78728

Deal code: SDJAIL7/97

1-2. NAME OF ISSUER AND DESCRIPTION OF ISSUE : SAN DIEGO COUNTY, CALIFORNIA
1997 REFUNDING CENTRAL JAIL
CERTIFICATES OF PARTICIPATION

3. STATE : CA

4. DATED DATE : 07/15/1997

5. DATE OF FINAL MATURITY OF OFFERING : 10/01/2025 6. DATE OF SALE : 07/10/1997

7. PAR VALUE OF OFFERING : $ 80,675,000

8. PAR AMOUNT UNDERWRITTEN (if there is no underwriting syndicate): $

9. AMENDED OR STICKERED OS? NO (Enter Y or N) NUMBER OF SERIES IN OS : (Fill out one form for each series)

10. CHECK ALL THAT APPLY:

a. ___ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.

b. ___ At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.

c. ___ This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of $100,000 or more and or sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, with a view toward distributing the securities.

11. MANAGING UNDERWRITER : Merrill Lynch & Co.

16. CUSIP NUMBERS (and corresponding maturity dates)

10/01/1998	797391MP1	10/01/1999	797391MQ9
10/01/2000	797391MR7	10/01/2001	797391MS5
10/01/2002	797391MT3	10/01/2003	797391MU0
10/01/2004	797391MV8	10/01/2005	797391MW6
10/01/2006	797391MX4	10/01/2007	797391MY2
10/01/2008	797391MZ9	10/01/2009	797391NA3
10/01/2010	797391NB1	10/01/2011	797391NC9
10/01/2012	797391ND7	10/01/2017	797391NE5
10/01/2025	797391NF2		

17. MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

___ Check here if the issue is ineligible for CUSIP number assignment.

State the reason why the issue is ineligible for CUSIP number assignment:

18. Submit two copies of the completed form along with the official statement to: Municipal Securities Rulemaking Board, 1640 King Street, Suite 300, Alexandria, VA 22314. Incomplete submissions will be returned for correction.

"RECEIVED"
JUL 22 1997
"M.S.R.B"

In the opinion of Orrick, Herrington & Sutcliffe LLP and Harrison, Taylor & Bazile, Co-Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, the portion of each Base Rental Payment attributed to and constituting interest paid by the County under the Sublease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Co-Special Counsel, such interest portion of each Base Rental Payment is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Special Counsel observe that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Co-Special Counsel express no opinion regarding any other tax consequences caused by the ownership or disposition of the Certificates, or the accrual or receipt of the portion of each Base Rental Payment attributable to and constituting such interest. See "Tax Matters" herein.

NEW ISSUE—BOOK-ENTRY-ONLY

$80,675,000
COUNTY OF SAN DIEGO
Certificates of Participation
(1997 Central Jail Refunding)

Evidencing Proportionate Undivided Interests of the Owners Thereof in Base Rental Payments to be Made by the County of San Diego to the San Diego County Capital Asset Leasing Corporation

Dated: July 15, 1997 **Due: October 1, as shown below**

The County of San Diego Certificates of Participation (1997 Central Jail Refunding) (the "Certificates") are being executed and delivered for the purpose of providing funds (i) to prepay the outstanding County of San Diego Certificates of Participation (1994 Inmate Reception Center and Cooling Plant Financing) (the "Prior Obligations"), (ii) to finance the payment of interest with respect to the Certificates through August 1, 1998, (iii) to fund a reserve fund in connection with the Certificates, and (iv) to pay certain costs of issuance, including the municipal bond insurance premium, incurred in connection with the Certificates. See "Estimated Sources and Uses of Certificate Proceeds" and "Plan of Refunding" herein.

Interest represented by the certificates will by payable semiannually each April 1 and October 1, commencing on April 1, 1998. See "The Certificates" herein. The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. The Certificates will be issuable in the principal amount of $5,000 and any integral multiple thereof. Principal and interest payments represented by the Certificates are payable directly to DTC by State Street Bank and Trust Company of California, N.A., as trustee (the "Trustee") from Base Rental Payments (as defined herein). Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See Appendix D—"Book-Entry System" herein.

The Certificates are subject to prepayment prior to maturity as described herein.

The County covenants in the Amended and Restated Sublease, dated as of July 15, 1997 (the "Sublease"), by and between the County and the San Diego County Capital Asset Leasing Corporation (the "Corporation") that, as long as the Property, as defined in the Sublease, is available for the County's use and possession, it will make annual Base Rental Payments and other payments provided for therein, it will take such action as may be necessary to include all such payments in its annual budget, and it will make the necessary annual appropriations for such payments. Although the County covenants to maintain certain insurance policies under the Sublease, the County's obligation to make Base Rental Payments is subject to abatement in the event of damage or destruction to, or condemnation of or title defects with respect to, the Property or a portion thereof. See "Security and Sources of Payment for the Certificates—Abatement" herein.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND ADDITIONAL RENTAL UNDER THE SUBLEASE DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS OR ADDITIONAL RENTAL UNDER THE SUBLEASE CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA.

Payment of the principal of and interest represented by the Certificates when due will be insured by a municipal bond insurance policy to be issued by AMBAC indemnity Corporation simultaneously with the delivery of the Certificates.

AMBAC

Maturity Schedule
$33,955,000 Serial Certificates

Maturity (October 1)	Principal Amount	Interest Rate	Yield	Maturity (October 1)	Principal Amount	Interest Rate	Yield
1998	$1,570,000	4.00%	3.85%	2006	$2,320,000	4.60%	4.700%
1999	1,680,000	4.00	4.00	2007	2,425,000	4.70	4.775
2000	1,805,000	4.10	4.15	2008	2,535,000	4.80	4.875
2001	1,875,000	4.20	4.25	2009	2,660,000	4.90	5.000
2002	1,955,000	4.30	4.35	2010	2,790,000	5.00	5.075
2003	2,035,000	4.40	4.45	2011	2,925,000	5.00	5.150
2004	2,120,000	4.50	4.55	2012	3,040,000	5.00	5.200
2005	2,220,000	4.60	4.65				

$14,470,000 5.00% Term Certificates due October 1, 2017—Yield 5.35%

$32,250,000 5.00% Term Certificates due October 1, 2025—Yield 5.42%

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

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Orrick, Herrington & Sutcliffe LLP and Harrison, Taylor & Bazile, Co-Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins, Delafield & Wood, Los Angeles, California, and for the County and the Corporation by the County Counsel. It is anticipated that the Certificates in definitive form will be available for delivery to DTC in New York, New York, on or about July 22, 1997.

Merrill Lynch & Co.

Goldman Sachs & Co. **Morgan Stanley Dean Witter** **Samuel A. Ramirez & Co., Inc.**

Morgan Stanley & Co. Incorporated

Dated: July 10, 1997

COUNTY OF SAN DIEGO BOARD OF SUPERVISORS

Bill Horn, Chairman	5th District
Greg Cox, Vice Chairman	1st District
Dianne Jacob	2nd District
Pam Slater	3rd District
Ron Roberts	4th District

SAN DIEGO COUNTY CAPITAL ASSET LEASING CORPORATION BOARD MEMBERS

Barry I. Newman, Chairman

Hardy Kuykendall	Michel Anderson
Tim Considine	Morris Slayen

COUNTY OFFICIALS

Lawrence B. Prior III, Chief Administrative Officer
Paul Boland, Treasurer - Tax Collector
Dr. Robert Booker, Chief Financial Officer/Auditor and Controller
John J. Sansone, County Counsel

SPECIAL SERVICES

Co-Special Counsel

Orrick, Herrington & Sutcliffe LLP
Los Angeles, California

Harrison, Taylor & Bazile LLP
Oakland, California

Trustee

State Street Bank and Trust Company of California, N.A.

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

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

Certain of the information set forth herein has been obtained from official sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or the Corporation since the date hereof. This Official Statement is submitted with respect to the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the County and the Corporation.

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

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$80,675,000

COUNTY OF SAN DIEGO
Certificates of Participation
(1997 Central Jail Refunding)
Evidencing Proportionate Undivided Interests of the Owners
Thereof in Base Rental Payments to be Made by the
County of San Diego to the
San Diego County Capital Asset Leasing Corporation

INTRODUCTION

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

General

This Official Statement, including the cover page and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the sale and delivery of the County of San Diego Certificates of Participation (1997 Central Jail Refunding) in an aggregate principal amount of $80,675,000 (the "Certificates"). The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of July 15, 1997 (the "Trust Agreement"), by and among the County of San Diego (the "County"), the San Diego County Capital Asset Leasing Corporation (the "Corporation") and State Street Bank and Trust Company of California, N.A., as trustee (the "Trustee"). The County will lease the Property, as described below, to the Corporation pursuant to a Amended and Restated Lease, dated as of July 15, 1997, by and between the County and the Corporation (the "Lease"). The County will lease the Property from the Corporation pursuant to an Amended and Restated Sublease, dated as of July 15, 1997, by and between the County and the Corporation (the "Sublease").

The Certificates represent proportionate undivided interests of the registered owners thereof (the "Owners") in certain Base Rental Payments to be made by the County to the Corporation pursuant to the Sublease. See "Security and Sources of Payment for the Certificates -- Base Rental Payments." The Certificates are being delivered to provide funds to refund the outstanding principal amount of the County's $64,925,000 Certificates of Participation (1994 Inmate Reception Center and Cooling Plant Financing) (the "Prior Obligations"), to finance the payment of interest with respect to the Certificates through and including August 1, 1998, to fund the Reserve Fund for the Certificates, and to provide funds to pay certain costs of issuance, including the municipal bond premium, incurred in connection with the Certificates. See "Plan of Refunding."

Security and Source of Payment for the Certificates

Under the Sublease, in consideration for the use and possession of the Property, the County has agreed to make certain payments designated as Base Rental Payments and certain other payments designated as Additional Rental, in the amounts, at the times and in the manner set forth in the Sublease. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. The County has covenanted in the Sublease to take such action as may be necessary to include all Base Rental Payments and the Additional Rental due thereunder in its operating budget for each fiscal year commencing after the date of the Sublease, and to make the necessary appropriations for such Base Rental Payments and Additional Rental, except to the extent such payments are abated in accordance with the Sublease. The County is required to make Base Rental Payments in accordance with the provisions of the Trust Agreement and the Sublease. However, the County is not obligated to levy or pledge any form of taxation for the payment of Base Rental Payments for the Property, nor has the County levied or pledged any such tax. Pursuant to an Assignment Agreement, dated as of July 15, 1997 (the "Assignment Agreement"), by and between the Trustee and the Corporation, the Corporation will assign to the Trustee, for the benefit of the Owners of the Certificates, all of its right, title and interest in and to the Sublease, including the right to receive Base Rental Payments under the Sublease. Pursuant to the Trust Agreement, the Trustee has agreed to distribute Base Rental Payments received from the County as principal and interest represented by the Certificates. See Appendix C - "Summary of Principal Legal Documents - Sublease" and " - Trust Agreement."

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

The County's obligation to pay Base Rental Payments is subject to abatement. However, during periods of abatement, any moneys in the Base Rental Payment Fund representing earned Base Rental Payments, moneys in the Certificate Reserve Fund and the Capitalized Interest Fund and proceeds, if any, of rental interruption insurance are available to pay Base Rental Payments. See "Security and Sources of Payment for the Certificates -- Base Rental Payments" and "-- Abatement."

The Certificates

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

Certificate Insurance

The County will secure the payment of principal and interest (but not any prepayment premium) represented by the Certificates with a municipal bond insurance policy to be issued simultaneously with the delivery of the Certificates by AMBAC Indemnity Corporation ("AMBAC Indemnity"). See "Certificate Insurance."

Tax Matters

For a summary of the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Harrison, Taylor & Bazile LLP, Oakland, California, Co-Special Counsel, see "Tax Matters."

Continuing Disclosure

The County has agreed to provide, or cause to be provided, by no later than 180 days after the end of the prior fiscal year to each nationally recognized municipal securities information repository or the Municipal Securities Rulemaking Board and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5). See "Continuing Disclosure" herein for a description of the specific nature of the annual report and notices of material events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

Miscellaneous

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriters, subject to the approval as to their legality by Co-Special Counsel and certain other conditions. It is anticipated that the Certificates in definitive form will be available for delivery to DTC on or about July 22, 1997.

The description herein of the Trust Agreement, the Lease, the Sublease, the Escrow Agreement, the Continuing Disclosure Agreement and the Assignment Agreement and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See Appendix C – "Summary of Principal Legal Documents." Copies of the documents are on file and available for inspection at the Principal Corporate Trust Office of the Trustee at State Street Bank and Trust Company of California, N.A., 725 South Figueroa Street, Suite 3100, Los Angeles, California 90017, Attention: Corporate Trust Department.

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

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

PLAN OF REFUNDING

The Certificates are being issued to provide funds to refund the Prior Obligations. A portion of the proceeds of the sale of the Certificates will be deposited into an escrow fund with respect to the Prior Obligations (the "Escrow Fund") pursuant to an escrow agreement dated as of July 15, 1997 (the "Escrow Agreement") by and between the County and U.S. Trust Company of California, N.A., as escrow bank (the "Escrow Bank"). Such amounts deposited into the Escrow Fund, together with amounts transferred from certain funds held under the trust agreement entered into with respect to the Prior Obligations (the "1994 Trust Agreement"), will be invested and reinvested in direct obligations of the United States of America (the "Defeasance Securities"). The Defeasance Securities will be scheduled to mature in such amounts and at such times and bear interest at such rates as to provide amounts sufficient to pay the principal of and interest with respect to the Prior Obligations maturing from August 1, 1997 through August 1, 2004, and to pay on August 1, 2004 the prepayment price of 102% and interest thereon represented by the outstanding Prior Obligations maturing on and after August 1, 2005. The amounts due and payable as described in the previous sentence are collectively referred to hereinafter as the "Defeasance Obligation." All Defeasance Securities so deposited into the Escrow Fund will be irrevocably pledged to secure, when due, the payment of the principal of and interest and premium on the Prior Obligations.

THE PROJECT AND THE PROPERTY

The project involves the construction of an 11-level, 17-story, 940-bed jail designed to accommodate inmate processing and detention through the year 2020 (the "Central Jail"). The Central Jail is located in the downtown area of the City of San Diego (the "City") on County-owned property at Front and "B" Streets, immediately east of the County Courthouse (the "Property"). Initial construction of the Central Jail began in February 1995, and is scheduled to be completed in November 1997, with operation scheduled to commence in early 1998. The construction of the Central Jail is on schedule with projected cumulative costs of $58,200,127 and actual cumulative costs of $50,025,524. It is anticipated that as work progresses, the projected costs and the actual costs will eventually balance, with a total estimated cost of approximately $63,332,264. From the proceeds of the Certificates, an amount of money will be deposited into a Capitalized Interest Account to pay interest with respect to the Certificates through and including August 1, 1998. The Central Jail is part of the Central Detention Center. The Central Detention Center provides housing and support services for more than 2,800 inmates, capable of processing over 265,000 arrests on an annual basis.

In connection with the construction of the Central Jail, the County, the City and the Redevelopment Agency of the City, have entered into a Memorandum of Understanding (the "Memorandum") whereby the County has agreed to provide the City with exclusive use of a maximum of 180 staffed beds for male misdemeanant arrestees, for which the City has agreed to pay the County annual payments of $5,222,553, commencing on the date on which the County approves and accepts the Central Jail as a completed, functional jail and continuing for 30 years thereafter. Pursuant to the Sublease, so long as no event of default shall have occurred and be continuing under the Memorandum and so long as the City is otherwise in compliance with the Memorandum, the County and the Corporation shall honor the right of the City to use up to and occupy up to 180 beds to be located in the Central Jail Project, all as described in the Memorandum, notwithstanding the occurrence of any event of default under the Sublease or the exercise of any remedies as a consequence of any such occurrence. The annual payments made by the City are not pledged to pay debt service with respect to the Certificates, although such money will be deposited into the County's General Fund and may be available to make debt service payments with respect to the Certificates.

ESTIMATED SOURCES AND USES OF CERTIFICATE PROCEEDS

The Certificate proceeds are expected to be applied approximately as set forth below:

SOURCES:	
Principal Amount of Certificates	$ 80,675,000.00
Existing Funds Under 1994 Trust Agreement	15,715,862.82
Accrued Interest	75,840.04
TOTAL SOURCES	$ 96,466,702.86
USES:	
Escrow Fund	$ 71,218,789.00
Project Fund	11,005,699.10
Capitalized Interest Fund(1)	4,073,693.67
Cost of Issuance Fund(2)	1,264,906.59
Certificate Reserve Fund	5,538,342.50
Original Issue Discount	2,799,153.50
Underwriters' Discount	546,118.50
Administrative Expense Fund	20,000.00
TOTAL USES	$ 96,466,702.86

(1) Interest with respect to the Certificates will be capitalized until August 1, 1998.
(2) Includes municipal bond insurance premium, rating, certain legal fees, printing costs and rounding amount.

THE CERTIFICATES

The following is a summary of certain provisions of the Certificates. Reference is made to the Certificates for the complete text thereof and to the Trust Agreement for a more detailed description of such provisions. The discussion herein is qualified by such reference.

General

The Certificates evidence and represent undivided proportionate interests in the Base Rental Payments to be made by the County under the Sublease. The Certificates shall be prepared in the form of fully registered Certificates in the denomination of $5,000 each or any integral multiple thereof. The Certificates are dated July 15, 1997, and each Certificate shall be payable with respect to interest on April 1 and October 1 of each year, commencing on April 1, 1998.

The Certificates will be delivered in fully registered form only, and when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only. See Appendix D – "Book-Entry System."

Prepayment

Mandatory Sinking Fund Prepayment. The Certificates maturing on October 1, 2017 are subject to prepayment prior to their stated maturity, in part, from mandatory sinking account payments, on each

October 1, commencing October 1, 2013, at the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium. The principal amount of such Certificates to be so prepaid and the dates therefor shall be as follows:

Year (October 1)	Principal Amount	
2013	$ 2,640,000	
2014	2,745,000	
2015	2,885,000	
2016	3,025,000	
2017	3,175,000	(maturity)

The Certificates maturing on October 1, 2025 are subject to prepayment prior to their stated maturity, in part, from mandatory sinking account payments, on each October 1, commencing October 1, 2018, at the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium. The principal amount of such Certificates to be so prepaid and the dates therefor shall be as follows:

Year (October 1)	Principal Amount	
2018	$ 3,325,000	
2019	3,495,000	
2020	3,670,000	
2021	3,850,000	
2022	4,045,000	
2023	4,245,000	
2024	4,450,000	
2025	5,170,000	(maturity)

Extraordinary Optional Prepayment. The Certificates are subject to prepayment on any date prior to their respective maturity dates, as a whole, or in part, at the direction of the County, from the net proceeds of any insurance or condemnation award with respect to the Property or portions thereof, at a prepayment price equal to sum of the principal amount represented thereby plus accrued interest represented thereby to the date fixed for prepayment, without premium. See Appendix C – "Summary of Principal Legal Documents -- Trust Agreement."

