SANDAG at the time designated to act on behalf of SANDAG in a Certificate of SANDAG executed by any of the foregoing officers and filed with the Trustee, which Certificate shall contain such employee’s specimen signature.
“Average Annual Debt Service” means, at any time of determination, the average amount of Annual Debt Service paid or payable in each Calculation Period on the applicable Outstanding Obligations to the stated maturity thereof.

“Bankruptcy Related Event” means (a) SANDAG shall (i) apply for or consent to the appointment of a receiver, trustee, liquidator, custodian, sequestrator, conservator or similar official for SANDAG or for a substantial part of the assets of SANDAG, or (ii) generally not be paying its debts as they become due unless such debts are the subject of a bona fide dispute, or become unable to pay its debts generally as they become due, or (iii) make a general assignment for the benefit of creditors, or (iv) commence a voluntary proceeding under any Insolvency Law, or file a voluntary petition seeking liquidation, reorganization, an arrangement with creditors or an order for relief under any Insolvency Law, or (v) take any action for the purpose of effecting any of the foregoing; or (b) (i) all or a substantial part of the Trust Estate shall be sold or otherwise disposed of in a public or private sale or disposition pursuant to a foreclosure of the lien thereon securing any Obligations, or (ii) all or a substantial part of the Trust Estate shall be transferred pursuant to a sale or disposition of such Trust Estate in lieu of foreclosure.

“Beneficial Owner” means, with respect to any Book-Entry Obligation, the beneficial owner of such Book-Entry Obligation as determined in accordance with the applicable rules of the Securities Depository for such Book-Entry Obligations.

“Board” means the Board of Directors of SANDAG.

“Bond Counsel” means a firm of nationally-recognized attorneys-at-law experienced in legal work relating to the issuance of municipal bonds selected by SANDAG.

“Bond Obligation” means, as of any given date of calculation, (a) with respect to any Outstanding Current Interest Obligation, the principal amount of such Obligation, and (b) with respect to any Outstanding Capital Appreciation Obligation or Convertible Capital Appreciation Obligation, the Accreted Value thereof.

“Bond Register” means the registration books for the ownership of Obligations maintained by the Trustee pursuant to Section 2.08.

“Bondholder” or “Holder” or “Owner” means the record owner of any Obligation shown on the books of registration kept by the Trustee, which, during any period when such Obligation is a Book-Entry Obligation, shall be the Securities Depository or its Nominee.

“Book-Entry Obligations” means Obligations issued under a book-entry only depository system as provided in Section 2.13.

“Business Day” means any day, other than a Saturday, Sunday or other day on which the Government or banks are authorized or obligated by law or executive order to be closed in the State of California or the State of New York or in any city in which the Principal Office of the Trustee or, with respect to any Obligations secured by a Credit Support Instrument, the office where draws are to be made on a Credit Provider is located.
“Calculation Date” means each [June 30] and [December 31], or, if such day is not a Business Day, the next succeeding Business Day.

“Calculation Period” means a period of consecutive twelve (12) months.

“Caltrans” means the California Department of Transportation.

“Capital Appreciation Obligations” means the Obligations designated as Capital Appreciation Obligations in the Supplemental Indenture providing for the issuance of such Obligations and on which interest is compounded and paid at maturity or on prior redemption.

“Capital Expenditures Fund” means the Fund by that name created pursuant to Section 5.02.

“Capital Expenditures Fund Retained Balance Requirement” means an amount calculated by the Trustee that is equal to (i) twice the total Operation and Maintenance Expenses required to be deposited into the Operation and Maintenance Fund in the prior Fiscal Year pursuant to clause First of Section 5.03(b) of this Master Indenture, less (ii) amounts on deposit, if any, in the Operation and Maintenance Reserve Fund as of the applicable Calculation Date.

“Certificate of SANDAG” means an instrument in writing signed by an Authorized Representative of SANDAG.

“Code” means the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

“Commercial Paper Program” means a program of short-term Obligations (secured, at the option of SANDAG, on a parity with First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations) having the characteristics of commercial paper in that (i) such Obligations have a stated maturity not later than 270 days from their date of issue and (ii) maturing Obligations of such program may be paid with the proceeds of renewal Obligations.

“Continuing Disclosure Agreement” means, with respect to each Series of Obligations requiring an undertaking regarding disclosure under Rule 15c2-12, the continuing disclosure undertaking entered into by SANDAG and, if applicable, the Trustee or a Dissemination Agent or both, as the same may be supplemented, modified or amended in accordance with its terms.

“Convertible Capital Appreciation Obligations” means Obligations that initially are issued as Capital Appreciation Obligations, but later convert to Obligations on which interest is paid periodically. Convertible Capital Appreciation Obligations shall be Capital Appreciation Obligations until the conversion date and from and after such conversion date shall no longer be Capital Appreciation Obligations, but shall be treated as Current Interest Obligations having a principal amount equal to their Accreted Value on the conversion date.
“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to SANDAG and related to the authorization, execution, sale and delivery of Obligations, including, but not limited to, advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, underwriting fees and discounts, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of such Obligations, surety, insurance, liquidity and credit enhancements costs, and any other cost, charge or fee incurred in connection with the issuance of Obligations.

“Coverage Calculation Date” has the meaning assigned in Section 6.03(b).

“Coverage Ratio” has the meaning assigned in Section 6.03(b).

“Credit Provider” means any municipal bond insurance company, bank or other financial institution or organization or group of financial institutions or organizations providing a Credit Support Instrument for a Series of Obligations.

“Credit Support Instrument” means a policy of insurance, letter of credit, line of credit, standby purchase agreement, revolving credit agreement or other credit arrangement pursuant to which a Credit Provider provides credit or liquidity support with respect to, or available for, the payment of interest, principal or Purchase Price of any Series of Obligations, as the same may be amended from time to time pursuant to its terms, and any replacement therefor.

“CTC” means the California Transportation Commission.

“Current Interest Obligations” means Obligations designated as Current Interest Obligations in the Supplemental Indenture providing for the issuance of such Obligations and that pay interest to the Holders thereof on a periodic basis prior to maturity. Current Interest Obligations also include Convertible Capital Appreciation Obligations after their conversion date.

“Defeasance Securities” means noncallable: (i) U.S. Treasury certificates, notes, bills and bonds, including State and Local Government Series securities; (ii) direct obligations of the U.S. Treasury; (iii) Resolution Funding Corp. securities (“REFCORP”); (iv) pre-refunded municipal bonds rated the same level as U.S. Treasury Notes and Bonds by Moody’s and by S&P, provided, however, that if such municipal bonds are rated only by S&P, then such pre-refunded municipal bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations; (v) obligations issued by the following agencies, which are backed by the full faith and credit of the United States: (a) Farmers Home Administration (FmHA) - certificates of beneficial ownership; (b) General Services Administration - participation certificates; (c) U.S. Maritime Administration - Guaranteed Title XI financing; (d) Small Business Administration guaranteed participation certificates and guaranteed pool certificates; (e) GNMA guaranteed MSB and participation certificates; and (f) U.S. Department of Housing and Urban Development (HUD) Local Authority Bonds, or (vi) certain obligations of government-sponsored agencies that are not backed by the full faith and credit of the United States limited to: (a) Federal Home Loan Mortgage Corp. (FHLMC) debt obligations; (b) Farm
Credit System (formerly Federal Land Banks, Federal Intermediate Credit Banks, and Banks for Cooperatives) consolidated system-wide bonds and notes; (c) Federal Home Loan Banks (FHL Banks) consolidated debt obligations; (d) Federal National Mortgage Association (FNMA) debt obligations; (e) Student Loan Marketing Association (SLMA) debt obligations; and (f) Financing Corp. (FICO) debt obligations; and (g) other obligations approved by the Rating Agencies for defeasance escrows rated in the highest Rating Category.

“Dissemination Agent” means, with respect to each Series of Obligations requiring an undertaking regarding disclosure under Rule 15c2-12, the party (which may be SANDAG) acting as dissemination agent under the applicable Continuing Disclosure Agreement, or any successor dissemination agent designated in writing by SANDAG and which has filed a written acceptance with SANDAG and the Trustee.

“Distribution Fund” means the Fund by that name created pursuant to Section 5.02.

“DTC” means The Depository Trust Company, New York, New York or any successor thereto.

“Electronic” means, with respect to notice, notice through the internet or through a time-sharing terminal.

“Event of Default” means any of the events specified in Section 7.01.

“Financing Documents” means this Indenture, any Swaps or Qualified Swap Agreements, and any documents and/or instruments evidencing, documenting, securing or otherwise relating to any or all of the Obligations (including each TIFIA Loan Agreement, if any), all as the same may from time to time be amended, modified, extended, renewed and/or restated, and each other document or instrument required to be executed and delivered by the aforementioned agreements.

“First Senior Lien Bonds” means the bonds or commercial paper identified as the San Diego Association of Governments Toll Revenue First Senior Lien Bonds authorized by, issued in accordance with, and at any time Outstanding pursuant to, this Indenture.

“First Senior Lien Obligations” means collectively, First Senior Lien Bonds and Parity Obligations issued or incurred hereunder.

“First Senior Lien Obligations Account” means the Account by that name created within the Project Fund pursuant to Section 5.02.

“First Senior Lien Obligations Fund” means the Fund by that name created pursuant to Section 5.02.

“First Senior Lien Obligations Interest Account” means the Account by that name created within the First Senior Lien Obligations Fund pursuant to Section 5.02.
“First Senior Lien Obligations Principal Account” means the Account by that name created within the First Senior Lien Obligations Fund pursuant to Section 5.02.

“First Senior Lien Obligations Reserve Fund” means the Fund by that name created pursuant to Section 5.02.

“First Senior Lien Obligations Reserve Requirement” for any First Senior Lien Obligations means the amount specified by a Supplemental Indenture as the amount required to be held in the First Senior Lien Obligations Reserve Fund, or an Account thereof, for the payment of principal of and interest on the Outstanding First Senior Lien Obligations secured by such Fund or Account.

“Fiscal Year” means the period of twelve months terminating on June 30 of each year, or any other annual period hereafter selected and designated by SANDAG as its Fiscal Year in accordance with applicable law and, if applicable, the applicable TIFIA Loan Agreement.

“Fitch” means Fitch Ratings, Inc., and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by SANDAG.

“Franchise Agreement” means the Amended and Restated Development Franchise Agreement for a Privatized Transportation Project, dated as of [February 1, 2013], by and between SANDAG and Caltrans, as amended, modified, or supplemented in accordance with its terms and the terms of this Master Indenture.

“Fund” means each fund established in accordance with the terms of this Indenture.

“Funds Transfer Certificate” means a certificate prepared by SANDAG in accordance with the terms of this Indenture substantially in the form of Exhibit A attached hereto containing the certifications by SANDAG required by this Indenture with respect to a requested transfer of funds from a Fund or Account.

“Government” means the United States of America and its departments and agencies.

“Hedging Obligations” means, collectively, the payment of (a) all scheduled amounts payable to the Swap Parties by SANDAG under the Swaps or Qualified Swap Agreements, as applicable (including interest accruing after the date of any filing by SANDAG of any bankruptcy, insolvency or similar proceeding with respect to SANDAG), net of all scheduled amounts payable to SANDAG by such Swap Parties, and (b) all other indebtedness, fees, indemnities and other amounts payable by SANDAG to the Swap Parties under such Swaps or Qualified Swap Agreements, net of all other indebtedness, fees, indemnities and other amounts payable by the Swap Parties to SANDAG under such Swaps or Qualified Swap Agreements; provided, that Hedging Obligations shall not include Hedging Termination Obligations. For the avoidance of doubt, all calculations of such amounts payable under the
Swaps or Qualified Swap Agreements shall be made in accordance with the terms of the applicable Swaps or Qualified Swap Agreements.

“Hedging Termination Obligations” means the aggregate amount payable to the Swap Parties by SANDAG upon the early unwind of all or a portion of the Swaps or Qualified Swap Agreements, as applicable, net of all amounts payable to SANDAG by such Swap Parties upon the early unwind of all or a portion of such Swaps or Qualified Swap Agreements. For the avoidance of doubt, all calculations of such amounts payable under the Swaps or Qualified Swap Agreements shall be made in accordance with the terms of the applicable Swaps or Qualified Swap Agreements.

“Highest Priority Obligations” means, as of any date, First Senior Lien Obligations, unless and until there are no First Senior Lien Obligations Outstanding hereunder, in which case it means Second Senior Lien Obligations, unless and until there are no Second Senior Lien Obligations Outstanding hereunder, in which case it means Subordinate Obligations.

“Indenture” means this Master Indenture as the same may be amended or supplemented from time to time as permitted hereby.

“Independent Certified Public Accountant” means any certified public accountant or firm of such accountants appointed by SANDAG, and who, or each of whom, is independent with respect to SANDAG, pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

“Insolvency Law” means the United States Bankruptcy Code, including 11 U.S.C. §101 et seq., as from time-to-time amended and in effect, and any state bankruptcy, insolvency, receivership or similar law now or hereafter in effect.

“Insurance and Condemnation Proceeds Account” means the Account by that name created within the Project Fund pursuant to Section 5.02.

“Interest Payment Date” means, with respect to a Series of Obligations, the date or dates for the payment of interest on such Obligations set forth in a Supplemental Indenture providing for the issuance of such Obligations.

[“Lease Agreement” means [Amended Lease].]

“Master Indenture” has the meaning assigned in the first paragraph hereof.

“Maturity Value,” with respect to any Capital Appreciation Obligation, shall mean the Accreted Value of such Obligation at the maturity thereof and, with respect to a Convertible Capital Appreciation Obligation, shall mean the Accreted Value of such Obligation on the conversion date.

“Maximum Annual Debt Service” means the highest amount of Annual Debt Service due on the applicable Obligations of SANDAG for any Calculation Period during the period from the date of such determination through the final maturity date of the applicable Obligations then Outstanding and proposed to be issued.
“Monthly Funding Date” means the last day of each calendar month or, if such day is not a Business Day, the next preceding Business Day.

“Moody’s” means Moody’s Investors Service, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, the term “Moody’s” shall be deemed to refer to any other nationally recognized statistical rating organization selected by SANDAG.

“MSRB” means the Municipal Securities Rulemaking Board, and its successors and assigns. Until otherwise designated by the MSRB, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB located at http://emma.msrb.org.

“Net Revenue” means, for any Fiscal Year, Revenue less Operation and Maintenance Expenses for that Fiscal Year (excluding, in such calculations, (i) any extraordinary or one-time revenues from Revenue for such Fiscal Year, and (ii) any extraordinary or one-time expenses from Operation and Maintenance Expenses for such Fiscal Year, but only if and to the extent such extraordinary or one-time expenses are paid or payable from extraordinary or one-time revenues being excluded from Revenue for such Fiscal Year), as set forth in (a) [the audited financial statement of SANDAG or] SANDAG’s South Bay Expressway Basic Financial Statements for Fiscal Years for which audited financial statements are available, (b) to the extent that audited financial statements are not available, [the unaudited financial statements of SANDAG or] SANDAG’s South Bay Expressway Basic Financial Statements for Fiscal Years for which unaudited financial statements are available or (c) to the extent that neither audited financial statements nor unaudited financial statements are available, projections of SANDAG. Net Revenue shall not include any amount on deposit in the First Senior Lien Obligations Reserve Fund, the Second Senior Lien Obligations Reserve Fund or the Subordinate Obligations Reserve Fund. Additionally, when calculating Net Revenue for purposes of Sections 3.01(b) and (c), Sections 3.02 (b) and (c), Sections 3.03 (b) and (c) and Section 6.03, Net Revenue shall only include the amounts received under clauses (b), (c) and (d) of the definition of Toll Revenues to the extent that any such amounts are applied to, or reserved for, the payment of principal of or interest on Obligations.

“Nominee” means the nominee of the Securities Depository for the Book-Entry Obligations, in whose name such Book-Entry Obligations are to be registered. The initial Nominee shall be Cede & Co., the partnership nominee of DTC.

“Obligations” means all indebtedness incurred or assumed by SANDAG for borrowed money that is payable from Revenue (including indebtedness arising under Credit Support Instruments) and all other financing obligations of SANDAG relating to the Toll Road that, in accordance with generally accepted accounting principles, are included as a liability on a balance sheet for the Toll Road books and records, including any bonds, notes, certificates or other obligations, as the case may be, authenticated and delivered under and pursuant to this Indenture as First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations. For the purpose of determining the “Obligations” payable from Revenue, Obligations that are no longer Outstanding shall be excluded.
“One Month USD LIBOR Rate” means the ICE Benchmark Administration (or any successor administrator of LIBOR rates) average of interbank offered rates in the London market for Dollar deposits for a one month period as reported in the Wall Street Journal or, if not reported in such newspaper, as reported in such other source as may be selected by SANDAG.

“Operating Agreement” means the Franchise Agreement or any other Toll Road operating agreement entered into by SANDAG and one or more entities in accordance with the terms hereof.

“Operation and Maintenance Expenses” means all reasonable current expenses incurred and paid or payable by SANDAG for the operation and maintenance of the Toll Road payable from Revenue, determined in accordance with generally accepted accounting principles, including, without limitation, payments with respect to financing leases and installment purchase agreements, all amounts paid or payable under the Operating Agreement, the Traffic/Law Enforcement Letter of Agreement and similar agreements, costs for operation, maintenance, repair, restoration and rehabilitation, consumables, payments under any lease or rental payments properly considered to be operating expenses, payments pursuant to agreements for the management of the Toll Road, taxes, premiums paid or payable on any insurance and any insurance claims settlement expenses, payments for oversight services, all administrative, engineering and policing costs, costs for any security, toll collection and enforcement expenses, fees and expenses of the Traffic Consultant, the Trustee, each trustee for or holder of Second Senior Lien Obligations or Subordinate Obligations, any rating agency, credit, liquidity or remarketing fees relating to Obligations, and any other Secured Creditor (for the avoidance of doubt, such fees, administrative costs and expenses do not include any commitment fees, termination fees, fines or other penalties or any payments to be made to Swap Parties including Hedging Obligations and Hedging Termination Obligations), any insurance consultant, legal and accounting expenses, and any other reasonable and necessary expense paid or payable for the operation, maintenance or repair of the Toll Road, but excluding expenses paid or scheduled to be paid from proceeds of Obligations, capital expenditures or other expenditures for operational improvement projects or expansion of the Toll Road, depreciation or obsolescence charges or reserves therefore, debt service for Obligations, and any non-cash charges, such as depreciation, amortization of intangibles and other bookkeeping entries of a similar nature.

“Operation and Maintenance Fund” means the Fund by that name created pursuant to Section 5.05.

“Operation and Maintenance Reserve Fund” means the Fund by that name created pursuant to Section 5.02.

“Operation and Maintenance Reserve Fund Policy Limit” means an amount to be determined from time to time by the governing board of SANDAG and designated in a Written Request of SANDAG to the Trustee, which Written Request may specify a specific amount or a formula to be used to calculate such amount. Initially, the Operation and Maintenance Reserve Fund Policy Limit shall be an amount equal to the projected Operation and Maintenance Expenses for the next two succeeding Fiscal Years as determined from time to time by SANDAG and evidenced to the Trustee in such Written Request of SANDAG.
“Opinion of Bond Counsel” means a written opinion of Bond Counsel.

“Outstanding,” when used with reference to Obligations hereunder means all Obligations that have been issued by SANDAG hereunder or pursuant hereto, except such Obligations: (i) canceled or delivered for cancellation; (ii) deemed to be paid in accordance with Section 10.02 or any similar provisions in the constituent instruments defining the rights of the holders of such Obligations; (iii) in lieu of which other Obligations have been authenticated under Sections 2.07 or 2.08 or any similar provisions in the constituent instruments defining the rights of the holders of such Obligations; and (iv) to the extent described in Section 9.05, Obligations held by or for the account of SANDAG.

“Parity Obligations” means obligations of SANDAG that are secured by the Trust Estate on a parity with the First Senior Lien Bonds, including payments to the holders of obligations of SANDAG entered into pursuant to California Government Code section 5922 (or any similar statute) and, [upon the occurrence of a Bankruptcy Related Event, as provided in Section 3.05 of this Master Indenture, Second Senior Lien Obligations or Subordinate Obligations (i) in the form of or securing payment of a TIFIA Loan, but solely to the extent specified in the applicable TIFIA Loan Agreement or (ii) in other forms if, and solely to the extent provided by, law], in each case to the extent SANDAG has contracted to make those payments as Parity Obligations.

“Participating Underwriter” means any of the original underwriters of any Series of Obligations required to comply with Rule 15c2-12.

“Permitted Investments” means the following [TO BE UPDATED/CONFIRMED, INCLUDING SANDAG CONFIRMATION THAT THE FOLLOWING DEFINITION COMPLIES WITH APPLICABLE INVESTMENT POLICIES]:

(i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America;

(ii) federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises or corporations;

(iii) United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, and eligible for purchase and sale within the United States, rated in a long-term Rating Category of “AA” or its equivalent or better by a nationally recognized statistical rating organization (referred to in this definition of Permitted Investments as an “NRSRO”);

(iv) corporate and depository institution debt securities with a maximum remaining maturity of five (5) years or less, issued by corporations, financial institutions, non-profits, or other entities organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States (not
to include other Investment Securities), which are rated in a long-term Rating Category of “A” or its equivalent or better by an NRSRO;

(v) obligations issued or guaranteed by any state, territory or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality or other unit of local government of any U.S. state and rated in a long-term Rating Category of “A” or its equivalent or better by an NRSRO;

(vi) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally-licensed or state-licensed branch of a foreign bank and rated in a long-term Rating Category of “A” or a short-term Rating Category of “A-1” or their respective equivalents or better by an NRSRO;

(vii) bank deposits with a state or national bank, savings association or federal association, a state or federal credit union, or a federally insured industrial loan company, in California provided such deposits shall be either (a) continuously and fully insured by the Federal Deposit Insurance Corporation, or (b) continuously and fully secured by such securities and obligations as are described in Sections 53630 through 53686 of the California Government Code;

(viii) commercial paper rated in a short-term Rating Category of “A-1” or better by an NRSRO, which purchases may not exceed two hundred seventy (270) days maturity;

(ix) bankers’ acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term obligations of which are rated in a short-term Rating Category of “A-1” or better by two NRSROs, which purchases may not exceed one hundred eighty (180) days maturity;

(x) Government money market funds as defined by Securities and Exchange Commission Rule 2a-7(a)(16).

(xi) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 of the California Government Code. Investments shall be restricted to those pooled programs that seek to maintain a stable net asset value.

(xii) Local Agency Investment Fund, the State of California managed investment pool.

(xiii) 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 Treasurer/Tax Collector.

(xiv) Repurchase agreements that meet the following criteria:

(1) Acceptable providers shall consist of (a) registered broker/dealers subject to Securities Investors’ Protection Corporation (referred to in this definition of Permitted Investments as “SIPC”) jurisdiction or commercial banks insured by the Federal Deposit
Insurance Corporation (referred to in this definition of Permitted Investments as “FDIC”), if such broker/dealer or bank has an uninsured, unsecured and unguaranteed rating of A3/P-1 or better by Moody’s and A-/A-1 or better by S&P, or (b) domestic structured investment companies rated Aaa by Moody’s and AAA by S&P.

(2) The repurchase agreement shall limit acceptable securities specified in subsections (i) and (ii) above. The fair market value of the securities in relation to the amount of the repurchase obligation, including principal and accrued interest, is equal to a collateral level of at least 104% for investments specified in subsection (i) above and 105% for investments specified in subsection (ii) above. The repurchase agreement shall require:

(a) the Trustee or an independent third party acting solely as agent (referred to in this definition of Permitted Investments as the “Agent”) for the Trustee to value the collateral securities no less frequently than weekly,

(b) the delivery of additional securities if the fair market value of the securities is below the required level on any valuation date, and

(c) liquidation of the repurchase securities if any deficiency in the required percentage is not restored within two (2) business days of such valuation.

(3) The repurchase securities shall be delivered free and clear of any lien to the bond trustee (herein, the “Trustee”) or to the Agent, and the Trustee shall have received written confirmation from such third party that such third party holds such securities, free and clear of any lien, as agent for the Trustee.

(4) A perfected first security interest in the repurchase securities shall be created for the benefit of the Trustee, and the issuer and the Trustee shall receive an opinion of counsel as to the perfection of the security interest in such repurchase securities and any proceeds thereof.

(xv) Investment agreements (also referred to as guaranteed investment contracts) that meet the following criteria:

(1) Acceptable providers of uncollateralized investment agreements shall consist of (a) domestic insurance companies, (b) domestic FDIC-insured commercial banks, or (c) U.S. branches of foreign banks, rated at least Aa3 by Moody’s and AA- by S&P.

(2) Acceptable providers of collateralized investment agreements shall consist of domestic insurance companies, domestic commercial banks, U.S. branches of foreign banks, or broker/dealers rated at least A3 or better by Moody’s and A- or better by S&P. Required collateral levels shall be as set forth in (xv)(5) below.

(3) The investment agreement shall provide that if the provider’s ratings fall below Aa3 by Moody’s or AA- by S&P, the provider shall within ten (10) days either (a) repay the principal amount plus any accrued and interest on the investment; or (b) deliver collateral described in (xv)(5)(a) or (xv)(5)(b) below (referred to in this definition of “Permitted Collateral”).

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(4) The investment agreement must provide for termination thereof if
the provider’s ratings are suspended, withdrawn or fall below A3 from Moody’s or A- from
S&P. Within ten (10) days, the provider shall repay the principal amount plus any accrued
interest on the agreement, without penalty to the Issuer.

(5) The investment agreement shall provide for the delivery of
Permitted Collateral which shall be maintained at the following collateralization levels at each
valuation date:

(a) investments specified in subsection (i) above at 104% of
principal plus accrued interest; or

(b) investments specified in subsection (ii) above at 105% of
principal and accrued interest.

(6) The investment agreement shall require the Trustee or Agent to
determine the market value of the Permitted Collateral not less than weekly and notify the
investment agreement provider on the valuation day of any deficiency. Permitted Collateral may
be released by the Trustee to the provider only to the extent that there are excess amounts over
the required levels.

(7) Securities held as Permitted Collateral shall be free and clear of all
liens and claims of third parties, held in a separate custodial account and registered in the name
of the Trustee or the Agent.

(8) The provider shall grant the Trustee or the Agent a perfected first
security interest in any collateral delivered under an investment agreement. For investment
greements collateralized initially and in connection with the delivery of Permitted Collateral
under (xv)(5) above, the Trustee and Insurer shall receive an opinion of counsel as to the
perfection of the security interest in the collateral.

(xvi) Forward delivery agreements in which the securities delivered mature on
or before each cash flow date that meet the following criteria:

(1) Acceptable providers shall be limited to domestic insurance
companies, domestic commercial banks, U.S. branches of foreign banks, rated Baa3- or better by
Moody’s or BBB- or better by S&P.

(2) The forward delivery agreement shall provide for termination or
assignment (to a qualified provider hereunder) of the agreement if the provider’s ratings are
suspended, withdrawn or fall below Baa3 from Moody’s or BBB- from S&P. Within ten (10)
days, the provider shall fulfill any obligations it may have with respect to shortfalls in market
value.

(3) Permitted securities shall include the investments listed
subsections in (i) and (ii) above.
(xvii) Any other forms of investments, which at the time of investment are legal investments, under the California Government Code, for SANDAG’s surplus funds.

(xviii) Maturity of investments shall be governed by the following:

1. Investments of monies (other than reserve funds) shall be in securities and obligations maturing not later than the dates on which such monies will be needed to make payments.

2. Investments shall be considered as maturing on the first date on which they are redeemable without penalty at the option of the holder or the date on which the Trustee may require their repurchase pursuant to repurchase agreements.

3. Investments of monies in reserve funds not payable upon demand shall be restricted to maturities of five (5) years or less.

“Person” means any natural person, firm, partnership, association, corporation, or public body.

“Principal Office” means, with respect to the Trustee, [___________], such other or additional offices as may be designated by the Trustee from time to time.

“Project” means additional capital projects extending, improving or otherwise related to the Toll Road that SANDAG determines to finance hereunder.

“Project Costs” means all or any part of the following with respect to the Project:

(a) the cost of study, design, acquisition, construction, expansion, enlargement, extension, reconstruction, restoration, repair and rehabilitation of the Project or portion thereof (including, but not limited to, indemnity and surety bonds, permits, taxes, licenses, insurance premiums, or other municipal or governmental charges lawfully levied or assessed during construction);

(b) the cost of acquisition of all real or personal property, rights, rights-of-way, franchises, easements and interests acquired or used for the Project or portion thereof;

(c) the cost of site preparation, including demolishing or removing any structures on land so acquired and the cost of acquiring any land to which the structures may be removed;

(d) any cost of borings and other preliminary investigations necessary or incident to determining the feasibility or practicability of constructing the Project or portion thereof and any cost necessary or desirable to satisfy conditions associated with the issuance of any permit for the construction thereof (including the costs of environmental related mitigation required in connection therewith);

(e) the cost of all machinery and equipment, vehicles, materials and rolling stock;
(f) Costs of Issuance;

(g) interest on Obligations for the period prior to and during acquisition or completion of construction (or such longer period as may be allowed by applicable law), as determined by SANDAG;

(h) the cost of architectural, engineering, environmental feasibility, traffic and revenue, economic and demographic, appraisal, financial, and legal services;

(i) planning, investigations, studies, evaluations, plans, specifications, estimates, and administrative and other expenses that are necessary or incidental to the determination of the feasibility of constructing the Project or portion thereof or incidental to the obtaining of construction contracts or to the construction (including construction administration and inspection), acquisition or financing thereof and that constitute capital costs;

(j) Operation and Maintenance Expenses occurring during and for a period of up to one year after acquisition or completion of construction, as determined by SANDAG, provided that, if applicable, the Trustee has received an Opinion of Bond Counsel (which opinion may address either specific Operation and Maintenance Expenses or categories of Operation and Maintenance Expenses) to the effect that the treatment of such Operation and Maintenance Expenses as a Project Cost will not adversely affect the exclusion of interest on any Outstanding Obligations from gross income for federal income tax purposes;

(k) the repayment or reimbursement of any Obligation, loan or advance for any of the foregoing; and

(l) such other costs and expenses as are permitted by the Act or other applicable law at the time such Obligations are issued.

“Project Fund” means the Fund by that name established pursuant to Section 5.02.

“Purchase Price” means, with respect to Obligations, the amount set forth in this Indenture as the amount to be paid when such Obligations are tendered for purchase or deemed tendered for purchase in accordance with the provisions of this Indenture.

“Qualified Swap Agreement” means a contract or agreement, intended to place First Senior Lien Bonds or such investments as SANDAG shall specify on the interest rate, currency, cash flow or other basis desired by SANDAG, payments (other than payments of fees and expenses and termination payments) with respect to which SANDAG has specified shall be payable from Revenue on a parity with the payment of First Senior Lien Bonds, including, without limitation, any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure, between SANDAG and a Swap Party.
“Rating Agency” means, as and to the extent applicable to a Series of Obligations, each of Fitch, Moody’s and S&P then maintaining a rating on such Series of Obligations at the request of SANDAG.

“Rating Category” means: (i) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier; and (ii) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

“Rating Confirmation” means written evidence from each Rating Agency then rating any Series of Obligations at the request of SANDAG to the effect that, following the event that requires the Rating Confirmation, the then current rating for such Series of Obligations will not be lowered to a lower Rating Category or suspended or withdrawn solely as a result of the occurrence of such event.

“Rebate Fund” means the Fund by that name created pursuant to Section 5.02.

“Redemption Fund” means the Fund by that name created pursuant to Section 5.16.

“Representation Letter” means the letter or letters of representation from SANDAG to, or other instrument or agreement with, a Securities Depository for Book-Entry Obligations, in which SANDAG, among other things, makes certain representations to the Securities Depository with respect to the Book-Entry Obligations, the payment thereof and delivery of notices with respect thereto.

“Reserve Facility” means a letter of credit, surety bond or insurance policy issued to the Trustee by a bank or company licensed to issue a surety bond or insurance policy guaranteeing the timely payment of the principal of and interest on the Obligations supported by the Reserve Facility.

“Reserve Facility Costs” means amounts owed with respect to repayment of draws on a Reserve Facility, including interest thereon at the rate specified in the agreement pertaining to such Reserve Facility and expenses owed to the Reserve Facility Provider in connection with such Reserve Facility.

“Reserve Facility Provider” means any provider of a Reserve Facility, any successor thereto or any replacement therefor.

“Revenue” means: (i) Toll Revenues; (ii) all interest or other income from investment of money in the Funds and Accounts established hereunder (excluding the Rebate Fund, the Distribution Fund and the Operation and Maintenance Fund, and any Fund or Account established to hold the proceeds of a drawing on any Credit Support Instrument); and (iii) all Swap Revenues; provided that in no event shall “Revenue” include Subsidy Payments.
“Rule 15c2-12” means Securities and Exchange Commission Rule 15c2-12, adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“SANDAG” means the San Diego Association of Governments, a consolidated regional transportation agency organized and existing pursuant to the Act, and any successor thereto.

“S&P” means Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, the term “S&P” shall be deemed to refer to any other nationally recognized statistical rating organization selected by SANDAG.

“Second Senior Lien Obligations” means (i) any Obligations issued or incurred hereunder that are subordinated in right of payment and lien priority to the First Senior Lien Obligations and senior in right of payment and lien priority to the Subordinate Obligations, subject to the terms of Section 3.05 of this Master Indenture, and (ii) any related Hedging Obligations.

“Second Senior Lien Obligations Account” means the Account by that name created within the Project Fund pursuant to Section 5.02.

“Second Senior Lien Obligations Fund” means the Fund by that name created pursuant to Section 5.02.

“Second Senior Lien Obligations Interest Account” means the Account by that name created within the Second Senior Lien Obligations Fund pursuant to Section 5.02.

“Second Senior Lien Obligations Principal Account” means the Account by that name created within the Second Senior Lien Obligations Fund pursuant to Section 5.02.

“Second Senior Lien Obligations Reserve Fund” means the Fund by that name created pursuant to Section 5.02.

“Second Senior Lien Obligations Reserve Requirement” for any Second Senior Lien Obligations means the amount specified by a Supplemental Indenture as the amount required to be held in the Second Senior Lien Obligations Reserve Fund, or an Account thereof, for the payment of principal of and interest on the Outstanding Second Senior Lien Obligations secured by such Fund or Account.

“Secured Creditors” means, collectively, (i) the Trustee on behalf of the Bondholders, (ii) any Swap Party, and (iii) any other trustee, holder or creditor of any Obligations.

“Securities Depository” means DTC or any other trust company or other entity that provides a book-entry system for the registration of ownership interests in securities and which is acting as security depository for Book-Entry Obligations.
“Series” means all Obligations identified in this Indenture or any Supplemental Indenture as a separate series.

“Short-Term Put Obligation” means an Obligation with a stated maturity of ten years or less, the principal of which SANDAG determines on or before the date of issuance that it intends to pay from remarketing proceeds or proceeds of refunding obligations.

“SIFMA Index” means Securities Industry and Financial Markets Association Municipal Swap Index as of the most recent date such index was published by the Securities Industry and Financial Markets Association or any successor thereto, or in the event such index is no longer published by the Securities Industry and Financial Markets Association or any successor thereto, such comparable replacement index as shall be published by the Securities Industry and Financial Markets Association or any successor thereto. In the event that such comparable replacement index is no longer published by the Securities Industry and Financial Markets Association or any successor thereto, an alternative index shall be selected by SANDAG.

“Sinking Fund Installment” means, with respect to any Series of Obligations, each amount so designated for the Term Bonds of such Series in the Supplemental Indenture providing for the issuance of such Series of Obligations requiring payments by SANDAG to be applied to the retirement of such Series of Obligations on and prior to the stated maturity date thereof.

“South Bay Expressway Basic Financial Statements” means financial statements, reflecting the financial operations of the Toll Road, prepared in accordance with generally accepted accounting principles, together with an audit report thereon prepared by an Independent Certified Public Accountant.

“Special Project” shall mean any project which is so designated by SANDAG in a resolution of the Board a copy of which is delivered to the Trustee.

“SR-125 Project” means the South Bay Expressway Project, including the divided, limited access toll road in San Diego County, California, approximately 9.2 miles (15 kilometers) long, which extends from the interchange with Otay Mesa Road to San Miguel Ranch Road.

“State” means the State of California.

“Subordinate Obligations” means any Obligations that are subordinated in right of payment and lien priority to the First Senior Lien Obligations and the Second Senior Lien Obligations, subject to the terms of Section 3.05 of this Master Indenture.

“Subordinate Obligations Account” means the Account by that name created within the Project Fund pursuant to Section 5.02.

“Subordinate Obligations Fund” means the Fund by that name created pursuant to Section 5.02.
“Subordinate Obligations Interest Account” means the Account by that name created within the Subordinate Obligations Fund pursuant to Section 5.02.

“Subordinate Obligations Principal Account” means the Account by that name created within the Subordinate Obligations Fund pursuant to Section 5.02.

“Subordinate Obligations Reserve Fund” means the Fund by that name created pursuant to Section 5.02.

“Subordinate Obligations Reserve Requirement” for any Subordinate Obligations means the amount specified by a Supplemental Indenture as the amount required to be held in the Subordinate Obligations Reserve Fund, or an Account thereof, for the payment of principal of and interest on the Outstanding Subordinate Obligations secured by such Fund or Account.

“Subsidy Payments” means any payments with respect to Bonds or Obligations that SANDAG is entitled to receive, as evidenced by an Opinion of Counsel delivered at the time of issuance of such Bonds or Obligations, under applicable provisions of the Code from the federal government or any agency, department or other division thereof (including, without limitation, subsidy or tax credit payments on account of the issuance of Bonds pursuant to federal legislation, including legislation that may amend, reinstate or is otherwise similar to the federal American Recovery and Reinvestment Act of 2009) and which SANDAG has designated as Subsidy Payments in a Certificate of SANDAG.

“Substantial Completion” means the opening of a Project in its entirety to vehicular traffic.

“Substantial Completion Date” means the Substantial Completion Date a Project, if any, set forth in a Supplemental Indenture providing for the issuance of Obligations to finance such Project.

“Supplemental Indenture” means any indenture executed and delivered by SANDAG and the Trustee in accordance with this Indenture that is stated to be a supplemental indenture hereto.

“Swap” means any interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract, any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, any contract to exchange cash flows or a series of payments, or any contract, including, without limitation, an interest rate floor or cap, or an option, put or call, to hedge payment, currency, rate, spread or similar exposure, between SANDAG and a Swap Party, payable from Revenue or relating to the Toll Road, which is not a Qualified Swap Agreement and which, in accordance with generally accepted accounting principles, is included as a liability on a balance sheet for the Toll Road books and records.

“Swap Party” means each entity that is a party to either a Qualified Swap Agreement or a Swap entered into with SANDAG.
“Swap Revenues” means any amount paid by a Swap Party to SANDAG pursuant to any Qualified Swap Agreement or Swap, after any netting of payments required by such Qualified Swap Agreement or Swap, as applicable, and any payments paid to SANDAG by a Swap Party as consideration for termination or amendment of a Qualified Swap Agreement or Swap, as applicable.

“Tax Certificate” means the Tax Certificate delivered by SANDAG at the time of the issuance of a Series of Obligations, as the same may be amended and supplemented in accordance with its terms.

“Term Bonds” means Obligations of any Series that are payable on or before their specified maturity dates from Sinking Fund Installments established for that purpose in the Supplemental Indenture providing for the issuance of such Series of Obligations, which Sinking Fund Installments are calculated to retire such Obligations on or before their specified maturity dates.

“Threshold Rating” means a rating in either of the [three] highest long-term, or [two] highest short-term, Rating Categories by Moody’s, S&P or Fitch.

“TIFIA Lender” means the United States Department of Transportation, acting by and through the Federal Highway Administrator during any period in which it is the holder of an Outstanding Obligation for the purpose of making one or more TIFIA Loans to SANDAG for the purpose of financing a Project relating to the Toll Road.

“TIFIA Loan” means any loan made to SANDAG by the TIFIA Lender, pursuant to a TIFIA Loan Agreement, for the purpose of financing a Project relating to the Toll Road.

“TIFIA Loan Agreement” means any loan agreement by and between SANDAG and the TIFIA Lender for the purpose of financing a Project relating to the Toll Road and, in each case, any amendments or supplements thereto permitted hereby and thereby.

“Toll Agreements” means the Operating Agreement, [the Lease Agreement], and any amendments or supplements thereto permitted thereby and hereby.

“Toll Facility Agreement” means the Franchise Agreement and any other toll facility Agreement, by and between SANDAG and Caltrans, and any amendments or supplements thereto permitted thereby and hereby.

“Toll Operator” initially means SANDAG as operator of the Toll Road, and, for any additional Project or facilities of the Toll Road, any Person contracted by SANDAG, and in each case any successor thereto, responsible for the collection of tolls and fees and the establishment and maintenance of customer accounts and records, pursuant to the Operating Agreement.

“Toll Revenue Fund” means the Fund by that name created pursuant to Section 5.01.
“Toll Revenues” means (a) toll revenues, user fees, fines, rents or other similar charges payable to SANDAG for use of the Toll Road, as well as fines and penalties and interest thereon collected as a result of a failure to pay any such amounts, (b) proceeds of insurance payable to or received by SANDAG with respect to the Toll Road (whether by way of claims, return of premiums, ex grata settlements or otherwise), including proceeds from business interruption insurance and loss of advance profits insurance, except for proceeds of fire and other casualty insurance that are deposited to the Insurance and Condemnation Proceeds Account of the Project Fund and actually applied or reserved for application to the repair, restoration or replacement of the Toll Road, (c) proceeds of any condemnation awards with respect to the Toll Road, except to the extent deposited to the Insurance and Condemnation Proceeds Account of the Project Fund and actually applied or reserved for application to the replacement of the Toll Road, (d) liquidated damages for delayed completion of a Project payable to SANDAG under a construction contract relating to the Toll Road or a portion thereof, (e) proceeds of credit support provided by a Toll Operator pursuant to an operating agreement, and (f) any other incidental or related fees or charges; but excluding therefrom cash advances representing deposits against future toll payments from users or potential users of the Toll Road.

“Toll Revenues Project Account” means the Account by that name created within the Project Fund pursuant to Section 5.02.

“Toll Road” means lanes of a street, road or highway upon which SANDAG has all right, power and authority pursuant to law to impose tolls, and upon which tolls are imposed by SANDAG using any of the following tolling strategies: (a) general purpose or generally-applicable tolls, (b) tolls that may be levied and may vary according to levels of congestion anticipated or experienced or according to the occupancy of the vehicle, (c) any combination of (a) and (b), and (d) any other tolling strategy SANDAG may determine appropriate on a facility-by-facility basis; and the related tolling facilities and tolled or non-tolled connecting or supporting streets, roads or highway lanes or other facilities, as such tolled lanes and related tolled or non-tolled facilities may from time to time be expanded, improved, upgraded, enlarged, or enhanced, but only to the extent that: (i) SANDAG irrevocably designates in writing that such toll lanes and related facilities, and any expansion, improvement, upgrade, enlargement or enhancement constitutes a Toll Road generating or supporting the generation of Toll Revenues hereunder and (ii) that (x) the additional Operation and Maintenance Expenses associated with any such expansion, improvement, upgrade, enlargement or enhancement and (y) any additional Obligations issued to finance the costs of any such expansion, improvement, upgrade, enlargement or enhancement, shall not result in debt service coverage ratios lower than those required in Section 6.03(a) of this Master Indenture. “Toll Road” shall not include any Special Project. “Toll Road” initially means the SR-125 Project.