Optional Prepayment. The Certificates maturing on or before October 1, 2007, are not subject to optional prepayment prior to maturity. The Certificates maturing on or after October 1, 2008 are subject to optional prepayment prior to maturity on or after October 1, 2007 at the option of the County, in whole, or in part, on any date, at the following prepayment prices (expressed as percentages of the principal amount of the Certificates to be prepaid), plus accrued but unpaid interest to the prepayment date:

Prepayment Period (Dates inclusive)	Prepayment Price
October 1, 2007 to September 30, 2008	102%
October 1, 2008 to September 30, 2009	101
October 1, 2009 and thereafter	100

Selection of Certificates for Prepayment. Whenever less than all of the Outstanding Certificates are to be prepaid on any one date, other than for any Mandatory Sinking Account Payments which shall be made as set forth in a supplemental trust agreement, the County shall select the maturity of the Certificates or portions thereof to be prepaid, which may include portions of Term Certificates representing prepaid Base Rental Payments due immediately prior to the Mandatory Sinking Account Payments relating to such Term Certificates, and shall provide written notice to the Trustee at least 60 days prior to the prepayment date; provided, however, that if the remaining Base Rental Payments under the Sublease will not be reasonably level after such prepayment, the County shall deliver to the Trustee an opinion of counsel that the Sublease will continue to be a valid and binding obligation of the County after such prepayment. Such decision of the County shall be final and binding upon the Corporation, the Trustee and the Owners of the Certificates. Subject to the County's direction, the Trustee shall select specific Certificates for prepayment by lot For purposes of such selection, any Certificate may be prepaid in part in Authorized Denominations.

Notice of Prepayment. The Trust Agreement provides that notice of prepayment is to be given by the Trustee by first-class mail, postage prepaid, at least 30 days but not more than 60 days before the date fixed for prepayment to the Owners of Certificates designated for prepayment, in whole or in part, at their addresses appearing in the registration books of the Trustee as of the close of business on the day before such notice of prepayment is given. AS LONG AS THE CERTIFICATES REMAIN IN A BOOK-ENTRY SYSTEM, THE TRUSTEE WILL SEND SUCH NOTICE ONLY TO DTC. See Appendix D – "Book-Entry System.

Neither the failure to receive any such notice nor any defect shall affect the sufficiency of the proceedings for the prepayment of Certificates. If notice of prepayment is given as provided in the Trust Agreement and sufficient moneys are held by the Trustee for the prepayment of all the Certificates, or portions thereof, to be prepaid, interest represented by such Certificates, or portions thereof, to be prepaid shall cease to accrue from and after the prepayment date.

Partial Prepayment. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof a new Certificate or Certificates representing the unpaid principal amount of the Certificate surrendered.

BOOK-ENTRY SYSTEM

The Certificates will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. Principal and interest payments represented by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest,

DTC will in turn distribute such payments to the beneficial owners of the Certificates. See Appendix D – "Book-Entry System."

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Base Rental Payments

General. The Certificates represent the aggregate principal components of the Base Rental Payments, each evidencing and representing a proportionate, undivided interest in the Base Rental Payments to be made by the County under the Sublease. The County is required under the Sublease to make Base Rental Payments from legally available funds. The County has covenanted in the Sublease to take such action as may be necessary to include all Base Rental Payments and Additional Rental with respect to the Property in its operating budget for each fiscal year commencing after the date of the Sublease and to make the necessary appropriations for such Base Rental Payments and Additional Rental (except to the extent such payments are abated in accordance with the Sublease). In addition, to the extent permitted by law, the County covenants in the Sublease to take such action as may be necessary to amend or supplement the budget appropriations for payments under the Sublease at any time and from time to time during any fiscal year in the event that the actual Base Rental Payments and Additional Rental paid in any fiscal year exceeds the pro rata portion of the appropriations then contained in the County's budget. Base Rental Payments are scheduled to be paid as set forth below. See "-- Base Rental Payment Schedule." THE COUNTY HAS NOT PLEDGED THE FAITH AND CREDIT OF THE COUNTY, THE STATE OR ANY AGENCY OR DEPARTMENT THEREOF TO THE PAYMENT OF SUCH BASE RENTAL PAYMENTS.

The Trustee, pursuant to the Trust Agreement, will receive Base Rental Payments for the benefit of the Owners. Base Rental Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates. The Trustee will not have any obligation or liability to the Owners to make payment of principal, premium, if any, or interest represented by the Certificates except from Base Rental Payments by the County under the Sublease or other amounts available to it under the Trust Agreement for such purposes; and the amounts of such payments shall be limited to amounts designated as principal and interest represented by the Certificates. Additional Rental payable by the County under the Sublease includes amounts sufficient to pay certain taxes and assessments and insurance premiums or otherwise, and certain administrative costs.

The Project is expected to be completed by January, 1998. From the proceeds of the Certificates, an amount of money will be deposited into a Capitalized Interest Account to pay interest with respect to the Certificates through and including August 1, 1998. In the event the Project is not completed prior to the exhaustion of monies in the Capitalized Interest Account, which completion to be evidenced by the County's delivery of a Certificate of Occupancy or Temporary Certificate of Occupancy to the Trustee, then the only source of payment on the Certificates, until such completion, would be either payments from the Insurer or payments from the Certificate Reserve Fund. In addition, Base Rental Payments and Additional Rental are subject to abatement in the event of material damage to or destruction or condemnation of, or a title defect with respect to, the Property that causes substantial interference with the use and possession by the County of the Property or portions thereof. See "-- Abatement." The County is also responsible for the repair and maintenance of the Property to the extent provided in the Sublease. The obligation of the County to pay Base Rental Payments (and Additional Rental) shall commence on the Closing Date.

Subject to the provisions of the Sublease relating to abatement more particularly described below, the Sublease provides that the obligation of the County to make Base Rental Payments and Additional Rental

shall be absolute and unconditional and such Base Rental Payments and Additional Rental will not be subject to set-off or counterclaim. The Sublease provides that the covenants of the County thereunder are deemed to be duties imposed by law, and it further provides that it will be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the covenants and agreements of the County contained in the Sublease. The Sublease provides that the County shall pay Base Rental Payments from legally available funds.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND ADDITIONAL RENTAL DOES NOT CONSTITUTE AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND ADDITIONAL RENTAL CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. See Appendix C - "Summary of Principal Legal Documents - Sublease - Rental Payments - *Rental Abatement.*"

Base Rental Payments Schedule. The Sublease requires annual payments to the Trustee, as assignee of the Corporation, commencing July 5, 1998. Pursuant to the Trust Agreement and the Sublease, the Base Rental Payments will be deposited in the Base Rental Payment Fund and applied to principal and interest payments as they become due. A table of aggregate annual Base Rental Payments with respect to the Certificates is set forth below:

Year (July 5[1])	Interest (Due July 5[1])	Principal (Due July 5[1])	Annual Total (Due July 5[1])
1998	$2,568,830.00	$1,570,000.00	$4,138,830.00
1999	3,803,945.00	1,680,000.00	5,483,945.00
2000	3,733,342.50	1,805,000.00	5,538,342.50
2001	3,656,965.00	1,875,000.00	5,531,965.00
2002	3,575,557.50	1,955,000.00	5,530,557.50
2003	3,488,755.00	2,035,000.00	5,523,755.00
2004	3,396,285.00	2,120,000.00	5,516,285.00
2005	3,297,525.00	2,220,000.00	5,517,525.00
2006	3,193,105.00	2,320,000.00	5,513,105.00
2007	3,082,757.50	2,425,000.00	5,507,757.50
2008	2,964,930.00	2,535,000.00	5,499,930.00
2009	2,838,920.00	2,660,000.00	5,498,920.00
2010	2,704,000.00	2,790,000.00	5,494,000.00
2011	2,561,125.00	2,925,000.00	5,486,125.00
2012	2,412,000.00	3,040,000.00	5,452,000.00
2013	2,270,000.00	2,640,000.00	4,910,000.00
2014	2,135,375.00	2,745,000.00	4,880,375.00
2015	1,994,625.00	2,885,000.00	4,879,625.00
2016	1,846,875.00	3,025,000.00	4,871,875.00
2017	1,691,875.00	3,175,000.00	4,866,875.00
2018	1,529,375.00	3,325,000.00	4,854,375.00
2019	1,358,875.00	3,495,000.00	4,853,875.00
2020	1,179,750.00	3,670,000.00	4,849,750.00
2021	991,750.00	3,850,000.00	4,841,750.00
2022	794,375.00	4,045,000.00	4,839,375.00
2023	587,125.00	4,245,000.00	4,832,125.00
2024	369,750.00	4,450,000.00	4,819,750.00
2025	129,250.00	5,170,000.00	5,299,250.00

(1) Or, if July 5 in any year is not a Business Day, then such payment is due on the next Business Day.
Note: Base Rental Payment table does not include interest capitalized through August 1, 1998.

The County may enter into a Debt Service Forward Sale Agreement with a financial institution pursuant to which Base Rental Payments will be invested in direct obligations of, or obligations unconditionally guaranteed by, the United States of America or obligations secured or guaranteed by certain instrumentalities or agencies of the United States of America.

In accordance with the Sublease, the County is obligated to make Base Rental Payments scheduled to be sufficient to pay, when due, amounts designated as principal and interest represented by the Certificates, and certain other payments designated as Additional Rental, as set forth in the Sublease. The County is required to make Base Rental Payments as directed in the Trust Agreement and the Sublease. The County has covenanted in the Sublease to take such action as may be necessary to include all Base Rental Payments and the Additional Rental due thereunder in its operating budget for each fiscal year commencing after the date of the Sublease, and to make the necessary appropriations for such Base Rental Payments and Additional Rental, except to the extent such payments are abated in accordance with the Sublease. However, the County is not obligated to levy or pledge any form of taxation for the payment of rental for the Property, nor has the County levied or pledged any such tax.

Certificate Insurance

AMBAC Indemnity has made a commitment to issue a municipal bond insurance policy (the "Municipal Bond Insurance Policy") relating to the Certificates effective as of the date of delivery of the Certificates. Under the terms of the Municipal Bond Insurance Policy, AMBAC Indemnity will pay to the United States Trust Company of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest evidenced and represented by the Certificates which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer (as such terms are defined in the Municipal Bond Insurance Policy). AMBAC Indemnity will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which AMBAC Indemnity shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Certificates and, once issued, cannot be canceled by AMBAC Indemnity.

The Municipal Bond Insurance Policy will insure payment only on stated maturity dates in the case of principal, and on stated dates for payment, in the case of interest. In the event of any acceleration of the principal of the Certificates, the insured payments will be made at such times and in such amounts as would have been had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest evidenced and represented by a Certificate which has become Due for Payment and which is made to a Certificate holder by or on behalf of the County has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC Indemnity to the extent of such recovery if sufficient funds are not otherwise available.

The Municipal Bond Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Municipal Bond Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for prepayment (other than mandatory sinking fund prepayment) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Municipal Bond Insurance Policy, payment of principal requires surrender of Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of AMBAC Indemnity to the extent of the payment under the Municipal Bond Insurance Policy. Payment of interest pursuant to the Municipal Bond Insurance Policy requires proof of Certificate holder entitlement to interest payments and an appropriate assignment of the Certificate holder's right to payment to AMBAC Indemnity.

Upon payment of the insurance benefits, AMBAC Indemnity will become the owner of the Certificate, appurtenant coupon, if any, or right to payment of principal or interest on such Certificate and will be fully subrogated to the surrendering Certificate holder's rights to payment.

In the event that AMBAC Indemnity were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Certificate Reserve Fund

The Certificate Reserve Fund shall be held by the Trustee and shall be kept separate and apart from all other funds held by the Trustee. The County shall administer such fund as provided in the Trust Agreement.

The Certificate Reserve Fund will be funded from the proceeds of the sale of the Certificates in the amount of the Certificate Reserve Fund Requirement. If the County reduces the amount of Certificates outstanding through optional prepayment, then amounts in the Certificate Reserve Fund may decrease proportionately. Amounts in the Certificate Reserve Fund are to be used only to pay the interest and principal due with respect to the Certificates and any Additional Certificates to the extent that amounts in the Interest Fund and the Principal Fund are insufficient therefor or to make the final payment on the Certificates and any Additional Certificates; *provided* that amounts in the Certificate Reserve Fund may be invested as permitted under the Trust Agreement. Base Rental Payments made by the County and not needed to pay past due interest and principal shall be deposited in the Certificate Reserve Fund to the extent the amount on deposit therein is less than the Certificate Reserve Fund Requirement. See Appendix C – "Summary of Principal Legal Documents -- Trust Agreement."

The Certificate Reserve Fund Requirement may at the option of the County be satisfied by crediting to the Certificate Reserve Fund, a letter of credit, line of credit, surety bond, bond insurance policy or similar facility or any combination thereof, which in the aggregate make funds available in the Certificate Reserve Fund in an amount equal to the Certificate Reserve Fund Requirement. See Appendix C -- "Summary of Principal Legal Documents -- Trust Agreement."

Insurance

The Sublease provides that the County will secure and maintain or cause to be secured and maintained throughout the term of the Sublease for the Property insurance against the risks in the amounts set forth in the Sublease. For additional information regarding the County's risk management programs, see "County Financial Information -- Risk Management," "-- Insurance Coverage Respecting Lease Obligations and Long-Term Loans," and see Appendix C – "Summary of Principal Legal Documents – Sublease – *Certain Covenants*."

Abatement

Except to the extent of (i) amounts held by the Trustee in the Base Rental Payment Fund or held by the County in the Certificate Reserve Fund or the Capitalized Interest Fund; (ii) amounts received in respect of use and occupancy insurance; and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect or condemnation or as a result of a failure to complete the Project, there is substantial interference with the use and possession by the County of any portion of the Property, rental payments due under the Sublease with respect to the Property shall be abated to the extent that the annual fair rental value of the portion of the Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. Any abatement of rental payments pursuant to the Sublease shall not be

considered an Event of Default as defined therein. Such abatement will continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Property so damaged, destroyed, defective or condemned.

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

Substitution

The County may amend the Sublease and the Lease to substitute other real property and/or improvements (the "Substituted Property") for existing Property and/or to remove real property (including undivided interests therein) and/or improvements from the definition of Property, with the consent of AMBAC Indemnity, which shall not be unreasonably withheld, and upon compliance with all of the conditions set forth in the Sublease. After a substitution or removal, the part of the Property for which the Substitution or Removal has been effected shall be released from the leasehold created under the Sublease and under the Lease. See Appendix C – "Summary of Principal Legal Documents -- Sublease –Property—*Substitution or Removal of Property*."

Additional Certificates

In addition to the Certificates to be executed under the Trust Agreement the County may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Certificates set forth in the Trust Agreement, enter into a Supplemental Trust Agreement to execute and deliver Additional Certificates on a parity with the Certificates and any previously executed and delivered Additional Certificates (unless otherwise provided in the related Supplemental Trust Agreement), the proceeds of which may be used for any lawful purpose of the County or the Corporation, as provided in the Supplemental Trust Agreement; *provided* that prior to or concurrently with the execution and delivery of the Additional Certificates, the County or the Corporation shall have entered into an amendment to the Sublease providing for an increase in the Base Rental Payments to be made thereunder subject to the limitations set forth therein. See Appendix C – "Summary of Principal Legal Documents -- Trust Agreement -- Additional Certificates."

AMBAC INDEMNITY CORPORATION

General

AMBAC Indemnity is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $2,642,000,000 (audited) and statutory capital of approximately $1,509,000,000 (audited) as of March 31, 1997. Statutory capital consists of AMBAC Indemnity's policyholders' surplus and statutory contingency reserve. AMBAC Indemnity is a wholly owned subsidiary of AMBAC Inc., a 100% publicly-held company. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies,

Inc. ("S&P"), Moody's Investors Service ("Moody's") and Fitch Investors Service, LP have each assigned a triple-A claims-paying ability rating to AMBAC Indemnity.

AMBAC Indemnity has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by AMBAC Indemnity will not affect the treatment for federal income tax purposes of interest with respect to such obligation and that insurance proceeds representing maturing interest paid by AMBAC Indemnity under policy provisions substantially identical to those contained in its municipal bond insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the issuer of the Certificates. No representation is made by AMBAC Indemnity regarding the federal income tax treatment of payments that are made by AMBAC Indemnity under the terms of the Policy due to nonappropriation of funds by the County.

AMBAC Indemnity makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by AMBAC Indemnity and presented under the heading "AMBAC Indemnity Corporation."

Available Information

The parent company of AMBAC Indemnity, AMBAC Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of AMBAC Indemnity's financial statements prepared in accordance with statutory accounting standards are available from AMBAC Indemnity. The address of AMBAC Indemnity's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

(1) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and filed on March 31, 1997;

(2) The Company's Current Report on Form 8-K dated March 12, 1997 and filed on March 12, 1997; and

(3) The Company's Quarterly Report Form 10-Q for the fiscal quarterly period ended March 31, 1997 and filed on May 15, 1997.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above under "Available Information."

THE COUNTY

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

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

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

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

For certain financial information regarding the County, see "County Financial Information" below. For certain financial information regarding the County's solid waste system, see "County Solid Waste System" herein. For certain financial information regarding the County's pooled investment portfolio, see "San Diego County Investment Pool" herein. For certain economic and demographic information with respect to the County, see Appendix A -- "Economic and Demographic Information Regarding the County of San Diego" and Appendix B -- "The County of San Diego Audited Financial Statements for the Fiscal Year Ended June 30, 1996."

COUNTY FINANCIAL INFORMATION

Ad Valorem Property Taxation

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

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

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the County Treasurer-Tax Collector.