“Toll Road Act” means Section 143.1 of the Streets and Highways Code of the State of California.

“Traffic Consultant” means any traffic and revenue consultant or firm of nationally-recognized traffic and revenue consultants experienced in performing the duties for which a Traffic Consultant is required to be employed pursuant to the provisions of this Indenture selected by SANDAG.
“Traffic/Law Enforcement Letter of Agreement” means the Traffic/Law Enforcement Letter of Agreement, dated as of [______], by and between the State of California, acting by and through the California Highway Patrol, and SANDAG, as amended, modified supplemented or superseded in accordance with its terms.

“Trust Estate” has the meaning specified in the Granting Clauses herein.

“Trustee” means U.S. Bank National Association, as trustee under the Indenture, or any successor trustee appointed pursuant to the terms of the Indenture, including Section 8.03 hereof.

“Written Request of SANDAG” means an instrument in writing signed by an Authorized Representative.

ARTICLE II
THE OBLIGATIONS

Section 2.01 Authorization and Purposes. Obligations in the form of First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations may be issued hereunder, in book-entry form or otherwise, from time to time as the issuance thereof is approved by SANDAG. The maximum Bond Obligation of Obligations that may be issued hereunder is not limited; subject, however, to any limitations contained in the Act and to the right of SANDAG, which is hereby reserved, to limit the initial Bond Obligation of Obligations that may be issued or Outstanding hereunder. The First Senior Lien Bonds are designated generally as “San Diego Association of Governments South Bay Expressway Toll Revenue First Senior Lien Bonds,” each Series thereof to bear such additional designation as may be necessary or appropriate to distinguish such Series from every other Series of First Senior Lien Obligations. The Second Senior Lien Obligations are designated generally as “San Diego Association of Governments South Bay Expressway Toll Revenue Second Senior Lien Bonds,” each Series thereof to bear such additional designation as may be necessary or appropriate to distinguish such Series from every other Series of Second Senior Lien Obligations. The Subordinate Obligations are designated generally as “San Diego Association of Governments South Bay Expressway Toll Revenue Subordinate Bonds,” each Series thereof to bear such additional designation as may be necessary or appropriate to distinguish such Series from every other Series of Subordinate Obligations. The Obligations may be issued in such Series as from time to time shall be established and authorized by SANDAG, subject to the covenants, provisions and conditions herein. Each separate Series of Obligations shall be authorized by SANDAG in a Supplemental Indenture. No Obligations may be issued under the provisions of this Indenture except in accordance with this Article and Article III.

Obligations may be issued for the purpose of refinancing the SR-125 Project, or for any other purpose authorized by the Act, the Toll Road Act or any laws permitting the refunding of local agency obligations, and this Indenture.

Section 2.02 General Terms of Obligations. Each Obligation shall be secured hereby and shall bear interest and shall be payable and be additionally secured and have such
other terms as shall be specified in its Supplemental Indenture, or if not specified therein, as specified by an Authorized Representative pursuant to Section 2.06.

The principal and Purchase Price of, premium, if any, and interest on the Obligations shall be payable in lawful currency of the United States of America, except as otherwise specified in a Supplemental Indenture. During any period in which any Obligations are Book-Entry Obligations, payment of debt service on such Book-Entry Obligations shall be made to the Securities Depository, or its Nominee, and in accordance with arrangements among SANDAG, the Trustee and the Securities Depository. During any period in which any Obligations are not Book-Entry Obligations, unless otherwise specified in a Supplemental Indenture, the principal and Purchase Price of and premium, if any, on all such Obligations shall be payable by wire or check at the Principal Office of the Trustee upon the presentation and surrender of such Obligations as the same become due and payable, and the interest on such Obligations shall be paid by wire or check drawn upon the Trustee and mailed on the applicable interest payment date to the persons in whose names the Obligations are registered on the registration books maintained by the Trustee at the close of business on the record date for such interest payment.

Section 2.03 Execution. The Obligations shall be executed in the name and on behalf of SANDAG by the facsimile or manual signature of the Chairperson of the Board or any Vice Chairperson of the Board and shall be countersigned by the facsimile or manual signature of the Chief Financial Officer of SANDAG, and shall have the official seal of SANDAG affixed thereon in manual or facsimile form. Unless otherwise provided in any Supplemental Indenture, the Obligations shall then be delivered to the Trustee for authentication by the Trustee. In case any of the officers who shall have signed or attested any of the Obligations shall cease to be such officer or officers of SANDAG before the Obligations so signed or attested shall have been authenticated or delivered by the Trustee or issued by SANDAG, such Obligations may nevertheless be authenticated or delivered by the Trustee or issued by SANDAG, such Obligations may nevertheless be authenticated, delivered and issued and, upon such authentication, delivery and issue, shall be as binding upon SANDAG as though those who signed and attested the same had continued to be such officers of SANDAG, and also any Obligation may be signed and attested on behalf of SANDAG by such persons as at the actual date of execution of such Obligation shall be the proper officers of SANDAG although at the nominal date of such Obligation any such person shall not have been such officer of SANDAG.

Section 2.04 Certificate of Authentication. No Obligations shall be secured hereby or entitled to the benefit hereof or shall be or become valid or obligatory for any purpose unless there shall be endorsed thereon a certificate of authentication, substantially in the form set forth in the form of Obligation referred to in Section 2.05 hereof, executed by the Trustee; and such certificate on any Obligation issued by SANDAG shall be conclusive evidence that such Obligation has been duly authenticated and delivered hereunder.

Section 2.05 Forms of Obligations. The Obligations, the Trustee’s certificate of authentication and the form of assignment shall be in substantially the forms specified in a Supplemental Indenture or if not specified therein, as specified by an Authorized Representative pursuant to Section 2.06, and may have such letters, numbers or other marks of identification (including, but not limited to, the Series designation provided for in Section 2.01) and such legends and endorsements placed thereon as may be required to comply with any applicable laws
or rules or regulations, or as may, consistent herewith, be determined by an Authorized Representative. The Obligations shall be in either typewritten or printed form, as an Authorized Representative shall direct, provided that any expenses incurred in connection therewith shall be paid by SANDAG.

Section 2.06 Issuance, Sale and Delivery of Obligations; Application of Proceeds. The Obligations of each Series shall be delivered by the Trustee in accordance with a Written Request of SANDAG, which may be Electronic, in the manner specified herein. Said Written Request of SANDAG shall specify the following terms for the Obligations then being issued to the extent such terms are not set forth in the Supplemental Indenture creating such Series of Obligations and are applicable to such Obligations: whether such Obligation is a First Senior Lien Bond, Parity Obligation, Second Senior Lien Obligation or Subordinate Obligation hereunder; Series designation; Authorized Denominations; form of such Obligation; book-entry provisions, if any; maturity date or dates or maturity determination method, which may vary for Obligations within such Series; principal amount; issue date; interest rate or interest rate determination method, which may vary for Obligations within such Series; record date for interest payments; sinking fund provisions, if any; required reserves, if any; redemption provisions, if any; tender provisions, if any; additional security, if any; and any other terms and conditions that are not inconsistent with this Indenture. Upon the delivery of each Series of Obligations, the proceeds shall immediately be applied and deposited as set forth in the applicable Supplemental Indenture.

Section 2.07 Mutilated, Lost, Stolen or Destroyed Obligations. If any Obligation is mutilated, lost, stolen or destroyed, SANDAG shall execute and the Trustee shall authenticate and deliver a new Obligation of the same Series, maturity date, principal amount and tenor in lieu of and in substitution for the Obligation mutilated, lost, stolen or destroyed; provided that there shall be first furnished to the Trustee evidence satisfactory to the Trustee of the ownership of such Obligation and of such loss, theft or destruction (or, in the case of a mutilated Obligation, such mutilated Obligation shall first be surrendered to the Trustee), together with indemnity satisfactory to the Trustee and compliance with such other reasonable regulations as SANDAG and Trustee may prescribe. Subject to the proviso set forth in the preceding sentence, if any such Obligation shall have matured or a redemption date pertaining thereto shall have passed, instead of issuing a new Obligation, SANDAG may pay the same without surrender thereof. SANDAG and the Trustee may charge the Holder of such Obligation with their reasonable fees and expenses in this connection.

Section 2.08 Exchangeability and Transfer of Obligations; Persons Treated as Holders. SANDAG hereby directs the Trustee, which is hereby constituted and appointed the bond registrar for the Obligations, to keep books for the registration of the Obligations and for the registration of transfer of the Obligations as provided herein.

Any registered owner of an Obligation, in person or by its duly authorized attorney, may transfer title to its Obligation on the books of registration kept by the Trustee, upon surrender thereof at the Principal Office of the Trustee, together with a written instrument of transfer (in substantially the form of assignment attached to the Obligation or as provided in its Supplemental Indenture) executed by the registered owner or its duly authorized attorney, and upon surrender for registration of transfer of any Obligation, SANDAG shall execute, and the
Trustee shall authenticate and deliver in the name of the transferee or transferees, a new Obligation or Obligations of the same Series, maturity date, Bond Obligation and tenor as the Obligation surrendered.

Obligations may be exchanged upon surrender thereof at the Principal Office of the Trustee for Obligations of the same Series, maturity date, Bond Obligation and tenor as the Obligations being exchanged. SANDAG shall execute and the Trustee shall authenticate and deliver Obligations that the registered owner making the exchange is entitled to receive, bearing numbers not contemporaneously then outstanding.

Such registrations of transfers or exchanges of Obligations shall be without charge to the registered owner of such Obligations, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the registered owner of the Obligation requesting such registration of transfer or exchange as a condition precedent to the exercise of such privilege. Any service charge made by the Trustee for any such registration, transfer or exchange shall be paid by SANDAG.

The Trustee shall not register any transfer of any Obligation after notice calling such Obligation (or portion thereof) for redemption or partial redemption or notice of mandatory tender with respect thereto has been given and prior to such redemption or mandatory tender, as the case may be, except, in the case of any Obligation to be redeemed in part, the portion thereof not to be redeemed.

The person in whose name any Obligation shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of either principal, premium, if any, or interest shall be made only to or upon the order of the registered owner thereof or his duly authorized attorney, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Obligation to the extent of the sum or sums so paid.

All Obligations issued upon any transfer or exchange of Obligations shall be legal, valid and binding obligations of SANDAG, evidencing the same debt, and entitled to the same security and benefits under this Indenture, as the Obligations surrendered upon such transfer or exchange.

Section 2.09 Cancellation. All Obligations that have been surrendered to the Trustee pursuant to Section 2.07 or 2.08 of this Indenture and all Obligations that have been paid or redeemed, either at or prior to maturity, except as otherwise provided in a Supplemental Indenture, shall be cancelled and destroyed by the Trustee and a certificate of destruction shall be delivered to SANDAG upon its request.

Section 2.10 First Senior Lien Obligations Ratably Secured. All First Senior Lien Obligations issued hereunder that by their terms are stated to be equally and ratably secured by this Indenture without preference, priority or distinction on account of the Series or the actual time or times of the authentication, delivery or maturity of such First Senior Lien Obligations shall be so equally and ratably secured so that, subject to any differences specified in this Indenture, all such First Senior Lien Obligations at any time Outstanding hereunder shall have
the same right, lien and preference under and by virtue of this Indenture and shall all be equally and ratably secured hereby with like effect as if they were of the same Series and they had all been executed, authenticated and delivered simultaneously on the date hereof, whether the same, or any of them, shall actually be disposed of at such date, or whether they, or any of them, shall be disposed of at some future date; provided, however, that the moneys in any Account within the First Senior Lien Obligations Reserve Fund shall only secure the Series of First Senior Lien Obligations to which such Account relates.

Section 2.11 Second Lien Obligations Ratably Secured. All Second Senior Lien Obligations issued hereunder that by their terms are stated to be equally and ratably secured by this Indenture without preference, priority or distinction on account of the Series or the actual time or times of the authentication, delivery or maturity of such Second Senior Lien Obligations shall be so equally and ratably secured so that, subject to any differences specified in this Indenture, all such Second Senior Lien Obligations at any time Outstanding hereunder shall have the same right, lien and preference under and by virtue of this Indenture and shall all be equally and ratably secured hereby with like effect as if they were of the same Series and they had all been executed, authenticated and delivered simultaneously on the date hereof, whether the same, or any of them, shall actually be disposed of at such date, or whether they, or any of them, shall be disposed of at some future date; provided, however, that the moneys in any Account within the Second Senior Lien Obligations Reserve Fund shall only secure the Series of Second Senior Lien Obligations to which such Account relates.

Section 2.12 Subordinate Obligations Ratably Secured. All Subordinate Obligations issued hereunder that by their terms are stated to be equally and ratably secured by this Indenture without preference, priority or distinction on account of the Series or the actual time or times of the authentication, delivery or maturity of such Subordinate Obligations shall be so equally and ratably secured so that, subject to any differences specified in this Indenture, all such Subordinate Obligations at any time Outstanding hereunder shall have the same right, lien and preference under and by virtue of this Indenture and shall all be equally and ratably secured hereby with like effect as if they were of the same Series and they had all been executed, authenticated and delivered simultaneously on the date hereof, whether the same, or any of them, shall actually be disposed of at such date, or whether they, or any of them, shall be disposed of at some future date; provided, however, that the moneys in any Account within the Subordinate Obligations Reserve Fund shall only secure the Series of Subordinate Obligations to which such Account relates.

Section 2.13 Book-Entry Only System. Unless an Authorized Representative shall otherwise direct or unless otherwise specified in a Supplemental Indenture, all Obligations issued hereunder shall be issued as Book-Entry Obligations in fully registered form. Book-Entry Obligations shall be registered in the name of the Securities Depository or its Nominee as directed by such Securities Depository. DTC shall act as the initial Securities Depository and has designated Cede & Co. as its Nominee. Beneficial Owners of Obligations will not receive physical delivery of bond certificates except as provided hereinafter. For so long as DTC shall continue to serve as Securities Depository for the Obligations as provided herein, all transfers of beneficial ownership interests will be made by book-entry only, and no person purchasing, selling or otherwise transferring beneficial ownership of Obligations is to receive, hold or deliver any Obligation certificate.
With respect to Obligations registered in the name of Cede & Co., as Nominee of DTC, SANDAG and the Trustee shall have no responsibility or obligation to any participant in DTC (each, a “DTC Participant”) or to any person on whose behalf a DTC Participant holds an interest in the Obligations. Without limiting the immediately preceding sentence, SANDAG and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Obligations, (ii) the delivery to any DTC Participant or any other person, other than a registered owner of the Obligations, as shown on the registration books, of any notice with respect to the Obligations, including any notice of redemption or mandatory tender, or (iii) the payment to any DTC Participant or any other person, other than a registered owner of the Obligations, as shown in the registration books, of any amount with respect to principal or Purchase Price of, or premium, if any, or interest on, the Obligations.

Replacement Obligations may be issued directly to Beneficial Owners of Obligations other than DTC, or its Nominee, but only in the event that: (i) DTC determines not to continue to act as Securities Depository for the Obligations (which determination shall become effective no less than 90 days after written notice to such effect to SANDAG and the Trustee); or (ii) an Authorized Representative has advised DTC of its determination (which determination is conclusive as to DTC and Beneficial Owners of the Obligations) that DTC is incapable of discharging its duties as Securities Depository for the Obligations; or (iii) SANDAG has determined (which determination is conclusive as to DTC and the Beneficial Owners of the Obligations) that the interests of the Beneficial Owners of the Obligations might be adversely affected if such book-entry only system of registration and transfer is continued. Upon occurrence of any of the foregoing events, SANDAG shall use its best efforts to attempt to locate another qualified Securities Depository. If SANDAG fails to locate another qualified Securities Depository to replace DTC, SANDAG shall cause to be authenticated and delivered replacement Obligations, in certificate form, to the Beneficial Owners of the Obligations. In the event that SANDAG makes the determination noted in (ii) or (iii) above (provided that SANDAG undertakes no obligation to make any investigation to determine the occurrence of any events that would permit SANDAG to make any such determination), and has made provisions to notify the Beneficial Owners of Obligations of such determination by mailing an appropriate notice to DTC and its Nominee, SANDAG shall cause to be issued replacement Obligations in certificate form to Beneficial Owners of the Obligations as shown on the records of DTC provided to SANDAG.

Whenever, during the term of the Obligations, the Beneficial Ownership thereof is determined by book-entry at DTC, (i) the requirements in this Indenture of holding, delivering or transferring Obligations shall be deemed modified to require the appropriate person or entity to meet the requirements of DTC as to registering or transferring the book entry to produce the same effect and (ii) delivery of the Obligations and notices to Bondholders will be in accordance with arrangements among SANDAG, the Trustee and DTC notwithstanding any provision of this Indenture to the contrary.

The Trustee and SANDAG, acting by and through an Authorized Representative, are authorized to enter into a letter of representations with DTC to implement the book-entry only system of Obligation registration described above and all payments of principal, Purchase
Price, interest and premium, if any, shall be made in accordance with the letter of representations with DTC.

If at any time, DTC ceases to hold the Obligations in book-entry form, all references herein to DTC shall be of no further force or effect.

ARTICLE III

ADDITIONAL OBLIGATIONS

Section 3.01 Restrictions on Issuance of Additional First Senior Lien Obligations. Subsequent to the initial issuance of First Senior Lien Bonds pursuant to this Indenture, additional First Senior Lien Obligations may be issued if the requirements of (a) or (b) below are met.

(a) The First Senior Lien Obligations are issued for purposes of refunding Outstanding First Senior Lien Obligations by providing funds for the payment of any or all of the following:

(1) The Bond Obligation, redemption or purchase price (including premium, if any) of the Outstanding First Senior Lien Obligations to be refunded;

(2) All expenses incident to the calling, retiring or paying of such Outstanding First Senior Lien Obligations, the Costs of Issuance of such refunding First Senior Lien Obligations, and any termination payments or other payments to the holders of obligations of SANDAG entered into pursuant to California Government Code Section 5922 (or any similar statute) related to such Outstanding Obligations;

(3) Interest on all Outstanding First Senior Lien Obligations to be refunded to the date such First Senior Lien Obligations will be called for redemption or paid at maturity;

(4) Interest on the refunding First Senior Lien Obligations from the date thereof to the date of payment or redemption of the First Senior Lien Obligations or to be refunded;

provided that SANDAG delivers a Certificate of SANDAG to the effect that SANDAG projects that the Average Annual Debt Service on all Outstanding Obligations following the issuance of the proposed additional First Senior Lien Obligations will be less than the Average Annual Debt Service on all Outstanding Obligations prior to the issuance of such proposed First Senior Lien Obligations; and provided further, that, if the maturity date of such additional First Senior Lien Obligations to be issued extends to a date later than the stated final maturity date of the Obligations being refunded, then Net Revenue in each Fiscal Year from and after the stated final maturity date of such refunded Obligations satisfies the requirements set forth in Section 3.01(b), as evidenced by a Certificate of SANDAG, which may be based upon the findings of a report of the Traffic Consultant.
(b) SANDAG delivers either a Certificate of SANDAG, which may be based upon the findings of a report of the Traffic Consultant, to the effect that, as of the date of issuance of the additional First Senior Lien Obligations, either one of the following two requirements is met:

1. Net Revenue in the preceding Fiscal Year equals or exceeds (i) one hundred seventy-five percent (175%) of Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, including the additional First Senior Lien Obligations to be issued, (ii) one hundred thirty-five percent (135%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations and Second Senior Lien Obligations, including the additional First Senior Lien Obligations to be issued, and (iii) one hundred fifteen percent (115%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations, including the additional First Senior Lien Obligations to be issued; or

2. Projected Net Revenue for each Fiscal Year in which Obligations, including the additional First Senior Lien Obligations to be issued, will be Outstanding is expected to equal or exceed (i) one hundred seventy-five percent (175%) of Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, including the additional First Senior Lien Obligations to be issued, (ii) one hundred thirty-five percent (135%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations and Second Senior Lien Obligations, including the additional First Senior Lien Obligations to be issued, and (iii) one hundred fifteen percent (115%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations, including the additional First Senior Lien Obligations to be issued; provided in each case that if, in connection with the issuance of such additional First Senior Lien Obligations, the Toll Road will be expanded, improved, upgraded, enlarged, or enhanced and such calculations rely upon projected Toll Revenues from such expansion, improvement, upgrade, enlargement or enhancement to satisfy the requirements set forth in this Section 3.01(b)(2), then SANDAG shall deliver a report of a Traffic Consultant setting forth such projected Toll Revenues and not solely a Certificate of SANDAG.

Section 3.02 Restrictions on Issuance of Second Senior Lien Obligations. Second Senior Lien Obligations may be issued if the requirements of (a) or (b) below are met.

(a) The Second Senior Lien Obligations are issued for purposes of refunding Outstanding First Senior Lien Obligations or Second Senior Lien Obligations by providing funds for the payment of any or all of the following:

1. The Bond Obligation, redemption or purchase price (including premium, if any) of the Outstanding First Senior Lien Obligations or Second Senior Lien Obligations to be refunded;
(2) All expenses incident to the calling, retiring or paying of such Outstanding First Senior Lien Obligations or Second Senior Lien Obligations, the Costs of Issuance of such refunding Second Senior Lien Obligations, and any termination payments or other payments to the holders of obligations of SANDAG entered into pursuant to California Government Code Section 5922 (or any similar statute) related to such Outstanding First Senior Lien Obligations or Second Senior Lien Obligations;

(3) Interest on all Outstanding First Senior Lien Obligations or Second Senior Lien Obligations to be refunded to the date such First Senior Lien Obligations or Second Senior Lien Obligations will be called for redemption or paid at maturity;

(4) Interest on the refunding Second Senior Lien Obligations from the date thereof to the date of payment or redemption of the Second Senior Lien Obligations to be refunded;

provided that SANDAG delivers a Certificate of SANDAG to the effect that SANDAG projects that the Average Annual Debt Service on all Outstanding Obligations following the issuance of the proposed additional Second Senior Lien Obligations will be less than the Average Annual Debt Service on all Outstanding Obligations prior to the issuance of such proposed Second Senior Lien Obligations; and provided further, that, if the maturity date of such additional Second Senior Lien Obligations to be issued extends to a date later than the stated final maturity date of the Obligations being refunded, then Net Revenue in each Fiscal Year from and after the stated final maturity date of such refunded Obligations satisfies the requirements set forth in Section 3.02(b), as evidenced by either a Certificate of SANDAG or a report of the Traffic Consultant.

(b) SANDAG delivers either a Certificate of SANDAG or a report of the Traffic Consultant to the effect that, as of the date of issuance of the additional Second Senior Lien Obligations, either one of the following two requirements is met:

(1) Net Revenue in the preceding Fiscal Year equals or exceeds (i) one hundred thirty-five percent (135%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations and Second Senior Lien Obligations, including the additional Second Senior Lien Obligations to be issued, and (iii) one hundred fifteen percent (115%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations, including the additional Second Senior Lien Obligations to be issued; or

(2) projected Net Revenue for each Fiscal Year in which Obligations, including the additional Second Senior Lien Obligations, will be Outstanding is expected to equal or exceed (i) one hundred thirty-five percent (135%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations and Second Senior Lien Obligations, including the additional Second Senior Lien Obligations to be issued, and (ii) one hundred fifteen percent (115%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations, including the additional Second Senior Lien Obligations to be issued.
Lien Obligations to be issued; provided that if, in connection with the issuance of such additional Second Senior Lien Obligations, the Toll Road will be expanded, improved, upgraded, enlarged, or enhanced and such calculations rely upon projected Toll Revenues from such expansion, improvement, upgrade, enlargement or enhancement to satisfy the requirements set forth in this Section 3.02(b)(2), then SANDAG shall deliver a report of a Traffic Consultant demonstrating such satisfaction and not solely a Certificate of SANDAG.

Section 3.03 Restrictions on Issuance of Subordinate Obligations. Subordinate Obligations (including Subordinate Obligations in the form of or securing payment of one or more TIFIA Loans) may be issued if the requirements of (a) or (b) below are met.

(a) The Subordinate Obligations are issued for purposes of refunding Outstanding First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations by providing funds for the payment of any or all of the following:

1) The Bond Obligation, redemption or purchase price (including premium, if any) of the Outstanding First Senior Lien Obligations, Second Senior Lien Obligations or Outstanding Subordinate Obligations to be refunded;

2) All expenses incident to the calling, retiring or paying of such Outstanding First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations, the Costs of Issuance of such refunding Subordinate Obligations, and any termination payments or other payments to the holders of obligations of SANDAG entered into pursuant to California Government Code Section 5922 (or any similar statute) related to such Outstanding First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations;

3) Interest on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations to be refunded to the date such First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations will be called for redemption or paid at maturity;

4) Interest on the refunding Subordinate Obligations from the date thereof to the date of payment or redemption of the First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations to be refunded;

provided that SANDAG delivers a Certificate of SANDAG to the effect that SANDAG projects that the Average Annual Debt Service on all Outstanding Obligations following the issuance of the proposed additional Subordinate Obligations will be less than the Average Annual Debt Service on all Outstanding Obligations prior to the issuance of such proposed Subordinate Obligations; and provided further, that, if the maturity date of such additional Subordinate Obligations to be issued extends to a date later than the stated final maturity date of the Obligations being refunded, then Net Revenue in each Fiscal Year from and after the stated final maturity date of such refunded Obligations satisfies the requirements set forth in Section 3.03(b), as evidenced by either a Certificate of SANDAG or a report of the Traffic Consultant.
(b) SANDAG delivers either a Certificate of SANDAG or a report of the Traffic Consultant to the effect that, as of the date of issuance of the additional Subordinate Obligations, either one of the following two requirements is met:

1. Net Revenue in the preceding Fiscal Year equals or exceeds one hundred fifteen percent (115%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations, including the additional Subordinate Obligations to be issued; or

2. projected Net Revenue for each Fiscal Year in which Obligations, including the additional Subordinate Obligations to be issued, will be Outstanding is expected to equal or exceed one hundred fifteen percent (115%) of total Annual Debt Service in each future Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations, including the additional Subordinate Obligations to be issued; provided in each case that if, in connection with the issuance of such additional Subordinate Obligations, the Toll Road will be expanded, improved, upgraded, enlarged, or enhanced and such calculations rely upon projected Toll Revenues from such expansion, improvement, upgrade, enlargement or enhancement to satisfy the requirements set forth in this Section 3.03(b)(2), then SANDAG shall deliver a report of a Traffic Consultant demonstrating such satisfaction and not solely a Certificate of SANDAG.

Section 3.04 Proceedings for Issuance of Additional First Senior Lien Obligations, Second Lien Senior Obligations or Subordinate Obligations. Whenever SANDAG determines to issue First Senior Lien Obligations subsequent to the initial issuance of First Senior Lien Bonds pursuant to this Indenture and all Supplemental Indentures executed as of the same date, or Second Lien Senior Obligations or Subordinate Obligations, SANDAG shall, in addition to fulfilling the requirements of Article II and Section 3.01, 3.02, or 3.03, as applicable, file with or provide to the Trustee:

(a) a certificate of SANDAG stating that no Event of Default specified in Section 7.01 has occurred and is then continuing;

(b) a certificate of SANDAG stating that the applicable requirements of: (i) Section 3.01, in the case of additional First Senior Lien Obligations, (ii) Section 3.02, in the case of additional Second Senior Lien Obligations, or (iii) Section 3.03, in the case of additional Subordinate Obligations, have been satisfied;

(c) such amount, in cash or in the form of a Reserve Facility, as shall equal the First Senior Lien Obligations Reserve Requirement, Second Senior Lien Obligations Reserve Requirement or Subordinate Obligations Reserve Requirement, if any, as of the date of issuance of such First Senior Lien Obligations, Second Senior Lien Obligations, or Subordinate Obligations for deposit in the First Senior Lien Obligations Reserve Fund, the Second Senior Lien Obligations Reserve Fund or the Subordinate Obligations Reserve Fund as applicable, as calculated by SANDAG; and
(d) an Opinion of Bond Counsel to the effect that the Supplemental Indenture creating such First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations, as applicable, has been executed and delivered by SANDAG in accordance with this Indenture and that such First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations, as applicable, when duly executed by SANDAG and authenticated and delivered by the Trustee, will be valid and binding obligations of SANDAG.

Section 3.05 Springing Liens. SANDAG may issue additional Second Senior Lien Obligations or Subordinate Obligations pursuant to a Supplemental Indenture providing that such Second Senior Lien Obligations or Subordinate Obligations become Parity Obligations having a lien on Revenue on a parity with the First Senior Lien Bonds following the occurrence of a Bankruptcy Related Event of SANDAG but (i) solely to the extent specified in the applicable TIFIA Loan Agreement, if such Second Senior Lien Obligations or Subordinate Obligations are in the form of or securing payment of a TIFIA Loan and (ii) solely to the extent provided by law if such Second Senior Lien Obligations or Subordinate Obligations are in other forms, and further, in each case, solely to the extent SANDAG has contracted to make those payments as Parity Obligations.

Upon the occurrence of a Bankruptcy Related Event of which the Trustee shall be notified in writing, any Account within the Second Senior Lien Obligations Reserve Fund or the Subordinate Obligations Reserve Fund that secures payment of the principal and interest on a Second Senior Lien Obligation or a Subordinate Obligation, respectively, in the forms described in the first paragraph of this Section 3.05, will become an Account within the First Senior Lien Obligations Reserve Fund unless otherwise specified in the applicable Supplemental Indenture, and will be funded on a parity with any other Accounts within the First Senior Lien Obligations Reserve Fund and will be available only to pay principal and interest on such Second Senior Lien Obligation or Subordinate Obligations as a Parity Obligation following the Bankruptcy Related Event, provided that such obligations will not be secured by any other Account within the First Senior Lien Obligations Reserve Fund.

ARTICLE IV

REDEMPTION

Section 4.01 Redemption and Purchase of Obligations. Each Series of Obligations may be made subject to mandatory or optional redemption or mandatory or optional tender and purchase prior to their respective stated maturities, as a whole or in part, at such time or times, upon such terms and conditions, at such prices, upon such notice and with such effect as may be provided in the Supplemental Indenture creating such Series of Obligations.

Section 4.02 Notice of Redemption. Unless otherwise specified in a Supplemental Indenture creating a Series of Obligations, each notice of redemption shall be mailed by the Trustee, not less than twenty (20) nor more than sixty (60) days prior to the redemption date, to each Owner and to the MSRB. Notice of redemption to the Owners shall be given by first class mail. Each notice of redemption shall state the date of such notice, the date of issue of the Series of Obligations to which such notice relates, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address
or addresses of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, in the
case of a Series of Obligations to be redeemed in part only, the identity of the Obligations to be
redeemed. Except as provided in Section 4.03 in the case of conditional optional redemption,
each such notice shall also state that on said date there will become due and payable on each of
said Obligations the redemption price thereof, together with interest accrued thereon to the date
fixed for redemption, and that from and after such redemption date interest thereon shall cease to
accrue, and shall require that such Obligations be then surrendered at the address or addresses of
the Trustee specified in the redemption notice. Neither SANDAG nor the Trustee shall have any
responsibility for any defect in the CUSIP number that appears on any Obligation or in any
redemption notice with respect thereto, and any such redemption notice may contain a statement
to the effect that CUSIP numbers have been assigned by an independent service for convenience
of reference and that neither SANDAG nor the Trustee shall be liable for any inaccuracy in such
numbers. Failure of any Owner to receive any notice of redemption or any defect therein shall
not affect the sufficiency of any proceedings for redemption.

Section 4.03 Conditional Notice of Redemption: Rescission. Any notice of
optional redemption of the Obligations delivered in accordance with Section 4.02 may be
conditional, and if any condition stated in the notice of redemption shall not have been satisfied
on or prior to the redemption date, said notice shall be of no force and effect and SANDAG shall
not be required to redeem the Obligations thereby called for redemption, such Obligations shall
not become due and payable, and the redemption shall be cancelled and the Trustee shall within
a reasonable time thereafter give notice, to the persons and in the manner in which the notice of
redemption was given, that such condition or conditions were not met and that the redemption
was cancelled. In addition, SANDAG may, at its option, on or prior to the date fixed for optional
redemption in any notice of redemption of the Obligations, rescind and cancel such notice of
redemption by Written Request of SANDAG to the Trustee, and any optional redemption of
Obligations and notice thereof shall be rescinded and cancelled and the Trustee shall mail notice
of such cancellation to the recipients of the notice of redemption being cancelled pursuant to the
provisions of Section 4.02. Any optional redemption of Obligations and notice thereof shall be
rescinded and cancelled if for any reason on the date fixed for optional redemption moneys are
not available in the Redemption Fund or otherwise held in trust for such purpose in an amount
sufficient to pay in full on said date the principal of, interest, and any premium due on the
Obligations called for optional redemption and such failure to optionally redeem the Obligations
called for redemption shall not be a default hereunder.

Section 4.04 Effect of Redemption. Notice of redemption having been duly
given as aforesaid or as otherwise provided in a Supplemental Indenture, and moneys for
payment of the redemption price of, together with interest accrued to the redemption date on, the
Obligations (or portions thereof) so called for redemption being held by the Trustee, on the
redemption date designated in such notice, the Obligations (or portions thereof) so called for
redemption shall become due and payable at the redemption price specified in this Indenture,
together with interest accrued thereon to the date fixed for redemption, interest on the
Obligations so called for redemption shall cease to accrue, said Obligations (or portions thereof)
shall cease to be entitled to any benefit or security under this Indenture, and the Owners of said
Obligations shall have no rights in respect thereof except to receive payment of said redemption
price and accrued interest to the date fixed for redemption.
Section 4.05  Partial Redemption of Obligations.  Upon surrender of any Obligation to be redeemed in part only, SANDAG shall execute, and the Trustee shall authenticate and deliver to the Owner of such Obligation, at the expense of SANDAG, a new Obligation or Obligations of Authorized Denominations equal in Bond Obligation to the unredeemed portion of the Obligation surrendered, of the same Series, maturity and terms as the surrendered Obligation.

ARTICLE V
PLEDGE; FUNDS AND ACCOUNTS

Section 5.01  Deposit of Revenue by Trustee; Toll Revenue Fund.

(a) All Toll Revenues received and receivable by SANDAG and pledged and assigned by this Indenture to the Trustee, together with the balance of the Trust Estate, are to be paid directly to the Trustee and deposited by it in the Funds and Accounts described in this Article V and held in trust for the purposes set forth herein, and, except as otherwise provided herein, shall not be subject to any lien, levy, garnishment or attachment by any creditor of SANDAG nor shall they be subject to any assignment or hypothecation by SANDAG. Subject only to the provisions of this Indenture permitting the application thereof or to the purposes and on the terms and conditions set forth herein and therein, the Trustee shall be entitled to and shall collect and receive all of the Toll Revenues, and any Toll Revenues collected or received by SANDAG shall be deemed to be held, and to have been collected or received, by SANDAG as the agent of the Trustee and shall forthwith be paid by SANDAG to the Trustee. Moneys on deposit in the Funds and Accounts described in this Article V (excluding the Rebate Fund and the Distribution Fund, and any Fund or Account established to hold the proceeds of a drawing on any Credit Support Instrument) shall be held by the Trustee or SANDAG, as applicable, in trust, and pending application in accordance with the provisions of this Article V shall be subject to a lien and charge in favor of the Holders until applied as hereinafter provided. The Trustee shall at all times maintain accurate records of deposits into such Funds and Accounts and the sources and timing of such deposits.

(b) As long as any Obligations or Reserve Facility Costs remain unpaid, SANDAG hereby assigns and shall cause Toll Revenues to be transmitted by the Toll Operator on at least a weekly basis directly to the Trustee for deposit in a trust fund, designated as the “Toll Revenue Fund,” which Fund the Trustee shall establish and maintain in trust. Investment income on amounts held by the Trustee in the Toll Revenue Fund shall also be deposited in the Toll Revenue Fund. All moneys at any time held in the Toll Revenue Fund shall be held in trust for the benefit of the holders of the Obligations and shall be disbursed, allocated and applied solely for the uses and purposes set forth in this Indenture.

Section 5.02  Establishment of Funds and Accounts.

(a) In addition to the Toll Revenue Fund established pursuant to Section 5.01, the following Funds and Accounts are hereby established and created and shall be maintained in trust by the Trustee:
(1) the Project Fund, and within the Project Fund, the First Senior Lien Obligations Account, the Second Senior Lien Obligations Account, the Subordinate Obligations Account, the Toll Revenues Project Account and the Insurance and Condemnation Proceeds Account;

(2) the Rebate Fund;

(3) the First Senior Lien Obligations Fund and, within the First Senior Lien Obligations Fund, the First Senior Lien Obligations Interest Account and the First Senior Lien Obligations Principal Account;

(4) the First Senior Lien Obligations Reserve Fund;

(5) the Second Senior Lien Obligations Fund and, within the Second Senior Lien Obligations Fund, the Second Senior Lien Obligations Interest Account and the Second Senior Lien Obligations Principal Account;

(6) the Second Senior Lien Obligations Reserve Fund;

(7) the Subordinate Obligations Fund and, within the Subordinate Obligations Fund, the Subordinate Obligations Interest Account and the Subordinate Obligations Principal Account;

(8) the Subordinate Obligations Reserve Fund;

(9) the Operation and Maintenance Reserve Fund; and

(10) the Capital Expenditures Fund.

and the following Funds shall be maintained by SANDAG:

(11) the Operation and Maintenance Fund established pursuant to Section 5.05; and

(12) the Distribution Fund, which SANDAG shall establish.

In addition, upon the written request of SANDAG, the Trustee shall establish and maintain additional temporary Funds or Accounts or sub-accounts for the purposes specified in any such request.

(b) All of the Funds and Accounts (other than the Distribution Fund and the Operation and Maintenance Fund) shall be held by the Trustee and, except as expressly provided herein, SANDAG shall not have any right to withdraw funds from any Fund or Account established pursuant to Section 5.02(a). SANDAG hereby irrevocably authorizes the Trustee to credit funds to or deposit funds in, and to withdraw and transfer funds from, each Fund or Account in accordance with the terms of this Indenture.
Section 5.03  Toll Revenue Fund; Priority of Deposits and Transfers.

(a) Except for amounts to be deposited in other Funds or Accounts pursuant to this Article, SANDAG shall promptly deposit or cause to be deposited into the Toll Revenue Fund all Revenue and transfers from other Funds or Accounts as required by the terms of this Indenture.

(b) Subject to Section 5.22 hereof, including the delivery of a Funds Transfer Certificate by SANDAG (to the extent required by such Section 5.22), the Trustee shall make the following transfers and payments from the Toll Revenue Fund in the amounts, at the times and only for the purposes specified below and in the following order of priority (it being agreed that no amount shall be transferred on any date pursuant to any clause below until amounts sufficient as of that Monthly Funding Date (to the extent applicable) for all the purposes specified under the prior clauses shall have been transferred or set aside):

First, on each Monthly Funding Date, to the Operation and Maintenance Fund, the amount necessary to increase the balance of the Operation and Maintenance Fund to an amount equal to the Operation and Maintenance Expenses then due and payable, plus one-sixth (1/6) of the Operation and Maintenance Expenses projected in accordance with the most recently-adopted Annual Operating Budget of SANDAG to be due and payable during the Fiscal Year continuing or commencing on the day after such Monthly Funding Date;

Second, on each Monthly Funding Date, any payments then due and payable by SANDAG to the Rebate Fund or any similar rebate fund established with respect to any future tax-exempt borrowing transaction under this Indenture;

Third, (x) on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, to the First Senior Lien Obligations Interest Account the sum of (A)(1) in the case of Outstanding First Senior Lien Obligations with semiannual interest payment dates, one-sixth (1/6) of the amount of the interest payable on such First Senior Lien Obligations on the next interest payment date; (2) in the case of Outstanding First Senior Lien Obligations with quarterly interest payment dates, one-third (1/3) of the amount of the interest payable on such First Senior Lien Obligations on the next interest payment date; and (3) in the case of Outstanding First Senior Lien Obligations with monthly interest payment dates, the amount of interest payable on such First Senior Lien Obligations on the next interest payment date; plus (B) the sum of any continuing shortfall in transfers required to have been made to the First Senior Lien Obligations Interest Account on any preceding Monthly Funding Date; plus (C) if such Monthly Funding Date is also an interest payment date or the last Monthly Funding Date before an interest payment date on any First Senior Lien Obligations, any other amount required to make the amount credited to the First Senior Lien Obligations Interest Account equal to the amount payable on such First Senior Lien Obligations on such interest payment date; and (y) on each Monthly Funding Date, to the applicable Swap Parties, scheduled Hedging Obligations due under any Qualified Swap Agreements, if any, net of any scheduled amounts payable to SANDAG with respect to such scheduled Hedging Obligations;

Fourth, on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, commencing twelve months before the first annual
principal payment date (including any mandatory sinking fund redemption date) or six months before the first semi-annual principal payment date (including any mandatory sinking fund redemption date), to the First Senior Lien Obligations Principal Account, the sum of (A)(1) in the case of Outstanding First Senior Lien Obligations with annual principal or mandatory sinking fund payment dates, one-twelfth (1/12) of the principal and mandatory sinking fund redemptions due on such First Senior Lien Obligations; and (2) in the case of Outstanding First Senior Lien Obligations with semi-annual principal or mandatory sinking fund payment dates, one-sixth (1/6) of the principal and mandatory sinking fund redemptions due on such First Senior Lien Obligations; and (B) the sum of any shortfall in transfers required to have been made to the First Senior Lien Obligations Principal Account on any previous Monthly Funding Date; and (C) if the Monthly Funding Date is also a principal payment date (or mandatory sinking fund redemption date) or the last Monthly Funding Date before a principal payment date (or mandatory sinking fund redemption date) on any First Senior Lien Obligations, any other amount required to make the amount credited to the First Senior Lien Obligations Principal Account equal to the amount of principal due on such First Senior Lien Obligations on such principal payment date or mandatory sinking fund redemption date;

Fifth, on each Monthly Funding Date, to the First Senior Lien Obligations Reserve Fund (or the applicable Account therein) the amount necessary so that the balance therein equals the applicable First Senior Lien Obligations Reserve Requirement; provided, however, that in the event that the Trustee shall have withdrawn moneys in the First Senior Lien Obligations Reserve Fund or any Account therein for the purpose of paying principal of or interest on the applicable First Senior Lien Obligations when due as provided in this Indenture, the Trustee shall limit such deposit to the First Senior Lien Obligations Reserve Fund or the applicable Account therein, on each of the next twelve Monthly Funding Dates after such withdrawal, to an amount equal to one-twelfth (1/12) of the aggregate amount of each such withdrawal until the amount on deposit in the First Senior Lien Obligations Reserve Fund (or the applicable Account therein) is equal to the applicable First Senior Lien Obligations Reserve Requirement; provided further however, that in the event such requirements cannot be fully funded, the funds available shall be transferred to each Account in the First Senior Lien Obligations Reserve Fund ratably in accordance with its respective shortfall;

Sixth, (x) on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, to the Second Senior Lien Obligations Interest Account the sum of (A)(1) in the case of Outstanding Second Senior Lien Obligations with semiannual interest payment dates, one-sixth (1/6) of the amount of the interest payable on such Second Senior Lien Obligations on the next interest payment date; (2) in the case of Outstanding Second Senior Lien Obligations with quarterly interest payment dates, one-third (1/3) of the amount of the interest payable on such Second Senior Lien Obligations on the next interest payment date; and (3) in the case of Outstanding Second Senior Lien Obligations with monthly interest payment dates, the amount of interest payable on such Second Senior Lien Obligations on the next interest payment date; plus (B) the sum of any continuing shortfall in transfers required to have been made to the Second Senior Lien Obligations Interest Account on any preceding Monthly Funding Date; plus (C) if such Monthly Funding Date is also an interest payment date or the last Monthly Funding Date before an interest payment date on any Second Senior Lien Obligations, any other amount required to make the amount credited to the Second Senior Lien Obligations Interest Account equal to the amount payable on such Second Senior Obligations.
Lien Obligations on such interest payment date, and (y) on each Monthly Funding Date, to the applicable Swap Parties, scheduled payments due under any Hedging Obligations, if any, net of any scheduled amounts payable to SANDAG with respect to such scheduled Hedging Obligations, under any Swaps entered into in connection with such Second Senior Lien Obligations;

Seventh, on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, commencing twelve months before the first annual principal payment date (including any mandatory sinking fund redemption date) or six months before the first semi-annual principal payment date (including any mandatory sinking fund redemption date), to the Second Senior Lien Obligations Principal Account, the sum of (A)(1) in the case of Outstanding Second Senior Lien Obligations with annual principal or mandatory sinking fund payment dates, one-twelfth (1/12) of the principal and mandatory sinking fund redemptions due on such Second Senior Lien Obligations; and (2) in the case of Outstanding Second Senior Lien Obligations with semi-annual principal or mandatory sinking fund payment dates, one-sixth (1/6) of the principal and mandatory sinking fund redemptions due on such Second Senior Lien Obligations; (B) the sum of any shortfall in transfers required to have been made to the Second Senior Lien Obligations Principal Account on any previous Monthly Funding Date; and (C) if the Monthly Funding Date is also a principal payment date (or mandatory sinking fund redemption date) or the last Monthly Funding Date before a principal payment date (or mandatory sinking fund redemption date) on any Second Senior Lien Obligations, any other amount required to make the amount credited to the Second Senior Lien Obligations Principal Account equal to the amount of principal due on such Second Senior Lien Obligations on such principal payment date or mandatory sinking fund redemption date;

Eighth, on each Monthly Funding Date, to the Second Senior Lien Obligations Reserve Fund (or the applicable Account therein), the amount necessary so that the balance therein equals the applicable Second Senior Lien Obligations Reserve Requirement; provided, however, that in the event that the Trustee shall have withdrawn moneys in the Second Senior Lien Obligations Reserve Fund therein for the purpose of paying principal of or interest on the applicable Second Senior Lien Obligations secured thereby when due as provided in this Indenture, the Trustee shall limit such deposit to the Second Senior Lien Obligations Reserve Fund, on each of the next twelve Monthly Funding Dates after such withdrawal, to an amount equal to one-twelfth (1/12th) of the aggregate amount of each such unreplenished withdrawal until the amount on deposit in the Second Senior Lien Obligations Reserve Fund is equal to the applicable Second Senior Lien Obligations Reserve Requirement; provided, further however, that in the event such requirements cannot be fully funded, the funds available shall be transferred to each Account in the Second Senior Lien Obligations Reserve Fund ratably in accordance with its respective shortfall;

Ninth, (x) on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, to the Subordinate Obligations Interest Account the sum of (A)(1) in the case of Outstanding Subordinate Obligations with semi-annual interest payment dates, one-sixth (1/6) of the interest payable on such Subordinate Obligations on the next interest payment date; (2) in the case of Outstanding Subordinate Obligations with quarterly interest payment dates, one-third (1/3) of the amount of the interest payable on such Subordinate Obligations on the next interest payment date; and (3) in the case of Outstanding Subordinate
Obligations with monthly interest payment dates, the interest payable on such Subordinate Obligations on the next interest payment date; plus (B) the sum of any continuing shortfall in transfers required to have been made to the Subordinate Obligations Interest Account on any preceding Monthly Funding Date; plus (C) if such Monthly Funding Date is also an interest payment date or the last Monthly Funding Date before an interest payment date on any Subordinate Obligations, any other amount required to make the amount credited to the Subordinate Obligations Interest Account equal to the interest payable on such Subordinate Obligations on such interest payment date;

Tenth, on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, commencing twelve months before the first annual principal payment date (including any mandatory sinking fund redemption date) or six months before the first semi-annual principal payment date (including any mandatory sinking fund redemption date), to the Subordinate Obligations Principal Account the sum of (A)(1) in the case of Outstanding Subordinate Obligations with annual principal payment dates, one-twelfth (1/12) of the principal due on such Subordinate Obligations on the next principal payment date; and (2) in the case of Outstanding Subordinate Obligations with semi-annual principal payment dates, one-sixth (1/6) of the principal redemptions due on such Subordinate Obligations on the next principal payment date; plus (B) the sum of any shortfall in transfers required to have been made to the Subordinate Obligations Principal Account on any previous Monthly Funding Date; plus (C) if the Monthly Funding Date is also a principal payment date or the last Monthly Funding Date before a principal payment date (or mandatory sinking fund redemption date) on any Subordinate Obligations, any other amount required to make the amount credited to the Subordinate Obligations Principal Account equal to the amount of principal due on such Subordinate Obligations on such principal payment date or mandatory sinking fund redemption date;

Eleventh, on each Monthly Funding Date, to the Subordinate Obligations Reserve Fund (or the applicable Account therein), the amount, if any, necessary to increase the balance therein (taking into account amounts then on deposit therein) to the Subordinate Obligations Reserve Requirement;

Twelfth, on each Monthly Funding Date and on each other date on which the following amounts shall be due and payable, to the counterparties to Qualified Swap Agreements or Swaps, an amount equal to any Hedging Termination Obligations payable upon a termination of any such Qualified Swap Agreements or Swaps;

Thirteenth, on each Monthly Funding Date, and only to the extent that funds are then available after application of funds for the purposes specified in the prior First through Twelfth clauses on such Monthly Funding Date, to the Operation and Maintenance Reserve Fund any remaining amounts as may be necessary to increase the amount on deposit therein to equal the Operation and Maintenance Reserve Fund Policy Limit; and

Fourteenth, on each Monthly Funding Date, and only to the extent that funds are then available after application of funds for the purposes specified in the prior First through Thirteenth clauses on such Monthly Funding Date, to the Capital Expenditures Fund, all remaining amounts, if any.
To the extent that on any Calculation Date or any other date of determination requested by SANDAG, SANDAG determines that (i) the amounts on deposit in the First Senior Lien Obligations Reserve Fund are in excess of the applicable First Senior Lien Obligations Reserve Requirement, (ii) the amounts on deposit in the Second Senior Lien Obligations Reserve Fund are in excess of the applicable Second Senior Lien Obligations Reserve Requirement, or (iii) amounts on deposit in the Subordinate Obligations Reserve Fund are in excess of the applicable Subordinate Obligations Reserve Requirement, then in each such case, as applicable, the excess amounts shall be transferred into the Toll Revenue Fund.

To the extent that on any Calculation Date or any other date of determination requested by SANDAG, SANDAG determines that the amounts on deposit in the Operation and Maintenance Reserve Fund are in excess of the Operation and Maintenance Reserve Fund Policy Limit, the excess amount shall be transferred into the Capital Expenditures Fund pursuant to a Written Request of SANDAG.

**Section 5.04 Project Fund**

(a) **Accounts.** Pursuant to Section 5.02(a) hereof, the Trustee is to establish and create and maintain in trust the following separate Accounts within the Project Fund:

1. the First Senior Lien Obligations Account;
2. the Second Senior Lien Obligations Account;
3. the Subordinate Obligations Account;
4. the Toll Revenues Project Account;
5. [Reserved;] and
6. the Insurance and Condemnation Proceeds Account.

Project Costs shall be paid from the Project Fund and its Accounts, including the First Senior Lien Obligations Account, the Second Senior Lien Obligations Account, the Subordinate Obligations Account and the Insurance and Condemnation Proceeds Account as described below. SANDAG shall be entitled to open new Accounts of the Project Fund for such purposes as may be set forth in a Supplemental Indenture.

(b) **First Senior Lien Obligations Account.** The net proceeds of each Series of the First Senior Lien Obligations shall be deposited by the Trustee into the applicable sub-account of the First Senior Lien Obligations Account as provided by the applicable Supplemental Indenture. The First Senior Lien Obligations Account and all sub-accounts therein shall be maintained in order to account for the receipt and disbursement of proceeds (and all earnings thereon) of the First Senior Lien Obligations, including but not limited to, the payment of, or reimbursement for a prior payment of, Costs of Issuance of First Senior Lien Obligations and other Project Costs permitted to be paid with the proceeds of such First Senior Lien Obligations. Funds therein shall be disbursed pursuant to a Funds Transfer Certificate in accordance with the provisions of Section 5.22. Notwithstanding anything to the contrary set forth herein, the
amounts on deposit in any such sub-account of the First Senior Lien Obligations Account (and all earnings thereon) shall secure only the First Senior Lien Obligations issued to fund the initial deposit to such sub-account, and such amounts shall be held by the Trustee hereunder solely for the benefit of the holders of such First Senior Lien Obligations until such funds have been disbursed in accordance with this Section.

(c) **Second Senior Lien Obligations Account.** The net proceeds of Second Senior Lien Obligations shall be deposited by the Trustee into the applicable sub-account of the Second Senior Lien Obligations Account as provided by the applicable Supplemental Indenture. The Second Senior Lien Obligations Account and all sub-accounts therein shall be maintained in order to account for the receipt and disbursement of proceeds (and all earnings thereon) of the Second Senior Lien Obligations, including but not limited to, the payment of, or reimbursement for a prior payment of, Costs of Issuance of Second Senior Lien Obligations and other Project Costs permitted to be paid with the proceeds of such Second Senior Lien Obligations. Funds therein shall be disbursed pursuant to a Funds Transfer Certificate in accordance with the provisions of Section 5.22. Notwithstanding anything to the contrary set forth herein, the amounts on deposit in any such sub-account of the Second Senior Lien Obligations Account (and all earnings thereon) shall secure only the Second Senior Lien Obligations issued to fund the initial deposit to such sub-account, and such amounts shall be held by the Trustee hereunder solely for the benefit of the holders of such Second Senior Lien Obligations until such funds have been disbursed in accordance with this Section.

(d) **Subordinate Obligations Account.** The net proceeds of Subordinate Obligations shall be deposited by the Trustee into the applicable sub-account of the Subordinate Obligations Account as provided by the applicable Supplemental Indenture. The Subordinate Obligations Account and all sub-accounts therein shall be maintained in order to account for the receipt and disbursement of proceeds (and all earnings thereon) of the Subordinate Obligations, including but not limited to, the payment of, or reimbursement for a prior payment of, Costs of Issuance of Subordinate Obligations and other Project Costs permitted to be paid with the proceeds of such Subordinate Obligations. Funds therein shall be disbursed pursuant to a Funds Transfer Certificate in accordance with the provisions of Section 5.22.

(e) **Toll Revenues Project Account.** The Toll Revenues Project Account and all sub-accounts therein shall be maintained in order to account for the proceeds (and all earnings thereon) of transfers from the Capital Expenditures Fund pursuant to Section 5.10(b), including the payment of Project Costs permitted to be paid from such amounts. Funds therein shall be disbursed pursuant to a Funds Transfer Certificate in accordance with the provisions of Section 5.22.

(f) **Insurance and Condemnation Proceeds Account.** Proceeds of fire and other casualty insurance payable to or received by SANDAG with respect to the Toll Road (whether by way of claims, return of premiums, ex gratia settlements or otherwise), and proceeds of any condemnation awards payable to or received by SANDAG with respect to the Toll Road shall be transferred to the Trustee and deposited by the Trustee into the Insurance and Condemnation Proceeds Account. If received prior to an applicable Substantial Completion Date, amounts on deposit in such account shall be used to pay Project Costs and shall be transferred in accordance with subsection (i) below. If received after the applicable Substantial
Completion Date, amounts on deposit in the Insurance and Condemnation Proceeds Account may be used by SANDAG to pay the costs of restoration, repair or rehabilitation of the Toll Road or portion thereof to which such insurance or condemnation proceeds relate; provided, however, that any portion of such amounts that SANDAG elects not to use for such restoration, repair or rehabilitation of the Toll Road or that are in excess of the amount needed for such restoration, repair or rehabilitation of the Toll Road, as evidenced by a Certificate of SANDAG delivered to the Trustee, shall be transferred to the Redemption Fund and applied to the prepayment of principal of Outstanding Highest Priority Obligations.

(g) Transfers Upon Final Completion. Any funds remaining on deposit in the Project Fund (or any Account thereof) relating to a Project upon final completion of such Project (as evidenced by delivery to the Trustee of a Certificate of SANDAG), will be deposited into the Toll Revenue Fund, except as otherwise required by any applicable law, including without limitation the Code.

Section 5.05 Operation and Maintenance Fund.

(a) SANDAG shall establish and maintain the Operation and Maintenance Fund in accordance herewith.

(b) Upon receipt of amounts transferred to the Operation and Maintenance Fund under Article V of this Indenture, SANDAG shall thereafter apply the funds in the Operation and Maintenance Fund for the payment of Operation and Maintenance Expenses in accordance with the terms of this Indenture.

Section 5.06 First Senior Lien Obligations Reserve Fund.

(a) On the date of issuance of any Series of First Senior Lien Obligations that has a First Senior Lien Obligations Reserve Requirement, the First Senior Lien Obligations Reserve Requirement for those First Senior Lien Obligations shall be deposited in the First Senior Lien Obligations Reserve Fund in an Account solely for the benefit of those First Senior Lien Obligations. Alternatively, the Supplemental Indenture for any Series of First Senior Lien Obligations may establish a pooled First Senior Lien Obligations Reserve Requirement for that Series of First Senior Lien Obligations and any one or more subsequently issued Series of First Senior Lien Obligations with the same pooled First Senior Lien Obligations Reserve Requirement, in which case the First Senior Lien Obligations Reserve Requirement for the initial issue of such First Senior Lien Obligations shall be deposited in the First Senior Lien Obligations Reserve Fund in an Account solely for the benefit of those First Senior Lien Obligations and any additional First Senior Lien Obligations with the same pooled First Senior Lien Obligations Reserve Requirement, and on the date of issuance of any such additional First Senior Lien Obligations, there shall be deposited in the Account the amount necessary to increase the balance in the Account to an amount equal to the First Senior Lien Obligations Reserve Requirement for all First Senior Lien Obligations secured by that Account.

(b) Monies on deposit in each Account within the First Senior Lien Obligations Reserve Fund shall be applied by the Trustee as follows:
(1) If on any (x) interest payment date for First Senior Lien Obligations secured by an Account within the First Senior Lien Obligations Reserve Fund, (y) principal payment date for such First Senior Lien Obligations or (z) redemption date on which such First Senior Lien Obligations are subject to mandatory sinking fund redemption, the amount on deposit in the applicable Account of the First Senior Lien Obligations Fund, determined after taking into account all amounts transferred to such Account of the First Senior Lien Obligations Fund in accordance with clauses Third and Fourth of Section 5.03(b), and amounts transferred from the following Funds in the following order of priority, the Capital Expenditures Fund and the Toll Revenue Fund in accordance with this Indenture on or prior to such date, is not sufficient to pay interest and/or principal and/or the redemption price (excluding any redemption premium) due on such First Senior Lien Obligations, then moneys shall be transferred to the First Senior Lien Obligations Interest Account and/or the First Senior Lien Obligations Principal Account, as applicable, from the applicable Account of the First Senior Lien Obligations Reserve Fund which, together with moneys then on deposit in the applicable Account of the First Senior Lien Obligations Fund, will be sufficient to pay interest and/or principal and/or the redemption price (excluding any redemption premium) due on such First Senior Lien Obligations on such date. Moneys shall be transferred first to the First Senior Lien Obligations Interest Account until such Account, together with any available funds then on deposit in the First Senior Lien Obligations Interest Account, is sufficiently funded with respect to such First Senior Lien Obligations and thereafter, to the First Senior Lien Obligations Principal Account until such Account, together with any available funds then on deposit in the First Senior Lien Obligations Principal Account, is sufficiently funded with respect to such First Senior Lien Obligations.

(2) Upon the maturity of First Senior Lien Obligations secured by funds on deposit in an Account of the First Senior Lien Obligations Reserve Fund or upon the earlier redemption of all or any portion of such First Senior Lien Obligations, SANDAG may direct the Trustee to transfer amounts on deposit in the applicable Account within the First Senior Lien Obligations Reserve Fund to the First Senior Lien Obligations Principal Account for application to the final payment of principal of all or a portion of the First Senior Lien Obligations secured thereby or to an escrow account established for defeasance of such First Senior Lien Obligations pursuant to Article X hereof, provided that, if less than all of the First Senior Lien Obligations mature or are redeemed, the amount remaining on deposit in such Account of the First Senior Lien Obligations Reserve Fund following any such transfer shall not be less than the First Senior Lien Obligations Reserve Requirement applicable to the First Senior Lien Obligations secured thereby to remain Outstanding.

(3) Except as provided in paragraph (2) above, any amounts on deposit in an Account of the First Senior Lien Obligations Reserve Fund in excess of the applicable First Senior Lien Obligations Reserve Requirement shall be applied in accordance with Section 5.03(c) of this Indenture.

(c) The lien on the First Senior Lien Obligations Reserve Fund (and all earnings thereon) shall apply only to the First Senior Lien Obligations and the related interest of the Holder of such First Senior Lien Obligations with respect to amounts on deposit in such Fund.
from time to time, and such amounts shall be solely for the benefit of such holder of First Senior Lien Obligations until such funds have been disbursed in accordance with this Section. If necessary, SANDAG shall instruct the Trustee to create Accounts within the First Senior Lien Obligations Reserve Fund to facilitate compliance with the provisions of this paragraph.

(d) The First Senior Lien Obligations Reserve Requirement for any Series of First Senior Lien Obligations may be permitted or required by the Supplemental Indenture establishing the First Senior Lien Obligations Reserve Requirement to be funded in whole or in part with a Reserve Facility. The terms and conditions for any Reserve Facility shall be set forth in the Reserve Facility or the Supplemental Indenture establishing the First Senior Lien Obligations Reserve Requirement to be met in whole or in part by the Reserve Facility, provided that those terms and conditions shall conform to and be consistent with the provisions set forth in this Section 5.06. The Trustee shall withdraw cash (and liquidate investments to produce cash) and draw on Reserve Facilities in or with respect to any Account in the First Senior Lien Obligations Reserve Fund to fund payments of principal of and interest on First Senior Lien Obligations supported by such Account in the First Senior Lien Obligations Reserve Fund in the manner and in the order specified herein and in the applicable Supplemental Indenture or Supplemental Indentures. This Indenture shall not be discharged until all Reserve Facility Costs owing to a Reserve Facility Provider have been paid in full.

Section 5.07 Second Senior Lien Obligations Reserve Fund.

(a) On the date of issuance of any Series of Second Senior Lien Obligations that has a Second Senior Lien Obligations Reserve Requirement, the Second Senior Lien Obligations Reserve Requirement for those Second Senior Lien Obligations shall be deposited in the Second Senior Lien Obligations Reserve Fund in an Account solely for the benefit of those Second Senior Lien Obligations. Alternatively, the Supplemental Indenture for any Series of Second Senior Lien Obligations may establish a pooled Second Senior Lien Obligations Reserve Requirement for those Second Senior Lien Obligations and any one or more subsequently issued Second Senior Lien Obligations with the same pooled Second Senior Lien Obligations Reserve Requirement, in which case the Second Senior Lien Obligations Reserve Requirement for the initial issue of such Second Senior Lien Obligations shall be deposited in the Second Senior Lien Obligations Reserve Fund in an Account solely for the benefit of those Second Senior Lien Obligations and any additional Second Senior Lien Obligations with the same pooled Second Senior Lien Obligations Reserve Requirement, and on the date of issuance of any such additional Second Senior Lien Obligations, there shall be deposited in the Account the amount necessary to increase the balance in the Account to an amount equal to the Second Senior Lien Obligations Reserve Requirement for all Second Senior Lien Obligations secured by that Account.

(b) Monies on deposit in each Account within the Second Senior Lien Obligations Reserve Fund shall be applied by the Trustee as follows:

(1) If on any (x) interest payment date for Second Senior Lien Obligations secured by an Account within the Second Senior Lien Obligations Reserve Fund, (y) principal payment date for such Second Senior Lien Obligations or (z) redemption date on which such Second Senior Lien Obligations are subject to mandatory sinking fund redemption, the amount on deposit in the applicable Account of the Second
Senior Lien Obligations Fund, determined after taking into account all amounts transferred to such Account of the Second Senior Lien Obligations Fund in accordance with clauses Sixth and Seventh of Section 5.03(b), and amounts transferred from the following Funds in the following order of priority, the Capital Expenditures Fund and the Toll Revenue Fund in accordance with this Indenture on or prior to such date, is not sufficient to pay interest and/or principal and/or the redemption price (excluding any redemption premium) due on such Second Senior Lien Obligations, then moneys shall be transferred to the Second Senior Lien Obligations Interest Account and/or the Second Senior Lien Obligations Principal Account, as applicable, from the applicable Account of the Second Senior Lien Obligations Reserve Fund which, together with moneys then on deposit in the applicable Account of the Second Senior Lien Obligations Fund, will be sufficient to pay interest and/or principal and/or the redemption price (excluding any redemption premium) due on such Second Senior Lien Obligations on such date. Moneys shall be transferred first to the Second Senior Lien Obligations Interest Account until such Account, together with any available funds then on deposit in the Second Senior Lien Obligations Interest Account, is sufficiently funded with respect to such Second Senior Lien Obligations and thereafter, to the Second Senior Lien Obligations Principal Account until such Account, together with any available funds then on deposit in the Second Senior Lien Obligations Principal Account, is sufficiently funded with respect to such Second Senior Lien Obligations.

(2) Upon the maturity of Second Senior Lien Obligations secured by funds on deposit in an Account of the Second Senior Lien Obligations Reserve Fund or upon the earlier redemption of all or any portion of such Second Senior Lien Obligations, SANDAG may direct the Trustee to transfer amounts on deposit in the applicable Account within the Second Senior Lien Obligations Reserve Fund to the Second Senior Lien Obligations Principal Account for application to the final payment of principal of all or a portion of the Second Senior Lien Obligations secured thereby or to an escrow account established for defeasance of such Second Senior Lien Obligations pursuant to Article X hereof, provided that, if less than all of the Second Senior Lien Obligations mature or are redeemed, the amount remaining on deposit in such Account of the Second Senior Lien Obligations Reserve Fund following any such transfer shall not be less than the Second Senior Lien Obligations Reserve Requirement applicable to the Second Senior Lien Obligations secured thereby to remain Outstanding.

(3) Except as provided in paragraph (2) above, any amounts on deposit in an Account of the Second Senior Lien Obligations Reserve Fund in excess of the applicable Second Senior Lien Obligations Reserve Requirement shall be applied in accordance with Sections 5.03(c) of this Indenture.

(c) The lien on the Second Senior Lien Obligations Reserve Fund (and all earnings thereon) shall apply only to the Second Senior Lien Obligations and the related interest of the Holder of such Second Senior Lien Obligations with respect to amounts on deposit in such Fund from time to time, and such amounts shall be solely for the benefit of such holder of Second Senior Lien Obligations until such funds have been disbursed in accordance with this Section. If necessary, SANDAG shall instruct the Trustee to create Accounts within the Second

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Senior Lien Obligations Reserve Fund to facilitate compliance with the provisions of this paragraph.

(d) The Second Senior Lien Obligations Reserve Requirement for any Series of Second Senior Lien Obligations may be permitted or required by the Supplemental Indenture establishing the Second Senior Lien Obligations Reserve Requirement to be funded in whole or in part with a Reserve Facility. The terms and conditions for any Reserve Facility shall be set forth in the Reserve Facility or the Supplemental Indenture establishing the Second Senior Lien Obligations Reserve Requirement to be met in whole or in part by the Reserve Facility, provided that those terms and conditions shall conform to and be consistent with the provisions set forth in this Section 5.07. The Trustee shall withdraw cash (and liquidate investments to produce cash) and draw on Reserve Facilities in or with respect to any Account in the Second Senior Lien Obligations Reserve Fund to fund payments of principal of and interest on Second Senior Lien Obligations supported by such Account in the Second Senior Lien Obligations Reserve Fund in the manner and in the order specified herein and in the applicable Supplemental Indenture or Supplemental Indentures. This Indenture shall not be discharged until all Reserve Facility Costs owing to a Reserve Facility Provider have been paid in full.

Section 5.08 Subordinate Obligations Reserve Fund.

(a) The Subordinate Obligations Reserve Requirement for those Subordinate Obligations secured by the Subordinate Obligations Reserve Fund or an Account therein shall be deposited in the Subordinate Obligations Reserve Fund in an Account solely for the benefit of those Subordinate Obligations on the dates and in the amounts set forth in the Supplemental Indenture authorizing the issuance of such Subordinate Obligations; provided, however, alternatively, the Supplemental Indenture for any Series of Subordinate Obligations may establish a pooled Subordinate Obligations Reserve Requirement for those Subordinate Obligations and any one or more subsequently issued Subordinate Obligations with the same pooled Subordinate Obligations Reserve Requirement, in which case the Subordinate Obligations Reserve Requirement for the initial issue of such Subordinate Obligations shall be deposited in the Subordinate Obligations Reserve Fund in an Account solely for the benefit of those Subordinate Obligations and any additional Subordinate Obligations with the same pooled Subordinate Obligations Reserve Requirement, and on the date of issuance of any such additional Subordinate Obligations, there shall be deposited in the Account the amount necessary to increase the balance in the Account to an amount equal to the Subordinate Obligations Reserve Requirement for all Subordinate Obligations secured by that Account.

(b) Monies on deposit in each Account within the Subordinate Obligations Reserve Fund shall be applied by the Trustee as follows:

(1) If on any (x) interest payment date for Subordinate Obligations secured by an Account within the Subordinate Obligations Reserve Fund, (y) principal payment date for such Subordinate Obligations or (z) redemption date on which such Subordinate Obligations are subject to mandatory sinking fund redemption, the amount on deposit in the applicable Account of the Subordinate Obligations Fund, determined after taking into account all amounts transferred to such Account of the Subordinate Obligations Fund in accordance with clauses Ninth and Tenth of Section 5.03(b), and
amounts transferred from the following Funds in the following order of priority, the Capital Expenditures Fund and the Toll Revenue Fund in accordance with this Indenture on or prior to such date, is not sufficient to pay interest and/or principal and/or the redemption price (excluding any redemption premium) due on such Subordinate Obligations, then moneys shall be transferred to the Subordinate Obligations Interest Account and/or the Subordinate Obligations Principal Account, as applicable, from the applicable Account of the Subordinate Obligations Reserve Fund which, together with moneys then on deposit in the applicable Account of the Subordinate Obligations Fund, will be sufficient to pay interest and/or principal and/or the redemption price (excluding any redemption premium) due on such Subordinate Obligations on such date. Moneys shall be transferred first to the Subordinate Obligations Interest Account until such Account, together with any available funds then on deposit in the Subordinate Obligations Interest Account, is sufficiently funded with respect to such Subordinate Obligations and thereafter, to the Subordinate Obligations Principal Account until such Account, together with any available funds then on deposit in the Subordinate Obligations Principal Account, is sufficiently funded with respect to such Subordinate Obligations.

(2) Upon the maturity of Subordinate Obligations secured by funds on deposit in an Account of the Subordinate Obligations Reserve Fund or upon the earlier redemption of all or any portion of such Subordinate Obligations, SANDAG may direct the Trustee to transfer amounts on deposit in the applicable Account within the Subordinate Obligations Reserve Fund to the Subordinate Obligations Principal Account for application to the final payment of principal of all or a portion of the Subordinate Obligations secured thereby or to an escrow account established for defeasance of such Subordinate Obligations pursuant to Article X hereof, provided that, if less than all of the Subordinate Obligations mature or are redeemed, the amount remaining on deposit in such Account of the Subordinate Obligations Reserve Fund following any such transfer shall not be less than the Subordinate Obligations Reserve Requirement applicable to the Subordinate Obligations secured thereby to remain Outstanding.

(3) Except as provided in paragraph (2) above, any amounts on deposit in an Account of the Subordinate Obligations Reserve Fund in excess of the applicable Subordinate Obligations Reserve Requirement shall be applied in accordance with Section 5.03(c) of this Indenture.

(c) The lien on the Subordinate Obligations Reserve Fund (and all earnings thereon) shall apply only to the Subordinate Obligations and the related interest of the Holder of such Subordinate Obligations with respect to amounts on deposit in such Fund from time to time, and such amounts shall be solely for the benefit of such holder of Subordinate Obligations until such funds have been disbursed in accordance with this Section. If necessary, SANDAG shall instruct the Trustee to create Accounts within the Subordinate Obligations Reserve Fund to facilitate compliance with the provisions of this paragraph.

(d) The Subordinate Obligations Reserve Requirement for any Series of Subordinate Obligations may be permitted or required by the Supplemental Indenture establishing the Subordinate Obligations Reserve Requirement to be funded in whole or in part
with a Reserve Facility. The terms and conditions for any Reserve Facility shall be set forth in the Reserve Facility or the Supplemental Indenture establishing the Subordinate Obligations Reserve Requirement to be met in whole or in part by the Reserve Facility, provided that those terms and conditions shall conform to and be consistent with the provisions set forth in this Section 5.08. The Trustee shall withdraw cash (and liquidate investments to produce cash) and draw on Reserve Facilities in or with respect to any Account in the Subordinate Obligations Reserve Fund to fund payments of principal of and interest on Subordinate Obligations supported by such Account in the Subordinate Obligations Reserve Fund in the manner and in the order specified herein and in the applicable Supplemental Indenture or Supplemental Indentures. This Indenture shall not be discharged until all Reserve Facility Costs owing to a Reserve Facility Provider have been paid in full.

Section 5.09  Operation and Maintenance Reserve Fund.

(a) On each Monthly Funding Date, the Trustee shall, in accordance with clause Thirteenth of Section 5.03(b), cause amounts in the Toll Revenue Fund, to the extent available after application of funds for the purposes specified in clauses First through Twelfth of Section 5.03(b), to be deposited into the Operation and Maintenance Reserve Fund as may be necessary to increase the amount on deposit therein to equal the Operation and Maintenance Reserve Fund Policy Limit.

(b) In the event that SANDAG delivers to the Trustee a Written Request of SANDAG certifying that (i) at any time, monies on deposit in the Operation and Maintenance Fund are insufficient to pay Operation and Maintenance Expenses then due and payable, or (ii) on any Monthly Funding Date, monies on deposit in the Toll Revenue Fund are insufficient to make the deposits required by clause First of Section 5.03(b), then, to the extent funds are on deposit in the Operation and Maintenance Reserve Fund, the Trustee shall transfer such funds to the Operation and Maintenance Fund in an amount sufficient to cure such deficiency.

(c) If on the Business Day prior to an interest payment date or principal payment date, the amount then on deposit in the First Senior Lien Obligations Fund, the Second Senior Lien Obligations Fund or the Subordinate Obligations Fund is insufficient to pay the principal of, and/or interest on, the related First Senior Lien Obligations, Second Senior Lien Obligations and/or Subordinate Obligations secured thereby then due, the Trustee shall make the following transfers from amounts on deposit in the Operation and Maintenance Reserve Fund in the following order of priority; first, to the First Senior Lien Obligations Fund, the amount necessary to pay principal and interest due and payable on such interest payment date or principal payment date on the First Senior Lien Obligations; second, to the Second Senior Lien Obligations Fund, the amount necessary to pay principal and interest due and payable on such interest payment date or principal payment date on the Second Senior Lien Obligations and third, to the Subordinate Obligations Fund, the amount necessary to pay principal and interest due and payable on such interest payment date or principal payment date on the Subordinate Obligations.

Section 5.10  Capital Expenditures Fund; Distribution Fund.

(a) On each Monthly Funding Date, the Trustee shall, in accordance with clause [Sixteenth] of Section 5.03(b), cause amounts in the Toll Revenue Fund, to the extent
available after application of funds for the purposes specified in clauses First through Thirteenth of Section 5.03(b), to be deposited into the Capital Expenditures Fund.

(b) In the event that SANDAG delivers to the Trustee a Written Request of SANDAG certifying that (i) SANDAG expects to make specified expenditures for Project Costs relating to any Project, (ii) such Project Costs are lawfully payable from Toll Revenues pursuant to the Act, the Toll Road Act or as otherwise authorized by law, (iii) no Event of Default has occurred and is continuing hereunder, (iv) no Event of Default would, including with the passage of time or the giving of notice, as applicable, occur hereunder as a result of the transfer of funds from the Capital Expenditures Fund to the Toll Revenues Project Account for application to pay Project Costs as specified in the Written Request, and (v) there is no shortfall in funding the amounts required by clauses First through [Thirteenth] of Section 5.03(c), then, to the extent funds are on deposit in the Capital Expenditures Fund, the Trustee shall transfer such funds or any portion thereof to the Toll Revenues Project Account established within the Project Fund, or any subaccount thereof, as directed in the Written Request of SANDAG.

(c) If on the Business Day prior to an interest payment date or principal payment date, the amount then on deposit in the First Senior Lien Obligations Fund, the Second Senior Lien Obligations Fund or the Subordinate Obligations Fund is insufficient to pay the principal of, and/or interest on, the related First Senior Lien Obligations, Second Senior Lien Obligations and/or Subordinate Obligations secured thereby then due, the Trustee shall make the following transfers from amounts on deposit in the Capital Expenditures Fund in the following order of priority; first, to the First Senior Lien Obligations Fund, the amount necessary to pay principal and interest due and payable on such interest payment date or principal payment date on the First Senior Lien Obligations; second, to the Second Senior Lien Obligations Fund, the amount necessary to pay principal and interest due and payable on such interest payment date or principal payment date on the Second Senior Lien Obligations and third, to the Subordinate Obligations Fund, the amount necessary to pay principal and interest due and payable on such interest payment date or principal payment date on the Subordinate Obligations.

(d) On June 1 and December 1 each year, after the payment of all amounts due on SANDAG’s Obligations on such date, any amounts remaining on deposit in the Capital Expenditures Fund in excess of the Capital Expenditures Fund Retained Balance Requirement shall be transferred to the Distribution Fund; provided that, to the actual knowledge of the Trustee, no Event of Default has occurred and is continuing hereunder and that there is no shortfall in funding the amounts required by clauses First through Thirteenth of Section 5.03(c) on such date.

(e) Funds on deposit in the Distribution Fund and funds credited to such Fund will not be subject to the lien and pledge of this Indenture, and SANDAG will have the exclusive right to withdraw or otherwise dispose of or transfer funds on deposit in the Distribution Fund to any account (or to such Person) as directed by SANDAG in writing in its sole discretion.

Section 5.11 Rebate Fund. There shall be deposited in the Rebate Fund amounts transferred in accordance with clause Second Section 5.03(b). All money at any time deposited in the Rebate Fund shall be held by the Trustee to satisfy the Rebate Requirement (as defined in the Tax Certificate) for payment to the United States of America. The Trustee shall
have no responsibility with respect to the Rebate Fund or the Rebate Requirement except to follow the written instructions of SANDAG.

Section 5.12  First Senior Lien Obligations Interest Account.

(a) On each Monthly Funding Date, the Trustee shall, in accordance with clause Third of Section 5.03(b), cause amounts in the Toll Revenue Fund, to the extent available after application of funds for the purposes specified in clauses First and Second of Section 5.03(b), and before making any transfers to the First Senior Lien Obligations Fund from the Capital Expenditures Fund in accordance with Section 5.10(c) and from the First Senior Lien Obligations Reserve Fund in accordance with Section 5.06(b), in such order of priority, to be deposited into the First Senior Lien Obligations Interest Account.

(b) On the Business Day prior to each date when the interest portion of debt service on any First Senior Lien Obligations shall be due and payable, monies on deposit in the First Senior Lien Obligations Interest Account shall be applied pro rata to the payment of the interest due on such First Senior Lien Obligations in accordance with this Indenture.

Section 5.13  First Senior Lien Obligations Principal Account.

(a) On each Monthly Funding Date, the Trustee shall, in accordance with clause Fourth of Section 5.03(b), cause amounts in the Toll Revenue Fund, to the extent available after application of funds for the purposes specified in clauses First through Third of Section 5.03(b), and before making any transfers to the First Senior Lien Obligations Fund from the Capital Expenditures Fund in accordance with Section 5.10(c) and from the First Senior Lien Obligations Reserve Fund in accordance with Section 5.06(b), in such order of priority, to be deposited into the First Senior Lien Obligations Principal Account.

(b) On the Business Day prior to each date when the principal portion of debt service (including any mandatory sinking fund redemption payments) on any First Senior Lien Obligations shall be due and payable, monies on deposit in the First Senior Lien Obligations Principal Account shall be applied pro rata to the payment of the principal portion of such First Senior Lien Obligations in accordance with this Indenture.

Section 5.14  Second Senior Lien Obligations Interest Account.

(a) On each Monthly Funding Date, the Trustee shall, in accordance with clause Sixth of Section 5.03(b), cause amounts in the Toll Revenue Fund, to the extent available after application of funds for the purposes specified in clauses First through Fifth of Section 5.03(b), and before making any transfers to the Second Senior Lien Obligations Fund from the Capital Expenditures Fund in accordance with Section 5.10(c) and from the Second Senior Lien Obligations Reserve Fund in accordance with Section 5.07(b), in such order of priority, to be deposited into the Second Senior Lien Obligations Interest Account.

(b) On the Business Day prior to each date when the interest portion of debt service on any Second Senior Lien Obligations shall be due and payable, monies on deposit in the Second Senior Lien Obligations Interest Account shall be transferred pro rata to the trustee for the interest due on such Second Senior Lien Obligations in accordance with this Indenture.
Section 5.15 Second Senior Lien Obligations Principal Account.

(a) On each Monthly Funding Date, the Trustee shall, in accordance with clause Seventh of Section 5.03(b), cause amounts in the Toll Revenue Fund, to the extent available after application of funds for the purposes specified in clauses First through Sixth of Section 5.03(b), and before making any transfers to the Second Senior Lien Obligations Fund from the Capital Expenditures Fund in accordance with Section 5.10(c) and from the Second Senior Lien Obligations Reserve Fund in accordance with Section 5.07(b), in such order of priority, to be deposited into the Second Senior Lien Obligations Principal Account.

(b) On the Business Day prior to the date when the principal portion of debt service (including any mandatory sinking fund redemption payments) on any Second Senior Lien Obligations shall be due and payable, monies on deposit in the Second Senior Lien Obligations Principal Account shall be transferred pro rata to the trustee for the principal portion of such Second Senior Lien Obligations in accordance with this Indenture.

Section 5.16 Subordinate Obligations Interest Account.

(a) On each Monthly Funding Date, the Trustee shall, in accordance with clause Ninth of Section 5.03(b), cause amounts in the Toll Revenue Fund, to the extent available after application of funds for the purposes specified in clauses First through Eighth of Section 5.03(b), and before making any transfers to the Subordinate Obligations Fund from the Capital Expenditures Fund in accordance with Section 5.10(c) and from the Subordinate Obligations Reserve Fund in accordance with Section 5.08(b), in such order of priority, to be deposited into the Subordinate Obligations Interest Account.

(b) On the Business Day prior to the date when the interest portion of debt service on any Subordinate Obligations shall be due and payable, monies on deposit in the Subordinate Obligations Interest Account shall be transferred to the trustee for or Holder of such Subordinate Obligations in accordance this Indenture.

Section 5.17 Subordinate Obligations Principal Account.

(a) On each Monthly Funding Date, the Trustee shall, in accordance with clause Tenth of Section 5.03(b), cause amounts in the Toll Revenue Fund, to the extent available after application of funds for the purposes specified in clauses First through Ninth and, to the extent applicable, Tenth and Eleventh, of Section 5.03(b), and before making any transfers to the Subordinate Obligations Fund from the Capital Expenditures Fund in accordance with Section 5.10(c) and from the Subordinate Obligations Reserve Fund in accordance with Section 5.08(b), in such order of priority, to be deposited into the Subordinate Obligations Principal Account.

(b) On the Business Day prior to the date when the interest portion of debt service on any Subordinate Obligations shall be due and payable, monies on deposit in the Subordinate Obligations Principal Account shall be transferred to the trustee for or Holder of such Subordinate Obligations in accordance this Indenture.

Section 5.18 Establishment and Application of the Redemption Fund. The Trustee shall establish, maintain and hold in trust a special Fund designated as the “Redemption
Fund.” All moneys deposited by SANDAG with the Trustee for the purpose of redeeming Obligations of any Series (other than pursuant to a mandatory sinking fund redemption) shall, unless otherwise provided in the Supplemental Indenture establishing the terms and conditions for such Series Obligations, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of redeeming Obligations of such Series and maturity as shall be specified by SANDAG in a Written Request of SANDAG delivered to the Trustee, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which such Series of Obligations was issued. Such Written Request of SANDAG may specify that amounts on deposit in the Redemption Fund that remain unclaimed for a specified period of time shall be paid to SANDAG, and the Trustee shall pay such unclaimed amounts to SANDAG in accordance with the Written Request of SANDAG.

Section 5.19 Records. The Trustee shall cause to be kept and maintained records pertaining to each Fund and Account held by it and all disbursements therefrom and shall deliver monthly to SANDAG statements of activity with respect to such Funds and Accounts, provided that the Trustee shall not be obligated to report as to any Fund or Account that (a) has a balance of zero and (b) has not had any activity since the last reporting date.

Section 5.20 Investment by Trustee. Unless otherwise provided in a Supplemental Indenture, moneys held by the Trustee in the Funds and Accounts created hereunder shall be invested and reinvested in Permitted Investments in accordance with the written instructions of an Authorized Representative.