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

The following tables describe the assessed valuation of property within the County subject to taxation for fiscal year 1988-89 through fiscal year 1997-98, and the tax collections in such years:

ASSESSED VALUATION OF PROPERTY SUBJECT TO AD VALOREM TAXATION
Fiscal Years 1988-89 through 1997-98
(in Thousands)

Fiscal Year	Land	Improvements	Personal Property	Gross Assessed Valuation	Exemption	Net Assessed Valuation for Tax Purposes
1988-89	$38,431,248	$61,331,216	$5,164,311	$104,926,775	$1,818,688	$103,108,087
1989-90	43,595,375	67,523,333	5,782,822	116,901,530	2,176,638	114,724,892
1990-91	49,581,930	75,596,700	6,796,312	131,974,942	2,428,532	129,546,410
1991-92	54,203,463	80,619,713	6,833,128	141,656,304	2,605,200	139,051,104
1992-93	56,942,667	83,395,166	7,050,615	147,388,448	3,011,677	144,376,771
1993-94	57,882,778	84,631,884	7,028,169	149,542,831	3,521,396	146,021,435
1994-95	58,065,631	85,628,280	7,175,750	150,869,661	3,683,230	147,186,431
1995-96	58,469,323	86,585,239	7,536,343	152,590,905	3,826,612	148,764,293
1996-97	58,743,001	86,763,944	7,404,273	152,911,217	3,799,410	149,111,807
1997-98(1)	60,505,291	87,366,862	7,626,401	157,498,554	3,913,372	153,585,162

Source: County of San Diego Chief Financial Officer/Auditor and Controller.
(1) Estimated.

SUMMARY OF AD VALOREM PROPERTY TAXATION
Fiscal Years 1988-89 through 1997-98

Fiscal Year	General Fund Secured Levy	Amount of Current Levy Uncollected at June 30	Percent Delinquent at June 30	Prior Delinquencies Collected
1988-89	$242,421,293	$ 7,340,420	3.03%	$ 7,166,653
1989-90	268,357,728	8,096,567	3.02	6,990,130
1990-91	299,196,770	12,378,379	4.14	7,546,878
1991-92	319,565,304	14,643,555	4.58	8,929,387
1992-93	308,714,665	14,995,205	4.86	11,637,195
1993-94	272,094,659	2,295,817	0.84(2)	24,923,952
1994-95	199,533,638	357,442	0.18(2)	0
1995-96	203,101,022	196,006	0.10(2)	0
1996-97(1)	204,610,136	215,607(1)	0.10(2)	0
1997-98(1)	209,725,000	202,000(1)	0.10(2)	0

(1) Estimated.
(2) Beginning fiscal year 1993-94, the County adopted the alternative method of secured property tax apportionment generally known as the Teeter Plan, pursuant to which the County's general fund and certain other agencies which participate in the Teeter Plan, such as school districts within the County, receive credit for the full amount of secured property taxes levied each year regardless of delinquencies. However, the County is bearing the risk of collection of delinquencies for all Teeter Plan participants, including itself. See "County Financial Information -- Secured Tax Rolls Statistics" and "County Financial Information – The Teeter Plan."
Source: County of San Diego Chief Financial Officer/Auditor and Controller.

The following table shows the approximate tax levied against the ten largest taxpayers in the County for Fiscal Year 1996-97.

TEN LARGEST TAXPAYERS
Fiscal Year 1996-97

Property Owners	Approximate Tax
San Diego Gas & Electric Company	$35,595,174
Southern California Edison Company	19,462,814
Pacific Bell	16,587,432
Pardee Construction Company	3,542,563
Equitable Life Assurance Society	3,292,850
Qualcomm, Inc.	2,681,437
Solar Turbines Inc.	2,532,254
Pacific Gateway	2,457,474
Sony Corporation of America	2,445,010
CF Pomerado	2,152,340

Source: County of San Diego Chief Financial Officer/Auditor and Controller.

Secured Tax Rolls Statistics

The following table below sets forth the secured tax roll, the number of tax bills prepared, the total assessed value of property on the secured roll and the total property taxes levied on the secured roll for each of the last seven fiscal years, including the fiscal year ending on June 30, 1998. The table also shows the number of bills and the amount of taxes due on them that were unpaid as of the end of each fiscal year shown, and the percentage of the taxes levied for each year that were uncollected as of the fiscal year end.

SECURED TAX ROLL STATISTICS
Fiscal Years 1991-92 through 1997-98[1]

Fiscal Year	Total Bills	Total Assessed Value	Total Tax Amount [1]	Delinquent Tax Bills	Delinquent Tax Amount[2]	Delinquent Tax Amount as Percent of Tax Amount
1991-92	777,424	$135,645,614,393	$1,484,611,184	39,705	$73,738,898	5.00%
1992-93	786,153	141,179,930,288	1,583,463,240	42,535	82,645,920	5.22
1993-94	795,216	143,166,754,405	1,594,493,514	36,126	69,797,873	4.38
1994-95	802,687	144,207,931,163	1,608,693,370	31,450	56,947,574	3.54
1995-96	805,698	145,681,809,785	1,623,328,413	30,053	46,680,249	2.88
1996-97[3]	815,818	146,000,629,437	1,643,253,101	33,591[3]	58,581,182[3]	2.70[3]
1997-98[4]	819,897	150,380,648,320	1,659,685,633	34,498	60,162,874	2.70

(1) Amount excludes penalties.
(2) Original Delinquent Tax Amounts represent the dollar value of tax due in the year shown that had not been collected as of June 30 of that year.
(3) Total Assessed Value and total bills figures are actual, remaining columns are estimated.
(4) Total bills are actual, remaining columns are estimated.
Source: County of San Diego Chief Financial Officer/Auditor and Controller.

Payment Dates and Liens

Property taxes on the secured roll are due the County in two installments, on November 1st and February 1st of each fiscal year, and if unpaid become delinquent on December 10th and April 10th, respectively. The penalty for delinquency is 10% of the delinquent taxes (the "Default Penalty"). Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted if not paid by June 30th of the fiscal year. Such property may thereafter be redeemed by payment of (i) the taxes owed, (ii) a penalty of 1-1/2% per month from July 1 to the time of redemption (the "Redemption Penalty"), (iii) the Default Penalty, (iv) a cost charge of $10 and (v) a redemption fee of $15 per parcel, from which the State receives $5 (collectively, the "Redemption Amount"). Properties may be redeemed under an installment plan by paying current taxes plus 20% of the Redemption Amount five times over a period of four years. A delinquent taxpayer may enter into the installment plan at any time up to the June 30 occurring five years after the property becomes tax-defaulted. The Redemption Penalty continues to accrue at 1-1/2% per month on the Redemption Amount during the period of the installment plan. If taxes are unpaid for a period of five years or more after a parcel first becomes tax-defaulted (or if an installment plan is in place, taxes are unpaid at the end of the plan), the property is subject to sale by the County Treasurer-Tax Collector.

Before the 1990-91 fiscal year, the County bore the full cost of property assessment and revenue collection and distribution. State legislation enacted in 1990 allowed counties to charge cities, school districts, special districts and redevelopment agencies for their share of property tax administrative costs. Subsequent legislation permanently exempted school districts from paying property tax administrative fees. In the 1995-96 fiscal year, the County collected approximately $4.5 million in such fees from cities, special districts and redevelopment agencies.

Assessed Valuations

The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full cash value of the property. The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction, economic or other factors. For the definition of full cash value and more information on property tax limitations and adjustments, see "Limitations on Tax Revenues."

The County Assessor determines and enrolls a value for each parcel of taxable real property in the County every year. The value review may result in a reduction in value. Taxpayers in the County also may appeal the determination of the County Assessor with respect to the assessed value of their property. Prior to 1991, assessment appeals filings in the County averaged less than 3,000 petitions annually. In 1995, approximately 33,200 assessment appeals were filed in the County. The County projects that this volume of current assessment appeals will be sustained for several years due to market conditions.

As of April 16, 1997, the balance of pending applications was 16,100. This included current and prior years' filings. The County has four Assessment Appeals Boards and four hearing officers who meet three days per week to process the applications. Waivers extending the statutory two-year processing deadline are obtained by the County for applications approaching this time limit.

The Teeter Plan

Beginning fiscal year 1993-94, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1, of the Revenue and Taxation Code of the State of California (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year end. Under this plan, the County's general fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County's general fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment.

Upon adopting the Teeter Plan in 1993, the County was required to distribute to participating local agencies, 95% of the then accumulated, secured roll property tax delinquencies and to place the remaining 5% in the tax losses reserve fund, as described below. On November 20, 1995, the County issued its Teeter Obligation Taxable Commercial Paper Notes, Series A (the "1995 Series A Notes") and its Teeter Obligation Tax-Exempt Commercial Paper Notes, Series B (the "1995 Series B Notes," and together with the 1995 Series A Notes, the "Commercial Paper Notes"). The 1995 Series A Notes were delivered in a principal amount of $25,900,000, which principal amount was not in excess of remaining uncollected delinquencies in property taxes and assessments due to the County and the other Revenue Districts for all fiscal years of the County ended on and prior to June 30, 1993 for which the County has provided funds pursuant to the Law, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the 1995 Series A Notes were applied first to refund the principal amount of the Debenture issued to refund the County's obligation to fund the delinquencies in property taxes, assessments and other levies due to the County and the other Revenue Districts pursuant to the Law for all fiscal years of the County ended on and prior to June 30, 1993 (the "Initial Debenture"), with remaining amounts to pay costs in connection with the issuance of the 1995 Series A Notes. The 1995 Series B Notes were initially delivered in a principal amount of $42,400,000, exclusive of Default Penalties thereon. Proceeds received from the initial sale of the 1995 Series B Notes were applied to refund the remaining Debentures attributable to the fiscal years ended June 30, 1994 and June 30, 1995 and to pay costs in connection with the issuance of the 1995 Series B Notes. On June 26, 1996, the County issued additional Series B Notes in a principal amount of $37,500,000. Proceeds received from the initial sale of such additional Series B Notes were applied first to refund the Demand Obligation attributable to the fiscal year ending June 30, 1996 and to pay costs in connection with the issuance of such Series B Notes. On June 25, 1997, the County issued additional Series B Notes in a principal amount of $32,750,000. Proceeds received from the initial sale of this most recent additional Series B Notes will be applied first to refund the Demand Obligation attributable to the fiscal year ending June 30, 1997 and to pay costs in connection with the issuance of such Series B Notes. As of June 15, 1997, $10,152,000 aggregate principal amount of Series A Notes were outstanding and $34,457,000 aggregate principal amount of Series B Notes were outstanding.

The Commercial Paper Notes and the interest thereon are on a parity in right of payment from the General Fund with all other obligations of the County payable from the General Fund, except County obligations to set aside amounts therefor and to repay tax and revenue anticipation notes which it may issue from time to time for working capital purposes in accordance with applicable law, which are senior to the County's Commercial Paper Notes in right of payment from the General Fund. In addition, the Commercial Paper Notes, Series A have a first priority lien on Series A Taxes and certain amounts deposited in the Series A Pledge Fund held by the Fiscal Agent. "Series A Taxes" means (i) the right to collect delinquencies in property taxes and assessments due to the County and the other Revenue Districts for all fiscal years of the County ended on and prior to June 30, 1993 for which the County has provided funds pursuant to Section 4701 *et seq.* of the California Revenue and Taxation Code (the "Law"), and Default Penalties thereon, and (ii) all amounts received by the County upon the sale of property to recover such delinquent property taxes or assessments, and (iii) all

amounts received by the County upon redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties (as specified in Section 4103 of the Revenue and Taxation Code and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an event of default under the resolution securing the Commercial Paper Notes or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law. Series A Taxes do not include Series B Taxes or Other Taxes. "Other Taxes" means (i) the right to collect delinquent property taxes and assessments due to the County and other Revenue Districts and attributable to the fiscal years ending after June 30, 1996 (except for such amounts which are defined as "Series B Taxes" or otherwise excluded from the definition of "Other Taxes"), for which the County actually provides funding pursuant to Section 4705 of the Law, and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, and (iii) all amounts received by the County upon the redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid in as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law. Other Taxes do not include Series A Taxes or Series B Taxes.

The Commercial Paper Notes, Series B have a first priority lien on Series B Taxes and certain amounts deposited in the Series B Pledge Fund held by the Fiscal Agent. "Series B Taxes" means (i) the right to collect any uncollected property taxes and assessments attributable to the fiscal years ended June 30, 1994, 1995 and 1996, the fiscal year ending June 30, 1997 and such other fiscal years, if any, as may be specified in a Supplemental Resolution, for which the County actually provided funding pursuant to Section 4705 of the Law, and Default Penalties thereon, (ii) all amounts received by the County upon the sale of property to recover such property taxes or assessments, and (iii) all amounts received by the County upon redemption of properties for sale or previously sold to recover such property taxes or assessments, in each case to which the County is entitled as a consequence of electing to being governed by the Law, but not amounts evidencing or constituting interest or Redemption Penalties, and (iv) the right to collect interest and Redemption Penalties on such property taxes and assessments that are paid during the occurrence and continuance of an Event of Default or as otherwise provided in the Reimbursement Agreement, but not including costs and fees paid as redemption and County administrative fees in connection with a parcel tax default in accordance with the Law. Series B Taxes do not include Series A Taxes or Other Taxes.

Pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property (*i.e.*, if the sale price of the property is less than the amount owed). The amount required to be on deposit in the tax losses reserve fund is, at the election of the County, one of the following amounts: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. The County's tax losses reserve fund is fully funded, in accordance with the County's election to be governed by the second alternative, at $7.5 million as of June 30, 1996. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are credited to the County's General Fund.

Financial Statements

The following financial statements were developed from the Chief Financial Officer/Auditor and Controller's "Annual Financial Report" and other official public records. A copy of the general purpose financial statements of the County for the year ended June 30, 1996 is attached to this Official Statement as Appendix B. The following statements are for informational purposes only and do not constitute the complete financial statements of the County.

GENERAL FUND
COMBINED BALANCE SHEET
At June 30, 1996 Compared to June 30, 1995
(In Thousands)

ASSETS	1996	1995
Cash	$ 29,976	$ 10,413
Cash with Fiscal Agent (1)	228,137	--
Taxes Receivable	1,775	1,657
Accounts Receivable	123,259	123,751
Loans Receivable	6,950	754
Due from Other Funds (1)(2)	60,907	362,799
Deposits with Others	15	15
Inventories-Materials and Supplies	11,161	10,266
TOTAL ASSETS	$ 462,180	$ 509,655
LIABILITIES AND EQUITIES		
Accounts Payable	$ 32,769	$ 26,779
Accrued Payroll	15,763	16,122
Amount Due for Tax and Revenue Anticipation Notes (1)	226,932	301,031
Due to Other Funds	10,586	15,581
Deferred Property Tax Revenue	--	1,541
Other Deferred Revenue	42,589	37,453
Fund Balance-Unavailable Encumbrances	59,492	54,379
Fund Balance-Unavailable Reserves	23,371	13,446
Fund Balance-Available	50,678	43,323
TOTAL LIABILITIES AND EQUITIES	$ 462,180	$509,655

(1) Consistent with National Council on Governmental Accounting Interpretation No. 9, the liability for tax and revenue anticipation notes outstanding at June 30 is displayed in the General Fund and offset by a corresponding asset recorded as cash with fiscal agent representing the pledged amounts. In the prior year, pledged amounts were maintained in a separate pledge fund of the County.

(2) Represents receivables and payables between General Fund and other County funds based on actual or estimated claims outstanding.

Source: County of San Diego, Comprehensive Financial Report for the Year Ended June 30, 1996.

GENERAL FUND
COMPARISON OF REVENUES, EXPENDITURES AND FUND BALANCES
For Fiscal Years 1991-92 Through 1995-96
(In Thousands)

SOURCES OF FUNDS	1991-92	1992-93	1993-94	1994-95	1995-96
Fund Balances					
Reserved for Encumbrances	$ 38,452	$ 26,239	$ 23,652	$ 42,886	$ 54,379
Unreserved	11,741	6,184	8,642	96,876	43,323
Taxes	371,043	358,409	332,680	250,283	275,298
Licenses, Permits and Franchises	18,471	19,564	19,530	20,148	20,311
Fines, Forfeitures and Penalties	12,051	16,957	11,044	11,547	16,248
Use of Money and Property	18,598	24,991	36,804	18,718	17,093
Aid from Other Gov't Agencies	1,159,202	1,192,835	1,357,844	1,404,950	1,407,391
Charges for Current Services	128,697	128,818	140,586	137,423	153,101
Other Revenue	1,979	10,065	16,648	13,277	13,719
Sale of Fixed Assets	150	842	166	380	--
Operating Transfers-in (1)	10,568	4,812	2,503	2,140	37,749
Issuance of Lease Purchases (2)	3,745	11,462	74,214	7,018	1,849
Long Term Debt Proceeds	--	--	430,430	--	--
TOTAL SOURCES	$1,784,697	$1,801,178	$2,454,743	$2,005,646	$2,040,461
USES OF FUNDS					
General	$ 173,217	$ 167,136	$ 164,076	$ 164,567	$ 171,373
Public Protection	413,237	421,625	432,685	445,092	476,290
Public Ways and Facilities	1,139	1,048	980	1,383	1,335
Health and Sanitation	233,805	233,589	234,489	240,995	249,569
Public Assistance	879,859	892,530	932,497	958,812	943,789
Education	291	225	213	222	238
Recreation and Cultural Services	6,229	6,157	7,081	6,005	6,222
Capital Outlay	3,745	11,462	74,214	7,018	1,849
Debt Service	12,085	14,133	14,441	18,252	16,866
Other	--	--	1,103	--	--
Operating Transfers-out (1)	28,104	20,844	453,182	54,181	53,730
TOTAL USES	$1,751,711	$1,768,749	$2,314,961	$1,896,527	$1,921,261

(1) "Operating Transfers-in" consist primarily of funds transferred from the Accumulated Capital Outlay Fund, the Sheriff Asset Forfeiture Fund, Parkland Dedication Funds, and, beginning in Fiscal Year 1995-96, the Trial Court Operations Special Revenue Fund. "Operating Transfers-out" consist primarily of transfers to the Accumulated Capital Outlay Fund. For Fiscal Year 1993-94, "Operating Transfers-out" included $430.4 million in Pension Obligation Bond proceeds transferred to the Pension Trust Fund.

(2) Excludes refundings.

Source: County of San Diego, Chief Financial Officer/Auditor and Controller.

1996-97 Fiscal Year Financial Outlook

The County currently expects the General Fund to end Fiscal Year 1996-97 with a surplus of at least $32 million. The County's management team is continuing its efforts to reduce costs in those departments currently projecting deficits and anticipates that it will be able to further improve the County's year-end financial situation. Significant positive and negative components of the County's projected fiscal status include: (1) receipt of approximately $7.8 million in one-time resources from Proposition A residuals (i.e., funds refunded by the State Board of Equalization from voter-approved, one-half cent sales tax for criminal justice capital projects that was overturned in the courts); (2) increased projected vehicle license fee revenues of about 3.5%, or $3 million, above budgeted levels, reflecting continuing improvement in automobile sales; (3) a projected net favorable surplus amount of approximately $3.7 million due to lower than expected borrowing costs for the County's 1996-97 Tax and Revenue Anticipation Notes caused by a smaller than anticipated borrowing need and a slightly lower borrowing rate; (4) increased delinquent penalty revenues and related cost recoveries on unsecured property taxes of approximately $1.5 million; (5) possible overrealization of revenues of about $2 million from the State Trial Court Funding Block Grant for support of the County's trial court operational costs; (6) pending litigation claims that could occur before the end of the year above budgeted levels of approximately $5 million; and (7) uncertain costs associated with the operation of the County's Solid Waste System. See "County Solid Waste System" herein.

1997-98 Fiscal Year Preliminary Financial Outlook

The County's Proposed Budget for Fiscal Year 1997-98 was presented to the Board of Supervisors on May 13, 1997. Public hearings on the budget commenced on June 2, 1997 and final deliberations were held starting June 16, 1997 and concluded on June 24, 1997. The County's Budget is approximately $4.3 million more than the 1996-97 Adopted Budget. However, the General Fund, or operating budget, of the County increased by approximately $33 million. Key assumptions of the projected 1997-98 spending plan include the following: (1) growth of about 4.7% in the gross regional product, (2) the unemployment rate will continue to fall below both California and national levels, (3) cost-of-living salary and benefit adjustments will be made by the County to County employers totaling 3% (about $22.7 million), (4) general revenue growth of: 2.5% ($6.0 million) for property taxes, 4.1% ($4.5 million) for vehicle license fee revenues, and 4.3% ($1.0 million) for sales tax revenues, (5) reduction of projected public assistance costs of about 8.9% ($56.9 million) due to changes in State welfare provisions that reflect decreased caseload and reduced assistance benefits, (6) operating costs of approximately $8.2 million for the new Central Jail that is scheduled to be completed in November 1997, (7) expanding child support staffing to add a full-time night shift for locating absent parents at a cost of $10.8 million (offset by Title IVD Child Support funding), (8) enhancing the Greater Avenues for Independence program by $4.4 million (largely offset by revenues) to assist welfare clients and speed up transition from welfare to work, and (9) an increase in the County's contingency reserve ($5 million) and management reserves ($6.8 million), both for economic uncertainties and for the maintenance and development of the County's infrastructure.

The Proposed Budget reflects the first of a two-year plan to address the County's so-called "fiscal structural imbalance," that is, the gap between the County's on-going revenues and required, on-going expenditures. To balance this gap, expenditure and revenue adjustments totaling $26 million involving 35 departments and the courts are required. The 1997-98 budget proposes that this requirement be accomplished in two years, based on interim use of about $14 million in one-time revenues to partially mitigate service reductions; on-going program cuts of about $6.7 million plus additional ongoing revenues of $5.4 million, complete the first year plan. The remaining structural imbalance will be addressed in Fiscal Year 1998-99 with further on-going expenditure and revenue adjustments.

Annual Budget

The County General Fund finances the legally authorized activities of the County not provided for in other restricted funds. General Fund revenues are derived from such sources as taxes, licenses and permits, fines, forfeits and penalties, use of money and property, aid from other governmental agencies, charges for current services and other revenue. General Fund expenditure and encumbrances are classified by the functions of general government, public protection, health and sanitation, public assistance, education, recreation and cultural services, public ways and facilities, capital outlay, and debt service.

The Board of Supervisors is required by State law to adopt a balanced annual budget no later than August 30 of each year. The Board may, by resolution, extend the date of adoption of a balanced budget to October 2. The Board of Supervisors is further required to set tax rates by September 1 in accordance with Article XIII A of the California Constitution. See "County Financial Information – Ad Valorem Property Taxation" herein.

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

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

The following table shows the County's revised adopted General Fund budget for fiscal year 1996-97, and the proposed General Fund budget for fiscal year 1997-98.

COUNTY OF SAN DIEGO
ADOPTED GENERAL FUND BUDGET
Fiscal Year 1997-98, compared to Fiscal Year 1996-97
(In Thousands)

	Proposed Budget 1997-98[1]	Adopted Budget 1996-97
APPROPRIATIONS		
General	$ 219,553	$ 228,687
Public Protection	555,610	521,699
Health and Sanitation	292,397	278,234
Public Assistance	891,120	929,033
Education	1,416	256
Recreation and Cultural Services	7,352	7,245
Total Specific Appropriations	$ 1,967,448	$1,965,154
Appropriation for Contingencies and Designations	$ 17,372	$ 8,924
Total Appropriations	$ 1,984,820	$1,974,078
ESTIMATED REVENUES		
Current Property Tax	$ 219,250	$ 213,000
Taxes other than Current Property	50,322	45,546
Licenses & Permits	20,520	20,839
Fines, Forfeitures and Penalties	13,850	12,991
Use of Money and Property	13,111	14,496
Aid from other Government Agencies	1,424,859	1,436,068
Charges for Current Services	153,511	143,734
Other Revenues	16,419	16,708
Total Estimated Revenues	$ 1,911,842	$1,903,382
Other Financing Sources[2]	$ 40,179	$ 38,899
Estimated Fund Balance Available	32,799	31,797
Total Available Financing	$ 1,984,820	$1,974,078

(1) As preliminarily accepted by the County Board of Supervisors on May 13, 1997.
(2) Includes operating transfers from special revenue and other funds such as Trial Court Funding and Parkland Dedication.
Source: County of San Diego Chief Financial Officer/Auditor and Controller.

Retirement Program

The employees retirement system of the County, established July 1, 1939 under provisions of the County Employees' Retirement Law of 1937, is a contributory type plan covering substantially all permanent employees. The plan is integrated with the federal Social Security System. For fiscal year 1995-96, contributions to the retirement fund amounted to approximately $74.8 million by the County and $5.3 million by employee members. There were 16,524 active members, 7,499 retired members and 1,588 deferred members as of June 30, 1996.

The retirement system operates on a fiscal year basis and has an actuarial valuation prepared annually. At June 30, 1996, the date of the most recent actuarial valuation report, the actuarial accrued liability was $2.340 billion and was 101% funded. The County's method for computing actual contributions (level percentages) results in the employer contribution remaining approximately level from generation to generation as a percentage of the active employee payroll. The actuarially computed liabilities are based upon assumptions which make provisions for future salary increases resulting from inflationary factors. Additional costs resulting from retiree health insurance and death benefits are paid on a current basis from surplus investment earnings in the fund. For Fiscal Year 1981-82, as a result of salary negotiations, the County implemented a plan to pay for a portion of the employees obligation for contributions to the retirement system. During fiscal year 1995-96 this plans was modified so that new employees pay nearly all of these contributions during their initial five working years. Shown below are the County contributions for recent fiscal years, and the level of contributions anticipated for fiscal year 1997-98.

COUNTY OF SAN DIEGO
EMPLOYER CONTRIBUTIONS TO RETIREMENT SYSTEM

1988-89	$ 58,787,592
1989-90	65,391,658
1990-91	78,046,026
1991-92	92,482,653
1992-93	97,499,000
1993-94	89,267,603
1994-95	80,992,355
1995-96*	103,692,355
1996-97*	101,609,873
1997-98*	107,000,000

*Includes principal and interest payments on the County's Taxable Pension Obligation Bonds.
Source: County of San Diego Chief Financial Officer/Auditor and Controller.

Effective for Fiscal Year 1994-95, the employees' retirement system adopted the provisions of Governmental Accounting Standards (GASB) Statement No. 25, "*Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.*" Accordingly, investments of the retirement system are recorded at fair value, net of brokerage commissions and other costs normally incurred in a sale, based upon closing sale prices reported on recognized securities exchanges on the last business day of the period, or for listed securities having no sales reported and for unlisted securities, based upon last reported bid prices. The fair value of bonds held by the employees' retirement system was approximately $676 million at March 31, 1997. The fair value of stocks held as of June 30, 1996 was approximately $1.1 billion. The fair value of U.S. Government securities and money market funds was approximately $196.5 million and $345.2 million, respectively. The fair value of real estate held at June 30, 1996 was $134 million. The fair value of

cash and securities held by fiscal agents was approximately $229.5 million. The fair value of pool cash and investments was $3.6 million.

Risk Management

The County is required to obtain and maintain various types of insurance coverage in connection with project lease financings of the County. In general, the Existing Leases (as defined below) require the County to maintain casualty insurance, public liability insurance, workers compensation insurance and rental interruption insurance. See "County Financial Information -- Insurance Coverage Respecting Lease Obligations and Long-Term Loans."

In accordance with Government Accounting Standards Board Statement 10, "*Accounting and Financial Reporting for Risk Financing and Relating Insurance Items,*" the County established an Internal Service Fund ("ISF") to report all of its uninsured risk management activities. An actuarial evaluation estimated that at June 30, 1996 claims of $93.5 million, including $37.9 million in public liability and $55.6 million in workers' compensation, were probable, resulting in a financial loss to the County. This estimate was based partially on the experience of similar governmental entities. As of the same date, the ISF had an ending balance of $14.5 million, resulting in an unfunded liability of approximately $79.5 million. The estimate of claims liabilities were recorded in the ISF. In addition, there is a potential gross liability of $30.8 million, which could result if unfavorable adjudication were rendered for pending legal actions. See Appendix B – "County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1996 at footnotes 2.C., 4(A)(1) and 4(B). As of March 31, 1997, the ISF had an ending balance of $17.6 million, resulting in an unfunded liability, based on such estimated claims liability, of approximately $61.9 million, and an estimated potential gross liability of $18 million if unfavorable adjudication were rendered for currently pending legal actions.

In 1996, the County enacted a ten-year, phased funding program to fund the unfunded liabilities in its internal service fund. In fiscal year 1996-97, the County deposited $2 million into its internal service fund. The County's proposed budget for 1997-98 includes payment of an additional $4 million into the internal service fund. The ten-year phased funding program presently contemplates deposits of $6 million into the internal service fund in fiscal year 1998-99 and $8 in fiscal year 1999-2000 and each fiscal year thereafter until the full unfunded liability in the internal service fund is eliminated. See "County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1996" at footnotes 2.C. and 4.B.

County of San Diego Employees

The following table lists the number of County employees for the years 1988 to 1997:

TOTAL COUNTY EMPLOYEES

Year (June 30)	Total Employees
1988	14,281
1989	15,057
1990	16,607
1991	17,150
1992	17,022
1993	16,999
1994	17,256
1995	17,470
1996	17,635
1997	17,541[1]

(1) as of March 19, 1997
Source: County of San Diego Chief Financial Officer/Auditor and Controller.

County employees are represented by nine unions representing 23 bargaining units. The unions represent approximately 85% of the County's approximately 17,500 employees and include the San Diego County Deputy Sheriffs Association; Social Services Union, Local 53S, SEIU, AFL-CIO; Deputy District Attorneys' Association; San Diego County Probation Association; District Attorney Investigators' Association; the Service Employees International Union, Local 2028, AFL-CIO and CLC; the American Federation of State, County and Municipal Employees, Council 36, AFL-CIO, Local 3500; Deputy County Counsels' Association and the Public Defender Attorneys' Association.

Labor agreements are in place for all unions, through June 30, 1998 covering approximately 15,300 employees. The remainder of all employees are unrepresented.

The County has included in the budget for Fiscal Year 1997-98 salary and benefit cost increases for each of the employee unions and associations for which contract terms have been settled.

Short-Term Borrowing

The County issued its 1996-97 Tax and Revenue Anticipation Notes (the "1996 TRANs") in an aggregate principal amount of $210,000,000, all of which are outstanding and scheduled to mature on September 30, 1997. The 1996 TRANs were issued for the purpose of financing seasonal cash flow requirements for general fund expenditures during the fiscal year ending June 30, 1997. The 1996 TRANs are and will be general obligations of the County but are payable only out of taxes, income, revenue, cash receipts and other moneys of the County attributable to the Fiscal Year 1996-97 and legally available for payment thereof (exclusive of any moneys required to be used to repay any Treasurer's Loan and exclusive of moneys pledged to the Teeter Obligation Commercial Paper Notes, as described herein) ("Unrestricted Revenues"). In addition, the County has authorized and issued its Teeter Obligation Commercial Paper Notes, Series A and Series B as taxable and tax-exempt obligations, respectively, secured by (i) a pledge of all amounts received by the County as payments for delinquent property taxes associated with the Teeter Plan levied in all fiscal years ended before June 30,

1997 and (ii) all amounts received by the County upon the sale of property to recover such property taxes, assessments and other levies, or upon redemption of properties previously sold to recover such property taxes, assessments or other levies. The Teeter Obligation Commercial Paper Notes may also be payable from the General Fund of the County. The amount pledged to the Teeter Obligation Commercial Paper Notes will not be available to pay the TRANs and the amount pledged to pay the TRANs will not be available to pay the Teeter Obligation Commercial Paper Notes. See "Security for and Sources of Payment of the Notes" and "County Financial Information -- The Teeter Plan." The County has sold and expects to issue its 1997-98 Tax and Revenue Anticipation Notes on or about July 1, 1997 to finance seasonal cash flow requirements for general fund expenditures during fiscal year 1997-98. In addition, the County expects to issue additional Teeter Obligation Commercial Paper Notes, Series B to finance delinquent property tax payments to be made by the County on or about June 25, 1997. See "County Financial Information—Anticipated Financings" herein.

Section 6 of Article XVI of the California Constitution provides for interfund borrowing (a Treasurer's Loan) to cover short term operational deficits occurring as a result of imbalances between receipts and expenditures. A Treasurer's Loan was utilized by the County during Fiscal Year 1996-97 to pay for certain costs incurred in connection with the prepayment of the County's obligations under the California Pollution Control Financing Authority's Solid Waste Revenue Bonds (North County Recycling Center) 1991 Series A and B and other early expenditures incurred by the County and in Fiscal Year 1993-94 to prefund interest for a taxable note issue and was repaid in August 1994. The County has also utilized such Treasurer's Loans during Fiscal Years 1990-91 to 1995-96 to fund certain County library programs in annual amounts ranging from $600,000 to $6,000,000. Such loans are usually repaid by May of the fiscal year in which such Treasurer's Loan was made and have in all events been repaid by the end of the respective fiscal year. The County has not otherwise obtained Treasurer's Loans. The California Constitution prohibits interfund borrowing by counties after the last Monday of April of each fiscal year, and of amounts in excess of 85% of revenues accrued. The Board of Supervisors has authorized Treasurer's Loans during Fiscal Year 1997-98. Should the County find it necessary to use a Treasurer's Loan, then such borrowing, pursuant to the California Constitution, must be repaid from the first County revenues received thereafter before any other obligation, including the Certificates, is paid from such revenues.

General Obligation Debt, Lease Obligations and Long-Term Loans

The County has no outstanding general obligation bonds. Starting with the financing of the El Cajon Administrative Building in 1955, the County has made use of various lease arrangements with joint powers authorities, a nonprofit corporation, the County Employees' Retirement Association, a redevelopment agency and private parties to finance capital project needs. Under these arrangements, the financing entity usually constructs or acquires capital assets with the proceeds of lease revenue bonds or certificates of participation and then leases the asset or assets to the County. As of April 16, 1997, annual base rental payments of the County for Fiscal Year 1996-97 amounted to $94,975,300 and there was $1,008,872,797 aggregate principal amount of long-term general fund obligations outstanding. The annual base rental for the obligations will aggregate $102 million in Fiscal Year 1997-98.

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

SUMMARY OF GENERAL LONG-TERM OBLIGATIONS PAYABLE FROM THE GENERAL FUND

As of April 1, 1997

(In Thousands)

	Interest Rates	Final Maturity Dates	Original Principal Amounts	Principal Amounts Outstanding
LEASE REVENUE BONDS/CERTIFICATES OF PARTICIPATION				
Vista-County of San Diego Building Authority Certificates of Participation, issued March 1993	3.25-5.10%	2007	$ 26,085	$ 22,090
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1989 Certificates of Participation, issued November 1989	6.20-7.10%	2010	24,433	17,858
1991 Certificates of Participation, issued September 1991	4.80-6.50%	2007	38,045	28,700
1993 Certificates of Participation, issued March 1993	3.00-5.75%	2013	7,640	6,885
1993 Certificates of Participation, issued May 1993	2.50-11.25%	2012	203,400	168,320
1994 Certificates of Participation, issued November 1994	4.62-6.75%	2024	58,530	58,530
1996 Certificates of Participation, issued May 1996	4.30-5.50%	2018	52,230	52,230
1996 Certificates of Participation, issued December 1996	4.00-6.00%	2019	37,690	37,690
Total Lease Revenue Bonds/Certificates of Participation			$448,053	$392,303
CAPITALIZED LEASES				
San Diego Regional Building Authority Lease beginning October 1991	4.60-7.45%	2019	$ 46,965	$ 43,015
San Diego Regional Building Authority Lease beginning April 1993	4.50-6.00%	2002	10,465	7,645
San Diego Regional Building Authority Lease beginning July 1993	4.00-7.56%	2023	71,630	68,655
San Diego Regional Building Authority Lease beginning November 1994	4.62-6.75%	2012	6,395	5,965
San Diego Regional Building Authority Lease Beginning July 1996	6.0-15.05%	2003	21,600	20,139
Other capitalized leases with various beginning dates from March 1979 to the present	5.19-7.25%	2011	53,749	45,244
Total Capitalized Leases			$210,804	$190,663
PENSION BONDS				
San Diego Pension Obligation Bonds, Series A	4.70-6.60%	2007	$430,430	$414,435
TOTAL			$1,089,287	$997,401
Accumulated Unpaid Employee Leave Benefits				$ 61,194
Arbitrage Rebate				145
TOTAL GENERAL LONG-TERM DEBT				$1,058,740

Source: County of San Diego Chief Financial Officer/Auditor and Controller.

In addition to those liabilities listed in the above table, the County has various other liabilities. See Appendix B – "County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1996" attached hereto.

Recent Financings

On December 10, 1996, the County issued its Certificates of Participation (1996 North County Regional Center Expansion and East County Courthouse Detention Facility Conversion) in the aggregate principal amount of $37,690,000 for the purpose of providing funds to finance the construction of a courthouse building in the North County area and certain improvements to a detention facility in the East County area.

On July 16, 1996 the County issued its 1996 Certificates in the principal amount of $21.6 million through the San Diego Regional Building Authority to fund, in part, the defeasance of the outstanding principal amount of its $134,170,000 California Pollution Control Financing Authority's Solid Waste Revenue Bonds (North County Recycling Center). On June 12, 1997, the County issued its Certificates of Participation (1997 Master Refunding) in the aggregate principal amount of $28,035,000 for the purpose of prepaying the outstanding County of San Diego Certificates of Participation (1992 Children's Center Project) and County of San Diego Certificates of Participation (1996 Financing).