Unless otherwise specified in the Supplemental Indenture with respect to a Fund or Account created pursuant to such Supplemental Indenture, all Permitted Investments shall be held by or under the control of the Trustee and shall be deemed at all times to be a part of the Fund or Account that was used to purchase the Permitted Investment. Unless otherwise provided by a Written Request of SANDAG or in a Supplemental Indenture with respect to a Fund or Account created pursuant thereto, all interest, profits and other income received from the investment of moneys in any Fund or Account held by the Trustee, other than the Rebate Fund and the Accounts in the Project Fund, shall be transferred to the Toll Revenue Fund when received. All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited in the Rebate Fund. All interest, profits and other income received from the investment of moneys in the Operation and Maintenance Fund shall be deposited in the Operation and Maintenance Fund. All interest, profits and other income received from the investment of moneys in the Distribution Fund shall be deposited in the Distribution Fund. Unless otherwise provided in a Supplemental Indenture establishing an Account within the Project Fund, all interest, profits and other income received from the investment of moneys in an Account within the Project Fund shall be deposited in such Account. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Permitted Investment equal to the amount of accrued interest, if any, paid as part of the purchase price of such Permitted Investment shall be credited to the Fund or Account from which such accrued interest was paid.

The Trustee is authorized and directed to cause to be sold or redeemed and reduced to cash a sufficient amount of Permitted Investments whenever the cash balance in any
Fund or Account is or will be insufficient to make any required disbursement. The Trustee shall not be responsible for any depreciation in the value of any Permitted Investment or for any loss resulting from such sale or redemption. Absent a Written Request of SANDAG instructing the Trustee how to invest the cash balance in a Fund or Account held by the Trustee hereunder, the Trustee shall hold such cash balances uninvested pending its receipt of such a Written Request of SANDAG.

All Permitted Investments credited to the First Senior Lien Obligations Reserve Fund, the Second Senior Lien Obligations Reserve Fund or the Subordinate Obligations Reserve Fund shall be valued by the Trustee as of each Calculation Date. All Permitted Investments credited to the First Senior Lien Obligations Reserve Fund, the Second Senior Lien Obligations Reserve Fund or the Subordinate Obligations Reserve Fund shall be valued at their fair market value determined to the extent practical by reference to the closing bid price thereof published in *The Wall Street Journal* or any other financial publication or generally recognized pricing information service selected by the Trustee in its discretion. The Trustee may use and rely conclusively and without liability upon any generally recognized pricing information service (including brokers and dealers in securities) available to it.

SANDAG acknowledges that regulations of the Comptroller of the Currency grant SANDAG the right to receive brokerage confirmations of the security transactions as they occur, at no additional cost. To the extent permitted by law, SANDAG specifically waives compliance with 12 C.F.R. 12 and hereby notifies the Trustee that no brokerage confirmations need be sent relating to the security transactions as they occur.

The Trustee or its affiliates may act as sponsor, advisor, principal or agent in the acquisition or disposition of any investment with the prior written approval of an Authorized Representative. The Trustee may commingle any of the moneys held by it pursuant to this Indenture (except for amounts on deposit in the Rebate Fund and any Fund or Account established to hold the proceeds of a drawing on any Credit Support Instrument) for investment purposes only; provided, however, that the Trustee shall account separately for the moneys belonging to each Fund or Account established pursuant to this Indenture and held by it. SANDAG shall not commingle the moneys held by it in the Operation and Maintenance Fund with any other funds held by SANDAG. The Trustee may rely on the investment directions of SANDAG as to both the suitability and legality of the directed investments.

**Section 5.21 Subsidy Payments.** SANDAG irrevocably directs that all Subsidy Payments with respect to First Senior Lien Bonds be made directly to the Trustee for deposit in the First Senior Lien Obligations Interest Account pursuant to this Indenture. SANDAG irrevocably directs that all Subsidy Payments with respect to Second Senior Lien Obligations be made directly to the Trustee for deposit in the Second Senior Lien Obligations Interest Account pursuant to this Indenture. SANDAG irrevocably directs that all Subsidy Payments with respect to Subordinate Obligations be made directly to the Trustee for deposit in the Subordinate Obligations Fund pursuant to this Indenture. Any such Subsidy Payments received by SANDAG shall be promptly remitted to the Trustee. The Trustee shall deposit all such Subsidy Payments to the applicable Account upon receipt thereof.
Section 5.22 Withdrawal and Application of Funds; Priority of Transfers from Funds and Accounts

(a) Except as provided in Sections 5.06, 5.07, 5.08, 5.09, 5.10, 5.11, 5.12, 5.13, 5.14, 5.15, 5.17 and 5.18, each withdrawal or transfer of funds from the Funds and Accounts by the Trustee on behalf of SANDAG in accordance herewith shall be made pursuant to an executed Funds Transfer Certificate, which certificate shall be provided and prepared by SANDAG in accordance with the terms hereof and shall contain a certification by SANDAG that such withdrawal or transfer complies with the requirements of this Indenture.

(b) The Funds Transfer Certificate relating to each applicable Fund or Account shall be delivered to the Trustee (with a copy to the trustee for or Holder of any Second Senior Lien Obligations or Subordinate Obligations) no later than two (2) Business Days prior to each date on which funds are proposed to be withdrawn from the applicable Fund or Account or transferred from a Fund or Account to another Fund or Account in accordance with this Indenture. The Trustee shall comply with any such Funds Transfer Certificate; provided, that if the trustee for or Holder of Second Senior Lien Obligations or Subordinate Obligations provides written notice to the Trustee, SANDAG and the other Secured Creditors that any payment, withdrawal or transfer of funds is not in compliance with this Indenture or the other Financing Documents and specifies such non-compliance in such notice, SANDAG shall not be entitled to cause such proposed withdrawal until such time as it has submitted a revised Funds Transfer Certificate which complies with the terms hereof or thereof.

(c) SANDAG shall have the right to withdraw or cause to be transferred funds from the Operation and Maintenance Fund solely for the purpose of payment of Operation and Maintenance Expenses, at any time, without any approval or consent of the Trustee or any other person.

(d) Each Funds Transfer Certificate requesting a disbursement from an Account within the Project Fund shall contain the following certifications by SANDAG:

1. the names of the persons, firms or corporations to whom each such payment is due, including SANDAG in the case of reimbursements or the Trustee in the case of payments of capitalized interest;

2. the respective amounts to be paid or reimbursed to such entities;

3. the purpose or Project Cost by general classification for which each such obligation to be paid or reimbursed was incurred;

4. that obligations in the stated amounts have been incurred by SANDAG and presently are due and payable (except with respect to requisitions for capitalized interest, in which case amounts requisitioned, together with expected earnings from investment thereof, do not exceed amounts properly capitalizable as interest related to projects prior to their completion), or properly are reimbursable to SANDAG, and that each item thereof is a Project Cost, is a proper charge against the applicable Account in the Project Fund, and has not been paid or reimbursed previously;
(5) that there has not been filed with or served on SANDAG any notice of lien, right of lien, or attachment upon or claim affecting the right of any person, firm or corporation named in such requisition to receive payment of any amounts which has not been released or will not be released simultaneously with the payment of such obligation; and

(6) that, as of the date of such Funds Transfer Certificate, no event or condition exists that constitutes, or that with the notice or lapse of time or both, would constitute, an Event of Default under this Indenture.

ARTICLE VI

COVENANTS OF SANDAG

Section 6.01 Punctual Payment and Performance. SANDAG will punctually pay the principal of and the interest on (and redemption premiums, if any, to become due on) its Obligations hereunder in strict conformity with the terms of the Act, this Indenture and such Obligations, and will faithfully observe and perform all of the agreements and covenants contained in this Indenture and such Obligations.

Section 6.02 Against Encumbrances. SANDAG will not create or cause or permit to be created any pledge, lien, charge or encumbrance having priority over the lien of the First Senior Lien Obligations upon any part of the Trust Estate, except for Operation and Maintenance Expenses payable from Revenue. SANDAG will not create or cause or permit to be created any pledge, lien, charge or encumbrance having parity with the lien of the First Senior Lien Obligations upon any part of the Trust Estate except the lien of First Senior Lien Obligations. SANDAG will not create or cause or permit to be created any pledge, lien, charge or encumbrance having priority over the lien of the Second Senior Lien Obligations upon any part of the Trust Estate except First Senior Lien Obligations. SANDAG will not create or cause or permit to be created or issue any Obligations secured by the Trust Estate except as provided in Article III.

Section 6.03 Toll and Revenue Covenants.

(a) SANDAG covenants that it shall at all times establish, levy, maintain and collect tolls in connection with the Toll Road and establish such charges for use of the property constituting part of the Toll Road, including, without limitation and as permitted by law, leasehold payments, concession payments, rents and other charges, as shall be sufficient, collectively, to produce Net Revenue in each Fiscal Year equal to or in excess of the ratios set forth in each of (1), (2), and (3) below:

(1) one hundred fifty percent (150%) of the Annual Debt Service in such Fiscal Year on all Outstanding First Senior Lien Obligations;
(2) one hundred thirty percent (135%) of the Annual Debt Service in such Fiscal Year on all Outstanding First Senior Lien Obligations and Second Senior Lien Obligations;

(3) one hundred fifteen percent (115%) of the Annual Debt Service in such Fiscal Year on all Outstanding First Senior Lien Obligations, Second Senior Lien Obligations and Subordinate Obligations; and

(4) one hundred percent (100%) of the Annual Debt Service in such Fiscal Year on all Outstanding Obligations, plus the amounts required to be deposited into the First Senior Lien Obligations Reserve Fund, the Second Senior Lien Obligations Reserve Fund, the Subordinate Obligations Reserve Fund and any other Fund established by a Supplemental Indenture to be funded by Revenue on a mandatory basis.

In making the calculations in (1), (2), (3) and (4) above, SANDAG may take into consideration as a credit against Annual Debt Service any amounts received, or reasonably expected to be received, in the Fiscal Year from or as a result of any additional security irrevocably granted or pledged to the Bondholders by SANDAG with respect to the Obligations in accordance with Section 9.01(b) of this Indenture; provided, that if such grant or pledge is not for the benefit of all Obligations, the amounts expected to be received may only be taken into account when making the calculation with respect to the Obligations receiving the benefit of such grant or pledge.

(b) SANDAG further covenants: (i) to compute projected Net Revenue for each Fiscal Year and the projected ratios described in Section 6.03(a)(1), (2) and (3) (each, a “Coverage Ratio”) within ten Business Days after the beginning of that Fiscal Year (such date of computation being hereinafter referred to as a “Coverage Calculation Date”); (ii) to furnish promptly to the Trustee a Certificate of SANDAG setting forth the results of such computations; and (iii) if any Coverage Ratio is less than the applicable requirement of Section 6.03(a), to take such action as promptly as practicable after the Coverage Calculation Date (including, without limitation, increasing Toll Revenues through toll increases) as SANDAG projects is necessary to cause each projected Coverage Ratio for each Fiscal Year to equal or exceed the requirement of Section 6.03(a) for each such Fiscal Year.

(1) Within 60 days after the end of each Fiscal Year, SANDAG will file with the Trustee a report setting forth the Net Revenue for such Fiscal Year. The failure of toll rates to yield an amount sufficient to achieve each Coverage Ratio shall not be deemed to constitute an Event of Default so long as SANDAG complies with the requirements set forth below in this Section 6.03(b). If any such report indicates that the Net Revenue for such Fiscal Year was less than the amount required pursuant to Section 6.03(a), then as soon as practicable after delivering such report to the Trustee SANDAG shall employ a Traffic Consultant to review and analyze the operations of the Toll Road and to submit to the Board, as soon as practicable (but not later than such date as will enable the Board to act upon it within 180 days after the end of the Fiscal Year in question), a written report which shall include the actions that the Traffic Consultant recommends should be taken by SANDAG with respect to (i) revising the toll rates, (ii) altering its methods of operation, or (iii) taking other action projected to produce the
amount so required to comply in each year with each Coverage Ratio (or, if less, the maximum amount deemed feasible by the Traffic Consultant and that the Traffic Consultant estimates will not adversely affect the amount of Net Revenue). Promptly upon its receipt of such written report (and, in any case, within 180 days after the end of the Fiscal Year in question), after giving due consideration thereto, SANDAG will revise the toll rates, as permitted by law, alter its methods of operation, or take such other action as it deems appropriate. Such revisions, alterations, or actions need not comply with the recommendations of the Traffic Consultant so long as Net Revenue projected by the Traffic Consultant to be produced by the revisions, alterations or actions then taken by SANDAG are at least equal to the amount required hereinabove. The Trustee shall have no responsibility to review any written report received pursuant to this Section 6.03(b).

(c) SANDAG further covenants that such toll rates for traffic using the Toll Road will be established and maintained in a reasonable way to cover all traffic (other than vehicles used for maintaining the Toll Road; police, fire, and other public emergency vehicles; buses owned and operated by any public agency; vehicles with multiple passengers or which allow for a limited number of passengers, including motorcycles, according to applicable policies, if any, determined by the federal government, the State or SANDAG; electric, hybrid-electric and other vehicles that meet applicable emission-reduction policies, if any, determined by the federal government, the State or SANDAG; vehicles which are otherwise exempt from payment of tolls under State or federal law; and any vehicles during a public emergency declared by SANDAG) consistent with the requirements hereof, but with such classifications as SANDAG may deem appropriate.

(d) Notwithstanding any provision to the contrary, nothing in this Section 6.03 shall be deemed to require SANDAG to collect tolls and other fees with respect to which SANDAG has determined, based upon a report from a Traffic Consultant, that the costs of collection would exceed the amount of tolls and other fees expected to be collected; and provided further that nothing contained in this Section 6.03 shall prevent SANDAG from temporarily reducing or eliminating tolls and other fees in connection with programs which it intends to use to increase Net Revenue.

Section 6.04 Annual Budget. SANDAG covenants that, for each Fiscal Year, it will take such actions as may be required of it to prepare and will adopt an annual budget for the Toll Road in accordance with applicable law, including the Act, the Toll Road Act and the Toll Agreements. SANDAG further covenants that it will provide to the Trustee (A) no later than 30 days prior to the commencement of each Fiscal Year, an operating plan and a preliminary budget, and (B) not later than the first day of each Fiscal Year, a copy of SANDAG’s final budget for the Toll Road (such copy of the final budget being referred to herein as the “Annual Operating Budget”). The Trustee shall have no responsibility to review such preliminary budget or Annual Operating Budget, and shall only retain such documents as a repository for the holders of the Obligations.

Section 6.05 Operation and Maintenance of the Toll Road. SANDAG covenants and agrees that it has taken, and, so long as any Obligations are Outstanding, that it will take, all steps necessary to ensure that it will continue to have lawful right and lawful power to operate and maintain the Toll Road as a revenue-producing facility and that it will impose and
collect tolls on the Toll Road consistent with its obligations under the Act, the Toll Road Act, and the Toll Agreements. SANDAG covenants and agrees to at all times operate the Toll Road in accordance with the requirements of the Act, the Toll Road Act and the Toll Agreements. SANDAG further covenants and agrees that it will pay all Operation and Maintenance Expenses and keep the Toll Road in good repair in accordance with customary business practices and the maintenance standards required in all Toll Facility Agreements. SANDAG further covenants that, should any Obligations remain Outstanding following the expiration of SANDAG’s authorization to impose tolls on the Toll Road, and should SANDAG project that, within five calendar years such authorization will expire with Obligations remaining Outstanding, SANDAG will petition the Legislature of the State to extend its authorization to impose such tolls.

Section 6.06  Retention of Assets. Subject to the provisions of the Act, the Toll Road Act and the Toll Agreements, SANDAG covenants not to sell, lease or otherwise dispose of assets necessary to operate the Toll Road in the manner and at the levels of activity required to enable it to perform its covenants contained herein, including, without limitation, the covenants contained in Section 6.03 and Section 6.05.

Section 6.07  Insurance. SANDAG covenants to carry at all times insurance (including reasonable self-insurance) or cause insurance to be carried with responsible insurance and/or reinsurance companies authorized and qualified to do business in (or with companies duly authorized and qualified to do business in) the State and to assume the risks thereof consistent with insurance requirements of all agreements entered into by SANDAG in connection with the design, construction, operation and maintenance of the Toll Road and any Project.

Nothing contained herein shall be deemed or construed to prevent SANDAG from maintaining policies of insurance with respect to the Toll Road in which parties other than SANDAG are named as dual obligee beneficiaries, provided that such other parties shall be limited to Caltrans, the Trustee, the TIFIA Lender, if any, contractors constructing Special Projects and persons supplying toll collection and revenue management system equipment or facilities. Upon request of the Trustee, SANDAG shall provide the Trustee with an officer’s certificate stating that it is in compliance with this Section 6.07.

Section 6.08  Payment of Claims. SANDAG will pay and discharge any and all lawful claims that, if unpaid, might become a charge or lien upon the Trust Estate or any part thereof, prior to or on a parity with the charge and lien upon the Revenue securing the Obligations Outstanding hereunder.

Section 6.09  Receipt and Deposit of Cash Advances. SANDAG covenants and agrees that, immediately upon receipt of cash advances representing deposits against future toll payments from users or potential users of the Toll Road by or on behalf of SANDAG, it will (i) deposit and hold, or cause to be deposited and held, such moneys in a special account, separate from other assets of SANDAG, and cause such moneys to be deposited with and held by a bank or trust company (which may be the Trustee), (ii) invest such moneys only in Permitted Investments of the type described in clauses (i), (ii), (v), (viii), (x), (xii) or (xiii) of the definition thereof, maturing within thirty (30) days from the date of the investment, and (iii) promptly, and in any event not less frequently than [once per calendar month], transfer or cause the transfer of deposits which have become tolls from such account for credit to the Toll Revenue Fund.
SANDAG further covenants and agrees that it will not enter into any agreement pursuant to which cash advances received by any other person, business organization or governmental entity may be applied to the payment of tolls unless such person, business organization or governmental entity, as the case may be, has agreed to take such actions as SANDAG may determine are reasonably necessary to assure that SANDAG will receive timely payment of such tolls.

Section 6.10 Toll Agreements. SANDAG hereby covenants and agrees that it has all lawful right and power to enter into the Toll Agreements and that it shall perform all of its material obligations and exercise all of the powers granted to it thereunder (including but not limited to SANDAG’s powers to enforce performance by the counterparty to each such Toll Agreement of such counterparty’s obligations thereunder) as SANDAG may, in its reasonable judgment, determine are necessary to collect tolls established pursuant to Section 6.03 of this Indenture.

Section 6.11 Construction and Maintenance From Other Sources Permitted. Notwithstanding any provision to the contrary in this Indenture, SANDAG may, in accordance with the Act, the Toll Road Act and other applicable laws, construct, reconstruct, rehabilitate, improve, acquire, lease, operate, or maintain, or any combination of these, both tolled and nontolled facilities, structures, onramps, connector roads, bridges, and roadways that are on, necessary for, or related to the construction or operation of the Toll Road using any funds legally available therefore, including, without limitation and as applicable and federal, State and local grants, loans and matching funds. Notwithstanding any other provision of this Indenture, the United States of America, the State or any of their respective agencies, departments or political subdivisions may construct, reconstruct, rehabilitate, improve, acquire, lease, operate, maintain, or any combination of these, both tolled and nontolled facilities, structures, onramps, connector roads, bridges, and roadways related to or competing with the SR-125 Project, or pay for all or any part of the cost thereof. SANDAG has no power or authority to grant, permit, prohibit, prevent or interfere with any such actions.

Section 6.12 Tax Covenants.

(a) SANDAG shall not use or permit the use of any proceeds of the Obligations or any funds of SANDAG, directly or indirectly, to acquire any securities or obligations that would cause the interest on Obligations intended by SANDAG to be exempt from federal income taxation to become subject to federal income taxation, and shall not take or permit to be taken any other action or actions that would cause any such Obligations to be an “arbitrage bond” within the meaning of Section 148 of the Code or “federally guaranteed” within the meaning of Section 149(b) of the Code and any such applicable regulations promulgated from time to time thereunder. SANDAG shall observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. SANDAG shall comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to Obligations. In the event that at any time SANDAG is of the opinion that for purposes of this Section 6.03(a) it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under this Indenture, SANDAG shall so instruct the Trustee under this Indenture in writing, and the Trustee shall take such action as may be reasonably necessary in accordance with such instructions.
(b) SANDAG covenants to comply with the provisions and procedures of each Tax Certificate.

(c) SANDAG shall not, and shall not cause the Trustee to, use or permit the use of any proceeds of the Obligations or any funds of SANDAG (so long as such proceeds or other funds are under its control), directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any of the Obligations to be treated as an obligation not described in Section 103(a) of the Code if such Obligations were, when originally issued, intended by SANDAG to be obligations described in Section 103(a) of the Code.

(d) Notwithstanding any provisions of this Section 6.12 or any Tax Certificate, if SANDAG shall provide to the Trustee an Opinion of Bond Counsel to the effect that any specified action required under this Section 6.12 is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest on any Obligations, the Trustee and SANDAG may conclusively rely on such opinion in complying with the requirements of this Section, and, notwithstanding any other provision of this Indenture or any Tax Certificate, the covenants hereunder shall be deemed to be modified to that extent.

(e) The Trustee shall follow the directions of SANDAG given pursuant to the Tax Certificate, and shall have no liability or responsibility to enforce compliance by SANDAG with the terms of the Tax Certificate.

Section 6.13 Accounting Records; Financial Statements and Other Reports.

(a) SANDAG shall keep appropriate accounting records in accordance with generally accepted accounting principles. Such accounting records shall, at reasonable times during business hours and under reasonable circumstances, be available for inspection by the Trustee or any Holder (or its representative authorized in writing).

(b) SANDAG shall prepare and file with the Trustee annually within 270 days after the close of each Fiscal Year [financial statements of SANDAG for such Fiscal Year, together with an audit report thereon prepared by an Independent Certified Public Accountant, provided that the filing of SANDAG’s South Bay Expressway Basic Financial Statements in place of such financial statements of SANDAG for any Fiscal Year shall be deemed to satisfy the requirement of this Section 6.13(b).]

Section 6.14 Protection of Trust Estate and Rights of Holders. SANDAG shall preserve and protect the Trust Estate and the security of the Obligations issued hereunder and the rights of the holders of such Obligations and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any First Senior Lien Obligations, Second Senior Lien Obligations or Subordinate Obligations by SANDAG, such Obligations shall be incontestable by SANDAG.

Section 6.15 Payment of Governmental Charges and Compliance with Governmental Regulations. SANDAG shall pay and discharge all taxes or payments in lieu of taxes, assessments and other governmental charges or liens that may be levied, assessed or charged upon the Revenue, or any part thereof, promptly as and when the same shall become due.
and payable, except that SANDAG shall not be required to pay any such governmental charges so long as the application or validity thereof shall be contested in good faith and SANDAG shall have set aside reserves to cover such payments.

Section 6.16 Maintenance of Powers. SANDAG covenants that it will at all times use its best efforts to maintain the powers, rights, functions, duties and obligations now reposed on it pursuant to the Act, the Toll Road Act and all other laws and the Toll Facility Agreement and will not at any time voluntarily do, suffer or permit any act or thing the effect of which would be to hinder, delay or imperil either the payment of the indebtedness evidenced by any of the Obligations hereunder or Credit Support Instruments relating thereto or the performance or observance of any of the covenants herein contained.

Section 6.17 Covenants Binding on SANDAG and Successors. All covenants, stipulations, obligations and agreements of SANDAG contained in this Indenture shall be deemed to be covenants, stipulations, obligations and agreements of SANDAG to the full extent authorized or permitted by law. If the powers or duties of SANDAG shall hereafter be transferred by amendment of the Act, the Toll Road Act or a new act or any provision of the Constitution or any other law of the State or in any other manner there shall be a successor to SANDAG, and if such transfer shall relate to any matter or thing permitted or required to be done under this Indenture by SANDAG then the entity that shall succeed to such powers or duties of SANDAG shall act and be obligated in the place and stead of SANDAG as in this Indenture provided, and all such covenants, stipulations, obligations and agreements shall be binding upon the successor or successors thereof from time to time and upon any officer, board, body or agency to whom or to which any power or duty affecting such covenants, stipulations, obligations and agreement shall be transferred by or in accordance with law.

Section 6.18 Continuing Disclosure. Upon the issuance of any Series of Obligations, or upon conversion of any Series of Obligations to an interest rate period, requiring an undertaking regarding continuing disclosure under Rule 15c2-12, SANDAG hereby covenants and agrees that it will execute and deliver a Continuing Disclosure Agreement with respect to such Series of Obligations and comply with and carry out all of the provisions of such Continuing Disclosure Agreement applicable to it. Notwithstanding any other provision of this Indenture, failure of SANDAG to comply with the provisions of any Continuing Disclosure Agreement shall not constitute an Event of Default under this Indenture; provided, however, that the Trustee, at the written request of any Participating Underwriter or the Owner of an Outstanding Obligation, shall (but only to the extent that the Trustee is indemnified to its satisfaction from any liability or expense, including fees and expenses of its attorneys) or any Owner or Beneficial Owner of an Obligation may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order to cause SANDAG to comply with its obligations under this Section.

Section 6.19 Further Assurances. SANDAG will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Holders of the rights and benefits provided herein.
ARTICLE VII

DEFAULT PROVISIONS AND REMEDIES

Section 7.01 Events of Default. Any one of the following and any other event specified in a Supplemental Indenture as an Event of Default shall constitute an Event of Default hereunder:

(a) default in the payment of any interest on any Highest Priority Obligation when and as the same shall have become due and payable;

(b) default in the payment of the principal of or premium, if any, on any Highest Priority Obligation when and as the same shall become due and payable, whether at the stated maturity or redemption date thereof or otherwise;

(c) default by SANDAG in the observance or performance of any other covenant or agreement of SANDAG contained in this Indenture and the continuance thereof for a period of sixty (60) days after written notice thereof to SANDAG given by the Trustee; provided that, if such failure can be remedied but not within such sixty (60) day period and if the Commission has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure shall not become an Event of Default for so long as the Commission shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(d) if SANDAG files a petition in voluntary bankruptcy for the composition of its affairs or for its corporate reorganization under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(e) if a court of competent jurisdiction shall enter an order, judgment or decree declaring SANDAG insolvent, or adjudging it bankrupt, or appointing a trustee or receiver of SANDAG, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof, or

(f) 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 SANDAG or of the Revenue, and such custody or control shall not be terminated within sixty (60) days from the date of assumption of such custody or control.

SANDAG shall notify the Trustee of the occurrence of a Bankruptcy Related Event or an Event of Default within five (5) Business Days after SANDAG learns of the occurrence. If the Trustee has actual knowledge, or is notified by SANDAG or a Bondholder, of the occurrence of an Event of Default or a Bankruptcy Related Event hereunder, the Trustee shall provide prompt written notice of the occurrence of such Event of Default or Bankruptcy Related Event to SANDAG and all Bondholders.
Section 7.02 Application of Revenue and Other Funds After Default. If an Event of Default shall occur and be continuing, the Trust Estate shall be under the control of and applied by the Trustee as follows and in the following order:

(a) first, to the payment of all fees, costs and other expenses (including the reasonable fees, costs and expenses of counsel and actual fees, costs and expenses due and payable by SANDAG pursuant to the indemnity required by Section 7.06(c)) owed to the Trustee, and then to the pro rata payment of all costs and other expenses (including the reasonable fees, costs and expenses of counsel) owed to the trustee or Holder of any Obligations in connection with the performance of their obligations under the Financing Documents, to which they are a party and the consummation of the transactions contemplated thereby (in each case to the extent not previously satisfied);

(b) second, to the payment of Operation and Maintenance Expenses;

(c) third, to the pro rata payment of all accrued and unpaid interest (but not default interest, if any) on all First Senior Lien Obligations then Outstanding, in each case in the order of maturity of the payments thereof;

(d) fourth, to the pro rata payment of all unpaid principal amounts of any First Senior Lien Obligations then due;

(e) fifth, to the pro rata payment of all accrued and unpaid default interest then due, if any, with respect to any First Senior Lien Obligations, and scheduled payments due under any related Hedging Obligations, if any, net of any scheduled amounts payable to SANDAG with respect to scheduled Hedging Obligations under Qualified Swap Agreements;

(f) sixth, to the pro rata payment of all accrued and unpaid redemption or prepayment premium then due, if any, with respect to any First Senior Lien Obligations;

(g) seventh, to the pro rata payment of all other amounts, if any, due and payable under any Financing Document with respect to any First Senior Lien Obligations;

(h) eighth, to the pro rata payment of all accrued and unpaid interest (but not default interest, if any) on all Second Senior Lien Obligations;

(i) ninth, if any unpaid principal of any Second Senior Lien Obligations has become due, to the pro rata payment of such unpaid principal amounts;

(j) tenth, to the pro rata payment of all accrued and unpaid default interest then due, if any, with respect to any Second Senior Lien Obligations and scheduled payments due under any related Hedging Obligations, if any, net of any scheduled amounts payable to SANDAG with respect to scheduled Hedging Obligations under Swaps;

(k) eleventh, to the pro rata payment of all accrued and unpaid redemption or prepayment premium then due, if any, with respect to any Second Senior Lien Obligations;
(l) twelfth, to the pro rata payment of all other amounts, if any, due and payable under any Financing Document with respect to any Second Senior Lien Obligations;

(m) thirteenth, to the pro rata payment of all accrued and unpaid interest (but not default interest, if any) on all Subordinate Obligations;

(n) fourteenth, if any unpaid principal of any Subordinate Obligations has become due, to the pro rata payment of such unpaid principal amounts;

(o) fifteenth, to the pro rata payment of all accrued and unpaid default interest then due, if any, with respect to any Subordinate Obligations and scheduled payments due under any related Hedging Obligations, if any, net of any scheduled amounts payable to SANDAG with respect to scheduled Hedging Obligations under Swaps;

(p) sixteenth, to the pro rata payment of all accrued and unpaid redemption or prepayment premium then due, if any, with respect to any Subordinate Obligations;

(q) seventeenth, to the pro rata payment of all other amounts, if any, due and payable under any Financing Document with respect to any Subordinate Obligations;

(r) eighteenth, to the payment of any Hedging Termination Obligations with respect to Qualified Swap Agreements or Swaps; and

(s) nineteenth, upon the payment in full of all Secured Obligations in accordance with clauses first through eighteenth hereof, to pay to SANDAG, or as may be directed by SANDAG, or as a court of competent jurisdiction may direct, any Revenue or other funds then remaining in the Trust Estate.

Section 7.03 **No Acceleration.** There shall be no right of acceleration with respect to the Obligations.

Section 7.04 **Suits at Law or in Equity and Mandamus.** In case one or more Events of Default shall occur, then and in every such case the Trustee may, and shall at the request of the Holders of not less than a majority of the Bond Obligation of the Highest Priority Obligations then Outstanding (or such greater percentage of the Holders of Highest Priority Obligations as may be specified in the Supplemental Indenture) upon receiving indemnity reasonably satisfactory to it, potentially including indemnity provided by such Holders (subject to Section 7.06(c)), proceed to protect and enforce Bondholder rights by such appropriate judicial proceeding as shall be deemed most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in this Indenture, or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the holders of Obligations by this Indenture or such Obligations or by law. The provisions of this Indenture shall constitute a contract with each and every Bondholder and the duties of SANDAG shall be enforceable by the Trustee on behalf of any Bondholder by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Nothing herein shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Bondholder any plan of reorganization, arrangement, adjustment, or composition affecting the Obligations or the rights
of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding without the approval of the Holders so affected.

**Section 7.05 Waivers.** No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein and every such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any Event of Default hereunder shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

**Section 7.06 Rights of Subordinate Lenders.**

(a) Nothing in this Article VII or elsewhere in this Indenture shall be construed to limit or preclude the exercise of any rights or remedies reserved by the trustee for the Second Senior Lien Obligations or by the trustee for or Holder of any Subordinate Obligations.

**ARTICLE VIII**

**THE TRUSTEE**

**Section 8.01 Trustee.** (a) U.S. Bank National Association will serve as the Trustee under this Indenture. The Trustee shall be required to perform such duties and only such duties as are specifically set forth in this Indenture. 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 this Indenture, and use the same degree of care and skill in their exercise, as reasonable persons would exercise or use under the circumstances in the conduct of their own affairs. The Trustee accepts the duties imposed upon it hereunder and agrees, particularly: (i) to hold all sums held by it for the payment of the principal and Purchase Price of, premium, if any, and interest on the Obligations in trust for the benefit of the Holders of the Obligations as provided herein until such sums shall be paid to such Holders of such Obligations or otherwise disposed of as herein provided; (ii) to authenticate and cancel Obligations as provided herein; (iii) to perform its obligations under this Indenture; and (iv) to keep such books and records relating to its duties as Trustee as shall be consistent with reasonable industry practice and to make such books and records available for inspection by SANDAG at all reasonable times upon reasonable notice.

SANDAG shall cause the necessary arrangements to be made and to be thereafter continued whereby; (i) funds derived from the sources specified in this Indenture will be made available at the Principal Office of the Trustee for the timely payment of principal and Purchase Price of, premium, if any, and interest on the Obligations; (ii) Obligations shall be made available for authentication, exchange and registration of transfer by the Trustee at the Principal Office of the Trustee; and (iii) the Trustee shall be furnished such records and other information, at such times, as shall be required to enable the Trustee to perform the duties and obligations imposed upon it hereunder.

(b) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action or its own negligent failure to act, except that, at all
times regardless of whether or not any Event of Default shall exist: (i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and to the extent permitted by law no implied covenants or obligations shall be read into this Indenture against the Trustee; (ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate, notice, order, requisition, request, consent or opinion furnished to the Trustee conforming to the requirements of this Indenture; but in the case of any such certificate, notice, order, requisition, request, consent or opinion which by any provision hereof is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not it, on its face, conforms to the requirements of this Indenture; (iii) 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; and (iv) 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, or such larger or smaller percentage as may be required hereunder, in Bond Obligation of the Highest Priority Obligations 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 this Indenture. The permissive right of the Trustee to do things enumerated in this Indenture as a right shall not be construed as a duty and the Trustee shall not be answerable for other than its negligence or willful misconduct.

(c) None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers. The Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises. Before taking any action under this Indenture relating to an Event of Default or taking any other action (other than making payments of principal and interest in accordance with the provisions of this Indenture) hereunder, the Trustee may require that indemnity reasonably satisfactory to it be furnished for the reimbursement of all expenses to which it may be put and to protect it against all liability.

(d) No delivery of Obligations to the Trustee or purchase of Obligations by the Trustee shall constitute a redemption of Obligations or any extinguishment of the debt represented thereby, unless such Obligations are surrendered by SANDAG to the Trustee for cancellation pursuant to this Indenture.

(e) The Trustee shall not be accountable for the use or application by SANDAG of the proceeds of the Obligations or for the use or application of any money paid over to SANDAG by the Trustee in accordance with the provisions of this Indenture. The Trustee shall have no responsibility or liability with respect to any information, statements or recitals in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Obligations other than information provided by the Trustee for use therein, if any.
Whenever in the administration of this Indenture the Trustee shall deem it necessary or desirable that a matter be provided or established prior to taking or suffering any action to be taken hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of negligence or willful misconduct on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of SANDAG and delivered to the Trustee and such certificate, in the absence of negligence or willful misconduct on the part of the Trustee, shall be full warrant to the Trustee for any action taken, suffered or omitted by it under the provisions of this Indenture upon the faith thereof.

The Trustee may elect to accept and act upon instructions or directions pursuant to this Indenture sent by facsimile or Electronic means, 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 SANDAG elects to give the Trustee facsimile or Electronic instructions and the Trustee in its discretion elects to act upon such instructions, the Trustee’s understanding of such instructions shall be deemed controlling in the absence of its negligence or willful misconduct. 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. In the absence of negligence or willful misconduct by the Trustee, SANDAG agrees to assume all risks arising out of the use of such facsimile or 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.

Section 8.02 Compensation and Indemnification of Trustee. SANDAG shall: (i) pay the Trustee reasonable compensation (which, to the extent permitted by applicable law, shall not be limited by any law limiting the compensation of the trustee of an express trust); (ii) pay or reimburse the Trustee upon request for all reasonable fees, expenses, disbursements and advances incurred or made in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all agents and other persons not regularly in its employ), except to the extent that any such expense, disbursement or advance is due to its own negligence or willful misconduct, such request to be submitted to SANDAG within 60 days of the incurrence of such fee, expense, disbursement or advance; and (iii) to the extent permitted by applicable law, indemnify the Trustee and its officers, directors, agents and employees for, and to hold it harmless against, any loss, liability, cost, suit, claim, judgment, damage or expense incurred by it, arising out of or in connection with the acceptance or administration of this Indenture or the performance of its duties hereunder, including legal fees and expenses and the costs and expenses of defending itself against or investigating any claim of liability or expense, except to the extent that any such liability or expense was due to its own negligence or willful misconduct. The obligations of SANDAG under this Section 8.02 shall survive the satisfaction and discharge of this Indenture and the earlier removal or resignation of the Trustee. When the Trustee incurs expenses or renders services after the occurrence of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.
Section 8.03 Qualifications of Trustee; Resignation; Removal.

(a) There shall at all times be a trustee hereunder that is a commercial bank, trust company or national association organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having (or if such bank, trust company or national association is a member of a bank holding company system, its holding company has) a combined capital and surplus of at least five hundred million dollars ($500,000,000), and subject to supervision or examination by federal or state authority. If such banks, trust companies, or banking associations publish reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then, for the purposes of this Section 8.03, the combined capital and surplus of such banks, trust companies or banking associations shall be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published.

(b) The Trustee may at any time resign by giving at least thirty (30) days’ written notice to SANDAG. Upon receiving such notice of resignation, SANDAG shall promptly appoint a successor trustee by an instrument in writing. If no successor trustee shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Holder who has been a bona fide Holder of a Highest Priority Obligation for at least six months may, on behalf of itself and any others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(c) In case at any time either of the following shall occur: (i) the Trustee shall cease to be eligible in accordance with the provisions of this Section 8.03 and shall fail to resign after written request therefor by SANDAG or by any Holder who has been a bona fide Holder of a Highest Priority Obligation for at least six months; or (ii) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, SANDAG may remove the Trustee and appoint a successor trustee by an instrument in writing executed by an Authorized Representative, or any Holder who has been a bona fide Holder of a Highest Priority Obligation for at least six months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee. If no successor trustee shall have been so appointed by SANDAG and have accepted appointment within thirty (30) days after such removal, the Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Holder who has been a bona fide Holder of a Highest Priority Obligation for at least six months may, on behalf of itself and any others similarly situated, petition any such court for the appointment of a successor trustee.

(d) SANDAG or Holders of a majority in Bond Obligation of the Highest Priority Obligation at the time Outstanding may at any time remove the Trustee and appoint a
succeed successor trustee by an instrument or concurrent instruments in writing signed by an Authorized Representative of SANDAG or by such Holders, as the case may be.

(e) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 8.03 shall become effective upon written acceptance of appointment by the successor trustee acceptable to SANDAG. Any successor trustee shall execute, acknowledge and deliver to SANDAG and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts hereunder, with like effect as if originally named as Trustee herein; but, nevertheless, on the Written Request of SANDAG or the request of the successor trustee, the predecessor trustee ceasing to act shall execute and deliver an instrument transferring to such successor trustee, upon the trusts herein expressed, all the rights, powers and trusts of the trustee so ceasing to act. Upon request of any such successor trustee, SANDAG shall execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor trustee all such rights, powers and duties. No successor trustee shall accept appointment as provided in this Section 8.03 unless at the time of such acceptance such successor trustee shall be eligible under the provisions of this Section 8.03. Upon acceptance of appointment by a successor trustee as provided in this Section 8.03, SANDAG or such successor trustee shall give Holders notice of the succession of such trustee to the trusts hereunder.

(f) 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, provided such company shall be eligible under this Section 8.03 and acceptable to SANDAG, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

(g) In the event of the resignation or removal of the Trustee, the Trustee shall deliver any money and any Obligations and its related books and records held by it in such capacity to its successor.

(h) The Trustee may execute any of the trusts or powers hereof and perform any of its duties and responsibilities hereunder by or through attorneys, agents or receivers, including issuing and paying agents as provided in Section 8.05, provided that the Trustee shall remain responsible for its duties hereunder. The Trustee may consult with counsel and the advice or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in accordance with such advice or opinion of counsel and in the absence of negligence, bad faith or willful misconduct.

Section 8.04 Instrument of Bondholders. Any instrument required by this Indenture to be executed by Bondholders may be in any number of writings of similar tenor and may be executed by Bondholders in person or by agent appointed in writing. Proof of the execution of any such instrument or of the writing appointing any such agent and of the
ownership of Obligations given in any of the following forms shall be sufficient for any of the purposes of this Indenture: (i) a certificate of any officer in any jurisdiction who by law has power to take acknowledgements within such jurisdiction that the person signing such writing acknowledged before him the execution thereof; or (ii) a certificate executed by any trust company or bank stating that at the date thereof the party named therein did exhibit to an officer of such trust company or bank, as the property of such party, the Obligations therein mentioned.

The Trustee may rely on such an instrument of Bondholders unless and until the Trustee receives notice in the form specified in (i) or (ii) above that the original such instrument is no longer reliable. In the event that the Trustee shall receive conflicting directions from two or more groups of Bondholders, each with combined holdings of not less than twenty-five percent (25%) of the principal amount of Outstanding Highest Priority Obligations, the directions given by the group of Bondholders that holds the largest percentage of Highest Priority Obligations shall be controlling and the Trustee shall follow such directions to the extent required herein. The Trustee shall have no liability provided it is following the instructions of such Bondholders permitted to direct the Trustee pursuant to this Indenture.

Section 8.05 Issuing and Paying Agents. SANDAG may appoint and at all times have one or more issuing and paying agents in such place or places as SANDAG may designate, for the payment of a Series of Obligations. Such issuing and paying agent shall meet the qualifications for the Trustee and the procedures and conditions for removal and resignation set forth in Section 8.03 hereof. It shall be the duty of the Trustee to make such arrangements with any such issuing and paying agent as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of Obligations presented at either place of payment.

ARTICLE IX
AMENDMENTS

Section 9.01 Amendments to Indenture Not Requiring Consent of Bondholders. Except to the extent restricted by a Supplemental Indenture, SANDAG and the Trustee, without the consent of or notice to any Bondholders, may execute Supplemental Indentures amending this Indenture for one or more of the following purposes:

(a) to grant to or confer upon the Trustee for the benefit of the Holders of any Series of Obligations or of all Obligations any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Trustee;

(b) to grant or pledge to the Trustee for the benefit of the Holders of any Series of Obligations or of all Obligations any additional security;

(c) to amend this Indenture in such manner as may be necessary or convenient in connection with the book-entry system for payments, transfers and other matters relating to the Obligations;
(d) to cure any ambiguity, supply any omission, or to correct or supplement any provision of this Indenture that, in the Opinion of Bond Counsel, is defective or inconsistent with any other provision of this Indenture;

(e) to insert such provisions clarifying matters or questions arising under this Indenture as are necessary or desirable and are not contrary to or inconsistent with this Indenture as theretofore in effect;

(f) to make any change therein necessary, in the Opinion of Bond Counsel, to maintain the exclusion from gross income for federal income tax purposes of the interest on any Outstanding Obligations intended by SANDAG to bear federally tax-exempt interest;

(g) to modify, amend or supplement this Indenture or any Supplemental Indenture in such manner as to permit, if presented, the qualification hereof and thereof under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or under any state blue sky law;

(h) to make modifications or adjustments necessary in order to accommodate a Credit Support Instrument or a Reserve Facility;

(i) to modify, alter, amend or supplement this Indenture if (1) all of the Obligations to be affected thereby are variable interest rate obligations, (2) the modification, alteration, amendment or supplement shall not become effective until written notice thereof shall have been given to Bondholders of the affected Series by the Trustee, and (3) thirty (30) days shall have passed during which time such Bondholders shall have had the opportunity to tender their variable interest rate bonds for purchase;

(j) to modify, alter, amend or supplement this Indenture if (1) all of the Obligations to be affected thereby are Obligations in the form of or securing payment of a TIFIA Loan, and (2) the written consent of the TIFIA Lender has been obtained to such modification, alteration, amendment or supplement;

(k) to make any change therein that does not materially and adversely affect the rights of any of the Holders of the Obligations (and the absence of a material or adverse effect is required to be evidenced by a Certificate of SANDAG or an Opinion of Bond Counsel delivered pursuant to Section 9.04); and

(l) to issue additional Obligations hereunder in accordance with the terms hereof, including to specify and determine the lien status of a Series of Obligations or, if applicable, the springing lien status of a Series of Obligations and also any other matters and things relative to such Obligations which are not contrary to or inconsistent with this Indenture as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the original issuance of such Obligations;

provided, in addition to the limitation set forth in Section 9.04, that no such amendment may permit, or be construed as permitting, (i) an extension of the maturity of the principal of, or the mandatory redemption date of, or interest on, any Obligation, or (ii) a reduction in the principal amount of, or the redemption premium or the rate of interest on, any Obligation, or (iii) a
preference or priority of any First Senior Lien Obligations over any other First Senior Lien Obligations, or (iv) a preference or priority of any Second Senior Lien Obligation or Second Senior Lien Obligations over any other Second Senior Lien Obligation or Second Senior Lien Obligations or First Senior Lien Obligation, or (v) a preference or priority of any Subordinate Obligation or Subordinate Obligations over any other Subordinate Obligation or Subordinate Obligations, Second Senior Lien Obligation or First Senior Lien Obligation or (vi) a reduction in the Bond Obligation of the Obligations required for any consent to any amendment pursuant to Section 9.02.

Section 9.02 Amendments to Indenture Requiring Consent of Bondholders.

Exclusive of amendments authorized by Section 9.01 and subject to the terms and provisions contained in this Section 9.02 and in any Supplemental Indenture, the Holders of at least a majority in aggregate Bond Obligation of the Obligations Outstanding at the time such consent is given, and in case less than all of the several Series of Obligations then Outstanding are affected by the modification or amendment, of the Holders of at least a majority in aggregate Bond Obligation of the Obligations of each Series so affected and Outstanding at the time such consent is given (provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Obligations of any particular Series and maturity remain Outstanding, the consent of the Holders of such Obligations shall not be required and such Obligations shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Obligations under this Section 9.02) shall have the right, from time to time, anything contained in this Indenture to the contrary notwithstanding, to consent to such other amendments hereto for the purpose of modifying, altering, amending, or supplementing any of the terms or provisions contained in this Indenture or in any Supplemental Indenture; provided, however, that nothing in this Section 9.02 shall permit, or be construed as permitting (i) an extension of the maturity of the principal of, or the mandatory redemption date of, or interest on, any Obligation, or (ii) a reduction in the principal amount of, or the redemption premium or the rate of interest on, any Obligation, or (iii) a preference or priority of any First Senior Lien Obligations over any other First Senior Lien Obligations, or (iv) a preference or priority of any Second Senior Lien Obligation or Second Senior Lien Obligations over any other Second Senior Lien Obligation or Second Senior Lien Obligations or First Senior Lien Obligations, or (v) a preference or priority of any Subordinate Obligation over any other Subordinate Obligation or (vi) a reduction in the Bond Obligation of the Obligations required for any consent to any amendment.

Section 9.03 Notice to and Consent of Bondholders.

If consent of the Bondholders is required under the terms of this Indenture for the amendment of this Indenture or for any other similar purpose, SANDAG shall cause notice of the proposed amendment to be given by first-class mail to the Holders of the Outstanding Obligations then shown on the registration books for the Obligations. Such notice shall briefly set forth the nature of the proposed amendment or other action and shall state that copies of any such amendment are on file at the office of SANDAG and the Principal Office of the Trustee for inspection by all Bondholders. If, within sixty (60) days or such longer period as shall be prescribed by SANDAG following the mailing of such notice, the Holders of the requisite principal amount of the Obligations Outstanding by instruments filed with SANDAG shall have consented to the amendment or other proposed action, then SANDAG may adopt or execute, as appropriate, such amendment or take such proposed action and the consent of the Bondholders shall thereby be conclusively presumed. Such instruments filed with SANDAG may include documents,
including Certificates of SANDAG, stating that Holders of Obligations have consented to an amendment by purchasing such Obligations if the official statement or other disclosure document related to such purchase disclosed that the purchase of the Obligations was deemed to mean that the Holders consented to the amendment.

Section 9.04 **Execution and Effect of Supplemental Indentures.** Prior to executing any Supplemental Indenture hereunder, the Trustee shall receive, and is entitled to rely upon, an Opinion of Bond Counsel to the effect that such Supplemental Indenture is authorized or permitted hereunder. The Trustee is not obligated to execute any Supplemental Indenture adversely affecting its rights, duties protections and immunities hereunder. The Trustee shall not execute any Supplemental Indenture materially affecting the priority of payment of any Second Senior Lien Obligation or the rights and obligations of the holders of any Second Senior Lien Obligation, as evidenced by the Opinion of Bond Counsel delivered pursuant to this Section 9.04, without the prior written consent of the trustee for or required holders of such Second Senior Lien Obligation. The Trustee shall not execute any Supplemental Indenture materially affecting the priority of payment of any Subordinate Obligation or the rights or obligations of the holder of any Subordinate Obligation, as evidenced by the Opinion of Bond Counsel delivered pursuant to this Section 9.04, without the prior written consent of the trustee for or required holders of such Subordinate Obligation. Upon the execution and delivery of any Supplemental Indenture pursuant to this Article IX, this Indenture shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of SANDAG, the Trustee and all Owners of Outstanding Obligations shall thereafter be determined, exercised and enforced subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.05 **Obligations Owned by SANDAG.** (a) For purposes of this Article IX, Obligations owned or held by or for the account of SANDAG shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Obligations provided for in this Article IX, and SANDAG shall not be entitled with respect to such Obligations to give any consent or take any other action provided for in this Article IX; except that in determining whether the Trustee shall be protected in relying upon any such approval or consent of a Holder, only Obligations which the Trustee actually knows to be owned by SANDAG shall be disregarded unless all Obligations are owned or held by or for the account of SANDAG, in which case such Obligations shall be considered Outstanding for the purpose of such determination. Upon request of the Trustee, at the time of any consent or other action is to be taken under this Article IX, SANDAG shall furnish the Trustee a Certificate of SANDAG, upon which the Trustee may rely, describing all First Senior Lien Obligations so to be excluded.

(b) The purchase or other acquisition of Obligations by or on behalf of SANDAG shall not cancel, extinguish, or otherwise affect the Obligations unless such Obligations are surrendered by SANDAG to the Trustee for cancellation in accordance with Section 10.01(b).
ARTICLE X

DISCHARGE OF LIEN

Section 10.01 Discharge of Lien and Security Interest. (a) At the election of SANDAG, upon payment in full of all the Obligations and of all other amounts payable under this Indenture, the pledge and lien on the Trust Estate arising under this Indenture shall cease, determine and be void; provided, however, such discharge of this Indenture shall not terminate the powers and rights granted to the Trustee with respect to the payment, transfer and exchange of the Obligations, and Section 8.02 shall survive hereunder. In such event, upon the written request of SANDAG, the Trustee shall cooperate with an accounting for such period or periods as shall be requested by SANDAG to be prepared and filed with SANDAG and shall execute and deliver to SANDAG all such instruments as may be necessary or desirable to evidence such discharge as prepared by or on behalf of SANDAG, and the Trustee shall pay over, transfer, assign or deliver to SANDAG all moneys or securities or other property held by it pursuant to this Indenture which are not required for the payment or redemption of Obligations not theretofore surrendered for such payment or redemption.

(b) SANDAG may at any time surrender to the Trustee for cancellation any Obligations previously authenticated and delivered hereunder that SANDAG at its option may have acquired in any manner whatsoever and such Obligations upon such surrender and cancellation shall be deemed to be paid and retired.

(c) Notwithstanding any provision in this Indenture to the contrary, if the principal of or interest on any Obligations shall be paid by a Credit Provider, those Obligations shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by SANDAG within the meaning of this Section 10.01, and the pledge of the Trust Estate and all covenants, agreements and other obligations of SANDAG as herein provided shall continue to exist and shall run to the benefit of such Credit Provider, and such Credit Provider shall be subrogated to the rights of the Holders.

Section 10.02 Provision for Payment of Obligations. Obligations (or any portion of the Obligations) shall be deemed to have been paid within the meaning of Section 10.01 if:

(a) there shall have been irrevocably deposited with the Trustee or other fiduciary in trust either (i) lawful money of the United States of America in an amount that shall be sufficient, or (ii) Defeasance Securities, the principal and interest on which when due, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient (as confirmed by a report of an Independent Certified Public Accountant), to pay when due the principal amount of, redemption premium (if any) and all unpaid interest on such Obligations (or any portion thereof) to the maturity or the redemption date thereof, as the case may be; and

(b) if any such Obligations are to be redeemed on any date prior to their maturity, (i) the Trustee shall have received (not less than 25 days prior to the proposed redemption date) in form satisfactory to it irrevocable written instructions from an Authorized Representative to redeem such Obligations on such date and (ii) notice of such redemption shall
have been given or provision satisfactory to the Trustee shall have been irrevocably made for the giving of such notice.

Limitations elsewhere specified herein regarding the investment of money held by the Trustee shall not be construed to prevent the depositing and holding of the Defeasance Securities described in Section 10.02(a)(ii) for the purpose of defeasing the lien of this Indenture as to Obligations that have not yet become due and payable. In addition, all money so deposited with the Trustee as provided in Section 10.02(a)(i) may also be invested and reinvested, at the written direction of an Authorized Representative, in Defeasance Securities, maturing in the amounts and times as hereinbefore set forth, subject to the confirming report of an Independent Certified Public Accountant as to the sufficiency thereof as provided in Section 10.02(a)(ii), and all income from all Defeasance Securities in the hands of the Trustee pursuant to this Section 10.02, that is not required for the payment of the principal of the Obligations and interest and redemption premium, if any, thereon with respect to which such money shall have been so deposited, shall be deposited in the Toll Revenue Fund as and when realized and applied as is other money deposited in the Toll Revenue Fund, or, in the event there are no longer any Obligations Outstanding under this Indenture, such income shall be automatically paid over to SANDAG.

Notwithstanding any other provision of this Indenture, no Obligation that is subject to optional or mandatory tender in accordance with the provisions of the Supplemental Indenture pursuant to which such Obligation was issued, shall be deemed to be paid within the meaning of this Indenture, unless arrangements shall have been made to assure that such Obligation, if tendered for purchase prior to the date of its redemption or maturity in accordance with the provisions of the applicable Supplemental Indenture, could be paid and redeemed from such moneys or Defeasance Securities as are provided pursuant to this Section 10.02.

Section 10.03 Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of any of the Obligations that remain unclaimed for two (2) years after the date when such Obligations shall have become due and payable (during which period the Trustee shall hold such moneys without liability for interest), either at their stated maturity dates, tender for purchase or by call for redemption, if such moneys were held by the Trustee at such date, or for two (2) years after the date of deposit of such moneys, if deposited with Trustee after the date when such Obligations or the Purchase Price thereof became due and payable, shall automatically be repaid by the Trustee to SANDAG as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Holders shall look only to SANDAG for the payment of the principal or Purchase Price of, the redemption premiums, if any, and interest on such Obligations.

ARTICLE XI

MISCELLANEOUS

Section 11.01 Liability of SANDAG Limited to Trust Estate. Notwithstanding anything contained herein, SANDAG shall not be required to advance any money derived from any source of income other than from the Trust Estate as provided herein for the payment of the
principal of or redemption premium, if any, or interest on the Obligations or for the performance of any agreements or covenants contained herein. SANDAG may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose and may be used by SANDAG for such purpose without incurring an indebtedness prohibited hereby.

The Obligations are limited obligations of SANDAG payable, as to principal thereof, and redemption premium, if any, upon the redemption of any thereof, and interest thereon, solely from the Trust Estate as provided herein and SANDAG is not obligated to pay them except from the Trust Estate. The Obligations do not constitute a debt or liability of the State or of any political subdivision of the State other than SANDAG, or a pledge of the full faith and credit of the State or of any political subdivision of the State.

Section 11.02 Limitation of Rights; Third Party Beneficiary. With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Indenture or the Obligations is intended or shall be construed to give to any Person other than the Bondholders and each Secured Creditor any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and provisions herein contained; this Indenture and all of the covenants, conditions and provisions herein being intended to be and being for the sole and exclusive benefit of the Bondholders and each Secured Creditor.

Section 11.03 Rights of Credit Providers. (a) A Supplemental Indenture authorizing a Series of Obligations may provide that any Credit Provider providing a Credit Support Instrument with respect to Obligations of such Series may exercise any right under this Indenture given to the Owners of the Obligations to which such Credit Support Instrument relates.

(b) All provisions under this Indenture authorizing the exercise of rights by a Credit Provider with respect to consents, approvals, directions, waivers, appointments, requests or other actions, shall be deemed not to require or permit such consents, approvals, directions, waivers, appointments, requests or other actions and shall be read as if the Credit Provider were not mentioned therein during any period during which there is a default by such Credit Provider under the applicable Credit Support Instrument or after the applicable Credit Support Instrument shall at any time for any reason cease to be valid and binding on the Credit Provider, or shall be declared to be null and void by final judgment of a court of competent jurisdiction, or after the Credit Support Instrument has been rescinded, repudiated by the Credit Provider or terminated, or after a receiver, conservator or liquidator has been appointed for the Credit Provider or if the Credit Provider is rated below Baa3 by Moody’s or BBB- by S&P. All provisions relating to the rights of a Credit Provider shall be of no further force and effect if all amounts owing to the Credit Provider under a Credit Support Instrument have been paid and the Credit Support Instrument provided by such Credit Provider is no longer in effect.

Section 11.04 Severability. If any provision of this Indenture is held to be in conflict with any applicable statute or rule of law or is otherwise held to be unenforceable for any reason whatsoever, such circumstances shall not have the effect of rendering the other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent.
whatsoever. If any one or more of the provisions contained in this Indenture or in the Obligations shall for any reason be held to be invalid, illegal or unenforceable in any respect, then such provision or provisions shall be deemed severable from the remaining provisions contained in this Indenture and such invalidity, illegality or unenforceability shall not affect any other provision of this Indenture, and this Indenture shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein. SANDAG hereby declares that it would have executed this Indenture and each and every other section, paragraph, sentence, clause or phrase hereof, and authorized the issuance of the Obligations pursuant to this Indenture, irrespective of the fact that any one or more sections, paragraphs, sentences, clauses or phrases of this Indenture may be held illegal, invalid or unenforceable.

**Section 11.05 Notices.** Except as otherwise provided herein, it shall be sufficient service or giving of notice, request, complaint, demand or other paper if the same shall be duly mailed by registered or certified mail, postage prepaid, addressed as follows:

If to SANDAG:

San Diego Association of Governments

401 B Street, Suite 800
San Diego, CA 92101

Attention: ___________
Telephone: ___________
Fax: _____________

If to the Trustee:

[Trustee notice information to come.]

SANDAG and the Trustee by notice given hereunder may designate any different addresses to which subsequent notices, certificates or other communications shall be sent, or addresses or other instructions for the giving of Electronic notice, but no notice directed to any one such entity shall be thereby required to be sent to more than two addresses.

**Section 11.06 Payments Due on Non-Business Days.** Except as specifically provided otherwise in a Supplemental Indenture, any payment or transfer that would otherwise become due on a day that is not a Business Day need not be made on such day but shall be made on the next succeeding Business Day, with the same force and effect as if made on the date due, and no interest shall accrue for the period from and after the date due.

**Section 11.07 Captions.** The captions or headings in this Indenture are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Indenture.

**Section 11.08 California Law.** This Indenture shall be construed and governed in accordance with the laws of the State of California.
Section 11.09 Effective Date. This Indenture shall become effective upon its execution and delivery.

Section 11.10 Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as SANDAG and Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.
IN WITNESS WHEREOF, the parties hereto have caused this Master Indenture to be executed by their officers thereunto duly authorized as of the day and year first written above.

SAN DIEGO ASSOCIATION OF GOVERNMENTS

By ________________________________

Executive Director

Countersigned:

______________________________

Clerk of the Board

APPROVED AS TO FORM:

By: _____________________________

General Counsel

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By ________________________________

Authorized Officer
SCHEDULE I

[RESERVED]
SCHEDULE II
[RESERVED]
EXHIBIT A
FORM OF FUNDS TRANSFER CERTIFICATE
[TO BE UPDATED]

[_______, 20__]¹

U.S. Bank National Association, as trustee
400 South Hope Street, Suite #400
Los Angeles, CA 90071
Attention: Corporate Trust
Telephone: (213) 630-6240
Facsimile: (213) 630-6215

This Funds Transfer Certificate is delivered pursuant to the Master Indenture, as supplemented by the First Supplemental Indenture, dated as of [_____ 1, 2017] (as so supplemented, and as subsequently supplemented and amended, the “Indenture”), by and between San Diego Association of Governments (“SANDAG”) and U.S. Bank National Association, as trustee (the “Trustee”). All capitalized terms used but not defined herein shall have the meanings specified in the Indenture.

The undersigned [Executive Director/Deputy Executive Director/Finance Director/Toll Program Director] of SANDAG hereby certifies to the Trustee on behalf of SANDAG that the withdrawals and transfers below comply with the requirements of the Indenture.

SANDAG hereby requests that the Trustee make the following transfers on [______], 20[__] for the following purposes:

(A) Transfers from the Toll Revenue Fund in the following order of priority:

(i) $_______ to the Operation and Maintenance Fund for the purposes contemplated by clause First of Section 5.03(b) and Section 5.05 of the Indenture.

(ii) $_______ to the Rebate Fund for the purposes contemplated by clause Second of Section 5.03(b) and Section 5.11 of the Indenture.

(iii) $_______ to the First Senior Lien Obligations Interest Account for the purposes contemplated by clause Third of Section 5.03(b) and Section 5.12 of the Indenture.

¹ Must be at least two Business Days prior to date of making transfers pursuant to Indenture Section 5.22(b).
(iv) $_______ to the First Senior Lien Obligations Principal Account for the purposes contemplated by clause Fourth of Section 5.03(b) and Section 5.13 of the Indenture.

(v) $_______ to the 2017 Bonds Reserve Account of the First Senior Lien Obligations Reserve Fund for the purposes contemplated by clause Fifth of Section 5.03(b) and Section 5.06 of the Indenture.

(vi) $_______ to the Second Senior Lien Obligations Interest Account for the purposes contemplated by clause Sixth of Section 5.03(b) and Section 5.14 of the Indenture.

(vii) $_______ to the Second Senior Lien Obligations Principal Account for the purposes contemplated by clause Seventh of Section 5.03(b) and Section 5.15 of the Indenture.

(viii) $_______ to the Second Senior Lien Obligations Reserve Fund for the purposes contemplated by clause Eighth of Section 5.03(b) and Section 5.07 of the Indenture.

(ix) $_______ to the Subordinate Obligations Interest Account for the purposes contemplated by clause Ninth of Section 5.03(b) and Section 5.16 of the Indenture.

(x) $_______ to the Subordinate Obligations Principal Account for the purposes contemplated by clause Tenth of Section 5.03(b) and Section 5.17 of the Indenture.

(xi) $_______ to the Subordinate Obligations Reserve Fund for the purposes contemplated by clause Eleventh of Section 5.03(b) and Section 5.08 of the Indenture.

(xii) [Reserved].

(xiii) [Reserved].

(xiv) [Reserved.]

(xv) $_______ to [insert counterparty to Qualified Swap Agreement or Swap] for the purposes contemplated by clause Twelfth of Section 5.03(b) of the Indenture and [name relevant provision of Qualified Swap Agreement or Swap].

(xvi) $_______ to the Capital Expenditures Fund for the purposes contemplated by clause Sixteenth of Section 5.03(b) and Section 5.10 of the Indenture.

In the event that amounts on deposit in the Toll Revenue Fund are insufficient to satisfy in full the transfers in the amounts specified under items (i) through (xvi) above, the Trustee shall obtain instructions from SANDAG as to the transfer of funds from another fund or account.
established under the Indenture to satisfy such transfer instructions in accordance with the Indenture.

(B) Transfers to the Toll Revenue Fund from the following funds:

(i) $_______ from the [2017 Bonds Reserve Account of the] First Senior Lien Obligations Reserve Fund for the purposes contemplated by Sections 5.03(c).

(ii) $_______ from the Second Senior Lien Obligations Reserve Fund for the purposes contemplated by Sections 5.03(c).

(iii) $_______ from the Subordinate Obligations Reserve Fund for the purposes contemplated by Sections 5.03(c).

(iv) [Reserved].

(v) $_______ from the First Senior Lien Obligations Reserve Fund for the purposes contemplated by Sections 5.03(c).

SANDAG has determined as of the date of this Funds Transfer Certificate that the amount[s] specified in [(i), (ii), (iii), (iv)] above [is / are] the amount[s] by which the funds on deposit in [the First Senior Lien Obligations Reserve Fund, the Second Senior Lien Obligations Reserve Fund, the Subordinate Obligations Reserve Fund] exceed the [First Senior Lien Obligations Reserve Requirement, Second Senior Lien Obligations Reserve Requirement, Subordinate Obligations Reserve Requirement].

(C) Transfer[s] to the party[ies] identified in Schedule I hereto funds in the amount[s], from the Fund[s] or Account[s] and for the [Project Costs/purposes] set forth in Schedule I hereto.

[To the extent that capitalized interest is being requisitioned hereunder, amounts requisitioned, together with expected earnings from investment thereof, do not exceed amounts properly capitalizable as interest related to projects prior to their completion.] [Obligations in the amounts reflected in Schedule I hereto have been incurred by SANDAG and presently are due and payable or properly are reimbursable to SANDAG, and each item thereof is a Project Cost, is a proper charge against the applicable Account in the Project Fund and has not been paid or reimbursed previously.] [There has not been filed with or served on SANDAG any notice of lien, right of lien, or attachment upon or claim affecting the right of any person, firm or corporation named in Schedule I to receive payment of any amounts shown therein which has not been released or will not be released simultaneously with the payment of such obligation. As of the date of this Funds Transfer Certificate, no event or condition exists that constitutes, or that with the notice or lapse of time or both, would constitute, an Event of Default under the Indenture.]

(D) Deposit or Transfer Upon Final Completion.

[The Substantial Completion Date occurred on [DATE]. SANDAG hereby certifies that the [Project] is complete. The Trustee is hereby instructed to make the deposit to the Toll Revenue Fund.]

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Revenue Fund as described in Section 5.04(g) of the Indenture] [to [___] as required by [the Code] [applicable law].]

SAN DIEGO ASSOCIATION OF GOVERNMENTS

By ______________________________

Authorized Representative
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FIRST SUPPLEMENTAL INDENTURE

between

SAN DIEGO ASSOCIATION OF GOVERNMENTS

and

U.S. BANK NATIONAL ASSOCIATION,

as Trustee

Dated as of [_______ 1, 2017]

Relating to the

San Diego Association of Governments
South Bay Expressway Toll Revenue First Senior Lien Bonds, 2017 Series A

(Supplementing the Master Indenture
Dated as of [_______ 1, 2017])
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THIS FIRST SUPPLEMENTAL INDENTURE, dated as of [_______ 1, 2017] (this “First Supplemental Indenture”), between the SAN DIEGO ASSOCIATION OF GOVERNMENTS, a public entity duly existing under the laws of the State of California (“SANDAG”) and U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under the laws of the United States of America, as trustee (together with any successor thereto, the “Trustee”).

WITNESSETH:

WHEREAS, this First Supplemental Indenture is supplemental to the Master Indenture, dated as of [_______ 1, 2017] (the “Master Indenture” and, as supplemented and amended from time to time pursuant to its terms, including as supplemented by this First Supplemental Indenture, the “Indenture”), between SANDAG and the Trustee, and capitalized terms used but not defined in these recitals are deemed to have the meaning otherwise ascribed thereto in the Master Indenture;

WHEREAS, the Indenture provides that SANDAG may issue First Senior Lien Bonds from time to time as authorized by a Supplemental Indenture, which First Senior Lien Bonds are to be secured by the Trust Estate in accordance with the Indenture;

WHEREAS, SANDAG desires to provide at this time for the issuance of First Senior Lien Bonds secured by the Trust Estate, such Bonds to be designated “San Diego Association of Governments South Bay Expressway Toll Revenue First Senior Lien Bonds, 2017 Series A” for the purpose of providing funds to refund the TransNet Note and the TIFIA Notes and has determined to issue its First Senior Lien Bonds pursuant to the Act and in accordance with the Refunding Bond Law in order to: (i) pay, or reimburse SANDAG for the payment of, a portion of costs of the acquisition, construction and development of the SR-125 Project, including by refunding the TransNet Note and the TIFIA Notes, (ii) fund a deposit to the 2017 Bonds Reserve Account established within the First Senior Lien Obligations Reserve Fund, and (iii) pay the Costs of Issuance of such First Senior Lien Bonds, all as provided in this First Supplemental Indenture; and

WHEREAS, SANDAG has determined to fund a transfer of $[_______] from cash on hand in order to meet the Operation and Maintenance Reserve Fund Policy Limit, as adopted pursuant to Resolution No. [___], dated September 22, 2017;

NOW, THEREFORE, the parties hereto hereby agree as follows:
ARTICLE XII

DEFINITIONS

Section 12.01. Definitions

(a) Definitions. Unless the context otherwise requires, or as otherwise provided in subsection (b) of this Section, all terms defined in the Indenture shall have the same meanings, respectively, in this First Supplemental Indenture.

(b) Additional Definitions. Unless the context otherwise requires, the following terms shall, for all purposes of this First Supplemental Indenture, have the following meanings:

“Authorized Denominations” means, with respect to 2017 Series A Bonds, $5,000 principal amount and any integral multiple thereof.

“First Supplemental Indenture” means this First Supplemental Indenture, dated as of [_______ 1, 2017].

“Interest Payment Date” means, with respect to the 2017 Series A Bonds, [_______ 1] and [_______ 1] of each year until the redemption or maturity of such 2017 Series A Bonds, commencing with [_______ 1, 201__].

“Issue Date” means, with respect to the 2017 Series A Bonds, the date on which the 2017 Series A Bonds are first delivered to the purchasers thereof.

“Record Date” means, with respect to the 2017 Series A Bonds, the fifteenth (15th) day (whether or not a Business Day) of the month preceding the month in which such Interest Payment Date occurs.

“2017 Series A Bonds Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of [_______ 1, 2017], by and between SANDAG and [Digital Assurance Certification, L.L.C.], as dissemination agent, relating to the 2017 Series A Bonds.

“2017 Series A Bonds Costs of Issuance Account” means the 2017 Series A Bonds Costs of Issuance Account established within the First Senior Lien Obligations Account within the Project Fund pursuant to Section 16.01.

“2017 Series A Bonds Reserve Account” means the 2017 Series A Bonds Reserve Account established within the First Senior Lien Obligations Reserve Fund pursuant to Section 16.01.

“2017 Series A Bonds Reserve Account Obligations” means the 2017 Series A Bonds and any First Senior Lien Obligations that are (i) issued to refinance all or a portion of the 2017 Series A Bonds, and (ii) designated as 2017 Series A Bonds Reserve Account Obligations in the Supplemental Indenture providing for their issuance.
“2017 Series A Bonds Reserve Requirement” means, with respect to the 2017 Series A Bonds Reserve Account Obligations, an amount, calculated as of the most recent Issue Date of 2017 Series A Bonds Reserve Account Obligations, equal to the least of (i) Maximum Annual Debt Service on the Outstanding 2017 Series A Bonds Reserve Account Obligations, (ii) one hundred twenty-five percent (125%) of average Annual Debt Service on the 2017 Series A Bonds Reserve Account Obligations, or (iii) ten percent (10%) of the original principal amount of the 2017 Series A Bonds Reserve Account Obligations.

“2017 Series A Bonds Tax Certificate” shall mean that certain Tax Certificate executed on behalf of SANDAG in connection with the issuance of the 2017 Series A Bonds and relating to the requirements of the Code.


Section 12.02. Rules of Construction. Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include corporations and associations, including public bodies, as well as natural persons. Defined terms shall include any variant of the terms set forth in this Article XII.

The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder,” and any similar terms, as used in this First Supplemental Indenture, refer to the Indenture.

ARTICLE XIII

FINDINGS, DETERMINATIONS AND DIRECTIONS

Section 13.01. Findings and Determinations. SANDAG hereby finds and determines that the 2017 Series A Bonds shall be issued pursuant to Article XIV hereof and upon the issuance of the 2017 Series A Bonds, any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the issuance thereof, will exist, will have happened and will have been performed, in due time, form and manner, as required by the Constitution and statutes of the State.

Section 13.02. Recital in Bonds. There shall be included in each of the definitive 2017 Series A Bonds, and also in each of the temporary 2017 Series A Bonds, if any are issued, a certification and recital that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by that 2017A Bond, and in the issuing of that 2017A Bond, exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State and the Act, and that said 2017A Bond, together with all other indebtedness of SANDAG secured by the Trust Estate, is within every debt and other limit prescribed by the Constitution and statutes of the State and the Act, and that such certification and recital shall be in such form as is set forth in the forms of the 2017 Series A Bonds attached hereto as Exhibit A.
Section 13.03. Effect of Findings and Recital. From and after the issuance of the 2017 Series A Bonds, the findings and determinations herein shall be conclusive evidence of the existence of the facts so found and determined in any action or proceeding in any court in which the validity of the 2017 Series A Bonds is at issue, and no bona fide purchaser of any such 2017A Bond containing the certification and recital shall be required to see to the existence of any fact, or to the performance of any condition, or to the taking of any proceeding, required prior to such issuance, or to the application of the purchase price for such 2017 Series A Bonds.

ARTICLE XIV

AUTHORIZATION OF 2017 Series A Bonds

Section 14.01. Principal Amount, Designation and Series. Pursuant to the provisions of this Indenture and the provisions of the Act, a Series of First Senior Lien Bonds entitled to the benefit, protection and security of such provisions, including without limitation the grant of the Trust Estate in the Indenture, is hereby authorized in the aggregate initial principal amount of $[PAR]. Such First Senior Lien Bonds shall be issued as Current Interest Obligations and shall be designated as, and shall be distinguished from the First Senior Lien Bonds of all other Series by the title, “San Diego Association of Governments South Bay Expressway Toll Revenue First Senior Lien Bonds, 2017 Series A.”

Section 14.02. Purpose. The 2017 Series A Bonds are issued for the purpose of (i) paying, or reimbursing SANDAG for the payment of, a portion of costs of the acquisition, construction and development of the SR-125 Project, including by refunding the TransNet Note and the TIFIA Notes, (ii) funding the required deposit to the 2017 Series A Bonds Reserve Account established within the First Senior Lien Obligations Reserve Fund, and (iii) paying costs of issuance.

Section 14.03. Form, Denomination, Numbers and Letters. The 2017 Series A Bonds shall be issued as Book-Entry Bonds in fully registered form in Authorized Denominations and shall be numbered by Series from one upward in consecutive numerical order preceded by the letter “R” prefixed to the number. The 2017 Series A Bonds and the certificate of authentication shall be substantially in the form attached hereto as Exhibit A, which form is hereby approved and adopted as the form of the 2017 Series A Bonds and as the form of the certificate of authentication.

Section 14.04. Date, Maturities and Interest Rates.

(a) The 2017 Series A Bonds shall be issued as Current Interest Obligations in the aggregate principal amount of $[________]. The 2017 Series A Bonds shall be dated their Issue Date, shall bear interest from that date, payable on [_______ 1, 201_], and semiannually thereafter on [_______ 1] and [_______ 1] of each year, at the following rates per annum, computed on the basis of a 360-day year comprised of twelve 30-day months, and shall mature on [_______ 1] in the following years and in the following amounts:
Maturity Date
((_______ 1))  Principal Amount  Interest Rate

20__  $  %
20__ *

* Term Bond Final Maturity

(b) Interest on the 2017 Series A Bond shall be payable to the Owner thereof from the latest of: (i) its Issue Date; (ii) the most recent Interest Payment Date to which interest has been paid thereon or duly provided for, or (iii) if the date of authentication of such Bond is after a Record Date but prior to the immediately succeeding Interest Payment Date, the Interest Payment Date immediately succeeding such date of authentication.

(c) As long as the 2017 Series A Bonds are Book-Entry Bonds, principal of and premium, if any, and interest on the 2017 Series A Bonds shall be payable by wire transfer to the Securities Depository in lawful money of the United States of America.

(d) If the 2017 Series A Bonds cease to be Book-Entry Bonds, principal of and premium, if any, on the 2017 Series A Bonds shall be payable when due upon presentation and surrender thereof at the Principal Office of the Trustee and interest shall be payable by first class mail on each interest payment date to the Owners thereof as of the close of business on the Record Date; provided, however, that Owners of $1,000,000 or more in aggregate principal amount of 2017 Series A Bonds may, at any time prior to a Record Date, give the Trustee written instructions for payment of such interest on each succeeding interest payment date by wire transfer.

Section 14.05. Conditions To Delivery of 2017 Series A Bonds. Each of the 2017 Series A Bonds shall be executed and delivered as authorized by this First Supplemental Indenture and the Indenture, including Article II thereof, upon the receipt of payment therefor from the purchaser thereof.

Section 14.06. Disposition of Proceeds of 2017 Series A Bonds.

(a) The net proceeds from the sale of the 2017 Series A Bonds shall be received by the Trustee and transferred or deposited by the Trustee as follows:

(i) $[________] shall be transferred by the Trustee to the TIFIA Lender, representing the negotiated final prepayment of the principal of, and accrued interest [and redemption premium] on, the TIFIA Notes;

(ii) $[________] shall be transferred by the Trustee to SANDAG, representing the negotiated final prepayment of the principal of, and accrued interest [and redemption premium] on, the TransNet Note;
(iii) $[_________], representing the 2017 Series A Bonds Reserve Requirement at the time of issuance of the 2017 Series A Bonds, shall be deposited by the Trustee in the 2017 Series A Bonds Reserve Account;

(iv) the remaining amount of $[_________] shall be deposited by the Trustee in the 2017 Series A Bonds Costs of Issuance Account.

(b) In order to fulfill the requirements of SANDAG’s adopted Operation and Maintenance Reserve Fund Policy Limit, the amount of $[_________] in cash on hand shall be transferred by SANDAG at closing to an internal account designated for such purpose.

ARTICLE XV

REDEMPTION OF 2017 SERIES A BONDS

Section 15.01. Optional Redemption of 2017 Series A Bonds.

(a) The 2017 Series A Bonds shall be subject to redemption prior to their respective stated maturities, at the option of SANDAG, from any source of available funds, as a whole or in part, on any date on or after [_______ 1, 20__] at the principal amount of 2017 Series A Bonds called for redemption plus accrued interest to the date fixed for redemption, without premium.

SANDAG shall give the Trustee written notice at least thirty (30) days (or such lesser time period acceptable to the Trustee) before any date fixed for the redemption of the 2017 Series A Bonds to be redeemed pursuant to this subsection (a), designating the maturity or maturities of the 2017 Series A Bonds to be redeemed, the portions thereof to be redeemed and the fact and date of such redemption.

(b) Any optional redemption of 2017 Series A Bonds and notice thereof shall be conditional and shall be rescinded and cancelled pursuant to the provisions of Section 4.03 if for any reason on the date fixed for redemption moneys are not available in the Redemption Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of, interest, and any premium due on the 2017 Series A Bonds called for redemption.

Section 15.02. Mandatory Redemption of 2017 Series A Bonds From Sinking Fund Installments.

(a) The 2017 Series A Bonds maturing on [_______ 1, 20__] shall also be subject to mandatory redemption prior to their respective stated maturities, in part, by lot, from Sinking Fund Installments on each [_______ 1] a Sinking Fund Installment is due as specified in Section 15.02(b), in the principal amount equal to the Sinking Fund Installment due on such date and at a redemption price equal to 100% of the principal amount thereof, plus accrued but unpaid interest to the redemption date, without premium.

(b) The Sinking Fund Installments for the Series 2017 Term Bond maturing on [_______ 1, 20__] shall be due in the amounts and on the dates as follows:
Sinking Fund Installment Dates
([_______ 1])

Sinking Fund Installments

20[___]  
20[___]*  

*Final Maturity

On or before the date such Sinking Fund Installments are due, the Trustee shall deposit such amounts to the Principal Account and amounts so transferred shall be applied as provided in Section 5.02 and this Section 15.02.

Section 15.03. Selection of 2017 Series A Bonds for Redemption. SANDAG shall designate which maturities of 2017 Series A Bonds are to be called for redemption pursuant to Section 15.01 and what Sinking Fund Installments are to be reduced as allocated to such redemptions. Whenever provision is made in this Indenture for the redemption of less than all of the 2017 Series A Bonds maturing on a specific maturity date, the Trustee shall select the Bonds of such maturity to be redeemed, from the Outstanding Bonds of such maturity and Series not previously called for redemption, in minimum denominations of $5,000 (of principal), by lot in any manner which the Trustee in its sole discretion shall deem appropriate. In the event Term Bonds are designated for redemption, SANDAG may designate the Sinking Fund Installments under Section 15.02, or portions thereof, that are to be reduced as allocated to such redemption. The Trustee shall promptly notify SANDAG in writing of the Bonds of such Series so selected for redemption.

Section 15.04. Purchase In Lieu of Redemption. In lieu of mandatory redemption from Sinking Fund Installments, SANDAG may surrender to the Trustee for cancellation Series 2017 Term Bonds purchased on the open market and such Series 2017 Term Bonds shall be cancelled by the Trustee. If any Series 2017 Term Bonds are so cancelled, SANDAG may designate the Sinking Fund Installments or portions thereof that are to be reduced as allocated to such cancellation.

ARTICLE XVI
ESTABLISHMENT OF FUNDS AND ACCOUNTS AND APPLICATION THEREOF

Section 16.01. Funds and Accounts. To ensure the proper application of such portion of proceeds from the sale of the 2017 Series A Bonds to be applied to pay Costs of the SR-125 Project and Costs of Issuance of the 2017 Series A Bonds, there is hereby established the 2017 Series A Bonds Costs of Issuance Account in the First Senior Lien Obligations Account of the Project Fund, which shall be held by the Trustee. To ensure the proper application of such proceeds from the sale of the 2017 Series A Bonds to be applied to satisfy the 2017 Series A Bonds Reserve Requirement, there is hereby established the 2017 Series A Bonds Reserve Account.
Account within the First Senior Lien Obligations Reserve Fund, such account to be held by the Trustee.

**Section 16.02. First Senior Lien Obligations Account of the Project Fund.** The proceeds of the 2017 Series A Bonds set aside and placed in the First Senior Lien Obligations Account of the Project Fund shall be expended for the purpose of paying, or reimbursing SANDAG for the payment of, the Project Costs of the SR-125 Project and shall not be used for any other purpose whatsoever. SANDAG shall submit a Funds Transfer Certificate in accordance with Section 5.25 in connection with each request for a disbursement from the First Senior Lien Obligations Account. Pursuant to Section 5.07, all interest, profits and other income received from the investment of moneys in the First Senior Lien Obligations Account shall be deposited in the First Senior Lien Obligations Account. When SANDAG determines that the SR-125 Project has been completed, a Certificate of SANDAG shall be delivered to the Trustee by SANDAG stating: (i) the fact and date of such completion; (ii) that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims that are subject to dispute and for which a retention in the First Senior Lien Obligations Account is to be maintained in the full amount of such claims until such dispute is resolved); and (iii) that the Trustee is to transfer the remaining balance in the First Senior Lien Obligations Account, less the amount of any such retention, to the 2017 Series A Bonds Reserve Account, to the extent of any deficiency therein, and then to the First Senior Lien Obligations Fund.

**Section 16.03. 2017 Series A Bonds Costs of Issuance Account.** The proceeds of the 2017 Series A Bonds set aside and placed in the 2017 Series A Bonds Costs of Issuance Account shall remain therein until [_________, 2018] and expended for the purpose of paying the Costs of Issuance of the 2017 Series A Bonds. Before any payment from the 2017 Series A Bonds Costs of Issuance Account shall be made by the Trustee, SANDAG shall file or cause to be filed with the Trustee a requisition of SANDAG (each a “Requisition”), such Requisition to be signed by an Authorized Representative and to include: (i) the item number of such payment; (ii) the name and address of, or name and wiring instructions for, the person to whom each such payment is due, which may be SANDAG in the case of reimbursement for costs theretofore paid by SANDAG; (iii) the respective amounts to be paid; (iv) the purpose by general classification for which each obligation to be paid was incurred; and (v) that obligations in the stated amounts have been incurred by SANDAG and are presently due and payable and that each item thereof is a proper charge against the 2017 Series A Bonds Costs of Issuance Account and has not been previously paid from said account. On [_______, 2018], any amounts remaining in the 2017 Series A Bonds Costs of Issuance Account shall be transferred to the First Senior Lien Obligations Account of the Project Fund and the 2017 Series A Bonds Costs of Issuance Account shall be closed.

**Section 16.04. 2017 Series A Bonds Reserve Account.** The monies set aside and placed in the 2017 Series A Bonds Reserve Account on account of the 2017 Series A Bonds Reserve Requirement shall be held solely for the benefit of the 2017 Series A Bonds Reserve Account Obligations, and shall be used, withdrawn, and replenished as provided herein and in Sections 5.03 and 5.08. Prior to the Substantial Completion Date, if, on any date of valuation of Permitted Investments credited to the 2017 Series A Bonds Reserve Account pursuant to Section 5.08(b), the amount on deposit in the 2017 Series A Bonds Reserve Account exceeds the 2017 Series A Bonds Reserve Requirement as of such date, the Trustee shall transfer such excess
amount to the First Senior Lien Obligations Account of the Project Fund. From and after the
Substantial Completion Date, if, on any date of valuation of Permitted Investments credited to
the 2017 Series A Bonds Reserve Account pursuant to Section 5.23, the amount on deposit in the
2017 Series A Bonds Reserve Account exceeds the 2017 Series A Bonds Reserve Requirement
as of such date, the Trustee shall transfer such excess amount to the Toll Revenue Fund.