On June 25, 1997, the County issued $32,750,000 Teeter Obligation Commercial Paper Notes, Series B to finance delinquent property tax payments to be made by the County on June 30, 1997. See "County Financial Information—Short Term Borrowing" herein. On July 1, 1997, the County issued its 1997-98 Tax and Revenue Anticipation Notes to finance seasonal cash flow repayments for general fund expenditures during fiscal year 1997-98. From time to time, the County may refund any of its outstanding lease obligations depending on market conditions. See "County Financial Information – General Obligation Debt, Lease Obligations and Long-Term Loans" above. In addition, the County may issue certificates of participation in a principal amount of approximately $10 million to finance equipment expenditures and may enter into certain financing arrangements, including swaps and other interest rate-based transactions.

Insurance Coverage Respecting Lease Obligations

The County is required to obtain and maintain various types of insurance coverage in connection with several project lease financings of the County. In general, these financing leases require the County to maintain casualty insurance, public liability insurance, workers compensation insurance and rental interruption insurance.

With respect to casualty insurance (excluding boiler and machinery and earthquake coverage), certain of these leases generally require the County to maintain casualty insurance in an amount equal to the lesser of the full replacement value of the respective project or the principal amount of outstanding certificates of participation with a deductible no greater than $100,000. Such financing leases do not address nor specifically authorize casualty insurance to be maintained by the County jointly with other public agencies, although in some instances certain of the casualty insurance policies maintained by the County are with other public agencies. Accordingly, the County may not be in compliance with these insurance provisions. However, because the properties insured under these policies cover geographically dispersed facilities, Robert F. Driver & Associates has advised the County that it is in substantial compliance with its casualty insurance requirements.

With respect to public liability and workers' compensation, the financing leases generally require public liability insurance issued by a responsible carrier or in the form of self-insurance or self-funding to cover claims for damages including death, personal injury, bodily injury, or property damage arising from operations involving the facilities covered by such leases, affording protection with a combined single limit loss of not less than $5,000,000 per occurrence with respect to bodily injury, death or property damage liability, and workers compensation insurance issued by a responsible carrier or in the form of self-insurance or self-funding to cover all persons employed by the County in connection with the facilities covered by such leases and to cover full liability for compensation under the act requiring workers' compensation. Generally, the County may self-

insure or self-fund for these risks subject to certain conditions including, but not limited to, providing evidence of self-insurance and of appropriation of such funds as may be necessary for self-funding and annual certification to the trustee with respect to such financing leases by the County's risk management officer or an independent insurance consultant of the sufficiency of coverage. The County does not carry liability insurance for premises liability, medical malpractice, errors and omissions, false arrest, general liability or workers compensation. Accordingly, the County may not be in compliance with these insurance provisions. However, the County has adopted a ten-year phased funding program to fund the unfunded liability in its internal service fund. See "County Financial Information – Risk Management" above.

Direct and Overlapping Debt

The County contains numerous municipalities, school districts and special purpose districts such as water districts, all of which have issued general obligation bonds. Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated July 1, 1996. The Debt Report is included for general information purposes only. The County has not reviewed the Debt Report for completeness or accuracy and makes no representations in connection therewith.

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

COUNTY OF SAN DIEGO
ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT
As of July 1, 1997

1995-96 Assessed Valuation: $141,949,011,143 (after deducting $7,162,796,221 redevelopment incremental valuation; includes unitary utility valuation)

OVERLAPPING TAX AND ASSESSMENT DEBT:	Percent Applicable [1]	Debt Applicable July 1, 1997
Metropolitan Water District of Southern California	16.132%	$93,756,764
San Diego County Water Authority	100	10,130,000
San Diego Unified School District Lease Tax Obligations	100	323,715,000
San Marcos Unified School District Facilities Improvement District No. 1	100	21,848,019
Escondido Union High School District	100	42,974,778
Fallbrook Union High School District	100	22,873,791
School Districts	100	65,954,055
Otay Municipal Water District Improvement Districts	100	13,635,000
Other Municipal Water Districts	100	10,696,000
City of San Diego	100	22,100,000
Other Cities	100	6,080,000
San Diego Open Space Park Facilities District	100	60,525,000
Community Facilities Districts	100	326,435,625
Other Special Districts	100	6,467,000
1915 Act Bonds (Estimated)	100	239,037,002
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		$1,266,228,034
Less: San Diego Open Space Park Facilities District (100% self-supporting)	100	60,525,000
Self-supporting water bonds		315,000
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		$1,205,388,034
DIRECT AND OVERLAPPING LEASE OBLIGATION DEBT:		
San Diego County General Fund Obligations	100 %	$ 537,234,392 [1]
San Diego County Pension Obligations	100	414,435,000
San Diego County Superintendent of Schools Obligations	100	2,310,000
Community College District Certificates of Participation	100	27,550,000
San Diego Unified School District Certificates of Participation	100	55,385,000
Other Unified School Districts Certificates of Participation	100	33,528,381
High School District Certificates of Participation	100	35,633,875
School District Certificates of Participation	100	60,728,456
Municipal Water District Certificates of Participation	100	41,740,000
City of San Diego General Fund Obligations	100	231,045,000
City of Escondido and General Fund Obligations	100	99,194,748
Other City General Fund Obligations	100	279,100,907
San Miguel Consolidated Fire Protection District Certificates of Participation	100	12,055,000
Fallbrook Sanitary District Certificates of Participation	100	13,215,000
TOTAL GROSS DIRECT AND OVERLAPPING LEASE OBLIGATION DEBT		$1,843,155,759
Less: Otay Municipal Water District Certificates of Participation (100% self-supporting)		29,230,000
City of San Diego Authority Bonds (100% self-supporting)		8,420,000
City of Escondido Lease Revenue Bonds (100% self-supporting from tax increment revenues)		51,385,757
City of Oceanside Certificates of Participation		4,065,000
TOTAL NET DIRECT AND OVERLAPPING LEASE OBLIGATION DEBT		$1,750,055,002
GROSS COMBINED TOTAL DEBT		$3,109,383,793 [2]
NET COMBINED TOTAL DEBT		$2,955,443,036

Ratios to Assessed Valuation:

Combined Direct Debt ($932,913,000)	0.66%
Total Gross Direct and Overlapping Tax and Assessment Debt	0.89
Total Net Direct and Overlapping Tax and Assessment Debt	0.85
Gross Combined Total Debt	2.19
Net Combined Total Debt	2.08

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/96: $17,614,714

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

Source: California Municipal Statistics, Inc.

SUPPLEMENTAL FINANCIAL INFORMATION

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

1995-96 State Budget

The Budget Act was signed by the Governor on August 3, 1995, 34 days after the start of the fiscal year. The Budget Act projected General Fund revenues and transfers of $44.1 billion, a 3.5 percent increase from the prior year. Expenditures were budgeted at $43.4 billion, a 4 percent increase. The Budget Act also projected Special Fund revenues of $12.7 billion and appropriated Special Fund expenditures of $13.0 billion.

Final data for the 1995-96 Fiscal Year showed revenues and transfers of $46.1 billion, some $2 billion over the original fiscal year estimate, which was attributed to the strong economic recovery. Expenditures also increased, to an estimated $45.4 billion, as a result of the requirement to expend revenues for schools under Proposition 98, and, among other things, failure of the federal government to enact welfare reform during the fiscal year and to budget new aid for illegal immigrant costs, both of which had been counted on to allow reductions in State costs. The Special Fund for Economic Uncertainties had a small negative balance of about $87 million at June 30, 1996, all but eliminating the accumulated budget deficit from the early 1990's. Available internal borrowable resources (available cash, after payment of all obligations due) on June 30, 1996 was about $3.8 billion, representing a significant improvement in the State's cash position, and ending the need for deficit borrowing over the end of the fiscal year. The State's improved cash position allowed it to repay the $4.0 billion Revenue Anticipation Warrant issue on April 25, 1996, and to issue only $2.0 billion of revenue anticipation notes during the fiscal year, which matured on June 28, 1996.

The 1995-96 Budget Act included substantial additional funding under Proposition 98 for schools and community colleges (about $1.0 billion General Fund and $1.2 billion total above 1994-95 levels). Because of higher than projected revenues in 1994-95, an additional $561 million ($92 per K-12 ADA) was appropriated to the 1994-95 Proposition 98 entitlement. A large part of this was a block grant of about $50 per pupil for any one-time purpose. For the first time in several years, a full 2.7 percent cost of living allowance was funded. The budget was based on the settlement of the *CTA v. Gould* litigation. Cuts in health and welfare costs totaled about $220 million, almost $700 million less than had been anticipated, because of the failure by the federal government to approve certain of these actions in a timely manner. The federal government also failed to appropriate all but $31 million of an anticipated $500 million in new federal aid for incarceration and health care costs of illegal immigrants. Funding from the General Fund for the University of California was increased by $106 million and for the California State University system by $97 million, with no increases in student fees.

1996-97 State Budget

The 1996-97 Budget Act was signed by the Governor on July 15, 1996 (the "Budget Act"), along with various implementing bills. The Governor vetoed about $82 million of appropriations (both General Fund and Special Fund). With signing of the Budget Act, the State will implement its regular cash flow borrowing program with the issuance of $3.0 billion of Revenue Anticipation Notes to mature on or before June 30, 1997. The Budget Act appropriates a modest budget reserve in the SFEU of $305 million, as of June 30, 1997. The Department of Finance projects that, on June 30, 1997, the State's available internal borrowable (cash) resources will be $2.9 billion, after payment of all obligations due by that date, so that no cross-fiscal year borrowing will be needed.

The Legislature rejected the Governor's proposed 15% cut in personal income taxes (to be phased over three years), but did approve a 5% cut in bank and corporation taxes, to be effective for income years starting on January 1, 1997. As a result, revenues for the Fiscal Year were estimated to total $47.643 billion, a 3.3 percent increase over the final estimated 1995-96 revenues. Special Fund revenues were estimated to be $13.3 billion. The Budget Act contained General Fund appropriations totaling $47.251 billion, a 4.0% increase over the final estimated 1995-96 expenditures. Special Fund expenditures were budgeted at $12.6 billion.

The following are principal features of the 1996-97 Budget Act:

1. Proposition 98 funding for schools and community college districts increased by almost $1.6 billion (General Fund) and $1.65 billion total above revised 1995-96 level periods. Almost half of this money was budgeted to fund class-size reduction in kindergarten and grades 1-3. Also, for the second year in a row, the full cost of living allowance (3.2 percent) was funded. The Proposition 98 increases have brought K-12 expenditures to almost $4,800 per pupil (also called per ADA, or Average Daily Attendance), an almost 15% increase over the level prevailing during the recession years. Community colleges will receive an increase in funding of $157 million for 1996-97 out of this $1.6 billion total.

Because of the higher than projected revenues in 1995-96, an additional $1.1 billion ($190 per K-12 ADA and $145 million for community colleges) was appropriated and retroactively applied towards the 1995-96 Proposition 98 guarantee, bringing K-12 expenditures in that year to over $4,600 per ADA. These new funds were appropriated for a variety of purposes, including block grants, allocations for each school site, facilities for class size reduction, and a reading initiative. Similar retroactive increases totaling $230 million, based on final figures on revenues and State population growth, were made to the 1991-92 and the 1994-95 Proposition 98 guarantees, most of which was allocated to each school site.

2. The Budget Act assumed savings of approximately $660 million in health and welfare costs which required changes in federal law, including federal welfare reform. The Budget Act further assumed federal law changes in August 1996 which would allow welfare cash grant levels to be reduced by October 1, 1996. These cuts totaled approximately $163 million of the anticipated $660 million savings.

3. A 4.9 percent increase in funding for the University of California ($130 million General Fund) and the California State University system ($101 million General Fund), with no increases in student fees, maintaining the second year of the Governor's four-year "Compact" with the State's higher education units.

4. The Budget Act assumed the federal government will provide approximately $700 million in new aid for incarceration and health care costs of illegal immigrants. These funds reduce appropriations in these categories that would otherwise have to be paid from the General Fund. (For purposes of cash flow projections, the Department of Finance expects $540 million of this amount to be received during the 1996-97 fiscal year.)

5. General Fund support for the Department of Corrections was increased by about 7 percent over the prior year, reflecting estimates of increased prison population.

6. With respect to aid to local governments, the principal new programs included in the Budget Act are $100 million in grants to cities and counties for law enforcement purposes, and budgeted $50 million for competitive grants to local governments for programs to combat juvenile crime.

The Budget Act did not contain any tax increases. As noted, there was a reduction in corporate taxes. In addition, the Legislature approved another one-year suspension of the Renters Tax Credit, saving $520 million in expenditures.

1997-98 Fiscal Year Proposed Budget

On January 9, 1997, the Governor released his proposed budget for the 1997-98 fiscal year (the "Governor's Budget"). The Governor's Budget projects General Fund revenues and transfers in 1997-98 of $50.7 billion, a 4.6% increase from revised 1996-97 figures. The Governor proposes expenditures of $50.3 billion, a 3.9% increase from 1996-97. The Governor's Budget projects a balance in the SFEU of $553 million on June 30, 1998. The Governor's Budget also anticipates about $3 billion of external borrowing for cash flow purposes during the year, with no requirement for cross-fiscal year borrowing.

Among the major initiatives and features of the Governor's Budget are the following:

1. A proposed 10% cut in the Bank and Corporation Tax rate, to be phased in over two years.

2. Proposition 98 funding for K-14 schools will be increased again, as a result of stronger revenues. Per pupil funding for K-12 schools will reach $5,010, compared to $4,220 as recently as the 1993-94 fiscal year. Part of the new funding is proposed to be dedicated to the completion of the current program to reduce class size to 20 pupils in lower elementary grades, and to expand the program by one grade, so that it will cover K-3rd grade.

3. Funding for higher education will be increased consistent with a four-year "compact" established in 1995-96. There is not projected to be any increase in student fees at any of the three levels of the State higher education system.

4. The 1997-98 proposed Governor's Budget assumes approximately $500 million in savings contingent upon federal action. The Budget assumes that federal law will be enacted to remove the maintenance-of-effort requirement for Supplemental Security Income (SSI) payments, thereby enabling the State to reduce grant levels pursuant to previously enacted State law ($279 million). The Governor's Budget also assumes the federal government will fund $216 million in costs of health care for illegal immigrants.

Under the Governor's education spending plan, the State would spend an average of approximately $5,010 a year per public school pupil, with the total from all sources reaching approximately $5,989 per student by the end of the 1997-98 fiscal year. The Governor proposed a ballot measure seeking voter approval of a $2 billion bond measure to fund new classrooms and construction. The Governor's education plan also includes approximately $1.26 billion to fund a program to lower class size to 20 students in kindergarten through third grade. Public schools would receive a total of approximately $21 billion, including more than $1.1 billion for unrestricted expenses on top of funding for enrollment growth, approximately $500 million cost-of-living, approximately $300 million for the one-time prior year adjustment. The Governor's proposed 1997-98 Budget, however, does not provide any additional State General Fund allocations for the State's match to the deferred maintenance program, nor does it include any cost-of living adjustment or growth for State categorical "mega-item" programs.

The Governor also announced a proposal to restructure the State's welfare system, placing strict time limits on the provision of assistance and introducing penalties.

May Revision to Proposed 1997-98 Budget

On May 15, 1997, Governor Wilson announced his May Revision (the "May Revision") to the 1997-98 Governor's Budget proposing a revised $68.2 billion budget which does not include a general income tax reduction but continues to propose a 10% tax cut for banks and corporations over two years. The May Revision to Governor Wilson's January budget provides updated economic and revenue forecasts, as well as the latest caseload, enrollment, and population information for programs in the health and welfare, education, and public safety areas. It contains the latest information on state expenditures for the current and coming fiscal years, and provides the latest projections on federal actions that affect state spending.

The state's employment forecast for the next two years has been increased by 100,000 over the January budget, for a total of 680,000 new jobs, or an increase of 3 percent in 1997 and 2.3 percent in 1998. Unemployment is expected to drop to 6 percent by the end of 1997. General Fund revenues are now expected to be more than $960 million higher than anticipated for 1996-97 compared to the January forecast, and $1.3 billion higher in 1997-98 for a combined increase of $2.26 billion. The most important factor influencing the forecast has been substantial increases in personal income tax revenue, which accounts for $2.16 billion of the revenue change over the two years. California's economy is continuing to experience strong, sustained growth. Nonfarm wage and salary employment increased at an annual rate of 400,000 jobs in this year's first quarter. The March 1997 unemployment rate of 6.5 percent was a full percentage point lower than a year ago. The more vigorous national economy and strong first-quarter California job growth has resulted in an upward revision to the California forecast. This year, the state is on course to add 380,000 new jobs, 50,000 more than in the January Budget. In 1998, California is expected to create an additional 300,000 jobs, up from 250,000 in the January forecast. Thus, employment growth for the next two years has been increased by 100,000 over the January Budget, to a gain of 680,000 new jobs. The revised 1997 unemployment rate of 6.3 percent is a half-percent lower than the January forecast, and the revised 1998 rate of 5.8 percent is nearly a full percentage point lower than was forecast in January. Personal income growth is expected to increase by 6.8 percent in 1997 and 6.1 percent in 1998, a upward revision by 0.2 percentage point in both 1997 and 1998. California inflation has been revised down 0.4 percentage point compared to the January forecast. Consumer prices in California are expected to increase by 2.3 percent in 1997 and 1998. Real purchasing power, therefore, will rise by an average of more than 4 percent per year over the next two years.

The principal feature of the May Revision is a two-year increase in state revenues of nearly $2.3 billion, which is the result of California's ongoing economic expansion. Under Proposition 98, approximately 98 percent of this revenue will be dedicated to K-12 education and the California Community Colleges. The Governor proposes to invest these additional resources in key policy areas, which include:

1. An increase of $230 million to fully fund the Governor's Class Size Reduction program at a rate of $800 per student.

2. For school districts unable to further reduce class sizes because of facilities needs, the May Revision provides an option for districts to dedicate a portion of their 1997-98 operational funds for facilities needs.

3. An additional $59.4 million to implement a standardized testing program for all California students in grades 2 through 11.

4. An additional $277.7 million (all funds) is provided for state child care programs to further augment the Governor's proposal to reform California's welfare system.

5. The transfer of $100 million of property tax revenue to cities, counties, and special districts, as well as an additional $75 million to certain counties under the Disproportionate Share Hospital Program and $50 million to capitalize the California Infrastructure Bank.

The May Revision reflects a balanced budget, with General Fund expenditures held at $268 million below General Fund revenues. The May Revision also provides for a budget reserve of $580 million for economic uncertainties.