ARTICLE XVII

MISCELLANEOUS

Section 17.01. Severability. If any covenant, agreement or provision, or any
portion thereof, contained in this First Supplemental Indenture, or the application thereof to any
person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of
this First Supplemental Indenture, and the application of any such covenant, agreement or
provision, or portion thereof, to other persons or circumstances, shall be deemed severable and
shall not be affected thereby, and this First Supplemental Indenture shall remain valid.

Section 17.02. Parties Interested Herein. Nothing in this First Supplemental
Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any
person or entity, other than SANDAG, the Trustee, and the Owners of the 2017 Series A Bonds,
any right, remedy or claim under or by reason of this First Supplemental Indenture or any
covenant, condition or stipulation hereof; and all the covenants, stipulations, promises and
agreements in this First Supplemental Indenture contained by and on behalf of SANDAG shall
be for the sole and exclusive benefit of SANDAG, the Trustee, and the Owners.

Section 17.03. Headings Not Binding. The headings in this First
Supplemental Indenture are for convenience only and in no way define, limit or describe the
scope or intent of any provisions or sections of this First Supplemental Indenture.

Section 17.04. Notice Addresses. Except as otherwise provided herein, it
shall be sufficient service or giving of notice, request, complaint, demand or other paper if the
same shall be duly mailed by registered or certified mail, postage prepaid, addressed to the
Notice Address for the appropriate party or parties as provided in Exhibit B hereto. Any such
entity by notice given hereunder may designate any different addresses to which subsequent
notices, certificates or other communications shall be sent, but no notice directed to any one such
entity shall be thereby required to be sent to more than two addresses.

Section 17.05. Notices to Rating Agencies. The Trustee shall provide notice
to the Rating Agencies of the following events with respect to the 2017 Series A Bonds:

(1) Change in Trustee;

(2) Amendments to the Indenture; and

(3) Redemption or defeasance of the 2017 Series A Bonds.
Section 17.06. **Indenture to Remain in Effect.** Save and except as amended and supplemented by this First Supplemental Indenture, the Master Indenture shall remain in full force and effect.

Section 17.07. **Effective Date of First Supplemental Indenture.** This First Supplemental Indenture shall take effect upon its execution and delivery.

Section 17.08. **Execution in Counterparts.** This First Supplemental Indenture may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.
IN WITNESS WHEREOF, the parties hereto have executed this First Supplemental Indenture by their officers thereunto duly authorized as of the day and year first written above.

SAN DIEGO ASSOCIATION OF GOVERNMENTS

By: ___________________________
   Executive Director

Countersigned:

______________________________
   Clerk of the Board

APPROVED AS TO FORM:

By: ___________________________
   General Counsel

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: ___________________________
   Authorized Officer
EXHIBIT A
FORM OF 2017 SERIES A BOND

No. R-- A-______ $___________

San Diego Association of Governments
Toll Revenue Senior Lien Bond
South Bay Expressway Toll Revenue First Senior Lien Bonds, 2017 Series A

INTEREST RATE MATURITY DATE ISSUE DATE CUSIP

[________ 1, 20__] [_____, 2017] [_______ 1, 20___]

REGISTERED OWNER: Cede & Co.

PRINCIPAL AMOUNT: Dollars

SAN DIEGO ASSOCIATION OF GOVERNMENTS, a public entity duly organized and existing under the laws of the State of California (“SANDAG”), for value received, hereby promises to pay (but solely from the Trust Estate as hereinafter referred to) in lawful money of the United States of America, to the registered owner or registered assigns, on the maturity date set forth above, unless redeemed prior thereto as hereinafter provided, the principal amount specified above, together with interest thereon until the principal hereof shall have been paid, at the interest rate per annum specified above based on a 360-day year of twelve 30-day months, payable on [________ 1, 201_] and semiannually thereafter on [________ 1] and [________ 1] and at maturity or upon the prior redemption thereof (each, an “Interest Payment Date”). This Bond shall bear interest from the latest of: (i) its Issue Date; (ii) the most recent Interest Payment Date to which interest has been paid or duly provided for, or (iii) if the date of authentication of this Bond is after a Record Date but prior to the immediately succeeding Interest Payment Date, the Interest Payment Date immediately succeeding such date of authentication.

As long as 2017 Series A Bonds are Book-Entry Bonds, principal of and premium, if any, and interest on the 2017 Series A Bonds shall be payable by wire transfer to the Securities Depository in lawful money of the United States of America.

If the 2017 Series A Bonds cease to be Book-Entry Bonds, principal of and premium, if any, on the 2017 Series A Bonds shall be payable when due upon presentation and surrender thereof at the Principal Office of U.S. Bank National Association, as trustee (the “Trustee”) and interest shall be payable by first class mail on each interest payment date to the registered owners thereof as of the close of business on the Record Date; provided, however, that the registered owner of $1,000,000 or more in aggregate principal amount of 2017 Series A Bonds may, at any time prior to a Record Date, give the Trustee written instructions for payment of such interest on each succeeding interest payment date by wire transfer. As used herein, “Record Date” means the fifteenth day (whether or not a Business Day) of the month preceding such Interest Payment Date.
This Bond is one of a duly authorized issue of bonds of SANDAG, designated as “San Diego Association of Governments Toll Revenue First Senior Lien Bonds” (the “Bonds”), of the series designated above, all of which are being issued pursuant to the provisions of Division 12.7 of the Public Utilities Code of the State of California (Section 132350 et seq.) (the “Act”), and in accordance with Article 10 and Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (Section 53570 et seq.) (the “Refunding Bond Law”), and the provisions of a Master Indenture, dated as of [_______ 1, 2017] (the “Master Indenture”), as supplemented, including as supplemented by a First Supplemental Indenture, dated as of [_______ 1, 2017] (the “First Supplemental Indenture”), each between SANDAG and the Trustee. The Master Indenture, as supplemented and amended from time to time pursuant to its terms, including as supplemented by the First Supplemental Indenture, is hereinafter referred to as the “Indenture.” Said authorized issue of Bonds is not limited in principal amount and consists or may consist of one or more series of varying denominations, dates, maturities, interest rates and other provisions, as in the Indenture provided. Capitalized terms used herein and not otherwise defined shall have the meaning given such terms in the Indenture.

**THIS BOND IS A LIMITED OBLIGATION OF SANDAG SECURED SOLELY BY THE TRUST ESTATE AS DEFINED AND PROVIDED IN THE INDENTURE AND SANDAG IS NOT OBLIGATED TO PAY THIS BOND EXCEPT FROM SUCH TRUST ESTATE. THIS BOND DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OF THE STATE OTHER THAN SANDAG. NEITHER THE FULL FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA IS PLEDGED TO THE PAYMENT OF PRINCIPAL OR INTEREST OF THIS BOND.**

Reference is hereby made to the Indenture, the Refunding Bond Law and the Act for a description of the terms on which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the Trust Estate and the rights of the registered owners of the Bonds and all the terms of the Indenture are hereby incorporated herein and constitute a contract between SANDAG and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued and other indebtedness may be incurred on a parity with the Series of Bonds of which this Bond is a part, but only subject to the conditions and limitations contained in the Indenture.

This Bond is secured by and payable both as to principal and interest, and as to any premium upon the redemption hereof, solely from the Trust Estate as defined in the Indenture, subject only to the provisions of the Indenture permitting application thereof for the purposes and on the terms and conditions set forth therein, and SANDAG is not obligated to pay this Bond except from said Trust Estate.

**Optional Redemption Provisions**

Bonds shall be subject to optional redemption as specified in the Indenture.

**Amendments and Modifications**
The rights and obligations of SANDAG and of the holders and registered owners of the Bonds of the Series of Bonds of which this Bond is a part may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of Bonds.

**Transfer and Exchange**

This Bond is transferable or exchangeable as provided in the Indenture, only upon the Bond Register at the Principal Office of the Trustee, by the registered owner hereof in person, or by such owner’s duly authorized attorney, upon surrender of this Bond at the Principal Office of the Trustee, together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or such owner’s duly authorized attorney, and thereupon a new Bond or Bonds of the same series, maturity, interest rate and in the same Accreted Value, shall be issued to the transferee in exchange therefor as provided in the Indenture, upon payment of any charges therein prescribed.

**Persons Deemed Holders**

The person in whose name this Bond is registered shall be deemed and regarded as the absolute owner hereof for all purposes, including receiving payment of, or on account of, the principal of and premium and interest due hereon.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California and the Act and the Refunding Bond Law, and that this Bond, together with all other indebtedness of SANDAG secured by the Trust Estate, is within every debt and other limit prescribed by the Constitution and statutes of the State of California and the Act.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.
IN WITNESS WHEREOF the San Diego Association of Governments has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of its duly authorized representatives all as of the Issue Date set forth above.

SAN DIEGO ASSOCIATION OF GOVERNMENTS

By: ______________________________
    Chair of the Board

(Seal)

Countersigned:

By: ______________________________
    Clerk of the Board
[FORM OF CERTIFICATE OF AUTHENTICATION]

This Bond is one of the 2017 Series A Bonds described in the within mentioned Indenture and was authenticated on the date set forth below.

Date of Authentication: ____________________________

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: ____________________________
    Authorized Officer

[DTC LEGEND]

Unless this Bond is presented by an authorized representative of The Depository Trust Company to the issuer or its agent for registration of transfer, exchange or payment, and any Bond issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co., has an interest herein.
[FORM OF ASSIGNMENT]

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

(Please Print or Type Name and Address of Assignee)

PLEASE INSERT SOCIAL SECURITY OR OTHER TAX IDENTIFICATION NUMBER OF ASSIGNEE

the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints

to transfer the within Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated:

Signature:  

(Signature of Assignor)

Notice: The signature on this assignment must correspond with the name of the Registered Owner as it appears upon the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

SIGNATURE GUARANTEED:

Notice: Signature must be guaranteed by an eligible guarantor firm.
EXHIBIT B

NOTICE ADDRESSES

To SANDAG:

San Diego Association of Governments

401 B Street, Suite 800
San Diego, CA 92101

Attention: ___________
Telephone: ___________
Fax: ___________

To the Trustee:

U.S. Bank National Association

Attention:
Telephone:
Fax:

To the Rating Agencies:

[S&P Global Ratings
55 Water Street, 38th Floor
New York, New York 10041
Telephone No.: 212-438-2000
Facsimile No.: 212-438-2157
pubfin_structured@standardandpoors.com

Fitch Ratings
One State Street Plaza
New York, New York 10004]
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Executive Summary

Stantec Consulting Services Inc. (“Stantec”) was retained by the San Diego Association of Governments (SANDAG) to refresh the traffic and revenue study that Stantec completed in 2011 for the South Bay Expressway (SBX), a tolled portion of SR-125. Since the acquisition of the SBX in December 2011, SANDAG has lowered toll rates as part of a broader strategy of providing congestion relief and improving mobility in the area. This strategy has resulted in increased traffic and improved financial performance. The forecast in this study will be used in support of refunding the outstanding TIFIA loan and associated obligations related to the operation of the SBX.

Stantec used a compilation of traffic data to calibrate the travel demand model for the 2016 base year. SANDAG provided Stantec with traffic and revenue data on the SBX, INRIX speed data throughout the study area, and AWDT counts on arterial roadways. Stantec supplemented this data with freeway counts from Caltrans’ Free Performance Measurement System (PeMS) database. On average weekdays in 2016, the SBX had over 50,000 transactions with most trips beginning or ending at SR-54. The roadway also experienced little congestion with a minimum corridor speed of 55 mph during an average weekday.

Stantec examined the socioeconomic forecast built into SANDAG’s Activity-Based Model (ABM). Overall, the ABM’s forecasts were more conservative than forecasts provided by California’s Department of Finance and Woods & Poole. Strong growth is expected along the SBX corridor, particularly in the Otay Ranch neighborhood of Chula Vista and the Otay Mesa neighborhood of San Diego. These two neighborhoods are forecasted to grow more than any other neighborhood in their respective cities. Otay Mesa is noteworthy for being named California’s first enhanced infrastructure financing district. The neighborhood is expected to yield $800 million in estimated property tax increment over the next 45 years that will be used to improve infrastructure and spur economic development in the area.

The traffic and revenue forecasting process relies primarily on the traffic results produced by Stantec’s toll diversion model. The model adopts SANDAG’s Activity-Based Model (ABM) for use in forecasting the SBX’s traffic and revenue. The ABM’s highway network and O-D trip tables for each scenario year were converted from TransCAD to Cube to be utilized in the toll diversion model. The model was then calibrated, validated, and adapted to predict future traffic and revenue.

The model results for years 2025, 2035, and 2050 were post processed and annualized based on historical SBX data for the forecast. The traffic and revenue results for intermediate years were interpolated based on the model results. The forecast assumed SBX’s toll rates will remain constant for the life of the forecast and that new interchange improvements will occur in 2022, 2035, and 2037. Stantec forecasts that the SBX will have over 686 million transactions between fiscal years 2017 and 2043 and receive over $1.2 billion in toll revenue during that time. Table ES-1 shows the SBX traffic and revenue forecast.
# Table ES-1: South Bay Expressway Traffic and Revenue Forecast

<table>
<thead>
<tr>
<th>FY Year</th>
<th>Average Weekday Transactions</th>
<th>Annual Transactions</th>
<th>Transactions Annual Growth Rate</th>
<th>Average Toll Rate</th>
<th>Annual Revenue (Nominal $'s)</th>
<th>Revenue Annual Growth Rate</th>
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<tr>
<td>2012</td>
<td>28,100</td>
<td>9,140,000</td>
<td>-</td>
<td>$2.71</td>
<td>$24,790,000</td>
<td>-</td>
</tr>
<tr>
<td>2013</td>
<td>35,000</td>
<td>11,360,000</td>
<td>24.3%</td>
<td>$2.00</td>
<td>$22,690,000</td>
<td>-8.5%</td>
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<td>2014</td>
<td>40,600</td>
<td>13,190,000</td>
<td>16.1%</td>
<td>$1.97</td>
<td>$25,970,000</td>
<td>14.5%</td>
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<td>2015</td>
<td>44,200</td>
<td>14,370,000</td>
<td>8.9%</td>
<td>$1.95</td>
<td>$28,010,000</td>
<td>7.9%</td>
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<td>2016</td>
<td>48,500</td>
<td>15,770,000</td>
<td>9.7%</td>
<td>$1.94</td>
<td>$30,640,000</td>
<td>9.4%</td>
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<td>2017</td>
<td>51,100</td>
<td>16,680,000</td>
<td>5.8%</td>
<td>$1.93</td>
<td>$32,180,000</td>
<td>5.0%</td>
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<td>2018</td>
<td>53,200</td>
<td>17,370,000</td>
<td>4.1%</td>
<td>$1.91</td>
<td>$33,220,000</td>
<td>3.2%</td>
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<td>2019</td>
<td>55,000</td>
<td>17,950,000</td>
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<td>$1.90</td>
<td>$34,090,000</td>
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<td>2020</td>
<td>56,500</td>
<td>18,420,000</td>
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<td>$1.89</td>
<td>$34,800,000</td>
<td>2.1%</td>
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<td>2021</td>
<td>57,800</td>
<td>18,840,000</td>
<td>2.3%</td>
<td>$1.88</td>
<td>$35,430,000</td>
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<td>2022</td>
<td>58,900</td>
<td>19,230,000</td>
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<td>$1.87</td>
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<td>2023</td>
<td>60,600</td>
<td>19,770,000</td>
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<td>2024</td>
<td>62,800</td>
<td>20,490,000</td>
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<td>$1.85</td>
<td>$37,860,000</td>
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<tr>
<td>2025</td>
<td>65,500</td>
<td>21,320,000</td>
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<td>$1.84</td>
<td>$39,260,000</td>
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<tr>
<td>2026</td>
<td>68,000</td>
<td>22,090,000</td>
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<td>$1.84</td>
<td>$40,650,000</td>
<td>3.5%</td>
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<tr>
<td>2027</td>
<td>69,900</td>
<td>22,700,000</td>
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<td>$41,630,000</td>
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<tr>
<td>2028</td>
<td>71,800</td>
<td>23,330,000</td>
<td>2.8%</td>
<td>$1.83</td>
<td>$42,650,000</td>
<td>2.5%</td>
</tr>
<tr>
<td>2029</td>
<td>73,800</td>
<td>23,980,000</td>
<td>2.8%</td>
<td>$1.82</td>
<td>$43,690,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>2030</td>
<td>75,800</td>
<td>24,640,000</td>
<td>2.8%</td>
<td>$1.82</td>
<td>$44,750,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>2031</td>
<td>77,900</td>
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<td>$1.81</td>
<td>$45,850,000</td>
<td>2.5%</td>
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<tr>
<td>2032</td>
<td>80,100</td>
<td>26,030,000</td>
<td>2.8%</td>
<td>$1.80</td>
<td>$46,960,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>2033</td>
<td>82,300</td>
<td>26,750,000</td>
<td>2.8%</td>
<td>$1.80</td>
<td>$48,100,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>2034</td>
<td>84,600</td>
<td>27,490,000</td>
<td>2.8%</td>
<td>$1.79</td>
<td>$49,270,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>2035</td>
<td>87,300</td>
<td>28,380,000</td>
<td>3.2%</td>
<td>$1.78</td>
<td>$50,620,000</td>
<td>2.7%</td>
</tr>
<tr>
<td>2036</td>
<td>90,400</td>
<td>29,390,000</td>
<td>3.6%</td>
<td>$1.77</td>
<td>$52,010,000</td>
<td>2.7%</td>
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<tr>
<td>2037</td>
<td>93,500</td>
<td>30,380,000</td>
<td>3.4%</td>
<td>$1.75</td>
<td>$53,250,000</td>
<td>2.4%</td>
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<tr>
<td>2038</td>
<td>96,800</td>
<td>31,470,000</td>
<td>3.6%</td>
<td>$1.75</td>
<td>$55,040,000</td>
<td>3.4%</td>
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<tr>
<td>2039</td>
<td>100,500</td>
<td>32,670,000</td>
<td>3.8%</td>
<td>$1.76</td>
<td>$57,450,000</td>
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<td>2040</td>
<td>104,400</td>
<td>33,910,000</td>
<td>3.8%</td>
<td>$1.77</td>
<td>$59,960,000</td>
<td>4.4%</td>
</tr>
<tr>
<td>2041</td>
<td>107,700</td>
<td>34,990,000</td>
<td>3.2%</td>
<td>$1.78</td>
<td>$62,130,000</td>
<td>3.6%</td>
</tr>
<tr>
<td>2042</td>
<td>110,400</td>
<td>35,890,000</td>
<td>2.6%</td>
<td>$1.78</td>
<td>$63,910,000</td>
<td>2.9%</td>
</tr>
<tr>
<td>2043</td>
<td>113,200</td>
<td>36,810,000</td>
<td>2.6%</td>
<td>$1.79</td>
<td>$65,750,000</td>
<td>2.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>750,130,000</strong></td>
<td>-</td>
<td><strong>$1.83</strong></td>
<td><strong>1,375,430,000</strong></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Historical revenue is gross revenue potential and does not contain revenue from violation fines.

- Otay Valley interchange opens
- North half of Lone Star interchange opens
1.0 EXISTING CONDITIONS

A wide range of traffic count and speed data were used in this study to clearly define the operating conditions on important roadways that parallel or feed the South Bay Expressway (SBX), a tolled portion of SR-125. SANDAG provided Stantec with traffic and revenue data from overhead toll gantries and tolled ramps on the SBX. INRIX speed data were provided throughout the study area to provide reliable travel data on the SBX, parallel and feeding routes. Average weekday counts on arterial roadways, from a variety of sources, were also available. Stantec supplemented these data with freeway counts from Caltrans’ Free Performance Measurement System (PeMS) database. The compilation of these data was used to calibrate Stantec’s travel demand model in the base year (2016).

1.1 SOUTH BAY EXPRESSWAY

The South Bay Expressway is the tolled portion of SR-125 from Otay Mesa Road/SR-905/SR-11 in the south to SR-54 in the north. The intermediate interchanges on the roadway are Birch Road, Olympic Parkway, Otay Lakes Road, East H Street, and San Miguel Ranch Road. The longest segment is over 4 miles long between Otay Mesa Road and Birch Road at the SBX’s southern end. The second longest segment is over 3 miles long between SR-54 and San Miguel Ranch Road at the SBX’s northern end. All other SBX segments are about a mile long. Table 1-1 shows the distances for each SBX origin-destination movement.

Table 1-1: Mileage between SBX interchanges

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SR-54</td>
<td>-</td>
<td>3.1</td>
<td>4.0</td>
<td>5.1</td>
<td>6.1</td>
<td>6.8</td>
<td>11.0</td>
</tr>
<tr>
<td>San Miguel Ranch Rd.</td>
<td>3.1</td>
<td>-</td>
<td>1.0</td>
<td>2.0</td>
<td>3.0</td>
<td>3.8</td>
<td>7.9</td>
</tr>
<tr>
<td>East H St.</td>
<td>4.0</td>
<td>1.0</td>
<td>-</td>
<td>1.0</td>
<td>2.0</td>
<td>2.8</td>
<td>6.9</td>
</tr>
<tr>
<td>Otay Lakes Rd.</td>
<td>5.1</td>
<td>2.0</td>
<td>1.0</td>
<td>-</td>
<td>1.0</td>
<td>1.8</td>
<td>5.9</td>
</tr>
<tr>
<td>Olympic Pkwy.</td>
<td>6.1</td>
<td>3.0</td>
<td>2.0</td>
<td>1.0</td>
<td>-</td>
<td>0.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Birch Rd.</td>
<td>6.8</td>
<td>3.8</td>
<td>2.8</td>
<td>1.8</td>
<td>0.8</td>
<td>-</td>
<td>4.1</td>
</tr>
<tr>
<td>Otay Mesa Rd.</td>
<td>11.0</td>
<td>7.9</td>
<td>6.9</td>
<td>5.9</td>
<td>4.9</td>
<td>4.1</td>
<td>-</td>
</tr>
</tbody>
</table>

The roadway is located primarily in suburban Chula Vista with the southern end located in San Diego, less than two miles from the Otay Mesa border crossing to Mexico. Figure 1-1 shows the SBX corridor with intersecting roadways. The SBX has multiple functions. As the only limited-access roadway in eastern Chula Vista, the SBX is used by residents to access SR-54 and the San Diego highway network to the north. The closest road that parallels the SBX for its entire length is I-805, which is about 4 miles away from the SBX via arterial roadways. The SBX is also the only direct northbound route from the Otay Mesa port of entry and proximate industrial park (the southbound route is expected to open in 2022). The closest alternate route for northbound traffic from the port of entry and industrial park is I-805 which is about 5 miles away via SR-905. The SBX also provides a
north-south route for local trips through eastern Chula Vista. Multiple arterials provide alternatives for these short trips.

**Figure 1-1: South Bay Expressway Corridor**

1.1.1 **Annual Traffic and Revenue**

SANDAG provided Stantec with monthly transaction and revenue data from the SBX for fiscal year 2012 through the beginning of 2017. SANDAG purchased the SBX as it emerged from bankruptcy in late 2012. After a brief period, as planned as part of the takeover, SANDAG lowered all toll rates by approximately 25 percent at the end of Fiscal Year 2012. As a direct response to this rate lowering, a 24 percent increase in FY 2013 annual transactions occurred. Annual revenue declined by 8 percent in the first year as drivers ramped up demand after considering the lower tolls. FY 2014 saw slightly less transaction growth than FY 2013 with a 16 percent increase in trips; this resulted in a 14 percent increase in revenue. At the close of FY 2014, annual revenue exceeded the revenue levels achieved prior to SANDAG’s takeover. Traffic growth continued after 2014, with annual transactions and revenue both increasing between 8 and 10 percent in
2015 and 2016. Table 1-2 shows the annual traffic and revenue on the SBX for all fiscal years between 2012 and 2016.

### Table 1-2: SBX Annual Transactions and Revenue, Fiscal Years 2012-2016

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Transactions (000s)</th>
<th>Revenue (Nominal $000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value</td>
<td>Growth</td>
</tr>
<tr>
<td>FY 2012</td>
<td>9,140</td>
<td>-</td>
</tr>
<tr>
<td>FY 2013</td>
<td>11,360</td>
<td>24%</td>
</tr>
<tr>
<td>FY 2014</td>
<td>13,190</td>
<td>16%</td>
</tr>
<tr>
<td>FY 2015</td>
<td>14,370</td>
<td>9%</td>
</tr>
<tr>
<td>FY 2016</td>
<td>15,770</td>
<td>10%</td>
</tr>
</tbody>
</table>

#### 1.1.2 2016 Trip Patterns

SANDAG provided Stantec with hourly traffic and revenue data for October 2016 by payment type, origin, and destination. Stantec factored the October 2016 data, based on prior years, to estimate the 2016 average weekday traffic conditions on the South Bay Expressway.

Over 50,000 trips were taken during an average 2016 weekday on the SBX. Almost 38,000 of these trips (75 percent) either entered or exited the toll road at SR-54, indicating that drivers use the South Bay Expressway primarily to access the greater San Diego highway network. Over 10,000 trips during the average weekday either began or ended at Otay Mesa Road, representing about 21 percent of all trips. Over 2,800 trips (over 5 percent) travelled the toll road’s full length. Less than 10 percent of all trips were “short” trips with neither SR-54 nor Otay Mesa Road as an origin or destination. About 460 trips were by trucks with three or more axles, representing less than one percent of all transactions. Table 1-3 shows the 2016 average weekday trip patterns for the SBX. Table 1-4 shows the average weekday SBX transactions by vehicle type.

### Table 1-3: 2016 Average Weekday Trip Patterns for the SBX

<table>
<thead>
<tr>
<th></th>
<th>SR54</th>
<th>San Miguel Ranch</th>
<th>East H Street</th>
<th>Otay Lakes</th>
<th>Olympic Pkwy</th>
<th>Birch</th>
<th>Otay Mesa</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR54</td>
<td>1,904</td>
<td>1,591</td>
<td>4,477</td>
<td>4,931</td>
<td>3,252</td>
<td>2,278</td>
<td>1,440</td>
<td>17,969</td>
</tr>
<tr>
<td>San Miguel Ranch</td>
<td>4,601</td>
<td>4,601</td>
<td>463</td>
<td>326</td>
<td>381</td>
<td>636</td>
<td>4,005</td>
<td></td>
</tr>
<tr>
<td>East H Street</td>
<td>5,498</td>
<td>721</td>
<td>98</td>
<td>423</td>
<td>187</td>
<td>932</td>
<td>7,780</td>
<td></td>
</tr>
<tr>
<td>Otay Lakes</td>
<td>4,165</td>
<td>538</td>
<td>691</td>
<td>146</td>
<td>246</td>
<td>1,023</td>
<td>6,444</td>
<td></td>
</tr>
<tr>
<td>Olympic Pkwy</td>
<td>2,329</td>
<td>312</td>
<td>214</td>
<td>322</td>
<td>1,191</td>
<td>4,371</td>
<td>4,768</td>
<td></td>
</tr>
<tr>
<td>Birch</td>
<td>1,412</td>
<td>562</td>
<td>883</td>
<td>909</td>
<td>1,459</td>
<td>5,225</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Otay Mesa</td>
<td>1,911</td>
<td>1,591</td>
<td>6,410</td>
<td>7,181</td>
<td>5,225</td>
<td>50,101</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>19,911</td>
<td>1,591</td>
<td>6,410</td>
<td>7,181</td>
<td>5,225</td>
<td>50,101</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 1-4: 2016 Average Weekday SBX Transactions by Vehicle Type

<table>
<thead>
<tr>
<th>Vehicle Type</th>
<th>Transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile</td>
<td>49,641</td>
</tr>
<tr>
<td>Truck</td>
<td>460</td>
</tr>
<tr>
<td>All Vehicles</td>
<td>50,101</td>
</tr>
</tbody>
</table>

The SBX generated almost $96,000 in toll revenue on the average weekday in 2016. Over 77 percent of the revenue (over $74,000) came from vehicles beginning or ending their SBX trip at SR-54. Almost 28 percent of revenue (almost $27,000) came from vehicles beginning or ending at
SOUTH BAY EXPRESSWAY TRAFFIC AND REVENUE STUDY UPDATE

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Otay Mesa Road. Over $9,000 (almost 10 percent) of revenue came from vehicles travelling the toll road’s full length. Only 4 percent of revenue (less than $4,000) came from “short” trips with neither SR-54 nor Otay Mesa Road as an origin or destination. The SBX generated $2,200 of toll revenue from trucks with 3 or more axles on average weekdays, representing about 2 percent of all toll revenue. Table 1-5 shows the revenue generated by trips on the SBX. Table 1-5 shows the average weekday SBX revenue by vehicle type.

Table 1-5: 2016 Average Weekday Revenue by Trip for the SBX

<table>
<thead>
<tr>
<th>SBX</th>
<th>San Miguel Ranch</th>
<th>East H Street</th>
<th>Otay Lakes</th>
<th>Olympic Pkwy</th>
<th>Birch</th>
<th>Otay Mesa</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$R54</td>
<td>$2,604</td>
<td>$8,395</td>
<td>$9,388</td>
<td>$6,219</td>
<td>$4,243</td>
<td>$4,563</td>
<td>$35,412</td>
</tr>
<tr>
<td>San Miguel Ranch</td>
<td>$3,106</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$3,106</td>
</tr>
<tr>
<td>East H Street</td>
<td>$8,562</td>
<td>$490</td>
<td>$230</td>
<td>$259</td>
<td>$1,443</td>
<td></td>
<td>$10,984</td>
</tr>
<tr>
<td>Otay Lakes</td>
<td>$10,408</td>
<td>$662</td>
<td>$406</td>
<td>$127</td>
<td>$2,204</td>
<td></td>
<td>$13,806</td>
</tr>
<tr>
<td>Olympic Pkwy</td>
<td>$7,837</td>
<td>$299</td>
<td>$417</td>
<td>$251</td>
<td>$2,322</td>
<td></td>
<td>$11,767</td>
</tr>
<tr>
<td>Birch</td>
<td>$4,339</td>
<td>$208</td>
<td>$144</td>
<td>$291</td>
<td>$2,813</td>
<td></td>
<td>$7,796</td>
</tr>
<tr>
<td>Otay Mesa</td>
<td>$4,476</td>
<td>$1,301</td>
<td>$2,111</td>
<td>$2,109</td>
<td>$3,428</td>
<td></td>
<td>$13,424</td>
</tr>
<tr>
<td>Total</td>
<td>$38,730</td>
<td>$2,604</td>
<td>$10,805</td>
<td>$9,254</td>
<td>$8,308</td>
<td></td>
<td>$95,798</td>
</tr>
</tbody>
</table>

Table 1-6: 2016 Average Weekday SBX Revenue by Vehicle Type

<table>
<thead>
<tr>
<th>Vehicle Type</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile</td>
<td>$93,601</td>
</tr>
<tr>
<td>Truck</td>
<td>$2,197</td>
</tr>
<tr>
<td>All Vehicles</td>
<td>$95,798</td>
</tr>
</tbody>
</table>

1.1.2.1 Peak Period Activity

The peak direction in the morning is northbound, with over 6,600 vehicles exiting the SBX at SR-54 between 6AM and 9AM. Southbound is the peak direction in the afternoon, with almost 6,200 vehicles entering the South Bay Expressway from SR-54 between 3:30PM and 7PM. Figure 1-2, Figure 1-3, and Figure 1-4 show the daily, morning, and afternoon trip patterns on the SBX during the average weekday, respectively.
Figure 1-2: 2016 Average Weekday SBX Stick Diagram

Figure 1-3: 2016 Average Weekday Morning SBX Stick Diagram, 6-9AM

Figure 1-4: 2016 Average Weekday Afternoon SBX Stick Diagram, 3:30-7PM
1.1.3 Payment Type

Two payment options exist on the SBX. FasTrak is an electronic payment system that charges the tolls automatically to a registered account holder. Tolls can also be paid at ramp or mainline kiosks using either cash or credit cards. Drivers choosing cash payment do not receive change if they pay more than the toll rate. Toll rates are posted on the SBX’s website (sbxthe125.com).

FasTrak toll rates are based on trips’ origin-destination pattern and range between $0.50 and $2.75, depending on the entry and exit location. For FasTrak users, the full-length trip between SR-54 and Otay Mesa Road costs $2.75. The lowest FasTrak toll on the SBX is $0.50, which is the rate for any automobile trip between East H. Street, Otay Lakes Road, Olympic Parkway, or Birch Road. Vehicles with three or more axles pay two times the 2-axle toll rate. FasTrak toll rates for 2-axle vehicles on the SBX are shown in Table 1-7.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SR-54</td>
<td>$1.55</td>
<td>$1.70</td>
<td>$1.70</td>
<td>$1.70</td>
<td>$1.70</td>
<td>$2.75</td>
</tr>
<tr>
<td>San Miguel Ranch Rd.</td>
<td>$1.55</td>
<td>$1.70</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$2.75</td>
</tr>
<tr>
<td>East H St.</td>
<td>$1.70</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$2.00</td>
</tr>
<tr>
<td>Otay Lakes Rd.</td>
<td>$1.70</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$1.95</td>
</tr>
<tr>
<td>Olympic Pkwy.</td>
<td>$1.70</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$1.95</td>
</tr>
<tr>
<td>Birch Rd.</td>
<td>$1.70</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$1.95</td>
</tr>
<tr>
<td>Otay Mesa Rd.</td>
<td>$2.75</td>
<td>$2.00</td>
<td>$1.95</td>
<td>$1.95</td>
<td>$1.95</td>
<td>$1.95</td>
</tr>
</tbody>
</table>

Cash/credit card toll rates are higher than FasTrak rates, ranging between $2.00 and $3.50. Cash/credit card trips with San Miguel Ranch Road as a southern terminus pay $2.00, while cash/credit card trips with Otay Mesa Road as a southern terminus cost $3.50. All other cash/credit card trips cost $2.50. Vehicles with three or more axles cost two times the 2-axle toll rate. Cash toll rates for 2-axle vehicles on the SBX are shown in Table 1-8.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SR-54</td>
<td>$2.00</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$3.50</td>
</tr>
<tr>
<td>San Miguel Ranch Rd.</td>
<td>$2.00</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$3.50</td>
</tr>
<tr>
<td>East H St.</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$3.50</td>
</tr>
<tr>
<td>Otay Lakes Rd.</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$3.50</td>
</tr>
<tr>
<td>Olympic Pkwy.</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$3.50</td>
</tr>
<tr>
<td>Birch Rd.</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$3.50</td>
</tr>
<tr>
<td>Otay Mesa Rd.</td>
<td>$3.50</td>
<td>$3.50</td>
<td>$3.50</td>
<td>$3.50</td>
<td>$3.50</td>
<td>$3.50</td>
</tr>
</tbody>
</table>
FasTrak penetration has increased over time on the SBX. When SANDAG took control of the South Bay Expressway during fiscal year 2012, 71 percent of all transactions were FasTrak transactions. By fiscal year 2016, FasTrak transactions made up 76 percent of all transactions. Table 1-9 shows the number of transactions by payment type for each fiscal year.

Table 1-9: Transactions by Payment Type, Fiscal Years 2012-2016

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Cash (000s)</th>
<th>FasTrak (000s)</th>
<th>Total (000s)</th>
<th>% FasTrak</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2012</td>
<td>2,640</td>
<td>6,510</td>
<td>9,140</td>
<td>71%</td>
</tr>
<tr>
<td>FY 2013</td>
<td>3,140</td>
<td>8,220</td>
<td>11,360</td>
<td>72%</td>
</tr>
<tr>
<td>FY 2014</td>
<td>3,440</td>
<td>9,760</td>
<td>13,190</td>
<td>74%</td>
</tr>
<tr>
<td>FY 2015</td>
<td>3,570</td>
<td>10,800</td>
<td>14,370</td>
<td>75%</td>
</tr>
<tr>
<td>FY 2016</td>
<td>3,820</td>
<td>11,950</td>
<td>15,770</td>
<td>76%</td>
</tr>
</tbody>
</table>

Most of the SBX’s revenue comes from FasTrak transactions. The FasTrak share of the toll road’s revenue has increased over time, except when SANDAG lowered toll rates in fiscal year 2013. In fiscal year 2016, FasTrak revenue made up about 66 percent of the SBX’s revenue. Table 1-10 shows the revenue by payment type for each fiscal year.

Table 1-10: Revenue by Payment Type, Fiscal Years 2012-2016

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue ($000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cash</td>
</tr>
<tr>
<td>FY 2012</td>
<td>$8,850</td>
</tr>
<tr>
<td>FY 2013</td>
<td>$8,560</td>
</tr>
<tr>
<td>FY 2014</td>
<td>$9,440</td>
</tr>
<tr>
<td>FY 2015</td>
<td>$9,700</td>
</tr>
<tr>
<td>FY 2016</td>
<td>$10,420</td>
</tr>
</tbody>
</table>

1.2 SCREENLINES

Four screenlines were identified to establish model calibration benchmarks. The screenlines measure traffic traveling north and south, or east and west across several parallel roadways. A critical element of travel demand model calibration is to ensure the model is assigning an appropriate amount of north-south and east-west traffic and that the screenline traffic is appropriately distributed amongst each of the roadways included in the screenline. The screenline analysis also provides insight into how the SBX corridor’s traffic compares against other parallel roadways and how they relate to intersecting east-west roadways. 2016 traffic data for screenlines were largely collected from Caltrans’ PeMS database, the SBX’s transaction data, and traffic count data from jurisdictions in San Diego County.

Three screenlines were drawn across north-south roadways and one screenline was drawn across east-west roadways. The “North of Border” screenline captures northbound and southbound traffic on I-5, I-805, and SR-905 just north of the USA-Mexico border. Both the “South of SR-54” screenline and the “Otay Mainline Plaza” Screenline include I-5, I-805, and the SBX. The “East-West” screenline includes two freeways (SR-54 and SR-905) and four arterial roadways (East H...
The daily traffic across the “North of Border” screenline is almost evenly split across I-5, I-805, and SR-905 with each road carrying between 32 and 35 percent of the screenline. At the “Otay Mainline Plaza” screenline, four percent of all traffic uses the SBX while 51 and 44 percent of traffic use I-5 and I-805, respectively. I-805 carries 56 percent of the “South of SR-54” screenline, while I-5 and the SBX carry 36 and 8 percent, respectively. The freeways carry most of the “East-West” screenline traffic with SR-54 carrying 36 percent and SR-905 carrying 20 percent. East H Street, Telegraph Canyon Road, and Olympic Parkway each carry between 12 and 16 percent of “East-
West" screenline traffic, while Otay Mesa Road carries only 3 percent. Table 1-11 shows the daily traffic volumes at all screenline locations.

Table 1-11: 2016 Observed Screenline Volumes

<table>
<thead>
<tr>
<th>Screenline</th>
<th>Location</th>
<th>Daily Traffic</th>
<th>% of Screenline</th>
</tr>
</thead>
<tbody>
<tr>
<td>North of Border</td>
<td>I-5 at Dairy Mart Rd</td>
<td>51,700</td>
<td>35%</td>
</tr>
<tr>
<td></td>
<td>I-805 at San Ysidro Blvd</td>
<td>47,200</td>
<td>32%</td>
</tr>
<tr>
<td></td>
<td>SR-905 north of Siempre Viva Rd</td>
<td>49,800</td>
<td>33%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>148,700</td>
<td>100%</td>
</tr>
<tr>
<td>Otay Mainline</td>
<td>I-5 at Coronado Ave</td>
<td>127,600</td>
<td>51%</td>
</tr>
<tr>
<td>Plaza Screenline</td>
<td>I-805 at Palm Ave</td>
<td>110,500</td>
<td>44%</td>
</tr>
<tr>
<td></td>
<td>The SBX at Otay Mainline Toll Plaza</td>
<td>10,400</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>248,500</td>
<td>100%</td>
</tr>
<tr>
<td>South of SR-54</td>
<td>I-5N at H Street</td>
<td>163,600</td>
<td>36%</td>
</tr>
<tr>
<td>Screenline</td>
<td>I-805 at Bonita Rd</td>
<td>252,700</td>
<td>56%</td>
</tr>
<tr>
<td></td>
<td>The SBX South of SR-54</td>
<td>37,900</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>454,200</td>
<td>100%</td>
</tr>
<tr>
<td>East-West Screenline</td>
<td>SR-54 at Woodman St</td>
<td>116,000</td>
<td>36%</td>
</tr>
<tr>
<td></td>
<td>East H Street east of Paseo Del Rey</td>
<td>44,900</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>Telegraph Canyon Rd east of Heritage Rd</td>
<td>38,300</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>Olympic Pkwy east of Oleander Ave</td>
<td>53,300</td>
<td>16%</td>
</tr>
<tr>
<td></td>
<td>Otay Mesa Rd east of Heritage Rd</td>
<td>8,500</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>SR-905 east of Britannia Blvd</td>
<td>63,900</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>324,900</td>
<td>100%</td>
</tr>
</tbody>
</table>

1.3 SPEEDS

SANDAG provided Stantec with speed data from INRIX on roads in the SBX study area from 2012 through 2017. The INRIX traffic data service compiles traffic related information from commercial fleet data, roadway sensors, and mobile devices. Its Smart Driver Network provides historical and real-time data via mobile applications and internet services. Stantec aggregated the 2016 speed data by segment and time of day to calibrate the travel demand model.

Speeds on the SBX were generally free-flow, with corridor speeds ranging from 55 to 62 mph throughout the day. I-5 NB had a 36-mph corridor speed during the morning commute while I-5 SB had a 42-mph corridor speed during the return commute in the afternoon. At all other times,
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I-5 corridor speeds were between 62 and 65 mph. I-805 and SR-54 are generally free-flowing within their extents with corridor speeds between 60 and 66 mph. SR-905 has corridor speeds between 51 and 55 mph, except during the PM in the eastbound direction when the corridor speed is 46 mph. Arterial speeds range from 21 mph to 43 mph. Table 1-12 shows corridor speeds by time of day in the SBX study area.