Final State Budget

The State has in past years experienced budgetary difficulties and has balanced its budget by requiring local subdivisions to fund certain costs theretofore borne by the State. If the State encounters budgetary problems in the future, it is not clear what measures the State will take to balance its budget as required by law. Accordingly, the County cannot predict the ultimate impact that the State's budgets will have on the County's finances and operations.

Federal Welfare Reform

On August 22, 1996, the President signed the Welfare Reform Act which makes substantial modifications to the welfare system. Among other changes, the Welfare Reform Act will allow the states to deny access to some welfare assistance programs to legal immigrants (but not to refugees), which could have a significant impact on the County's budget. In the aggregate, the bill's restrictions would reduce federal expenditures in low-income programs, such as the food stamp program, by more than $55 billion over the next six years. Nearly all of the $55 billion in savings come from reductions in the federal food stamp program, Supplemental Security Income ("SSI") program, and assistance to legal immigrants. California could potentially lose over $10.0 billion in federal funds during the same period of time. Absent revisions to current State law, the California State Association of Counties has estimated that counties in the State could see annual costs increase by $1.7 billion, while the State may realize savings of roughly $1.4 billion annually. The expenditures required to be made by the County for general assistance could increase significantly. For example, the increase in cost for general assistance due to the reduction of assistance to legal immigrants in the County receiving SSI, one of the assistance programs impacted by amending California Welfare and Institutions Code Section 170000 which mandates that counties provide support and relief to those residents who are not supported by other means, could be between $54 and $118 million under current State law and general assistance program parameters.

In addition to reductions in the SSI program, the Welfare Reform Act includes conversion of Aid to Families with Dependent Children from an entitlement program to a block grant titled Temporary Assistance for Needy Families ("TANF"), with lifetime time limits on TANF recipients, work requirements and other changes. The Welfare Reform Act requires states to implement the new TANF program not later than July 1, 1997 and provides California approximately $3.7 billion in block grant funds for fiscal year 1996-97 for the provisions of the Welfare Reform Act. States are allowed to implement TANF as soon as possible and will receive a prorated block grant effective the date of application. The California State Plan is to be submitted in time to allow grant reductions to be implemented effective January 1, 1997 (allowing $92 million of the anticipated $163 million in savings to be saved) and to allow the State to capture approximately $267 million in additional federal block grant funds over the currently budgeted level. Another change is the establishment of a state maintenance-of-effort requirement. State and local governments combined must spend at least $2.9 billion and comply with federal requirements to receive the full federal amount. If federal work participation requirements are met, state and local governments combined may decrease their spending level to $2.7 billion and still receive the full federal funding amount.

In connection with the Welfare Reform Act, the Governor has presented a proposal for the reform of California's welfare system. The Governor's Budget assumes that this new welfare program will begin on January 1, 1998, with full implementation in fiscal year 1998-99. It is unknown what aspects of welfare reform the State will choose to implement and whether or not the State will mitigate impacts to the County. Although the full impact of the Welfare Reform Act is currently unknown, it could have a significant, adverse impact on the financial condition of the County. If there are additional costs to the County during Fiscal Year 1996-97 due to the Welfare Reform Act or other legislation, the County anticipates it will reduce service levels by deleting positions and reducing overhead costs.

COUNTY SOLID WASTE SYSTEM

General

The County currently operates a solid waste management system (the "Solid Waste System") consisting of four active landfills, and certain related facilities. The Solid Waste System utilizes approximately 105 County employees within the Solid Waste Division of the County Department of Public Works, and also utilizes private contractors for a significant portion of its activities, including landfill operations. From the 1940s until recently, the Solid Waste System has been utilized by the County and various municipalities and private waste haulers in the County for the disposal of virtually all of the solid waste generated in the County (with the exception of solid waste generated in the City of San Diego, which operates its own disposal system that is open to the public at a current tipping fee of $32 per ton for waste generated in the City). Users of the Solid Waste System generally have paid a per ton "tipping fee" for solid waste disposal services rendered through the Solid Waste System. Generally, these users were not and are not currently legally or contractually required to utilize the Solid Waste System. As discussed below, over the last several years, cities which previously had used the Solid Waste System have from time to time utilized other disposal facilities, causing financial stress on the Solid Waste System. Currently, the County estimates that approximately 300,000 tons of solid waste generated in the County (out of total amount of County waste estimated by the County to be approximately 1,350,000 tons per year) is being delivered (on an annual basis) to disposal facilities outside of the County Solid Waste System. These County estimates do not reflect waste generated in the City of San Diego, the majority of which is delivered to the Miramar Landfill, owned and operated by the City of San Diego. The County has undertaken efforts (described below) to maintain and increase waste deliveries to the Solid Waste System. However, there can be no assurance that such efforts will be successful, and the amount of solid waste delivered to disposal facilities outside of the Solid Waste System may increase in Fiscal Year 1996-97 and in future fiscal years because of the closure of the San Marcos Landfill in March 1997. See "Closure of San Marcos Landfill" herein. The County is currently contemplating the sale of a substantial portion of the Solid Waste System. See "Potential Sale of the Solid Waste System" herein. The County has ceased all efforts toward an agreement to transfer assets and liabilities of the Solid Waste System to the Solid Waste Authority, a joint exercise of powers authority comprised of the County and seven cities in the County (the "Solid Waste Authority") and repealed its resolution, adopted in 1995, which had authorized the Solid Waste Authority to set tipping fees for use of the Solid Waste System. In accordance with the November 21, 1996, "Statement of Intent" by the County and the Solid Waste Authority, all undisputed claims and outstanding expenses of the Solid Waste Authority have been paid by the County and the Solid Waste Authority has been dissolved. Disputed expenses are approximately $250,000.

Financial Stress on Solid Waste System; Impact on General Fund

The County currently operates the financial aspects of the Solid Waste System through a County-held Solid Waste Enterprise Fund, into which it deposits all Solid Waste System revenues and from which it pays Solid Waste System costs. Over the last several years, the total amount of solid waste generated in the County and disposed of at County landfills has decreased, from over 2.4 million tons per year in Fiscal Year 1989-90 to approximately 1,009,000 tons in Fiscal Year 1995-96. The County believes that the decrease in tonnage from the levels delivered to the Solid Waste System in Fiscal Year 1989-90 results from a combination of factors, including the economic recession, increased recycling which diverts waste from the Solid Waste System, and the increased availability of disposal alternatives. Based on waste delivery trends over the last several months, the County projects that approximately 1,090,000 tons of waste will be delivered in Fiscal Year 1996-97. The County estimates that approximately 994,260 tons of solid waste were delivered to the Solid Waste System in the nine month period from July 1996 through May 1997.

From time to time since 1990 and through 1995, the per-ton tipping fee charged by the County for the use of the Solid Waste System was increased to make up for lost revenues resulting from the decreasing tonnage. As a result, operators of waste disposal facilities outside of the County have actively pursued lower priced contracts with municipalities and waste haulers in the County for the delivery of waste to their facilities outside of the County's Solid Waste System. Five cities in the County (Oceanside, El Cajon, Santee, Carlsbad and Escondido) have entered into such arrangements at various times. There can be no assurance that other cities in the County will not enter into arrangements with other facilities and discontinue delivery of solid waste to the Solid Waste System, resulting in a material adverse impact on the Solid Waste System and the General Fund. In addition, potential adverse impacts associated with the closure of the San Marcos Landfill, including the potential loss of the solid waste previously delivered to the San Marcos Landfill (which constituted approximately 40% of the total waste delivered to the Solid Waste System in Fiscal Year 1995-96) could result in potential future financial stress and could materially adversely impact the Solid Waste Enterprise Fund and the General Fund. See "Closure of San Marcos Landfill" below.

In order to attempt to mitigate any potential adverse impacts of the circumstances described above (including the closure of the San Marcos Landfill), and in anticipation of the contemplated sale of the Solid Waste System, on March 4, 1997, the County Board of Supervisors adopted a resolution addressing several matters related to the Solid Waste System to control revenues and expenses of the Solid Waste System. The resolution implemented a variable tipping fee structure, primarily intended to attract waste formerly delivered to the San Marcos landfill to other facilities within the Solid Waste System. The County also announced a business arrangement with the City of Carlsbad to more fully utilize the County owned, privately operated Palomar transfer station for the transfer of waste generated in the northern part of the County. The March 4 resolution also provided for the elimination of five unfilled and one filled employee positions within the Solid Waste System. In a report submitted to the Board in connection with the resolution, the Chief Administrative Officer of the County stated that tipping fee reductions and associated actions would result in a decrease in revenues of the Solid Waste System of approximately $3.2 million for Fiscal Year 1996-97. As part of the report, the Chief Administrative Officer also identified approximately $3.2 million of decreased expenditures. The March 4 resolution also authorized the transfer of up to $2.5 million from equipment reserves currently held within the Solid Waste Enterprise Fund in the event that short term funding for capital projects for the Solid Waste System is required during the remainder of Fiscal Year 1996-97 or Fiscal Year 1997-98. The County currently does not expect that the use of such reserves will be required in Fiscal Year 1996-97.

There can be no assurance that County projections regarding tons of waste expected to be delivered to the Solid Waste System will be achieved or that other cities in the County will not enter into arrangements with other facilities and discontinue delivery of solid waste to the Solid Waste System. If the County is not able to

effectuate the sale of the Solid Waste System, and significant amounts of solid waste generated in the County are not delivered to the Solid Waste System, or the variable rate tipping fee structure does not generate sufficient revenues to pay operating and capital costs related to the Solid Waste System, such circumstances could result in a material adverse impact on the Solid Waste System and the General Fund.

Pending Sale of the Solid Waste System

On December 17, 1996, the Board of Supervisors directed the Chief Administrative Officer of the County to develop a competitive process for the sale of the Solid Waste System by the County. The County has retained J.P. Morgan Securities, Inc. and O'Melveny & Myers LLP to assist in the County's efforts. The County issued a descriptive memorandum with respect to the sale of the Solid Waste System (the "Descriptive Memorandum") on April 18, 1997. The Descriptive Memorandum contemplates the sale of the four operating landfills within the Solid Waste System, as well as certain other assets, including transfer stations (collectively, the "System Assets"). Concurrently with the sale of the System Assets, the County intends to transfer any liabilities corresponding to such System Assets, including closure and postclosure funding, and environmental liability under CERCLA or related state or federal statutes (if any) for the active landfills expected to be sold. The County intends to retain ownership of, and responsibility for, a number of inactive sites within the Solid Waste System, including 12 inactive landfills. County staff expects that the County will establish reserves for the various costs associated with continuing ownership of the retained facilities, such as postclosure and closure costs, as well as costs relating to environmental remediation (if any). County staff expects that funding for such reserves will be provided from the proceeds of the sale of the Solid Waste System, as well as certain existing reserves held with the Solid Waste System. The County estimates that the annual costs associated with continuing ownership of the retained facilities over the next 30 years could range up to approximately $3,500,000 annually, with total costs during that entire period having a net present value of up to $100 million. Actual costs associated with continuing ownership of the retained facilities may differ from estimated costs and may exceed the amounts expected to be reserved by the County for such purposes. Any excess over estimated costs would be payable from the General Fund.

In May 1997, the County received a number of preliminary proposals regarding the purchase of the Solid Waste System and from these selected several bidders to present their final proposals to the County in June 1997. On June 24, 1997 the Board of Supervisors received three proposals, each of which contemplated the purchase of the entire Solid Waste System, and referred the same to County staff for further negotiation. It is contemplated that County staff will return to the Board of Supervisors in or about August 1997 with a single definitive proposal to be considered by the Board.

In June 1997, one of the preliminary bidders which was not selected by the County to make a definitive proposal, commenced an action against the County seeking to enjoin the County's proceeding with the sale of the Solid Waste System; this bidder alleges that the County's bidding procedures involved violations of various State laws, including conflict of interest laws relating to the County's independent consultant, J.P. Morgan Securities, Inc. The plaintiff has informed the County that it intends to amend its complaint to allege that the County failed to comply with the California Environmental Quality Act (CEQA). The plaintiff has not sought a temporary restraining order and the County is seeking an expedited hearing on whether a preliminary injunction will be entered to prevent the sale. The County plans to vigorously defend this action and will seek an expedited resolution of these issues. Due to the preliminary nature of the case, no prediction can be made as to its outcome.

Completion of the sale of the Solid Waste System will depend on a number of factors, many of which are outside of the control of the County. These factors include, but are not limited to, the successful conclusion of negotiations with a financially capable proposer, the receipt of approval from state and local jurisdictions

having regulatory authority over transfer of the various assets (to the extent required), and consent of certain financial institutions with contractual rights relating to the disposition of the Solid Waste System. Therefore, no assurance can be given that the sale of the Solid Waste System will be completed by a specific date or in accordance with the County's plan. In particular, the City of San Diego is the responsible governmental entity that issues the conditional use permit for the Sycamore Canyon Landfill. The City of San Diego has advised the County that it intends to review this permit in the event that this landfill is sold to a private company. Accordingly, no assurance can be made that such action by the City of San Diego will not affect the sale of the Solid Waste System or the purchase price that may be received by the County for the sale of the Solid Waste System. Furthermore, there can be no assurances that any of the other conditions precedent to the sale of the Solid Waste System will be satisfied. In this regard, under the procedures relating to the sale of the Solid Waste System, the County is required to advise each of the Cities of San Diego and San Marcos that it intends to dispose of property (Sycamore Canyon Landfill in the case of the City of San Diego, and the North County Recycling Center in the case of the City of San Marcos) and offer to sell or lease the same to such cities for the purpose of developing low- and moderate- income housing, for park or recreation purposes, for open space purposes, or for public school purposes, and the County has made such offers. Each of these cities has responded, purporting to express its desire to purchase such properties (Sycamore Canyon Landfill in the case of the City of San Diego, and North County Recycling Center in the case of the City of San Marcos). The County is reviewing these responses and will determine what further action is required. Any negotiations with the cities of San Diego and City of San Marcos could delay the sale of the Solid Waste System past County staff's currently contemplated return to the Board of Supervisors in or about August 1997 with a definitive proposal for the sale of the system.

If the County is not able to effectuate the sale of the Solid Waste System, and significant amounts of solid waste generated in the County are not delivered to the Solid Waste System, or the variable rate tipping fee structure does not generate sufficient revenues to pay operating and capital costs related to the Solid Waste System, such circumstances could result in a material adverse impact on the Solid Waste System and the General Fund.

1995-96 Operating Results

In Fiscal Year 1995-96 the annual expenses of the Solid Waste System exceeded the annual revenues of the Solid Waste System during that time period by approximately $2,000,000. During that period, the County met the cash demands on the Solid Waste System through the use of cash operating reserves, certain extraordinary revenue sources and loans from the County General Fund. The maximum amount loaned by the General Fund to the Solid Waste System in Fiscal Year 1995-96 was approximately $2,000,000. The loan from the County General Fund was repaid from revenues of the Solid Waste System early in Fiscal Year 1996-97.

1996-97 Solid Waste System Budget; Subsequent Preliminary Financial Analyses for Fiscal Year 1996-97

The Solid Waste System budget for Fiscal Year 1996-97, which was adopted by the County Board of Supervisors in July 1996, initially contemplated a tipping fee of $40 and waste deliveries of 1,050,000 tons. As described above, on March 4, 1997 the County Board of Supervisors implemented a variable rate tipping fee schedule, with significantly reduced tipping fees. The Fiscal Year 1996-97 Solid Waste System budget also initially identified approximately $20 million in capital expenditures during the fiscal year. Significant additional capital needs are expected over the next several years. At the time the Solid Waste System budget was adopted, the County had assumed that the Solid Waste System would be transferred to the Solid Waste Authority in August, 1996, and that the $20 million of capital expenditures would be funded through the issuance of revenue bonds or other long term obligations to be issued by the Solid Waste Authority. However, as described herein, the transfer of the Solid Waste System to the Solid Waste Authority did not occur. The

County now intends to sell the Solid Waste System, and intends to implement only those capital improvements to the Solid Waste System prior to the contemplated sale which are required to meet regulatory requirements. The cost of these required capital improvements is estimated to be approximately $5 million in Fiscal Year 1996-97, and $3 million in Fiscal Year 1997-98. There can be no assurances that applicable regulatory authorities will agree with the County's determination that the level of capital expenditures planned by the County will be sufficient to meet regulatory requirements. In addition, any delay in the sale of the Solid Waste System may require additional capital improvements to be made by the County which have not been budgeted by the County. Failure of the County to implement capital improvements for the Solid Waste System which are required to meet regulatory requirements or which arise as a result of the delay of the sale of the Solid Waste System beyond the expected sale date of August 1997 could have a material adverse impact on the Solid Waste System, and could result in the imposition of fines by regulatory agencies, or, potential revocation of operating permits for facilities within the Solid Waste System. In the event that the County was required to, or elected to, use General Fund moneys to pay for any additional required capital improvements with respect to the Solid Waste System, such use would have a material adverse impact on the General Fund.

The most recent preliminary financial analyses prepared by County staff for Fiscal Year 1996-97 contain the assumptions of waste deliveries of 1,050,000 tons in Fiscal Year 1996-97 at variable tipping fees generally ranging from $38 per ton to $17 per ton, with an average estimated per ton fee of $32 per ton. The Chief Administrative Office of the County has indicated that the County expects that the revenues generated by the Solid Waste System will be sufficient to pay the costs of the Solid Waste System in Fiscal Year 1996-97, including payments to be made to the County General Fund from revenues of the Solid Waste System related to the acquisition of the North County Recycling Center (defined herein). See "Acquisition of North County Recycling Center; Resulting General Fund Obligations" herein. The Fiscal Year 1996-97 Solid Waste System budget and the most recent preliminary financial analyses for Fiscal Year 1996-97 assume that the variable tipping fee structure implemented by the County will be result in the continuing delivery to the Solid Waste System of solid waste tonnages equal to the tonnage formerly delivered to the San Marcos Landfill prior to its closure and will result in the generation of sufficient revenues to pay the costs of the Solid Waste System.

In Fiscal Year 1995-96, approximately 400,000 tons of solid waste was delivered to the San Marcos Landfill. In the event that significant amounts of this waste is not delivered to the Solid Waste System upon closure of the San Marcos Landfill (despite the County's efforts to retain such waste), revenues of the Solid Waste System would be significantly reduced. While the County believes also that waste previously delivered to the San Marcos Landfill will continue to be delivered to the Solid Waste System as a result of the variable rate tipping fees and that, if such waste was not delivered to the Solid Waste System a portion of the resulting loss in revenues could be offset by operating cost reductions (reflecting the lower tonnage being delivered to the Solid Waste System) the loss of significant revenues following the closure of the San Marcos Landfill could have a material adverse impact on the Solid Waste System. If the County elected to, or was legally obligated to, utilize General Fund moneys to subsidize all or a portion of the potential loss of revenues, such circumstances could have a material adverse impact on the General Fund and the ability of the County to pay Base Rental.