Table 1-12: 2016 Speeds in the SBX Study Area

<table>
<thead>
<tr>
<th>Speed Segments</th>
<th>DIST (mi)</th>
<th>Time (Min)</th>
<th>Speed (MPH)</th>
<th>Time (Min)</th>
<th>Speed (MPH)</th>
<th>Time (Min)</th>
<th>Speed (MPH)</th>
<th>Time (Min)</th>
<th>Speed (MPH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR-125 NB (Otay Mesa Rd to SR-54)</td>
<td>10.4</td>
<td>11.2</td>
<td>55</td>
<td>10.5</td>
<td>59</td>
<td>10.7</td>
<td>58</td>
<td>10.7</td>
<td>58</td>
</tr>
<tr>
<td>SR-125 SB (SR-54 to Otay Mesa Rd)</td>
<td>10.4</td>
<td>10.8</td>
<td>56</td>
<td>10.4</td>
<td>60</td>
<td>10.3</td>
<td>60</td>
<td>10.1</td>
<td>62</td>
</tr>
<tr>
<td>I-5 NB (San Ysidro Port of Entry to SR-15)</td>
<td>12.8</td>
<td>12.2</td>
<td>63</td>
<td>21.1</td>
<td>34</td>
<td>12.3</td>
<td>62</td>
<td>12.1</td>
<td>63</td>
</tr>
<tr>
<td>I-5 SB (SR-15 to San Ysidro Port of Entry)</td>
<td>12.7</td>
<td>11.9</td>
<td>64</td>
<td>11.8</td>
<td>64</td>
<td>12.2</td>
<td>62</td>
<td>18.2</td>
<td>43</td>
</tr>
<tr>
<td>I-805 NB (SR-905 to SR-54)</td>
<td>8.3</td>
<td>7.7</td>
<td>64</td>
<td>8.2</td>
<td>61</td>
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<tr>
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<td>8.1</td>
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<td>7.5</td>
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<td>7.7</td>
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<tr>
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<td>10.0</td>
<td>53</td>
<td>9.6</td>
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<td>9.9</td>
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<td>10.2</td>
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<tr>
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<td>5.3</td>
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<td>6.3</td>
<td>55</td>
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<tr>
<td>SR-54 WB (SR-125 to I-805)</td>
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<td>5.3</td>
<td>64</td>
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</tbody>
</table>

Using the INRIX data, Stantec examined two routes from the Otay Lakes Road/SBX interchange to the I-805/SR-54 interchange. These endpoints were used because they are waypoints for some residents living east of the SBX that commute to downtown San Diego. The partially tolled route starts at the Otay Lakes Road/SBX interchange and proceeds on the SBX northbound to SR-54 westbound during the morning. The free route starts at the Otay Lakes Road/SBX interchange and proceeds on Otay Lakes Road westbound, followed by Telegraph Canyon Road westbound, then proceeds on I-805 northbound during the morning. Afternoon routes occur in the reverse order and direction. Figure 1-6 shows the routes for which travel times were compared.
The INRIX data indicates that the SBX provides travel time savings for residents east of the toll road compared to a free alternate route. The partially tolled route including the SBX provides a 3.8-minute travel time savings during the morning commute and a 4.6-minute travel time savings during the afternoon. Neither route has significant congestion during the AM or PM period, so the travel time savings are due to the free route utilizing mostly arterials while the partially tolled route relies entirely on limited-access roadways. Although the speed limit on the arterials is 50 mph, there are about a dozen signalized intersections along the free route that prevent average speeds on the arterials from reaching the speed limit. Table 1-13 shows the travel time and speeds on the partially tolled route and the free route.

**Table 1-13: 2016 Travel Time and Speed Differences**

<table>
<thead>
<tr>
<th></th>
<th>Travel Time (min.)</th>
<th>Speed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AM</td>
<td>PM</td>
</tr>
<tr>
<td>Partially Tolled Route</td>
<td>7.8</td>
<td>8.7</td>
</tr>
<tr>
<td>Free Route</td>
<td>11.6</td>
<td>13.3</td>
</tr>
<tr>
<td>TT savings</td>
<td>3.8</td>
<td>4.6</td>
</tr>
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</table>
2.0 SOCIOECONOMIC DATA

2.1 OVERALL STUDY AREA TRENDS

San Diego County’s population will grow by nearly 800,000 people, from 3.3 million in 2016 to over 4 million in 2050, a 0.63 percent compound annual growth rate. Employment growth is expected to track with population growth, increasing by nearly 400,000 jobs over the forecast period from 1.5 million in 2016 to 1.9 million in 2050, a 0.64 percent compound annual growth rate. Approximately 50 percent of the growth in both population and employment in San Diego County from 2016 to 2050 will be within the project study area. Moreover, the project corridor, defined by an approximately 2-mile buffer around the SBX, will grow by approximately 70,000 in population and will add nearly 45,000 jobs over the forecast period, directly impacting use of the toll road. Most of the growth in the project corridor is in the Otay Mesa region of San Diego and the Otay Ranch development in the City of Chula Vista. Figure 2-1 shows the location of the project corridor, Otay Ranch, and Otay Mesa, relative to the study area and the SBX.

Figure 2-1: SBX Project Study Area
2.2 HISTORIC TRENDS

San Diego County is the second-largest county in the State of California. The county experienced significant population growth between 1970 and 1990, a period that exhibited compound annual growth rates between 3 and 3.2 percent. Population growth began to slow following the boom of the 1970s and 1980s, and declined further as a result of the Great Recession, which drove the compound annual growth rate down to below 1 percent. Table 2-1 shows the population of San Diego County from 1950 to 2010 according to the U.S. Census of Population and Housing.

Table 2-1: San Diego Population, 1950-2010

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Total Population</td>
<td>556,808</td>
<td>1,033,011</td>
<td>1,357,854</td>
<td>1,861,846</td>
<td>2,498,016</td>
<td>2,813,833</td>
<td>3,095,313</td>
</tr>
<tr>
<td>Incremental Growth</td>
<td>476,203</td>
<td>324,843</td>
<td>503,992</td>
<td>636,170</td>
<td>315,817</td>
<td>281,480</td>
<td>2,538,505</td>
</tr>
<tr>
<td>Average Annual Growth</td>
<td>47,620</td>
<td>32,484</td>
<td>50,399</td>
<td>63,617</td>
<td>31,582</td>
<td>28,148</td>
<td>42,308</td>
</tr>
<tr>
<td>Compound Annual Growth Rate</td>
<td>6.38%</td>
<td>2.77%</td>
<td>3.21%</td>
<td>2.98%</td>
<td>1.20%</td>
<td>0.96%</td>
<td>2.90%</td>
</tr>
</tbody>
</table>

*1990 Census of Population and Housing*

Growth in San Diego County has been relatively slow since the recession, although there are signs that it may be accelerating. Table 2-2 shows population growth in select cities in San Diego County located within close proximity to the project corridor. Portions of the SBX are located in the City of Chula Vista, a city of over 260,000 persons. Chula Vista grew by a 1.54 percent compound annual growth rate from 2010 to 2015 and has outpaced growth in both the City of San Diego and San Diego County since 1990.
Table 2-2: Population growth in Select Cities in San Diego County

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>San Diego</td>
<td>1,110,623</td>
<td>1,139,504</td>
<td>1,207,003</td>
<td>1,261,035</td>
<td>1,304,482</td>
<td>1,380,271</td>
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<tr>
<td>Incremental Growth</td>
<td>28,881</td>
<td>67,499</td>
<td>54,032</td>
<td>43,447</td>
<td>75,789</td>
<td>269,648</td>
</tr>
<tr>
<td>Average Annual Growth</td>
<td>5,776</td>
<td>13,500</td>
<td>10,806</td>
<td>8,689</td>
<td>15,158</td>
<td>10,786</td>
</tr>
<tr>
<td>Compound Annual Growth Rate</td>
<td>0.51%</td>
<td>1.16%</td>
<td>0.88%</td>
<td>0.68%</td>
<td>1.14%</td>
<td>0.87%</td>
</tr>
<tr>
<td>Chula Vista</td>
<td>135,160</td>
<td>149,206</td>
<td>172,264</td>
<td>219,939</td>
<td>243,712</td>
<td>263,028</td>
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<tr>
<td>Incremental Growth</td>
<td>14,046</td>
<td>23,058</td>
<td>47,675</td>
<td>23,773</td>
<td>19,316</td>
<td>127,868</td>
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<tr>
<td>Average Annual Growth</td>
<td>2,809</td>
<td>4,612</td>
<td>9,535</td>
<td>4,755</td>
<td>3,863</td>
<td>5,115</td>
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<tr>
<td>Compound Annual Growth Rate</td>
<td>2.00%</td>
<td>2.92%</td>
<td>5.01%</td>
<td>0.68%</td>
<td>1.54%</td>
<td>2.70%</td>
</tr>
<tr>
<td>National City</td>
<td>54,249</td>
<td>53,517</td>
<td>54,594</td>
<td>55,948</td>
<td>58,593</td>
<td>60,411</td>
</tr>
<tr>
<td>Incremental Growth</td>
<td>(732)</td>
<td>1,077</td>
<td>1,354</td>
<td>2,645</td>
<td>1,818</td>
<td>6,162</td>
</tr>
<tr>
<td>Average Annual Growth</td>
<td>(146)</td>
<td>215</td>
<td>271</td>
<td>529</td>
<td>364</td>
<td>246</td>
</tr>
<tr>
<td>Compound Annual Growth Rate</td>
<td>-0.27%</td>
<td>0.40%</td>
<td>0.49%</td>
<td>0.93%</td>
<td>0.61%</td>
<td>0.43%</td>
</tr>
<tr>
<td>Lemon Grove</td>
<td>23,984</td>
<td>24,252</td>
<td>25,078</td>
<td>25,078</td>
<td>25,354</td>
<td>26,500</td>
</tr>
<tr>
<td>Incremental Growth</td>
<td>268</td>
<td>826</td>
<td>-</td>
<td>276</td>
<td>1,146</td>
<td>2,516</td>
</tr>
<tr>
<td>Average Annual Growth</td>
<td>54</td>
<td>165</td>
<td>-</td>
<td>55</td>
<td>229</td>
<td>101</td>
</tr>
<tr>
<td>Compound Annual Growth Rate</td>
<td>0.22%</td>
<td>0.67%</td>
<td>0.00%</td>
<td>0.22%</td>
<td>0.89%</td>
<td>0.40%</td>
</tr>
<tr>
<td>San Diego County</td>
<td>2,498,016</td>
<td>2,613,112</td>
<td>2,813,833</td>
<td>2,966,783</td>
<td>3,095,313</td>
<td>3,266,192</td>
</tr>
<tr>
<td>Incremental Growth</td>
<td>115,096</td>
<td>200,721</td>
<td>152,950</td>
<td>128,530</td>
<td>170,879</td>
<td>768,176</td>
</tr>
<tr>
<td>Average Annual Growth</td>
<td>23,019</td>
<td>40,144</td>
<td>30,590</td>
<td>25,706</td>
<td>34,176</td>
<td>30,727</td>
</tr>
<tr>
<td>Compound Annual Growth Rate</td>
<td>0.90%</td>
<td>1.49%</td>
<td>1.06%</td>
<td>0.85%</td>
<td>1.08%</td>
<td>1.08%</td>
</tr>
</tbody>
</table>

2.3 POPULATION PROJECTIONS

Total population in San Diego County is projected to grow to over 4 million by 2050. As shown in Figure 2-2, relatively conservative levels of population growth are expected to continue into the future, with growth slowing over the forecast period. The average number of new residents added annually will decline steadily from approximately 37,000 people per year between 2016 and 2020 to fewer than 13,000 people per year between 2045 and 2050.
Figure 2-2: Projected Population Growth in San Diego County

Population projections for San Diego County reflect differing long-term annual growth rates over the forecast period, ranging from 0.56 percent (California Department of Finance) to 0.99 percent (Woods and Poole). Demographic inputs to SANDAG’s Activity-Based Model (ABM) show strong early growth similar to Woods and Poole, but a greater decline in longer term growth than what is predicted by both Woods and Poole and the California Department of Finance. Table 2-3 compares population projections from all three sources over the forecast period.

Table 2-3: Population Projection Comparison for San Diego County

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<tbody>
<tr>
<td>Incremental Growth</td>
<td>146,142</td>
<td>165,445</td>
<td>140,508</td>
<td>112,032</td>
<td>83,583</td>
<td>68,085</td>
<td>63,393</td>
<td>77,188</td>
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<tr>
<td>Average Annual Growth</td>
<td>36,536</td>
<td>33,089</td>
<td>28,102</td>
<td>22,406</td>
<td>16,717</td>
<td>13,617</td>
<td>12,679</td>
<td>22,917</td>
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<tr>
<td>Compound Annual Growth Rate</td>
<td>1.09%</td>
<td>0.99%</td>
<td>0.77%</td>
<td>0.59%</td>
<td>0.43%</td>
<td>0.34%</td>
<td>0.31%</td>
<td>0.63%</td>
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<tr>
<td><strong>California Department of Finance</strong></td>
<td>3,301,292</td>
<td>3,406,126</td>
<td>3,529,054</td>
<td>3,638,609</td>
<td>3,737,507</td>
<td>3,830,210</td>
<td>3,916,308</td>
<td>3,997,108</td>
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<tr>
<td>Incremental Growth</td>
<td>104,834</td>
<td>122,928</td>
<td>109,555</td>
<td>98,898</td>
<td>86,098</td>
<td>80,800</td>
<td>16,160</td>
<td>695,816</td>
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<tr>
<td>Average Annual Growth</td>
<td>26,208</td>
<td>24,586</td>
<td>21,911</td>
<td>19,780</td>
<td>17,220</td>
<td>16,160</td>
<td>20,465</td>
<td>20,465</td>
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<tr>
<td>Compound Annual Growth Rate</td>
<td>0.78%</td>
<td>0.71%</td>
<td>0.61%</td>
<td>0.54%</td>
<td>0.49%</td>
<td>0.45%</td>
<td>0.41%</td>
<td>0.56%</td>
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<tr>
<td><strong>Woods and Poole</strong></td>
<td>3,335,405</td>
<td>3,489,219</td>
<td>3,689,615</td>
<td>3,895,564</td>
<td>4,097,588</td>
<td>4,291,844</td>
<td>4,480,497</td>
<td>4,667,618</td>
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<tr>
<td>Incremental Growth</td>
<td>153,814</td>
<td>200,396</td>
<td>205,949</td>
<td>202,024</td>
<td>194,256</td>
<td>188,653</td>
<td>187,121</td>
<td>1,332,213</td>
</tr>
<tr>
<td>Average Annual Growth</td>
<td>38,454</td>
<td>40,079</td>
<td>41,191</td>
<td>40,405</td>
<td>38,851</td>
<td>37,731</td>
<td>37,424</td>
<td>39,183</td>
</tr>
<tr>
<td>Compound Annual Growth Rate</td>
<td>1.13%</td>
<td>1.12%</td>
<td>1.09%</td>
<td>1.02%</td>
<td>0.93%</td>
<td>0.86%</td>
<td>0.82%</td>
<td>0.99%</td>
</tr>
</tbody>
</table>

*Interpolated using SANDAG 2012 Base Year estimates and 2015 estimates from the California Department of Finance

Population growth in the study area is expected to outpace growth in San Diego County. The compound annual growth rate in the study area is estimated at 0.80 percent between 2016 and
2050, compared to 0.63 percent for San Diego County. Approximately 50 percent of the forecasted population growth between 2016 and 2050 will be within the study area. This is due in large part to the amount of developable land within the study area, which includes Otay Ranch and Otay Mesa. Population growth in the project corridor is slightly higher than the study area at 0.85 percent compound annual growth rate, compared to 0.80 percent in the study area. Table 2-4 compares projected growth in the project corridor and study area to San Diego County over the forecast period.

### Table 2-4: Study Area to San Diego County Population Projection Comparison

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<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Corridor</td>
<td>209,268</td>
<td>231,252</td>
<td>261,337</td>
<td>264,971</td>
<td>270,075</td>
<td>275,156</td>
<td>278,888</td>
<td>279,099</td>
</tr>
<tr>
<td>Study Area</td>
<td>1,397,016</td>
<td>1,457,705</td>
<td>1,549,862</td>
<td>1,632,596</td>
<td>1,705,665</td>
<td>1,759,509</td>
<td>1,800,299</td>
<td>1,852,109</td>
</tr>
</tbody>
</table>

*Interpolated using SANDAG 2012 Base Year estimates.

### 2.4 HISTORIC EMPLOYMENT GROWTH

Between 1995 and 2000, San Diego County experienced exceptional employment growth, with a compound annual growth rate of nearly 4 percent. However, this strong growth slowed over the next five years before declining by more than 50,000 jobs in response to the Great Recession. Since then, the economy has improved. Employment in San Diego County increased by nearly 150,000 jobs from 1.25 million in 2010 to 1.4 million in 2015. Table 2-5 shows historical employment growth for San Diego County.

### Table 2-5: Historical Employment in San Diego County

<table>
<thead>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment, All Industries</td>
<td>988,700</td>
<td>999,300</td>
<td>1,211,400</td>
<td>1,305,300</td>
<td>1,252,600</td>
<td>1,395,900</td>
</tr>
<tr>
<td>Incremental Growth</td>
<td>10,600</td>
<td>212,100</td>
<td>93,900</td>
<td>(52,700)</td>
<td>143,300</td>
<td>407,200</td>
</tr>
<tr>
<td>Average Annual Growth</td>
<td>2,120</td>
<td>42,420</td>
<td>18,780</td>
<td>(10,540)</td>
<td>26,660</td>
<td>16,288</td>
</tr>
<tr>
<td>Compound Annual Growth Rate</td>
<td>0.21%</td>
<td>3.92%</td>
<td>1.50%</td>
<td>-0.82%</td>
<td>2.19%</td>
<td>1.39%</td>
</tr>
</tbody>
</table>

Recent job reports by the State of California Employment Development Department, Labor Market Information Division indicate continued growth in employment. In April 2017, the estimated
unemployment rate in San Diego County is estimated at 3.8 percent, which is lower than the unadjusted unemployment rate for both California (4.5 percent) and for the nation (4.1 percent), according to California’s Employment Development Department. Total nonfarm employment in San Diego County increased by 18,200 jobs between April 2016 and April 2017, or 1.3 percent. Moreover, the construction industry experienced the largest year-over expansion.

The pace of recovery following the Great Recession varies between cities in San Diego County. Table 2-6 shows employment data from the California Employment Development Department for cities within close proximity of the project corridor. Employment growth is strongest in Chula Vista, which has a compound annual growth rate of approximately 8 percent from 2012 to 2016.

Table 2-6: Historical Employment by City

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Chula Vista</td>
<td>84,100</td>
<td>84,900</td>
<td>108,900</td>
<td>113,100</td>
<td>114,200</td>
<td>30,100</td>
<td>7.9%</td>
</tr>
<tr>
<td>Lemon Grove</td>
<td>12,600</td>
<td>12,700</td>
<td>11,400</td>
<td>11,600</td>
<td>11,800</td>
<td>(800)</td>
<td>-1.6%</td>
</tr>
<tr>
<td>National City</td>
<td>20,800</td>
<td>21,000</td>
<td>22,900</td>
<td>23,100</td>
<td>23,300</td>
<td>2,500</td>
<td>2.9%</td>
</tr>
<tr>
<td>San Diego</td>
<td>650,100</td>
<td>656,200</td>
<td>648,500</td>
<td>667,800</td>
<td>674,300</td>
<td>24,200</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

*California Employment Development Department*

2.5 EMPLOYMENT PROJECTIONS

San Diego County is expected to grow by nearly 400,000 jobs between 2016 and 2050. A significant portion of this employment growth will be in the near-term. Employment is projected to increase by an annual average of 22,000 jobs between 2016 and 2020, a rate close to what was observed between 2010 and 2015. Figure 2-3 shows historical and forecasted employment growth in San Diego county over the forecast period.
The pace of employment growth is expected to slow significantly over the remaining forecast years. Future year employment growth projections predict a compound annual growth rate of 0.64 percent over the forecast period, which is substantially more conservative than estimates from Woods and Poole. Over the entire forecast period Woods and Poole estimates a compound annual growth rate twice that of SANDAG’s Activity Based Model (ABM). Table 2-7 compares employment projections over the forecast period.

**Table 2-7: Employment Comparison Projection in San Diego County**

<table>
<thead>
<tr>
<th>Period</th>
<th>SANDAG Activity-Based Model</th>
<th>Woods and Poole</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental Growth</td>
<td>86,800</td>
<td>51,191</td>
</tr>
<tr>
<td>Average Annual Growth</td>
<td>21,700</td>
<td>10,238</td>
</tr>
<tr>
<td>Compound Annual Growth Rate</td>
<td>1.38%</td>
<td>0.62%</td>
</tr>
<tr>
<td>Woods and Poole</td>
<td>2,046,870</td>
<td>2,180,340</td>
</tr>
<tr>
<td>Incremental Growth</td>
<td>133,470</td>
<td>167,172</td>
</tr>
<tr>
<td>Average Annual Growth</td>
<td>33,368</td>
<td>33,434</td>
</tr>
<tr>
<td>Compound Annual Growth Rate</td>
<td>1.59%</td>
<td>1.49%</td>
</tr>
</tbody>
</table>

*Interpolated using SANDAG 2012 Base Year estimates

Employment growth in the study area is expected to track with population growth and will outpace San Diego County. The compound annual growth rate in the study area is estimated at 0.82 percent between 2016 and 2050, compared to 0.64 percent for San Diego County. Approximately 50 percent of the forecasted employment growth between 2016 and 2050 will be within the project study area, primarily in Otay Mesa and Otay Ranch. As such, employment growth in the project corridor far exceeds growth in San Diego county and the study area. Over
the forecast period, the project corridor is expected to add 32,600 jobs for a compound annual growth rate of more than 2.2 percent. Most of the employment will be in the form of industrial development in the Otay Mesa region of the City of San Diego, as well as office and commercial development in the Otay Ranch region of the City of Chula Vista. Table 2-8 compares projected growth in the project corridor and study area to San Diego County over the forecast period.

Table 2-8: Employment Projections in the SBX Study Area

| Period          | 2016-2020 | 2020-2025 | 2025-2030 | 2030-2035 | 2035-2040 | 2040-2045 | 2045-2050 | 2050-
|-----------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-------
| Project Corridor| 28,537    | 34,568    | 41,684    | 44,787    | 49,857    | 55,136    | 61,076    |       |
| Incremental Growth | 6,031    | 3,799     | 3,317     | 3,103     | 5,070     | 5,279     | 5,940     | 32,539 |
| Average Annual Growth | 1,508    | 760       | 663       | 621       | 1,014     | 1,056     | 1,188     | 957   |
| Compound Annual Growth Rate | 4.91%    | 2.11%     | 1.67%     | 1.45%     | 2.17%     | 2.03%     | 2.07%     | 2.26% |
| Study Area       | 556,708   | 591,348   | 616,559   | 636,248   | 658,887   | 685,735   | 710,821   | 734,870 |
| Incremental Growth | 34,641    | 25,211    | 19,689    | 22,639    | 26,848    | 25,086    | 24,049    | 178,163 |
| Average Annual Growth | 6,660    | 5,042     | 3,938     | 4,528     | 5,370     | 5,017     | 4,810     | 5,240  |
| Compound Annual Growth Rate | 1.52%    | 0.84%     | 0.63%     | 0.70%     | 0.80%     | 0.72%     | 0.67%     | 0.82%  |
| San Diego County | 1,537,766 | 1,624,565 | 1,675,756 | 1,717,880 | 1,770,222 | 1,820,301 | 1,867,577 | 1,912,731 |
| Incremental Growth | 86,800    | 51,191    | 42,124    | 52,342    | 50,079    | 47,276    | 45,154    | 374,966 |
| Average Annual Growth | 21,700   | 10,238    | 8,425     | 10,468    | 10,016    | 9,455     | 9,031     | 11,028  |
| Compound Annual Growth Rate | 1.38%    | 0.62%     | 0.50%     | 0.60%     | 0.56%     | 0.51%     | 0.48%     | 0.64%  |

### 2.6 PROJECT CORRIDOR

The SBX runs primarily through eastern Chula Vista, connecting SR-54 to SR-905 in the City of San Diego. The project corridor is characterized by primarily residential development north of Olympic Parkway and west of the SBX. Development east of the SBX extends for a couple miles, but is limited by environmental and topographical constraints, as shown in Figure 2-4.
Figure 2-4: City of Chula Vista

In addition to the existing development in Chula Vista, there are two important developments within the project corridor, Otay Mesa and Otay Ranch, which will be responsible for generating and attracting an increasing number of trips over the forecast period. Otay Mesa encompasses approximately 9,300 acres located at the southern limit of the City of San Diego. Home to approximately 15,000 residents in 2010, the area began as a rural farming community first settled in the late 19th century. Today, the area is home to distribution centers operated by manufacturers and logistics companies. The centers are strategically located near the Otay Mesa Port of Entry, the only freight crossing into Mexico from the city of San Diego. The municipally owned and operated Brown Field airport is also located in Otay Mesa.

Otay Ranch is grouped geographically to form three distinct parcels in eastern Chula Vista and San Diego County. These parcels include the Otay Valley Parcel, the San Ysidro Mountains Parcel, and the Proctor Valley Parcel. The Otay Valley Parcel, the largest of the three at 9,449 acres, is bisected by the SBX. Planning for the development of the Otay Valley Parcel, hereafter referred to as Otay Ranch, has been underway since 1993. Construction of Otay Ranch began in the late 1990s, primarily focusing on the residential areas north of Olympic Parkway and west of the SBX. Development of the Otay Ranch parcel slowed during the during the Great Recession, but has
since resumed with numerous residential, commercial, and mixed-use projects in the design review phase of development.

2.6.1 Existing Conditions

Today, the project corridor is characterized by primarily residential development in eastern Chula Vista, in and around Otay Ranch, some neighborhood-serving commercial development along the SBX and East H Street, and industrial uses at the southern terminus of the SBX in Otay Mesa. For every job in the project corridor, there are approximately 7.3 persons residing in the area. By contrast, there are 2.14 persons per job in San Diego County and 2.51 persons per job in the study area.

As such, many users of the SBX utilize the toll road as a commuter route to employment hubs in the greater San Diego area. For residents east of the SBX, the toll road represents the most logical route available for accessing employment and other opportunities in the rest of the county. According to data from the 2014 American Community Survey, residents in Chula Vista, particularly those residing in the SBX corridor, have some of the longest commute times in the county. Depending on the Census Tract, residents have mean travel times between 26 and 32 minutes. Given the relatively low number of jobs in the corridor, as well as the fact that the SBX offers the only limited-access, high speed connection to the greater San Diego area, it is reasonable to assume the longer commute times faced by Chula Vista residents are related to the longer distances they travel for work.

Figure 2-5 shows household density in the project corridor in 2016. Within the project corridor, households are concentrated in the City of Chula Vista, north of Otay Ranch, and in the Otay Ranch development. Environmental and topographical constraints limit the amount of development in the project corridor. Most of Chula Vista, outside of Otay Ranch, is already at build out, and will only add additional households through redevelopment and intensification. However, there are significant portions of Otay Ranch that have not yet been developed. Presently, there are approximately 15,300 households residing in the master planned community, with additional projects under construction or in the design review phase.

There are currently 5,700 households in the Otay Mesa region of San Diego. These households are concentrated in the western portion near I-805, outside of the project corridor. Future plans for the development of the Otay Mesa encourage a continuation of the existing development patterns, with housing largely located in the western portion of the region, and industrial uses in the east.
Figure 2-5 shows employment density in the project corridor in 2016. Presently, there is some commercial development along East H Street, near Southwestern College, as well as the intersection of the SBX and Otay Lakes Road. These commercial areas are characterized by big box retail stores, such as Target, Lowe’s Home Improvement, and Office Max, as well as grocery stores, fast food chains and restaurants, and entertainment opportunities. In Otay Ranch, employment is concentrated on the eastern side of the SBX, in the planned freeway commercial area at the southeast corner of the SBX and Olympic Parkway and the Eastern Urban Center/Millenia Master Planned Community south of Birch Road. At build-out, the freeway commercial area will have approximately 4 million square feet of proposed commercial space, with another 1.2 million square feet of mixed use commercial and residential. The Eastern Urban Center/Millenia Master Planned Community is planned to have around 3.5 million square feet of office and retail space.

Employment in Otay Mesa is nearly twice that of Otay Ranch at approximately 15,000 jobs. Most of the employment is concentrated in the eastern portion of the region, at the southern terminus of the SBX at SR-90S. Jobs in the area are primarily in the trucking, and warehousing and distribution industries. Employment growth in Otay Mesa will be fueled in part by the City’s recently approved...
enhanced infrastructure financing district. The district is projected to generate $155 million in initial capital for infrastructure by selling bonds. The influx of this upfront capital is intended to encourage development in the near-term. As a result, the district is expected to invest, via value capture mechanisms, nearly $800 million in tax revenue for infrastructure investments over the next 45 years, all of which is aimed at spurring economic development in the area.

Figure 2-6: Existing Employment Density (2016)

2.6.2 Future Projections

Future development in the project corridor will be strongest in the Otay Ranch and Otay Mesa areas where there is a greater availability of developable land. A major shift from the existing conditions will be the addition of significant and more diversified employment opportunities. Within the project corridor, the share of jobs to population will increase. Whereas existing conditions show more than 7 persons per job, population and employment forecasts estimate 4.6 persons per job in the project corridor. Most of these jobs will be located within the Otay Ranch development, as well as continued growth in industrial uses in Otay Mesa. Increasing employment opportunities has the potential to shorten commute times for many residents who will now be able to work closer to home.
SOUTH BAY EXPRESSWAY TRAFFIC AND REVENUE STUDY UPDATE

Socioeconomic Data
August 11, 2017

Between 2016 and 2035, household density in Otay Ranch will nearly double from 1,100 households per square mile to 2,000 households per square mile. Most of the residential development will be in the southern portion of Otay Ranch, which is presently undeveloped, as shown in Figure 2-7. Over 77 percent of the 16,000 households that will be added to the project corridor will be in Otay Ranch.

**Figure 2-7: Household Density (2035)**

There will also be some growth in households in Otay Mesa in accordance with the Community Plan for the area. The Otay Mesa Community Plan, which advocates for the continued development of industrial uses in the planning area’s eastern portion and along the U.S./Mexico border, also lays out a plan for the development of two “villages” in the western and more central portions of the area. Between 2016 and 2035, Otay Mesa will gain approximately 1,700 households, almost all of which will be in the shaded areas shown in Figure 2-8. Figure 2-8 shows the top 10 percent of TAZs in terms of both absolute growth and compound annual growth rate between 2016 and 2035.
Household growth between 2035 and 2050 will be minimal. Planners with the City of Chula Vista indicate that the development of Otay Ranch is proceeding rapidly. Construction is underway on several villages, and Chula Vista planners indicate that the review of grading plans, street improvements, and other site plan aspects is currently in the beginning stages for several others. The process of reviewing and approving permits for these villages is estimated to take approximately 5 years, after which the same developers are anticipated to begin submitting plans for review for the remaining villages. As such, it is reasonable to assume that Otay Ranch will be built-out over the next 20 years. Once built-out, environmental and topographical constraints will severely limit new development in the project corridor. Household growth between 2035 and 2050 will be primarily in the form of redevelopment and intensification. Figure 2-9 shows the location of projects currently in the design review phase in Otay Ranch, as well as future major projects. Figure 2-10 shows household density in 2050, which largely mirrors conditions seen in 2035 in the project corridor.
Figure 2-9: Major Projects and Projects in Design Review in Otay Valley Parcel
Between 2016 and 2035, the project corridor is expected to add 16,250 jobs. Employment density in Otay Ranch will increase from 500 jobs per square mile to 1,300 jobs per square mile. Jobs will continue to be concentrated along the eastern side of the SBX, which is planned to have the highest intensity commercial development in Otay Ranch. In Otay Mesa, employment density will increase from 1,000 jobs per square mile to 1,500 jobs per square mile. These will continue to be in the eastern portion of Otay Mesa and along SR-905. Figure 2-11 shows employment density in the project corridor in 2035.
Nearly all of the fastest growing TAZs in the project corridor are located in either Otay Ranch or Otay Mesa, as indicated in Figure 2-12. The shaded TAZs represent those in the top ten percent in terms of both absolute growth, by adding more than 180 jobs, and compound annual growth, by growing at a rate of 3.6 percent or more per year.
Employment growth between 2035 and 2050 is strongest in Otay Mesa, which is projected to add more than 15,000 jobs in the project corridor (including the areas in San Diego county adjacent to the neighborhood boundaries). Employment density will increase from 1,500 jobs per square mile to over 2,300 jobs per square mile. The diversity of employment type is not expected to change, with most of the jobs continuing to be in the warehousing and distribution industries. However, there will be some neighborhood-serving commercial uses and services in the planned residential communities. Employment density in Otay Ranch will also increase between 2035 and 2050, from 1,300 jobs per square mile to more than 1,700 jobs per square mile. Most of the growth will be in a single TAZ, where a future University and Regional Technology Park is planned. That TAZ will grow by more than 5,000 jobs, and is shown below in Figure 2-14.
Figure 2-13: Employment Density (2050)
SOUTH BAY EXPRESSWAY TRAFFIC AND REVENUE STUDY UPDATE

Socioeconomic Data
August 11, 2017

Figure 2-14: Employment Growth (2035-2050)
3.0 MODEL DEVELOPMENT AND CALIBRATION

The traffic and revenue (T&R) forecasting process relies primarily on the traffic forecasts produced by Stantec’s toll diversion model. The model adopts SANDAG’s Activity-Based Model (ABM) for use in forecasting the SR-125 traffic and revenue. To achieve this transition, the ABM’s highway network and O-D trip tables for each scenario year were converted from TransCAD to Cube so that Stantec’s toll diversion model could be applied. The model’s toll-diversion techniques have been developed over two decades of effort that have incorporated stated and revealed driver preference data. After conversion and incorporation of the toll diversion model’s features, the model was calibrated to actual performance on the SBX, then validated, and then adapted to estimate future traffic and revenue.

3.1 TRAVEL DEMAND MODEL

The objective of the travel demand modeling task was to develop a forecasting tool to estimate future demand for the South Bay Expressway. This approach seeks to utilize SANDAG’s existing activity-based model and integrate its estimates of future travel demand with a customized toll diversion model. Figure 3-1 provides an overview of the model structure.

Figure 3-1: Model Structure of Toll Diversion Model with SANDAG’s ABM
3.1.1 Model Structure and Development

SANDAG’s travel demand model has recently moved to an activity-based model (ABM), no longer using the four-step transportation model. ABMs simulate individual and household transportation travel decisions based on daily activities and itineraries. The latest SANDAG ABM version has been calibrated and validated for the base year (2012) and includes future horizon years 2020, 2025, 2030, 2035, 2040, 2045, and 2050. The SANDAG ABM implements a tour-based approach in the disaggregated level, but assigns aggregated trips by the 14 classifications below into the highway network for each time period (Early AM, AM Peak, Midday, PM Peak, and Evening).

1. Drive Alone Free
2. Drive Alone Toll
3. Shared Ride 2 Free
4. Shared Ride 2 HOV
5. Shared Ride 2 Toll
6. Shared Ride 3 Free
7. Shared Ride 3 HOV
8. Shared Ride 3 Toll
9. Light Heavy Duty Non-Toll Trucks
10. Medium Heavy Duty Non-Toll Trucks
11. Heavy Heavy Duty Non-Toll Trucks
12. Light Heavy Duty Toll Trucks
13. Medium Heavy Duty Toll Trucks
14. Heavy Heavy Duty Toll Trucks

The SANDAG ABM is mainly implemented in Java using the Content Management Framework (CMF), but both network skimming and assignment procedures are implemented in TransCAD GISDK that requires input data such as a highway network, O-D trip tables, turn penalties, and volume-delay functions in the TransCAD format. As part of toll diversion modeling efforts, Stantec converted these input data into the Cube format so that it could be utilized in Stantec’s customized toll diversion model.

3.1.1.1 Toll Diversion Model

The toll diversion model requires several key assumptions related to travelers’ preferences regarding toll choice. These assumptions include travelers’ willingness to pay as defined by their value of time, preferences for the method of payment via transponder (FasTrak) or cash/credit card, and the level of toll rates.

The toll diversion model is based on a process utilizing a logit-based route choice model embedded within an equilibrium traffic assignment routine. The process iteratively calculates the percentage of tolled trips for a given origin-destination interchange and can be stratified as
necessary. A similar approach has been applied successfully by Stantec on numerous projects in the southern California region. The structure of the toll diversion model is defined as follows:

\[
\text{Toll Share} = 1 / (1 + e^U)
\]

Toll Share = Probability of selecting a toll road  
\( e \) = Base of natural logarithm (ln)  
\( U \) = “Utility of Tolled Route”  
\[ U = \alpha \times (\text{TimeTR} - \text{TimeFR}) + \beta \times \text{Cost} + \text{CTR} + \text{CETC} \]

TimeTR = Tolled route travel time (min)  
TimeFR = Non-tolled route travel time (min)  
Cost = Toll (dollars)  
\( \alpha \) = Time Coefficient  
\( \beta \) = Cost Coefficient  
CTR = Constant for toll road bias  
CETC = Constant for ETC bias

The model is stratified to accommodate two vehicle types: automobiles and trucks. For this traffic and revenue forecast, light duty trucks were considered as automobiles. As part of multiple studies over nearly two decades, Stantec has developed and refined toll diversion coefficients based on regional income data and revealed preference data on the existing toll roads in the southern California region. Based on 2015 median household incomes in San Diego County, Stantec developed an automobile value of time of $17.95 per hour; the truck value of time of $48.63 was independently developed. As part of the model calibration effort, Stantec also added a 2.6 minute toll road bias term for automobiles to the toll diversion model. This toll road bias is a penalty that discourages the use of toll roads.

To accommodate toll payment types, each of the vehicle types is further stratified by three toll payment methods: electronic toll collection (ETC), cash/credit card, and pay by video. Stratification by toll payment type is applied during highway assignment and is dynamically altered for each origin-destination pair as the availability of different payment methods is determined.

### 3.2 MODEL CALIBRATION

The existing data discussed in the Existing Conditions chapter was used to calibrate Stantec’s travel demand model. Stantec adopted the estimation results from the SANDAG ABM that had been developed through the model calibration/validation process. First, base year (2016) O-D trip tables were interpolated from the ABM’s 2012 and 2020 O-D trip tables. Base year trip tables were converted from the TransCAD format to the Cube format. The highway network was also converted to the Cube format after link attributes such as capacity, speed, free-flow time, and number of lanes were reviewed and updated using the field data collected in the base year (2016). Next the network diagnostic process, developed by Stantec, was implemented to refine highway network components and connectivity in the SBX corridor study area. Stantec then added the I-805 HOV facility and SR-11 partial extension to reflect the project improvements up
to the base year (2016) of this traffic and revenue study. Turn prohibitions were also constructed using the original SANDAG ABM data in addition to the missed turn prohibitions in the SBX interchanges to prevent illogical movements.

The Origin-Destination Matrix Estimation (ODME) process was conducted to replicate existing traffic patterns as part of model calibration efforts. These traffic patterns included observed traffic counts in the project area and observed toll O-D transactions in the SBX corridor. The ODME process was useful to accomplish a model validation along with the enhanced highway network in the updated base year for this project. It also prompted a further investigation into the vehicular movements on congested roadways and near major traffic generators (e.g. shopping malls) that had significant traffic activity. The surveyed travel time and speed data were utilized to validate the traffic patterns of each major arterial in the study area. The toll diversion model was performed for each of the 5 time periods used in the ABM. The time period definitions are shown in Table 3-1.

### Table 3-1: SANDAG’s ABM Time Period Definitions

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<thead>
<tr>
<th>Period</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
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<td>3:00 AM</td>
<td>6:00 AM</td>
</tr>
<tr>
<td>Morning (AM)</td>
<td>6:00 AM</td>
<td>9:00 AM</td>
</tr>
<tr>
<td>Mid-day (MD)</td>
<td>9:00 AM</td>
<td>3:30 PM</td>
</tr>
<tr>
<td>Afternoon (PM)</td>
<td>3:30 PM</td>
<td>7:00 PM</td>
</tr>
<tr>
<td>Evening (EV)</td>
<td>7:00 PM</td>
<td>3:00 AM</td>
</tr>
</tbody>
</table>

Stantec reviewed model performance measures such as percent root-mean-square error (RMSE), vehicles miles traveled (VMT), and congested speeds by comparing observed data to estimated values to confirm reasonable calibration results. The aggregated percent RMSE was within 11 percent for all facility types and the aggregated percent difference for freeways and prime arterials was within 4 percent. Major arterials had an aggregated percent difference over 7 percent. This high percent difference could be due to the low number of major arterial count locations and the low volumes at those locations. Table 3-2 shows the daily volumes and percent RMSE calibration results aggregated by facility type. The daily VMT comparison has similar results to the volumes comparison with aggregated percent differences of 1.8 percent, 3.7 percent, and 7.2 percent for freeways, prime arterials, and major arterials, respectively. Table 3-3 shows the daily VMT calibration results aggregated by facility type. The aggregate VMT, percent difference, and percent RMSE results are within industry standards as outlined in the FHWA’s Travel Model Validation and Reasonableness Checking Manual, Second Edition.
Freeway speeds were calibrated well in the model, with a maximum aggregated difference of 4 mph for all time periods compared to INRIX speeds. This is imperative as I-5 and I-805 serve as the most direct competitors to the SBX. The model overestimated speeds significantly for other facility types; the maximum aggregated difference was 13 mph on arterials and 18 mph on collectors. The overestimation in arterial speeds has a marginal impact on the traffic and revenue results as no arterial directly competes with the SBX's northern or southern segment. Over 90 percent of SBX trips are ineligible to use competing arterials because they use the northern and/or southern segment. For trips that can use arterials instead of the SBX, overestimating arterial speeds encourages vehicles to use arterials instead of the SBX, thereby supporting a conservative traffic and revenue forecast. Additionally, Stantec compared INRIX speeds to travel time speeds during a previous study and found that INRIX underestimated arterial speeds by an average 8 mph, potentially due to turning movement delays. If a similar underestimation occurred in the San Diego area, the aggregated arterial estimates would be more closely aligned to the model results. Table 3-4 shows the aggregated speed results.

Table 3-4: Aggregated Speed Calibration Results

<table>
<thead>
<tr>
<th>Facility Type</th>
<th>Early AM</th>
<th>AM Peak</th>
<th>Mid-day</th>
<th>PM Peak</th>
<th>Evening</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OBS EST</td>
<td>OBS EST</td>
<td>OBS EST</td>
<td>OBS EST</td>
<td>OBS EST</td>
</tr>
<tr>
<td>Freeway</td>
<td>60 64</td>
<td>55 59</td>
<td>60 62</td>
<td>55 59</td>
<td>59 59</td>
</tr>
<tr>
<td>Prime Arterial</td>
<td>45 50</td>
<td>38 46</td>
<td>36 48</td>
<td>34 46</td>
<td>43 46</td>
</tr>
<tr>
<td>Major Arterial</td>
<td>33 42</td>
<td>28 38</td>
<td>27 40</td>
<td>25 38</td>
<td>31 38</td>
</tr>
<tr>
<td>Collector</td>
<td>26 42</td>
<td>22 37</td>
<td>22 40</td>
<td>21 38</td>
<td>26 38</td>
</tr>
<tr>
<td>Combined</td>
<td>49 56</td>
<td>43 52</td>
<td>44 54</td>
<td>41 51</td>
<td>48 51</td>
</tr>
</tbody>
</table>
3.2.1 SBX Calibration

During the average weekday, the calibrated model overestimated transactions on the SBX by about 3 percent (1,540 transactions). This is an adequate estimate of existing conditions since the uncalibrated model underestimated traffic by about 28 percent (over 24,000 transactions). The increase in estimated transactions from the uncalibrated to the calibrated model were due to the ODME process and were carried into future model years. The calibrated model’s estimates were within 2 percent of observed transactions for all time periods except for the AM period, when the model overestimated transactions by 9 percent. Table 3-5 shows the 2016 average weekday observed transactions on the South Bay Expressway compared to estimates from Stantec’s travel demand model.