Acquisition of North County Recycling Center; Resulting General Fund Obligations

On July 16, 1996, the County successfully effectuated the defeasance of $134,170,000 Solid Waste Revenue Bonds (North County Recycling Center) (the "NCRC Bonds") which had been issued by the California Pollution Control Financing Authority in 1991 to finance the cost of a large-scale waste processing facility in the City of San Marcos (the "North County Recycling Center"). As a result of the defeasance, certain lawsuits challenging various actions taken by the Board of Supervisors relating to the defeasance of the NCRC Bonds and cessation of waste deliveries to the North County Recycling Center are presently resolved or rendered moot,

including challenges alleged violations of the California Environmental Quality Act ("CEQA"). In September 1996, Governor Wilson signed into law SB 1445, which provided that the defeasance of the NCRC Bonds would be exempt from CEQA review. The bill did not, however, exempt any potential closure or discontinuance of operations of the NCRC from CEQA review. However, in one of the lawsuits initiated by the City of San Marcos (the "City") and San Elijo Ranch, Inc. ("San Elijo"), the Riverside Superior Court ruled that the City and San Elijo failed to prove a causal link between the processing of waste at the NCRC and alleged environmental impacts at the San Marcos Landfill. The Court also ruled that environmental review prior to construction of the San Marcos Landfill was not predicated on waste processing at NCRC. An appeal of the Court's rulings on this and other issues is pending. So long as the County continues to control the North County Recycling Center, it cannot be predicted how such parties will proceed with any actions or potential claims not resolved by the defeasance.

In litigation initiated by the County against the City of San Marcos regarding the San Marcos Landfill conditional use permit, the City filed a cross-complaint seeking relief against the County. The City contends, among other things, the County has been unjustly enriched by failing to carry out all of the environmental mitigation efforts required by various Landfill permits and approvals. Among the relief the City seeks is (1) an accounting of the collection and use of tipping fees generated at the San Marcos Landfill since 1993 and (2) entry of an order declaring that the County holds in trust for the City either (a) portions of the tipping fees generated from the Landfill, or (b) County tax revenues from the Redevelopment Project Area No. 3 of San Marcos, or (c) County General Fund money and (3) entry of an order requiring the County to give the City all funds attributable to mitigation measures and, apparently, funds that should have been spent to comply with Landfill permits issued by any regulatory agency.

On March 6, 1997 San Elijo filed a separate lawsuit in superior court against the County challenging its operation of the North County Recycling Center. The action alleges that the Conditional Use Permit ("CUP") issued by the City in 1987 is invalid and subject to termination as a result of the alleged, permanent closure of the facility. This action further alleges that the CUP issued by the City is invalid under the terms of the service agreement between the County and North County Resource Recovery Associates ("NCRRA"), the owner/operator of the North County Recycling Center, which service agreement related to the development of the North County Recycling Center and the issuance of the NCRC Bonds (the "Service Agreement. The City and San Elijo have alleged that the County's temporary suspension of operations of the facility in June 1995 while it was attempting to reduce debt service and contract payment obligations and acquire the facility from NCRRA constituted a "permanent closure" of the facility under the CUP and the City has sent a notice to the County stating that the CUP has been terminated. The action seeks an order that the facility be ordered closed. The County of San Diego had intended to resume operations at the North County Recycling Center facility in May 1997, but was prevented from doing so as a result of a court order obtained by the City.

As part of the defeasance of the NCRC Bonds, the County entered into a number of financial instruments and agreements to provide funds. The financial instruments and agreements include the following: an approximately $21.6 million bridge lease (with a maximum $5.2 million annual County payment commencing in Fiscal Year 1996-97) (the "Bridge Lease"); an approximately $20.8 million letter of credit with Morgan Guaranty Bank; and an approximately $19 million surety bond from AMBAC Inc. (The consent of the financial institutions which are parties to these arrangements is required for the sale of the Solid Waste System. See "Potential Sale of the Solid Waste System" herein.) The letter of credit and surety bond were used to replace cash debt service reserves on various outstanding County financings resulting in an increase in net debt service payable by the General Fund of approximately $2,000,000 (because of the loss of future interest earnings on the amounts previously on deposit in the debt service reserve funds). The obligation of the County to make payments with respect to these instruments and agreements is payable from the General Fund of the County; however, to date the County has been able to use revenues of the Solid Waste System to make required Bridge

Lease payments. The Bridge Lease is expected to be repaid in full from the proceeds of the Certificates. After repayment of the Bridge Lease, the County expects that approximately $2.8 million of from the Solid Waste System will be transferred annually to the General Fund, to reimburse the General Fund for obligations occurred by the General Fund to repay the Bridge Lease. In the event that the variable rate tipping fee structure and related actions taken by the County do not result in the generation of revenues at the levels expected by the County or do not result in the continued delivery to the Solid Waste system of solid waste previously delivered to the San Marcos Landfill, it is unlikely that the General Fund will be reimbursed from Solid Waste System revenues for such future payments.

Closure of San Marcos Landfill

As a result of several legal actions brought by the City, the County was required to close the San Marcos Landfill on March 11, 1997. Prior to its closure, waste deliveries to the San Marcos Landfill accounted for approximately 40% of the total waste deliveries to the Solid Waste System. Although the County believes that the disposal capacity remaining in the Solid Waste System after the closure of the San Marcos Landfill will be sufficient for the disposal of substantially all of the solid waste generated in the County for the next 25 years, the Sycamore Landfill, which would be the nearest Solid Waste System facility landfill to San Marcos landfill, is approximately 40 miles (by road) south of the San Marcos Landfill. Therefore, a significant portion of the solid waste currently delivered to the San Marcos Landfill might not continue to be delivered to disposal facilities within the Solid Waste System in light of the potentially increased transportation costs such cities may incur if they elect to use the Sycamore Landfill. The County has implemented a variable rate tipping fee structure in order to attempt to provide incentives to haulers of waste previously delivered to the San Marcos Landfill to continue to deliver such waste to the Solid Waste System. However, owners and operators of alternate disposal facilities, including Orange County, are aggressively seeking waste generated in the County. Therefore, the closure of the San Marcos Landfill could result in the delivery of significant amounts of waste generated in the County to disposal facilities outside of the Solid Waste System, with a corresponding loss of the tipping fee revenues attributable to that waste. See "1996-97 Solid Waste System Budget; Subsequent Preliminary Financial Analyses for Fiscal Year 1996-97."

Also with respect to the San Marcos Landfill, in Fiscal Year 1995-96, the County General Fund provided $6.2 million to fund deficiencies in the closure fund for the San Marcos Landfill. Neither the 1996-97 Solid Waste System budget nor the most recent preliminary financial analyses prepared by County staff provide for the repayment to the County of this amount. The County expects that proceeds of the sale of the Solid Waste System would be used to repay this amount, if the County is able to effectuate the sale of the Solid Waste System and to the extent sufficient proceeds not designated for other purposes are available.

In addition, as part of the legal actions relating to their efforts to cause the closure of the San Marcos Landfill, San Elijo and the City filed an action claiming that the County had failed to prepare and implement a landscape program and revegetation program as required for the Landfill. The landscape program is intended to mitigate visual impacts during the operation of the Landfill, while the revegetation program is intended to restore the site following closure of the Landfill.

The Riverside County Superior Court found that the County had failed to prepare and implement an adequate landscape plan for the Landfill, and ordered the County to prepare and submit such a plan on or before December 10, 1996. Although the County's appeal of that decision is pending, the County prepared a landscape plan and submitted it to the court on December 10, 1996. San Elijo and the City have challenged the adequacy of the landscape plan, claiming that additional landscaping is required. After argument on the motion on February 28, 1997, the court ruled on May 27, 1997, that the landscape plan was inadequate; however, the ruling does not specify the particular area(s) in which the landscape plan is inadequate.

The County has filed a motion for reconsideration because of two events which occurred since the original motion was argued. The landscape plan which is the subject of the court order was intended to be implemented during the operation of the Landfill. Since the Landfill closed on March 11, 1997, the County believes that any interim landscaping done at this time would be removed to implement the final closure plan for the Landfill. The County believes that a further basis for reconsideration is an order issued by the Local Enforcement Agency ("LEA") (a branch of the California Integrated Waste Management Board) which conflicts with the court order. The LEA order directs the County to install intermediate cover over the entire San Marcos Landfill, and restricts the County from initiating any activities which are not approved by the LEA pending approval and implementation of the final closure plan. The County believes that installation of the intermediate cover is inconsistent with the landscaping plan urged by San Elijo and the City. The motion for reconsideration is set for July 15, 1997. If the Court declined to reach a different conclusion than its earlier decision, the County currently intends to appeal such ruling in the Court of Appeal.

Nevertheless, the County has implemented the plan to the extent possible, and significant landscaping has been done at the landfill over the past six months. The County has expended approximately $255,000 to implement the plan over the past six months and expects to spend an additional $275,000 to fully implement the plan. If the Riverside Court should agree with San Elijo and the City and order additional landscaping, costs could be significantly higher; however, they cannot, at this time, be calculated with any reasonable degree of certainty.

With regard to a revegetation plan, the Riverside Court declined to make any ruling about the adequacy of the County's plan because the plan had not yet been finalized, nor is it finalized at this time. The proposed final revegetation plan for the Landfill is currently undergoing environmental review. It is anticipated that San Elijo and the City will renew their challenge to the adequacy of the revegetation program. If the Court should ultimately compel the County to implement a revegetation plan similar to that proposed by San Elijo and the City, and the responsible regulatory agency permits implementation of the plan, the revegetation could cost as much as $6 million in excess of the closure reserves.

Other Litigation Affecting Solid Waste System

The County is a defendant in other separate lawsuits with respect to which adverse decisions could result in potentially material adverse financial effects on the Solid Waste System. In *Rancho La Costa-Elfin Forest Partners v. County of San Diego, et al.*, the plaintiff claims that the County is obligated to purchase the plaintiff's property adjacent to the San Marcos Landfill because of various actions that the County took relating to a planned, but not implemented, expansion of the landfill. The plaintiffs contend that their 110-acre parcel is worth approximately $6 million. On April 2, 1996, the Court ruled in favor of the County on the "takings" theory. A claim for nuisance damages remains unresolved. An appeal could be taken by Rancho La Costa-Elfin Partners once all related claims before the superior court are resolved.

The County is also involved in litigation concerning the former "Duck Pond" landfill, which was operated by the County from 1961 to 1963 in National City, California. The action involves a Cleanup and Abatement Order issued to the County and other previous owners of the site by the Regional Water Quality Board, as well as related claims by property owners. The County denies responsibility for payment of the cleanup costs. Total remediation cost estimates range from $1.2 to $2.6 million, and annual monitoring costs thereafter of up to $280,000. Some, if not all, of these expenses, if found to be attributable to the County, may be covered by insurance.

On April 30, 1996, the Natural Resources Defense Counsel ("NDRC") and the San Diego BayKeeper ("BayKeeper") notified the County that they believed it was violating two of its three stormwater discharge

permits. The "Municipal Permit" issued by the San Diego Regional Water Quality Control Board to the County and 19 other co-permittees and governs discharges from municipal storm drain systems. The "Industrial Permit" issued by the State Water Resources Control Board, governs stormwater discharges from industrial facilities, including landfills and airports. NRDC and BayKeeper have not filed suit, but such a notice may be regarded as a notice of intent to file a civil action. If NDRC and BayKeeper sue and the County is found to be in noncompliance, it would be subject to an injunction commanding it to take specific actions to comply with permits, and could be liable for civil penalties of up to $25,000 per day plus attorney's fees and expenses. The County has been negotiating a possible settlement with NRDC and BayKeeper. Also on April 30, 1996, NDRC and BayKeeper notified the County in connection with its landfill operations, stating that they believed the County was violating the General Industrial Permit governing stormwater discharges from industrial facilities, and particularly its failure to comply with requirements to reduce or eliminate polluted runoff from the County's landfills. Again, NRDC and BayKeeper have not filed suit, but such a notice may be regarded as a notice of intent to file a civil action. Although the County denies the allegations, it has taken measures to enhance its compliance with the General Industrial Permit at the landfills. The County has been negotiating a possible settlement with NDRC and BayKeeper.

The County has settled all claims and counterclaims in *County of San Diego v. San Elijo Ranch, Inc., et al.*, an eminent domain proceeding by the County involving counterclaims by San Elijo relating to an 80-acre parcel of land adjacent to the San Marcos Landfill. The matters were settled upon $3.4 million payment by the County to San Elijo and title to the 80-acre parcel was transferred to the County.

Long Term Financial Considerations Relating to the Solid Waste System

County staff has identified a number of risks associated with the future viability of the Solid Waste System. These risks include the possibility that generators of solid waste in the County will utilize other disposal facilities outside of the Solid Waste System and that waste deliveries to the Solid Waste System will not equal projected levels; that capital requirements needed in connection with the Solid Waste System will be greater than that currently contemplated by the County and cannot be funded either by long term financing or payment from current revenues of the Solid Waste System; and adverse impacts of the closure of the San Marcos Landfill, including the potential loss of solid waste due to increased hauling costs. Additional risks include a loss of tonnage in the Solid Waste System in the event the implementation of the variable rate tipping fee structure described herein does not result in retention in the Solid Waste System of waste formerly delivered to the San Marcos Landfill. In addition, the County may not be able to sell the Solid Waste System, or if it is sold, to do so on terms advantageous to the County. The County cannot predict the long-term implications of these potential circumstances.

The County has also indicated that significant capital improvements will be required with respect to the Solid Waste System in the future. If the Solid Waste System is not sold, the County intends to finance required capital improvements on a long term basis. However, there can be no assurances that the County will be able to effectuate such long term financing. There are also a number of outstanding legal actions relating to the Solid Waste System. These factors place additional financial stress on the Solid Waste System.

In addition to the circumstances described above, the City of Escondido is currently operating a transfer station which it utilizes to transfer most of the solid waste generated in Escondido to disposal facilities outside of the Solid Waste System. The Escondido transfer station could also be used for the transfer of solid waste generated in other cities in the County to disposal facilities outside of the Solid Waste System. In addition, the Cities of La Mesa and Chula Vista are pursuing plans for the permitting and construction of solid waste transfer stations within their jurisdictions. The currently planned capacity of these facilities significantly exceeds the waste generation in those communities. Also, additional disposal capacity continues to become available outside

the Solid Waste System, including capacity in the Orange County solid waste system for non-Orange County Waste, at tipping fees ranging from $18 to $22 per ton. (In addition to paying such tipping fees, haulers of waste generated in the County would also incur waste transfer and transportation costs in the event they elected to utilize Orange County disposal facilities.) The existence of lower priced disposal capacity outside the County coupled with public or private transfer stations in cities in San Diego County could potentially result in waste which is currently being delivered to the Solid Waste System to be delivered to disposal locations outside of the Solid Waste System (particularly in light of the closure of the San Marcos Landfill) with a corresponding potential loss of significant tipping fee revenues annually.

The circumstances described above could result in significant short term and long term financial instability. In the event the County is unable to sell the Solid Waste System, the County may be legally required, or may elect to, utilize General Fund monies to subsidize a portion of the costs of the Solid Waste System, to the extent not paid from revenues of the Solid Waste System. As a result, in the event that the County is unable to sell the Solid Waste System as described above, it is likely that the conditions relating to the Solid Waste System described herein will have a material adverse impact on the General Fund in Fiscal Year 1997-98 and in future fiscal years.

SAN DIEGO COUNTY INVESTMENT POOL

General

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the County Treasurer-Tax Collector (the "Treasurer") the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County (and the various departments in the County, such as Public Works and Public Administration), funds of local agencies within the County have historically been deposited in the County treasury for investment. State law requires that the County and certain local agencies in the County, including school districts, deposit funds in the County treasury ("Involuntary Depositors"); certain other agencies, such as cities, voluntarily make deposits in the County treasury ("Voluntary Depositors," and together with Involuntary Depositors are collectively referred to as "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment. Each depositor, whether voluntary or involuntary, receives an individual account number.

The Treasury Pool's Portfolio

As of May 30, 1997, the securities in the Treasury Pool had a market value of $1,841,408,439 (excluding accrued interest) and a book value of $1,931,442.843, for a net unrealized loss of 4.68% of the book value of the Treasury Pool. As of May 30, 1997, the weighted average maturity of the Pool portfolio was approximately 1.30 years. More specifically, 14.5% of the Pool was invested in securities with maturities ranging from 1-30 days, 5.4% of the Pool was invested in securities with maturities ranging from 31-90 days, 2.7% of the Pool was invested in securities with maturities ranging from 91-180 days, 3.0% of the Pool was invested in securities with maturities ranging from 181-365 days, 42.5% of the Pool was invested in securities with maturities ranging from 366 days to 2 years, 31.8% of the Pool was invested in securities with maturities ranging from 2 to 3 years, and 0.0% of the Pool was invested in securities with maturities ranging from 3 to 4 years. As of May 30, 1997, 33% of the securities in the Treasury Pool were variable rate securities, 13% were variable rate securities whose interest rates vary in inverse relationship to interest rates and 20% were securities whose interest rates are determined based on the spread relationship between two indices.

The duration for the Treasury Pool was 1.14 as of May 30, 1997. "Duration" is a measure of the price volatility of the portfolio and reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. A duration of 1.14 means that for every one percent increase in interest rates the market value of the portfolio would decrease by 1.14 percent.

As of May 30, 1997, the Treasury Pool has no reverse repurchase agreements outstanding. From time to time during Fiscal Year 1996-97, the County had entered into reverse repurchase agreements to cover liquidity shortfalls. The Treasurer currently expects that the Pool will not need to enter into additional reverse repurchase agreements to cover shortfalls in funding requirements for the County and the Depositors during fiscal year 1997-98. See "San Diego County Investment Pool -- Investments of the Treasury Pool" herein.

See "San Diego County Investment Pool -- Certain Information Relating to the Pool" herein and the tables included therein.

Depositors in Pool

As of May 30, 1997, approximately 14.5% of the total funds in the Pool were deposited by 54 Voluntary Depositors; the remaining 85.5% was deposited by the County, 43 school districts and 38 other Involuntary Depositors. Community College Districts are considered Voluntary Depositors in the Pool. Of the $1.7 billion in funds deposited by the Involuntary Depositors, approximately $771 million was deposited to the credit of the County and County agencies and departments; of that amount, approximately $82 million consists of property tax receipts and interest attributable to local agencies which are credited to the County only until such funds are disbursed or credited to such local agencies. The following table contains certain information relating to the amounts in the Pool attributable to the County and various major Voluntary Depositors and Involuntary Depositors.