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Observed</th>
<th>Estimated</th>
<th>Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA</td>
<td>2,285</td>
<td>2,241</td>
<td>-44</td>
<td>-2%</td>
</tr>
<tr>
<td>AM</td>
<td>12,184</td>
<td>13,295</td>
<td>1,111</td>
<td>9%</td>
</tr>
<tr>
<td>MD</td>
<td>15,618</td>
<td>15,880</td>
<td>262</td>
<td>2%</td>
</tr>
<tr>
<td>PM</td>
<td>13,175</td>
<td>13,482</td>
<td>307</td>
<td>2%</td>
</tr>
<tr>
<td>EV</td>
<td>6,840</td>
<td>6,744</td>
<td>-96</td>
<td>-1%</td>
</tr>
<tr>
<td>DAILY</td>
<td>50,102</td>
<td>51,642</td>
<td>1,540</td>
<td>3%</td>
</tr>
</tbody>
</table>

Calibration results by tolled segments on the SBX were also satisfactory. All but one of the twelve daily SBX segment volumes were estimated within 5 percent of observed volumes. The SBX northbound daily volume between East H Street and Otay Lakes Road was overestimated by 11 percent. This overestimation is an isolated problem as the daily volumes on adjacent segments were underestimated. The percent RMSE for daily volumes on all segments is 5 percent. Table 3-6 shows the SBX daily calibration results by segment.
During the average weekday, the model overestimated revenue on the SBX by about 2 percent ($1,800). The model’s estimates were within 5 percent of observed revenue for all time periods except for the AM period, when the model overestimated revenue by 7 percent. Table 3-7 shows the 2016 average weekday observed revenue on the South Bay Expressway compared to estimates from Stantec’s travel demand model.

Table 3-7: 2016 Observed vs. Estimated Revenue on the SBX

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Observed</th>
<th>Estimated</th>
<th>Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA</td>
<td>$4,390</td>
<td>$4,605</td>
<td>$215</td>
<td>5%</td>
</tr>
<tr>
<td>AM</td>
<td>$22,389</td>
<td>$23,912</td>
<td>$1,523</td>
<td>7%</td>
</tr>
<tr>
<td>MD</td>
<td>$30,557</td>
<td>$30,137</td>
<td>-$420</td>
<td>-1%</td>
</tr>
<tr>
<td>PM</td>
<td>$25,105</td>
<td>$25,924</td>
<td>$819</td>
<td>3%</td>
</tr>
<tr>
<td>EV</td>
<td>$13,356</td>
<td>$13,021</td>
<td>-$335</td>
<td>-3%</td>
</tr>
<tr>
<td>DAILY</td>
<td>$95,797</td>
<td>$97,599</td>
<td>$1,802</td>
<td>2%</td>
</tr>
</tbody>
</table>

During the average weekday, the model was within 2 cents (about 1 percent) of the observed average toll rate on the SBX. The model’s estimates were within 3 percent of observed toll rates for all time periods except for the early AM period, when the model overestimated toll rates by 7 percent. Table 3-8 shows the 2016 average weekday observed toll rates on the South Bay Expressway compared to estimates from Stantec’s travel demand model.
3.2.1.1 Origin-Destination Calibration Results

Overall, the calibration results for the SBX origin-destination movements were satisfactory. Results for movements using SR-54 were particularly important since it is the start or endpoint for over 75 percent of transactions. The number of estimated trips originating from SR-54 was only 2 percent higher than the observed trips, while estimated trips destined for SR-54 were 1 percent lower than observed trips. Some short trips were not as well calibrated, however. Trips originating from Olympic Parkway or Otay Lakes Road and destined for East H Street were overestimated by over 200 percent, or 2,278 vehicles. By comparison, the transactions for the entire roadway were overestimated by only 1,542 vehicles. Although these movements were not well-calibrated, they have little impact on the SBX’s overall calibration results. The estimated average weekday traffic and revenue for these trips were 3,337 vehicles and $1,983, constituting less than 7 percent of the SBX’s traffic and 3 percent of the SBX’s revenue. Regardless, Stantec post-processed future model results to account for the overstatement of short trips on the SBX. Table 3-9 and Table 3-10 show the 2016 observed and estimated trips on the SBX, respectively.

### Table 3-8: 2016 Observed vs. Estimated Toll Rates on the SBX

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Observed</th>
<th>Estimated</th>
<th>Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>EA</td>
<td>$1.92</td>
<td>$2.05</td>
<td>$0.13</td>
<td>7%</td>
</tr>
<tr>
<td>AM</td>
<td>$1.84</td>
<td>$1.80</td>
<td>-$0.04</td>
<td>-2%</td>
</tr>
<tr>
<td>MD</td>
<td>$1.96</td>
<td>$1.90</td>
<td>-$0.06</td>
<td>-3%</td>
</tr>
<tr>
<td>PM</td>
<td>$1.91</td>
<td>$1.92</td>
<td>$0.02</td>
<td>1%</td>
</tr>
<tr>
<td>EV</td>
<td>$1.95</td>
<td>$1.93</td>
<td>-$0.02</td>
<td>-1%</td>
</tr>
<tr>
<td>DAILY</td>
<td>$1.91</td>
<td>$1.89</td>
<td>-$0.02</td>
<td>-1%</td>
</tr>
</tbody>
</table>

### Table 3-9: Observed 2016 SBX trips

<table>
<thead>
<tr>
<th>SR54</th>
<th>San Miguel Ranch</th>
<th>East H Street</th>
<th>Otay Lakes</th>
<th>Olympic Pkwy</th>
<th>Birch</th>
<th>Otay Mesa</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>San Miguel Ranch</td>
<td>1,904</td>
<td>1,591</td>
<td>4,477</td>
<td>4,931</td>
<td>3,252</td>
<td>2,278</td>
<td>1,440</td>
</tr>
<tr>
<td>East H Street</td>
<td>4,601</td>
<td>1,904</td>
<td>1,904</td>
<td>463</td>
<td>326</td>
<td>381</td>
<td>636</td>
</tr>
<tr>
<td>Otay Lakes</td>
<td>5,498</td>
<td>4,611</td>
<td>721</td>
<td>423</td>
<td>187</td>
<td>932</td>
<td>7,766</td>
</tr>
<tr>
<td>Olympic Pkwy</td>
<td>4,165</td>
<td>5,498</td>
<td>338</td>
<td>691</td>
<td>246</td>
<td>1,023</td>
<td>6,464</td>
</tr>
<tr>
<td>Birch</td>
<td>2,329</td>
<td>5,165</td>
<td>312</td>
<td>214</td>
<td>325</td>
<td>1,191</td>
<td>4,371</td>
</tr>
<tr>
<td>Otay Mesa</td>
<td>1,413</td>
<td>2,329</td>
<td>562</td>
<td>883</td>
<td>909</td>
<td>1,459</td>
<td>5,228</td>
</tr>
<tr>
<td>Total</td>
<td>19,911</td>
<td>19,911</td>
<td>6,410</td>
<td>7,181</td>
<td>5,223</td>
<td>5,225</td>
<td>50,101</td>
</tr>
</tbody>
</table>

250
3.2.1.2 Payment and Vehicle Type Calibration Results

Calibration results by vehicle and payment types were also acceptable. Estimated automobile traffic and revenue for both FasTrak and cash/credit card payments were within 4 percent of observed values. FasTrak truck traffic and revenue, however, were overestimated by 66 and 78 percent, respectively. The reason for these high percent differences is that there are so few trucks that use the SBX. In terms of absolute differences, the model overestimated trucks by 210 transactions and automobiles by over 1,300 transactions. Table 3-11 shows the SBX transaction calibration results by payment and vehicle type while Table 3-12 shows the revenue calibration results.

### Table 3-11: SBX transaction calibration results by payment and vehicle type

<table>
<thead>
<tr>
<th></th>
<th>Cash/Credit Card</th>
<th>FasTrak</th>
<th>Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR54</td>
<td>10,739</td>
<td>10,530</td>
<td>-209</td>
<td>-2%</td>
</tr>
<tr>
<td>East H Street</td>
<td>38,902</td>
<td>40,442</td>
<td>1,540</td>
<td>4%</td>
</tr>
<tr>
<td>Otay Lakes</td>
<td>154</td>
<td>162</td>
<td>9</td>
<td>6%</td>
</tr>
<tr>
<td>Olympic Pkwy</td>
<td>306</td>
<td>309</td>
<td>2</td>
<td>66%</td>
</tr>
<tr>
<td>Birch</td>
<td>50,101</td>
<td>51,643</td>
<td>1,542</td>
<td>3%</td>
</tr>
<tr>
<td>Otay Mesa</td>
<td>6,592</td>
<td>9,466</td>
<td>2,874</td>
<td>50%</td>
</tr>
<tr>
<td>Total</td>
<td>51,643</td>
<td>51,643</td>
<td>0</td>
<td>0%</td>
</tr>
</tbody>
</table>

### Table 3-12: SBX revenue calibration results by payment and vehicle type

<table>
<thead>
<tr>
<th></th>
<th>Cash/Credit Card</th>
<th>FasTrak</th>
<th>Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SR54</td>
<td>$29,086</td>
<td>$28,023</td>
<td>-$1,062</td>
<td>-4%</td>
</tr>
<tr>
<td>East H Street</td>
<td>$64,515</td>
<td>$66,444</td>
<td>$1,928</td>
<td>3%</td>
</tr>
<tr>
<td>Otay Lakes</td>
<td>$9,688</td>
<td>$9,709</td>
<td>$21</td>
<td>0.2%</td>
</tr>
<tr>
<td>Olympic Pkwy</td>
<td>$1,209</td>
<td>$2,154</td>
<td>$945</td>
<td>76%</td>
</tr>
<tr>
<td>Birch</td>
<td>$95,798</td>
<td>$97,599</td>
<td>$1,801</td>
<td>2%</td>
</tr>
<tr>
<td>Otay Mesa</td>
<td>$95,798</td>
<td>$97,599</td>
<td>$1,801</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>$95,798</td>
<td>$97,599</td>
<td>$1,801</td>
<td>2%</td>
</tr>
</tbody>
</table>

3.2.2 Screenline Calibration

Screenline calibration was performed to ensure that the aggregate demand replicated the observed traffic. A series of screenlines was developed that include the SBX and roadways within and around the project corridor. Daily total screenline estimated volumes were within 4 percent of observed daily volumes. The percent RMSE for all screenline counts was 6 percent. These results are well within acceptable tolerances for each screenline and for the screenlines as a whole. Figure 3-2 shows the locations of the screenlines. Table 3-13 shows the daily volume screenline results from the SBX calibration.
Figure 3-2: Screenlines in the SBX Study Area

Table 3-13: SBX Screenline Calibration results

<table>
<thead>
<tr>
<th>Description</th>
<th>Observed</th>
<th>Estimated</th>
<th>Diff</th>
<th>Diff%</th>
</tr>
</thead>
<tbody>
<tr>
<td>North of Border NB Screenline Total</td>
<td>78,988</td>
<td>76,768</td>
<td>-2,220</td>
<td>-3%</td>
</tr>
<tr>
<td>North of Border SB Screenline Total</td>
<td>69,663</td>
<td>67,681</td>
<td>-1,982</td>
<td>-3%</td>
</tr>
<tr>
<td>Otay Mainline Plaza NB Screenline Total</td>
<td>135,893</td>
<td>130,889</td>
<td>-5,004</td>
<td>-4%</td>
</tr>
<tr>
<td>Otay Mainline Plaza SB Screenline Total</td>
<td>112,683</td>
<td>110,069</td>
<td>-2,614</td>
<td>-2%</td>
</tr>
<tr>
<td>South of SR-54 NB Screenline Total</td>
<td>222,753</td>
<td>231,918</td>
<td>9,165</td>
<td>4%</td>
</tr>
<tr>
<td>South of SR-54 SB Screenline Total</td>
<td>231,361</td>
<td>232,705</td>
<td>1,344</td>
<td>1%</td>
</tr>
<tr>
<td>East-West EB Screenline Total</td>
<td>155,570</td>
<td>162,098</td>
<td>6,528</td>
<td>4%</td>
</tr>
<tr>
<td>East-West WB Screenline Total</td>
<td>169,240</td>
<td>169,346</td>
<td>107</td>
<td>0%</td>
</tr>
<tr>
<td>RMSE</td>
<td></td>
<td></td>
<td></td>
<td>6%</td>
</tr>
</tbody>
</table>
Traffic and Revenue Forecast
August 11, 2017

4.0 TRAFFIC AND REVENUE FORECAST

The South Bay Expressway (SBX) annual traffic and revenue forecast was based on the toll diversion model’s forecast of weekday traffic, post processed, and then annualized based on historical SBX data. In all cases, “revenue” is defined as gross potential revenue, and does not include any deduction for non-toll payment due to violators. The 2025, 2035, and 2050 model years were the principal years modeled. The traffic and revenue results for intermediate years were interpolated based on model results and interchange improvements to the SBX. This chapter presents the traffic and revenue forecasts and discusses the principal assumptions affecting them.

4.1 FORECAST ASSUMPTIONS

4.1.1 SBX Improvements

The characteristics of the SBX (lane configuration, facility type, lane widths, etc.) are assumed to remain the same for the forecast’s life. The forecast also assumes the following interchange improvements along the South Bay Expressway:

- The SBX interchange with SR-11 and SR-905 is completed by 2022.
- The SBX six-ramp partial cloverleaf interchange with Otay Valley is completed in 2035.
- The half-diamond interchange with Lone Star is completed in 2037. The interchange will have a northbound on ramp and a southbound off ramp.

4.1.2 Regional Network Improvements

The forecast assumes that revenue constrained projects will be constructed as outlined in Appendix A of SANDAG’s 2050 Regional Transportation Plan (RTP). Stantec checked SANDAG’s ABM model to ensure that it contained all revenue constrained projects that could impact the SBX’s traffic and revenue stream. Most projects listed in the RTP were represented in the ABM correctly. Stantec made the following changes to the model to follow the RTP more accurately:

- Compress SR-52 HOV lanes between I-15 and SR-125 in 2050 from either 2 or 9 lanes per direction to 1 lane per direction.
- Widen SR-125 from 4 to 5 lanes per direction between SR-94 and I-8 by 2050.
- Compress SR-52 between Mast Boulevard and SR-125 from 3 lanes per direction to 2 lanes per direction in 2025 and 2030.
- Compress SR-94 between Jamacha Boulevard and Steele Canyon Road from 3 lanes per direction to 2 lanes per direction.

4.1.3 Toll Policy

For the life of the forecast, it is assumed that toll rates on the SBX will not change and vehicles with three or more axles will continue to pay two times the 2-axle toll rate. Stantec interpolated toll rates for future movements involving new interchanges based on existing tolls. Table 4-1 and Table
4-2 show the FasTrak and cash/credit card toll rates, respectively, for all future origin-destination movements on the SBX.

Table 4-1: FasTrak toll rates on the SBX for future origin-destination movements

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.55</td>
<td>$1.55</td>
<td>$0.80</td>
<td>$0.80</td>
<td>$0.80</td>
<td>$1.25</td>
<td>$1.75</td>
<td>$2.00</td>
<td>$2.75</td>
</tr>
<tr>
<td>$1.70</td>
<td>$0.80</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$1.00</td>
<td>$1.45</td>
<td>$1.95</td>
<td>$2.00</td>
</tr>
<tr>
<td>$1.70</td>
<td>$0.80</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
<td>$1.00</td>
<td>$1.45</td>
<td>$1.95</td>
<td>$2.00</td>
</tr>
<tr>
<td>$2.05</td>
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<td>$1.00</td>
<td>$1.00</td>
<td>$1.00</td>
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<td>$2.40</td>
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<td>$0.50</td>
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</tr>
<tr>
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<td>$0.50</td>
<td>$0.50</td>
<td>$0.50</td>
</tr>
</tbody>
</table>

$\text{xxx}$ Toll rate for future trip pattern

Table 4-2: Cash/credit card toll rates on the SBX for future origin-destination movements

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
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<td>$2.00</td>
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<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$3.50</td>
<td>$3.50</td>
</tr>
<tr>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$3.50</td>
<td>$3.50</td>
</tr>
<tr>
<td>$2.50</td>
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<td>$2.50</td>
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<td>$2.50</td>
<td>$2.50</td>
<td>$3.50</td>
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<td>$2.50</td>
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<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$2.50</td>
<td>$3.50</td>
<td>$3.50</td>
</tr>
<tr>
<td>$2.50</td>
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<td>$2.50</td>
<td>$2.50</td>
<td>$3.50</td>
<td>$3.50</td>
</tr>
<tr>
<td>$3.50</td>
<td>$3.50</td>
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<td>$3.50</td>
<td>$3.50</td>
<td>$3.50</td>
<td>$3.50</td>
<td>$3.50</td>
</tr>
</tbody>
</table>

$\text{xxx}$ Toll rate for future trip pattern

4.1.4 Annualization Factors

Annualization is the process of expansion from a weekday forecast of transactions and revenue to annual figures. This expansion process considers the differences in traffic levels and congestion between weekdays and weekends. Stantec’s travel demand model was calibrated to an average weekday. SANDAG provided Stantec with daily traffic and revenue data on the SBX during October 2016 and March 2017. From these data, Stantec determined that the average weekend day on the SBX has about 63 percent of the transactions that occur on an average weekday. Stantec also determined that the average weekend day on the SBX brings in about 65 percent of the revenue of an average weekday. The resulting annualization factors to calculate annual traffic and revenue from average weekday traffic and revenue are 325 and 330, respectively. These factors were used for the life of the forecast and are shown in Table 4-3.
SOUTH BAY EXPRESSWAY TRAFFIC AND REVENUE STUDY UPDATE

Traffic and Revenue Forecast
August 11, 2017

Table 4-3: Annualization Factors for the SBX Traffic and Revenue Forecast

<table>
<thead>
<tr>
<th></th>
<th>2025</th>
<th>2035</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactions</td>
<td>325</td>
<td>325</td>
<td>325</td>
</tr>
<tr>
<td>Revenue</td>
<td>330</td>
<td>330</td>
<td>330</td>
</tr>
</tbody>
</table>

4.1.5 Socioeconomic Factors

The forecast relies on the accuracy of SANDAG’s ABM socioeconomic forecast.

4.2 SBX FORECAST

Following the modeling procedures described above, Stantec prepared traffic and revenue forecasts through 2043. During that time, Stantec forecasts that the SBX will have over 686 million transactions between fiscal years 2017 and 2043 and receive over $1.2 billion in toll revenue during that time. These forecasts were based on toll diversion model results from 2025, 2035, and 2050 with traffic and revenue for intermediate years interpolated.

4.2.1 Future Model Results

About 67,100 average weekday transactions are forecasted in 2025, representing a 3.3 percent CAGR from 2016 when 50,100 weekday transactions are observed. During this time, short distance trips grew by 85 percent while trips to/from SR-54 and/or Otay Mesa (long distance trips) grew by only 29 percent. About 88,400 average weekday transactions are forecasted in 2035, representing a 2.8 percent CAGR from 2025. Long distance trips grow by 28 percent from 2025, while short distance trips grow by 59 percent over the same period. The strong short distance trip growth compared to long distance trip growth is consistent with the robust employment growth forecasted in Otay Ranch.

About 136,900 average weekday transactions are forecasted in 2050, representing a 3.0 percent CAGR from 2035. During this time, short distance trips decreased by about 12 percent while long distance trips grow by 67 percent. Trips going to or coming from the Otay Mesa neighborhood grow the most, with transactions for this region almost tripling between 2035 and 2050. The significant increase in Otay Mesa trips is consistent with the projected employment growth due to Otay Mesa being an enhanced infrastructure financing district. Table 4-4, Table 4-5, and Table 4-6 show the forecasted SBX transactions for 2025, 2035, and 2050, respectively.

Table 4-4: Forecasted 2025 SBX transactions

<table>
<thead>
<tr>
<th></th>
<th>SR54</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>San Migel Ranch</td>
<td>East H Street</td>
<td>Otay Lakes</td>
<td>Olympic Pkwy</td>
<td>Birch</td>
<td>Otay Mesa</td>
</tr>
<tr>
<td>SR54</td>
<td>1,699</td>
<td>5,083</td>
<td>5,808</td>
<td>4,710</td>
<td>3,716</td>
<td>2,153</td>
</tr>
<tr>
<td>San Migel Ranch</td>
<td>1,975</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East H Street</td>
<td>5,587</td>
<td>926</td>
<td>653</td>
<td>761</td>
<td>550</td>
<td></td>
</tr>
<tr>
<td>Otay Lakes</td>
<td>6,552</td>
<td>1,442</td>
<td>443</td>
<td>373</td>
<td>1,486</td>
<td></td>
</tr>
<tr>
<td>Olympic Pkwy</td>
<td>5,269</td>
<td>676</td>
<td>1,383</td>
<td>228</td>
<td>859</td>
<td></td>
</tr>
<tr>
<td>Birch</td>
<td>4,151</td>
<td>624</td>
<td>426</td>
<td>635</td>
<td>2,383</td>
<td></td>
</tr>
<tr>
<td>Otay Mesa</td>
<td>2,038</td>
<td>387</td>
<td>1,114</td>
<td>711</td>
<td>2,258</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>25,571</td>
<td>8,212</td>
<td>9,660</td>
<td>7,153</td>
<td>7,336</td>
<td>7,431</td>
</tr>
</tbody>
</table>

Stantec
4.2.1.1 Northbound SBX Origins and Destinations

The most popular origin for the SBX northbound in 2016 was Otay Lakes, which contributes 24 percent of trips to the corridor. By 2050, however, Otay Lake contributes only 14 percent of northbound trips. On the opposite side of the spectrum, Lone Star contributes 18 percent of northbound trips by 2050 even though it is not opened until 2037. This is due to increased traffic from the Otay Mesa neighborhood where Lone Star will be located. From 2035 to 2050, the combined northbound traffic from Otay Mesa and Lone Star grows at a CAGR of 7.4 percent which is more twice the growth rate of all northbound traffic. Table 4-7 shows the forecasted transactions, CAGR, and percent of traffic on northbound SBX origins from 2016 through 2050.

Table 4-7: Forecasted changes to northbound SBX origins

<table>
<thead>
<tr>
<th>Transactions CAGR</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016 2025 2035 2050</td>
<td>2016 2025 2035 2050</td>
</tr>
<tr>
<td>San Miguel Ranch</td>
<td>1,904 1,975 2,340 2,182</td>
</tr>
<tr>
<td>East H Street</td>
<td>4,601 5,587 7,103 7,129</td>
</tr>
<tr>
<td>Otay Lakes</td>
<td>6,219 7,994 10,183 10,205</td>
</tr>
<tr>
<td>Olympic Pkwy</td>
<td>5,195 7,328 11,434 11,434</td>
</tr>
<tr>
<td>Birch</td>
<td>3,180 5,838 6,767 9,245</td>
</tr>
<tr>
<td>Otay Valley</td>
<td>1,321 1,754</td>
</tr>
<tr>
<td>Lone Star</td>
<td>12,550</td>
</tr>
<tr>
<td>Otay Mesa</td>
<td>5,226 6,308 9,946 16,437</td>
</tr>
<tr>
<td>Total</td>
<td>26,324 35,230 46,966 70,937</td>
</tr>
</tbody>
</table>
Table 4-8: Forecasted changes to northbound SBX destinations

<table>
<thead>
<tr>
<th>Transactions</th>
<th>CAGR</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR-54</td>
<td>19,911</td>
<td>25,371</td>
</tr>
<tr>
<td>East H Street</td>
<td>1,932</td>
<td>3,128</td>
</tr>
<tr>
<td>Otay Lakes</td>
<td>1,788</td>
<td>2,926</td>
</tr>
<tr>
<td>Olympic Pkwy</td>
<td>1,234</td>
<td>1,346</td>
</tr>
<tr>
<td>Birch</td>
<td>1,459</td>
<td>2,258</td>
</tr>
<tr>
<td>Otay Valley</td>
<td>1,684</td>
<td>6,919</td>
</tr>
<tr>
<td>Total</td>
<td>26,324</td>
<td>35,230</td>
</tr>
</tbody>
</table>

4.2.1.2 Southbound SBX Origins and Destinations

The most popular origin on SBX southbound in 2016 was SR-54, where over 76 percent of trips entered from the freeway. By 2050, however, only 56 percent of all southbound traffic entered from SR-54. A combination of Birch Road and Otay Valley pick up SR-54’s share as their collective share grows from 5 percent in 2016 to 25 percent in 2050. From 2035 to 2050, each of these southbound entrances grows by a compound annual growth rate of least 8 percent, over 2.5 times greater than the corridor’s compound annual growth rate. Table 4-9 shows the forecasted changes in southbound SBX origins from 2016 through 2050.

Table 4-9: Forecasted changes to southbound SBX origins

<table>
<thead>
<tr>
<th>Transactions</th>
<th>CAGR</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>SR-54</td>
<td>17,969</td>
<td>23,169</td>
</tr>
<tr>
<td>East H Street</td>
<td>1,806</td>
<td>2,890</td>
</tr>
<tr>
<td>Otay Lakes</td>
<td>1,541</td>
<td>2,303</td>
</tr>
<tr>
<td>Olympic Pkwy</td>
<td>1,269</td>
<td>1,087</td>
</tr>
<tr>
<td>Birch</td>
<td>1,191</td>
<td>2,383</td>
</tr>
<tr>
<td>Otay Valley</td>
<td>2,830</td>
<td>10,120</td>
</tr>
<tr>
<td>Total</td>
<td>23,776</td>
<td>31,832</td>
</tr>
</tbody>
</table>

The most popular destination for the SBX southbound in 2016 was Otay Lakes, which takes 23 percent of trips to the corridor. By 2050, however, Otay Lake takes only 13 percent of northbound trips. On the opposite side of the spectrum, Lone Star takes 20 percent of southbound trips by 2050 even though it does not open until 2037. This appears to be due to increased traffic to the Otay Mesa neighborhood where Lone Star will be located after 2037. From 2035 to 2050, the combined southbound traffic to Otay Mesa and Lone Star grows at a CAGR of 7.5 percent which is more than double the growth rate of all southbound traffic. Table 4-10 shows the forecasted changes in southbound SBX destinations from 2016 through 2050.
Traffic and Revenue Forecast
August 11, 2017

Table 4-10: Forecasted changes to southbound SBX destinations

<table>
<thead>
<tr>
<th>Transactions</th>
<th>CAGR</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
<td>2025</td>
</tr>
<tr>
<td>San Miguel Ranch</td>
<td>1,591</td>
<td>1,699</td>
</tr>
<tr>
<td>East H Street</td>
<td>4,477</td>
<td>5,083</td>
</tr>
<tr>
<td>Otay Lakes</td>
<td>5,393</td>
<td>6,734</td>
</tr>
<tr>
<td>Olympic Pkwy</td>
<td>4,001</td>
<td>5,807</td>
</tr>
<tr>
<td>Birch</td>
<td>3,091</td>
<td>5,078</td>
</tr>
<tr>
<td>Otay Valley</td>
<td>287</td>
<td>987</td>
</tr>
<tr>
<td>Lone Star</td>
<td>13,240</td>
<td>20%</td>
</tr>
<tr>
<td>Otay Mesa</td>
<td>5,222</td>
<td>7,431</td>
</tr>
<tr>
<td>Total</td>
<td>23,776</td>
<td>31,832</td>
</tr>
</tbody>
</table>

4.2.2 Traffic and Revenue Forecast

Annual transaction growth decelerates from its current annual growth of 9.7 percent in 2016 to 2.1 percent in 2022 when 19.23 million transactions are forecasted. Annual transaction growth accelerates between 2022 and 2025 to 4.1 percent when 21.32 million transactions are forecasted in 2025. The annual growth decreases to 2.8 percent by 2034. From 2034 to 2039, the annual transaction growth is forecasted to grow to 3.8 percent due to interchange openings at Otay Valley and Lone Star in 2035 and 2037, respectively. Annual growth then decelerates to 2.6 percent in 2043 when 36.81 million transactions are forecasted. Figure 4-1 shows the annual SBX transactions forecast.

Figure 4-1: SBX Annual Transactions Forecast

Annual revenue growth decelerates from its current annual growth of 7.2 percent in 2016 to 1.6 percent in 2022 when forecasted revenue is $36 million. Annual revenue growth accelerates between 2022 and 2025. An estimated $39.3 million in revenue is forecasted in 2025 following a
3.7 percent annual growth rate. The annual growth decreases to 2.4 by 2034. From 2034 to 2039, the annual revenue growth is forecasted to increase to 4.4 percent due to interchange openings at Otay Valley and Lone Star in 2035 and 2037, respectively. Annual growth then decelerates to 2.9 percent in 2043 when $65.8 million in revenue is forecasted. Figure 4-2 shows the annual SBX revenue forecast. Table 4-11 provides the SBX traffic and revenue forecast in tabular form.
## Table 4-11: SBX Traffic and Revenue Forecast

<table>
<thead>
<tr>
<th>FY Year</th>
<th>Average Weekday Transactions</th>
<th>Annual Transactions</th>
<th>Transactions Annual Growth Rate</th>
<th>Average Toll Rate</th>
<th>Annual Revenue (Nominal $'s)</th>
<th>Revenue Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>28,100</td>
<td>9,140,000</td>
<td>-</td>
<td>$2.71</td>
<td>$24,790,000</td>
<td>-</td>
</tr>
<tr>
<td>2013</td>
<td>35,000</td>
<td>11,360,000</td>
<td>24.3%</td>
<td>$2.00</td>
<td>$22,690,000</td>
<td>-9.3%</td>
</tr>
<tr>
<td>2014</td>
<td>40,600</td>
<td>13,190,000</td>
<td>16.1%</td>
<td>$1.97</td>
<td>$25,970,000</td>
<td>12.2%</td>
</tr>
<tr>
<td>2015</td>
<td>44,200</td>
<td>14,370,000</td>
<td>8.9%</td>
<td>$1.95</td>
<td>$28,010,000</td>
<td>5.3%</td>
</tr>
<tr>
<td>2016</td>
<td>48,500</td>
<td>15,770,000</td>
<td>9.7%</td>
<td>$1.94</td>
<td>$30,640,000</td>
<td>7.2%</td>
</tr>
<tr>
<td>2017</td>
<td>51,100</td>
<td>16,680,000</td>
<td>5.8%</td>
<td>$1.93</td>
<td>$32,180,000</td>
<td>4.9%</td>
</tr>
<tr>
<td>2018</td>
<td>53,200</td>
<td>17,370,000</td>
<td>4.1%</td>
<td>$1.91</td>
<td>$33,220,000</td>
<td>3.2%</td>
</tr>
<tr>
<td>2019</td>
<td>55,000</td>
<td>17,950,000</td>
<td>3.3%</td>
<td>$1.90</td>
<td>$34,090,000</td>
<td>2.6%</td>
</tr>
<tr>
<td>2020</td>
<td>56,500</td>
<td>18,420,000</td>
<td>2.6%</td>
<td>$1.89</td>
<td>$34,800,000</td>
<td>2.1%</td>
</tr>
<tr>
<td>2021</td>
<td>57,800</td>
<td>18,840,000</td>
<td>2.3%</td>
<td>$1.88</td>
<td>$35,430,000</td>
<td>1.8%</td>
</tr>
<tr>
<td>2022</td>
<td>58,900</td>
<td>19,230,000</td>
<td>2.1%</td>
<td>$1.87</td>
<td>$36,010,000</td>
<td>1.6%</td>
</tr>
<tr>
<td>2023</td>
<td>60,600</td>
<td>19,770,000</td>
<td>2.8%</td>
<td>$1.86</td>
<td>$36,810,000</td>
<td>2.2%</td>
</tr>
<tr>
<td>2024</td>
<td>62,800</td>
<td>20,490,000</td>
<td>3.6%</td>
<td>$1.85</td>
<td>$37,860,000</td>
<td>2.9%</td>
</tr>
<tr>
<td>2025</td>
<td>65,500</td>
<td>21,320,000</td>
<td>4.1%</td>
<td>$1.84</td>
<td>$39,260,000</td>
<td>3.7%</td>
</tr>
<tr>
<td>2026</td>
<td>68,000</td>
<td>22,090,000</td>
<td>3.6%</td>
<td>$1.84</td>
<td>$40,650,000</td>
<td>3.5%</td>
</tr>
<tr>
<td>2027</td>
<td>69,900</td>
<td>22,700,000</td>
<td>2.8%</td>
<td>$1.83</td>
<td>$41,630,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>2028</td>
<td>71,800</td>
<td>23,330,000</td>
<td>2.8%</td>
<td>$1.83</td>
<td>$42,650,000</td>
<td>2.5%</td>
</tr>
<tr>
<td>2029</td>
<td>73,800</td>
<td>23,980,000</td>
<td>2.8%</td>
<td>$1.82</td>
<td>$43,690,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>2030</td>
<td>75,800</td>
<td>24,640,000</td>
<td>2.8%</td>
<td>$1.82</td>
<td>$44,750,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>2031</td>
<td>77,900</td>
<td>25,330,000</td>
<td>2.8%</td>
<td>$1.81</td>
<td>$45,850,000</td>
<td>2.5%</td>
</tr>
<tr>
<td>2032</td>
<td>80,100</td>
<td>26,030,000</td>
<td>2.8%</td>
<td>$1.80</td>
<td>$46,960,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>2033</td>
<td>82,300</td>
<td>26,750,000</td>
<td>2.8%</td>
<td>$1.80</td>
<td>$48,100,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>2034</td>
<td>84,600</td>
<td>27,490,000</td>
<td>2.8%</td>
<td>$1.79</td>
<td>$49,270,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>2035</td>
<td>87,300</td>
<td>28,380,000</td>
<td>3.2%</td>
<td>$1.78</td>
<td>$50,620,000</td>
<td>2.7%</td>
</tr>
<tr>
<td>2036</td>
<td>90,400</td>
<td>29,390,000</td>
<td>3.6%</td>
<td>$1.77</td>
<td>$52,010,000</td>
<td>2.7%</td>
</tr>
<tr>
<td>2037</td>
<td>93,500</td>
<td>30,380,000</td>
<td>3.4%</td>
<td>$1.75</td>
<td>$53,250,000</td>
<td>2.4%</td>
</tr>
<tr>
<td>2038</td>
<td>96,800</td>
<td>31,470,000</td>
<td>3.6%</td>
<td>$1.75</td>
<td>$55,040,000</td>
<td>3.4%</td>
</tr>
<tr>
<td>2039</td>
<td>100,500</td>
<td>32,670,000</td>
<td>3.8%</td>
<td>$1.76</td>
<td>$57,450,000</td>
<td>4.4%</td>
</tr>
<tr>
<td>2040</td>
<td>104,400</td>
<td>33,910,000</td>
<td>3.8%</td>
<td>$1.77</td>
<td>$59,960,000</td>
<td>4.4%</td>
</tr>
<tr>
<td>2041</td>
<td>107,700</td>
<td>34,990,000</td>
<td>3.2%</td>
<td>$1.78</td>
<td>$62,130,000</td>
<td>3.6%</td>
</tr>
<tr>
<td>2042</td>
<td>110,400</td>
<td>35,890,000</td>
<td>2.6%</td>
<td>$1.78</td>
<td>$63,910,000</td>
<td>2.9%</td>
</tr>
<tr>
<td>2043</td>
<td>113,200</td>
<td>36,810,000</td>
<td>2.6%</td>
<td>$1.79</td>
<td>$65,750,000</td>
<td>2.9%</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>750,130,000</td>
<td>-</td>
<td>$1.83</td>
<td>1,375,430,000</td>
<td>-</td>
</tr>
</tbody>
</table>

Historical revenue is gross revenue potential and does not contain revenue from violation fines.

- Otay Valley interchange opens
- North half of Lone Star interchange opens
2017 Bond Issuance
Review of Draft Bond Documents

Board of Directors - September 8, 2017

Background: South Bay Expressway SR 125 Toll Road

- Ten-mile toll road through eastern Chula Vista
- Originally developed as a public-private partnership
- Traffic and revenue didn’t meet previous owners’ expectations which led to bankruptcy
- In December 2011, SANDAG purchased the franchise from creditors, including the U.S. Dept. of Transportation
  - Renegotiated the outstanding TIFIA loan; obtained the Commission loan
SANDAG OWNERSHIP OF SOUTH BAY EXPRESSWAY

- SANDAG Board made a strategic acquisition to improve mobility by:
  - Reducing tolls to optimize use and grow traffic on the road
  - Reducing congestion on nearby arterials and parallel routes
  - Reducing the need for infrastructure improvements on parallel routes

- Since taking ownership:
  - Traffic and revenues have increased beyond initial expectations
  - Reserve balances have grown sufficiently – enabling major maintenance projects, identified during the acquisition, to proceed
  - Five years of solid operating history

- Strengthened financial position allowed us to approach TIFIA to discuss refinancing the debt

OPPORTUNITY TO REFINANCE

- Refinance at current rates to reduce cost
- Provide more operating flexibility
- Refinancing plan was presented to the Board of Directors (February 2017)
- A team of underwriters and legal counsel was assembled to identify best practices and to prepare the various documents required
- Issue new Toll Revenue Bonds - pay back the TIFIA and Commission loans
SR 125 CURRENT DEBT SERVICE

- Current debt consists of four TIFIA loans with varying interest rates, and one Commission fixed-rate loan.

### Loan Components

<table>
<thead>
<tr>
<th>Subseries</th>
<th>Value as of 06/30/2017</th>
<th>Interest Rate</th>
<th>Value at Maturity</th>
<th>Amortization (FY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. TIFIA Tranche A2</td>
<td>$55,063,101</td>
<td>7.00%-9.00%</td>
<td>n/a</td>
<td>2017-2026</td>
</tr>
<tr>
<td>2. TIFIA Tranche B2</td>
<td>$52,591,223</td>
<td>9.00%</td>
<td>$119,307,035</td>
<td>2027-2035</td>
</tr>
<tr>
<td>3. TIFIA Tranche C2</td>
<td>$4,698,254</td>
<td>10.00%</td>
<td>$25,925,727</td>
<td>2035-2036</td>
</tr>
<tr>
<td>4. TIFIA Series D</td>
<td>$3,052,568</td>
<td>14.00%</td>
<td>$96,265,064</td>
<td>2043</td>
</tr>
<tr>
<td>5. Commission Loan</td>
<td>$62,352,510</td>
<td>4.25%</td>
<td>n/a</td>
<td>2021-2037</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$177,757,656</strong></td>
<td><strong>7.03%</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Reflects full accreted value of loan principal amounts

Debt service is upward sloping and reliant on revenue growth for adequate debt service coverage.

### Debt Repayment Schedule

2 Excluding Series D loan average interest rate is 6.89%
### Estimated Refunding Results

#### Prior Debt Service vs. Refunding Debt Service

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
</tr>
<tr>
<td>2021</td>
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<td>2022</td>
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<td>2027</td>
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<td>2028</td>
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<td>2029</td>
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<td>2030</td>
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<td>2031</td>
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<td>2041</td>
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<tr>
<td>2042</td>
<td></td>
</tr>
<tr>
<td>2043</td>
<td></td>
</tr>
</tbody>
</table>

- **Prior Debt Service**
- **Refunding Debt Service**

#### Estimated Refunding Results (Continued)

**Sources and Uses**

<table>
<thead>
<tr>
<th>Component</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Par</td>
<td>204,430,000</td>
</tr>
<tr>
<td>Premium</td>
<td>27,723,634</td>
</tr>
<tr>
<td>Cash Contribution</td>
<td>14,629,750</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>246,783,384</strong></td>
</tr>
<tr>
<td>TIFIA Loan Defeasance</td>
<td>167,980,000</td>
</tr>
<tr>
<td>Commission Loan Defeasance</td>
<td>62,352,510</td>
</tr>
<tr>
<td>Debt Service Reserve Fund</td>
<td>14,629,750</td>
</tr>
<tr>
<td>Cost of Issuance</td>
<td>1,821,124</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td><strong>246,783,384</strong></td>
</tr>
</tbody>
</table>

**Summary Statistics**

<table>
<thead>
<tr>
<th>Statistic</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Cash Flow Savings</td>
<td>110,216,197</td>
</tr>
<tr>
<td>Net Present Value (NPV) Savings</td>
<td>54,920,256</td>
</tr>
<tr>
<td>NPV Savings as a % of Refunded Par</td>
<td>20.8%</td>
</tr>
<tr>
<td>All-In TIC</td>
<td>3.77%</td>
</tr>
<tr>
<td>Max Annual Debt Service</td>
<td>14,553,275</td>
</tr>
<tr>
<td>Average Life</td>
<td>15.1</td>
</tr>
<tr>
<td>Net Revenues 2017</td>
<td>27,436,220</td>
</tr>
<tr>
<td>MADS Coverage</td>
<td>1.89x</td>
</tr>
</tbody>
</table>

---

1. Includes $96 million accreted value of Series D at the end of its term for the purpose of savings calculation.
**STATUS OF REFINANCE**

- Traffic and revenue study prepared
- Proforma financial model developed
- Rating agency meetings held August 29th
- Final approval on the TIFIA loan payoff amount underway

**Best practices:** Inform decision making and provide transparency

- **Debt policy**
  - Confirms the commitment to adhere to sound financial management practices

- **Toll policy**
  - Charge and collect tolls in a manner that to the greatest extent possible improves mobility while generating sufficient revenue to meet debt obligations; O&M requirements; fund capital projects; and maintain traffic congestion and infrastructure needs

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**DRAFT BOND DOCUMENTS**

- **Memorandum from PFM**
  - Introduces the item, gives a market update, an overview of the 2017 bonds to be issued including sizing/structure/ratings

- **Draft Resolution No. 2018-03**
  - Board action allowing the issuance of the 2017 bonds

- **Draft Preliminary Official Statement**
  - A document prepared by the issuer of municipal securities in connection with a primary offering that discloses material information on the offering of such securities to potential investors
Draft Master Indenture

- Agreement in the bond contract made between a bond issuer and a trustee that represents the bondholder’s interests by highlighting the rules and responsibilities that each party must adhere to. It also indicates where the income stream for the bond is derived from.

Draft First Supplemental Indenture

- An agreement entered into by an issuer that supplements the issuer’s outstanding indenture or bond contract. Often, a supplemental indenture is executed in connection with the issuance of one or more series of additional bonds under the master or bond contract.

South Bay Expressway Traffic and Revenue Study Update

- Prepared by a consultant – Stantec
**NEXT STEPS**

<table>
<thead>
<tr>
<th>Action</th>
<th>PAC / Board</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process overview</td>
<td>Transportation</td>
<td>September 1</td>
</tr>
<tr>
<td>Review/Recommend Policies</td>
<td>Executive</td>
<td>September 8</td>
</tr>
<tr>
<td><strong>Review Draft Documents</strong></td>
<td><strong>Board of Directors</strong></td>
<td><strong>September 8</strong></td>
</tr>
<tr>
<td>Review/Recommend</td>
<td>Transportation</td>
<td>September 15</td>
</tr>
<tr>
<td>Adopt Resolution</td>
<td>Board of Directors</td>
<td>September 22</td>
</tr>
<tr>
<td>Bond Pricing &amp; Closing</td>
<td></td>
<td>October 2017</td>
</tr>
</tbody>
</table>