COUNTY INVESTMENT POOL
MAJOR DEPOSITORS AND INVESTMENT AMOUNTS
As of May 30, 1997
(in Thousands)

Depositors	Amount on Deposit	Market Value of Account	Percentage of Total Pool
MANDATORY			
County:			
General Fund	$ 27,870	$ 26,582	1.4%
County Other	743,228	708,891	38.2%
Sub-Total County	771,098	735,473	39.6%
Schools	894,281	852,965	45.9%
Total Mandatory	1,665,379	1,588,438	85.5%
VOLUNTARY			
Community Colleges	98,099	93,567	5.0%
Cities	72,024	68,696	3.7%
Other Agencies	41,651	39,727	2.1%
SANDAG	35,601	33,956	1.8%
Water Districts	23,202	22,130	1.2%
MTDB	9,223	8,797	0.5%
Pension Trust	3,617	3,450	0.2%
Total Voluntary	283,417	270,323	14.5%
TOTAL(1)	$1,948,796	$1,858,762	100.0%

(1) Totals for "Amount on Deposit" and "Market Value of Account" include cash and securities. The portfolio information in the table "San Diego County Investment Pool Portfolio Information" includes only securities.
Source: County of San Diego, Treasurer-Tax Collector.

An agreement with the Voluntary Depositors, including the San Diego Area Governments ("SANDAG") and Metropolitan Transit Development Board ("MTDB"), has been entered into regarding the phased withdrawal of all funds held for the credit of Voluntary Depositors. Under this plan, the Pool will have no Voluntary Depositors by June 30, 1998. See "San Diego County Investment Pool -- Withdrawals by Depositors" herein.

Investments of the Treasury Pool

Authorized Investments. Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities. Generally,

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

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

The Investment Policy. The County's Investment Policy (the "Investment Policy") (which may be modified, amended, or otherwise changed at any time at the sole discretion of the Treasurer) currently states the primary goals of the Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve a return on the funds under the control of the Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 52% of the Pool should be invested in securities maturing in one year or less, with the remainder of the portfolio being invested in debt securities with maturities spread approximately equally over more than one year to five years. In order to achieve this goal, the Pool is presently investing in securities that mature in 90 days or less. The Investment Policy states that the Pool will not make new investments in securities which are considered "derivative" securities in the foreseeable future, and in no case prior to January 1, 1998." Generally, "derivatives" refers to securities whose coupon is determined by the price, level or relationship of or between one or more underlying instruments or markets. As of May 30, 1997, the Pool holds approximately $633 million in derivatives, including securities that could result in zero interest accrual. These securities will be held to maturity. With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 20% of the total investments in the Pool. The Investment Policy also states that the purpose of reverse repurchase agreements is to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation and that the maturity of the reverse repurchase agreement and the maturity of the security purchased be the same. The Investment Policy also authorizes investments in covered call options or put options, which are options on the part of a third party to buy from the Pool a specified security within a finite time at a specified price or options on the part of a third party to sell a specific security to the Pool at a specified price. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase agreements, cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option, the maximum maturity of a covered call option/put option is to be 90 days and not more than of the total investments in the Pool could have options (in contrast to "derivatives") written against them at any one time. See "Certain Information Relating to the Pool" herein.

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

Securities Lending by the Pool. The Pool engages in certain securities lending transactions from time to time through Swiss Bank Corporation, New York Branch, as custodian (the "Custodian") under a Custody Agreement by and between the County and the Custodian (the "Custody Agreement"). These transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral. This collateral may be cash or securities. Generally, these transactions provide for the return of the collateral to the securities borrower upon receipt of the same securities at a later date. Under the County's existing securities lending agreement, a maximum of 20% of the Pool may be lent for a term of thirty (30) days or less. All cash collateral received under the securities lending agreement must be reinvested in repurchase agreements with a maximum term of thirty (30) days, or in a money market fund with a minimum credit rating of AAAF or AaaF. The current securities lending agreement also provides for the indemnification of all losses or out-of-pocket expenses related to the investment of cash collateral in repurchase agreements. Under the Custody Agreement, the Pool and the Custodian share in the aggregate net return of these securities lending transactions. Since the inception of the securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

Under the current Custody Agreement, the Custodian transfers Pool securities to qualified securities borrowers. The Custodian is required to perform a credit analysis of each approved counterpart in accordance with the Custodian's established credit policies and procedures. The counterparty under these repurchase transactions is required to pledge collateral to secure the return of the securities borrowed, and the value of the securities borrowed is marked to market every business day. The value of the collateral on deposit must equal 102% of the market value of the securities borrowed. For this purpose, if cash is delivered as collateral (even though invested on behalf of the Pool), then the same is deemed to always carry the value of the cash; if securities are delivered as collateral, then its market value will be measured daily against the market value of the securities borrowed. If on any business day the value of the collateral deposited is less than 100% of the market value of the securities borrowed, the counterparty must deliver additional collateral so that the collateral on deposit will have a value equal to 102% of the market value of the securities borrowed. Correspondingly, if the value of the collateral on any business day is more than 102% of the market value of the securities borrowed, the borrower may request the return of the excess collateral. If cash is deposited as collateral, it is to be invested for the risk and account of the Pool in securities that comply with the Investment Policy. Currently, the only investments made on behalf of the Pool are repurchase agreements. The Custodian contractually indemnifies the Pool for any loss resulting from the failure of an approved counter-party.

The current Custody Agreement terminates in July 1997. The Treasurer is in the process of issuing a request for proposals for these services and expects to award a contract in the early part of fiscal year 1997-98. It is anticipated that a new agreement will provide for the same type of securities lending program as the program described above.

Withdrawals by Depositors

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days' notice. Historically, through the use of continuing deposits into the Pool, the proceeds of maturing investments, and the sale of non-maturing investments at or above par, the County has been able to provide for such withdrawals without incurring any loss to the Pool from the sale of investments. However, as market interest rates rose in 1994, the value of the various investments (including, in particular, derivatives) in the Pool declined significantly. In addition, the amount of new deposits into the Pool has also decreased. Primarily as a result of the factors described above, significant stress was placed on the ability of the Treasurer to continue to honor withdrawal requests from Depositors in the Pool without liquidating investments in the Pool at a loss.

In order to attempt to assure the continuing viability of the Pool, and to minimize the need to liquidate investments in the Pool at a loss in order to meet cash flow requirements of Depositors seeking to make withdrawals from the Pool, at the suggestion of the Treasurer, a Pool Participants' Committee (the "Pool Participants' Committee") was formed in December 1994, consisting of representatives of various Voluntary and Involuntary Depositors. The Treasurer, in consultation with the Pool Participants' Committee, established voluntary withdrawal guidelines in December 1994. These interim withdrawal rules were then modified as part of the phased withdrawal plan for all Voluntary Depositors which provides for the withdrawal of all Voluntary Depositors over time through June 1998. These guidelines permit withdrawals by Depositors without deduction only if there are no other funds available to it, except for a 30 day operating reserve. The guidelines, which are voluntary in nature and therefore not legally enforceable, provide that withdrawals by Voluntary or Involuntary Depositors which do not comply with these guidelines should be made based upon their market value balance in the Pool at the time of withdrawal. A subcommittee of the Pool Participants' Committee reviews requests for withdrawals and makes recommendations to the Treasurer.

As of May 30, 1997, approximately $283 million was currently invested in the Pool by such Voluntary Depositors. Under the phased withdrawal plan, approximately $200 million is expected to be distributed during the remainder of calendar year 1997, and the remaining $28 million is expected to be distributed by June 30, 1998. Under this proposed plan, interest earnings are expected to be distributed to these Voluntary Depositors in December 1997.

The objective of this withdrawal plan is to permit withdrawal without adversely affecting the liquidity of the Pool and without Depositors incurring losses. This plan does not address any issues of the parties responsible for any losses from investments in the Pool. Although participation in the phased withdrawal proposal was not required by law, no Voluntary Depositor has stated a challenge to the phased withdrawal plan or requested the immediate withdrawal of its amounts on deposit with the Pool. The Treasurer believes that under present conditions the implementation of the phased withdrawal plan will not adversely affect the liquidity of the Pool.

Future Prospects for the Pool

The ability of the Pool to meet withdrawal requests of Depositors is dependent in part upon future cash flow experience of the Pool. In the course of the review of the prospects of the Pool and negotiations and discussions with the Oversight Committee, Pool Participants' Committee and various Voluntary and Involuntary Depositors, a variety of future cash flow estimates for the Pool, reflecting future estimated deposits and withdrawals by various Depositors, have been prepared. These estimates, in turn, have been based upon estimates of deposits and withdrawals provided to the Treasurer from time to time by the Depositors in the Pool, and estimates of withdrawals and deposits based upon then current discussions with various Depositors regarding withdrawals. Both the Depositors' estimates and the resulting Pool estimates have been revised from time to time, and have varied widely, since January 1995. Further, as indicated above, the Pool estimates are, in part, composites of the estimates provided to the Pool by the various Depositors and no attempt has been made by the Treasurer to verify the likelihood that the estimates will in fact occur. In this regard approximately 53% of the book value of the Pool are deposits of Depositors other than the County and their respective decisions to deposit or withdraw from the Pool will be governed by a variety of financial, economic and political considerations over which the County has no control and which it cannot predict.

A recent version of the Pool's cash flow estimates reflects that the Pool will not encounter liquidity shortfalls through June 30, 1997. These estimates assume, among other things, (i) the issuance of $215 million of tax and revenue anticipation notes by the County on or about July 1, 1997 and $45 million short term notes by the County to finance its obligations to local agencies in the County that participate in the Teeter Plan on or

about June 26, 1997, (ii) the issuance of $100 million of tax and revenue anticipation notes by school districts in the County and the deposit of the proceeds thereof in the Pool on or about July 1, 1997, and (iii) no new deposits by Voluntary Depositors, and the phased withdrawal of deposits by all Voluntary Depositors in the Pool, as described above. In the event that the County does not issue its tax and revenue anticipation notes or its short term notes to finance its obligations to local agencies in the County that participate in the Teeter Plan or the school or community college districts do not issue tax and revenue anticipation notes in July 1997 and deposit the proceeds thereof in the Pool, shortfalls in liquidity in the Pool may occur. Accordingly, the magnitude of any possible liquidity shortfalls in the Pool is difficult to determine. However, the Pool expects to be able to enter into reverse repurchase agreements to cover these expected shortfalls.

As particularly summarized above, although the Voluntary Depositors have agreed to the phased withdrawal plan described above, such agreement is voluntary and there is no legally binding agreement among the participants regarding such plan. If (i) Voluntary and Involuntary Depositors exercise their rights to withdraw moneys in excess of the current estimates for such Depositors, (ii) Voluntary and Involuntary Depositors deposit moneys into the Pool in amounts less than the current estimates, or (iii) other events occur which require current sales of securities in the Pool or result in further losses in value of the securities in the Pool, it may be necessary to liquidate investments held in the Pool at substantial losses. Alternatively, the Treasurer may seek to enter into additional reverse repurchase transactions to provide interim liquidity for the Pool. The current cash flow estimates assume that no investments in the Pool will be sold before maturity and, therefore, under this estimate a rise in interest rates would not materially adversely affect the liquidity of the Pool.

The County believes that its General Fund would be responsible for those losses resulting from the sale of investments in the Pool relating to funds credited to the General Fund, as well as certain other County funds. The share of any loss which the General Fund would sustain or make-up would be approximately 21% of the total loss. The County does not contemplate that the General Fund will sustain or make-up the loss for any other funds. For the fiscal year ending June 30, 1998, the County's proposed discretionary budget is approximately $458,600,000, which amount includes moneys allocated make lease payments due and payable by the County. Any losses borne by the County General Fund would have to be absorbed by a reduction in the County's discretionary funds budget or an increase in revenues or both. If losses are proportioned among the departments whose budgets are made up of discretionary funds, they would be borne by one or more of the following: public protection; support services; general government; health and social services; and all others. The Board has not been asked to approve any funding of any losses resulting from the liquidation of any Pool investments. Further, no assurances can be given that sufficient funds will be available or that the County can increase its revenues to make-up any losses resulting from the sale of investments in the Pool.

With respect to losses that might be realized by other Voluntary and Involuntary Depositors in the event of liquidation of securities in the Pool, the Treasurer's current policy with respect to such losses is that they be allocated among all Depositors in the Pool. See "San Diego County Investment Pool -- Withdrawals by Depositors." However, there can be no assurance that Depositors would not commence litigation against the County seeking to recover the amount of the losses, or what would be the outcome of such litigation. As described above, as of May 30, 1997, the cumulative amount of the unrealized loss of value in the Pool is approximately $90 million and the share of such loss allocated among Depositors in the Pool other than the County was approximately 60%. The County does not believe it is responsible for any such losses, and should actions be commenced to impose such obligations to pay such losses the County would vigorously defend the same. However, there can be no assurance that the County may not be held liable for some or all of such losses. If the amount of such losses were material, this could adversely affect the County's ability to deliver essential services or satisfy its obligations payable from its General Fund. Should the County be held liable for such

losses it may seek to obtain a court declaration that its obligation to pay such losses could be funded through the issuance of judgement bonds that do not require a vote and are payable over a number of years.

Certain Information Relating to Pool

The following tables reflect various information with respect to the Pool as of the close of business on May 30, 1997. As described above, a wide range of investments is authorized under State law. **Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below**. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on May 30, 1997, the Pool necessarily would have received the values specified.

SAN DIEGO COUNTY INVESTMENT POOL PORTFOLIO INFORMATION*
as of May 30, 1997

Type of Security	Percent Of Portfolio	Book Value	Market Price	Market Value	Unrealized Gain, Loss	Yield To Maturity	Weighted Average Days To Maturity
Treasury Notes	5.43%	$ 104,921,948	98.46%	$ 103,385,157	$ (1,536,791)	4.91%	520
Federal Farm Credit Bank Notes	0.10	2,000,000	98.10	1,962,012	(37,988)	5.27	612
Federal Home Loan Bank Notes	7.77	150,000,000	98.92	148,373,250	(1,626,750)	4.03	61
Federal National Mortgage Assoc. Notes	0.98	18,994,240	97.51	18,526,615	(467,625)	4.72	468
Student Loan Marketing Assoc. Notes	2.44	47,100,000	92.59	43,611,256	(3,488,744)	3.48	860
World Bank Notes	2.59	50,000,000	90.11	45,056,650	(4,943,350)	2.51	838
Corporate Medium Term Notes	2.97	57,348,871	94.61	54,259,530	(3,089,341)	3.65	589
Money Market Funds	0.93	18,000,000	100.00	18,000,000	0	5.44	3
Repurchase Agreements	11.65	225,000,000	100.00	225,000,000	0	5.61	3
Negotiable Certificates of Deposit	28.99	560,000,000	91.99	515,152,595	(44,847,405)	3.20	719
Commercial Paper	2.06	39,845,596	99.11	39,645,999	(199,597)	5.64	6
Bankers Acceptances	1.29	24,902,083	99.80	24,949,083	47,000	5.66	14
Collateralized Certificates of Deposit	0.01	98,000	100.00	98,000	0	5.60	83
Structured Notes (See next table for detail)							
Yield Curve Notes	19.68	380,150,000	96.03	365,060,043	(15,089,957)	3.89	492
Inverse Floating Notes	13.10	253,082,105	94.15	238,328,250	(14,753,855)	2.60	523
Totals For May 1997	100.00%	$1,931,442,843	95.32%	$1,841,408,439	$ (90,034,404)		3.82%
	473						
Totals For April 1997	100.00%	$2,359,737,718	96.02%	$2,266,714,548	$ (93,542,581)	4.22%	409
Change From Prior Month		$ (428,294,874)	-0.70%	$ (425,306,109)	$ 3,508,176	-0.40%	64

* Does not reflect any portfolio securities lending transactions. See "San Diego County Investment Pool -- Investments of the Treasury Pool - Securities Lending by the Pool" above.

Source: County of San Diego, Treasurer-Tax Collector.

SAN DIEGO COUNTY INVESTMENT POOL STRUCTURED NOTES INFORMATION*
as of May 30, 1997

Type of Security	Percent Of Portfolio	Book Value	Market Price	Market Value	Unrealized Gain/Loss	Yield To Maturity	Weighted Average Days To Maturity
Yield Curve Notes							
Federal Home Loan Bank Notes	17.09%	$ 330,150,000	96.16%	$ 317,477,543	$ (12,672,457)	3.91%	495
Deutsche Bank Notes	2.59	50,000,000	95.17	47,582,500	(2,417,500)	3.75	473
Inverse Floating Notes							
Federal Farm Credit Bank Notes	2.92	56,309,350	97.08	54,666,856	(1,642,494)	4.12	514
Federal Home Loan Bank Notes	5.01	96,772,755	95.32	92,306,794	(4,465,961)	3.70	518
Student Loan Marketing Assoc. Notes	5.18	100,000,000	91.35	91,354,600	(8,645,400)	0.69	532
Totals for May 1997	32.79%	$ 633,232,105	95.28%	$ 603,388,292	$ (29,843,813)	3.37%	504
Totals for April 1997	26.85%	$ 633,632,221	94.93%	$ 601,602,610	$ (32,029,611)	3.53%	534
Change from Prior Month		$ ($400,116)	0.34%	$ 1,785,682	$ 2,185,798	-0.16%	(30)

* Does not reflect any portfolio securities lending transactions. See "San Diego County Investment Pool -- Investments of the Treasury Pool -- Securities Lending by the Pool" above.

Source: County of San Diego, Treasurer-Tax Collector.

LIMITATIONS ON TAX REVENUES

Article XIII A

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

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

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

Article XIII B

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

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain

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

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

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

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

Proposition 46

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

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the County be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local

governmental entities except as permitted by Article XIII A of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

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

Since the adoption of Proposition 62, the County enacted an increase in the transient occupancy tax from 8% to 9% without a vote. In fiscal year 1995-96, the last fiscal year for which audited financial statements are available, the County received approximately $259,395 in tax revenues from this 1% increase. In addition, the County imposed a business certificate fee in 1990 without a vote. This fee resulted in approximately $743,510 in revenue for the fiscal year ending June 30, 1996. See Appendix B – "The County of San Diego Audited Financial Statements for the Fiscal Year ended June 30, 1996." The County believes that any effect on the ability of the County to collect this increase in the transient occupancy tax and the business certificate fee will not adversely affect the ability of the County to pay the Certificates as and when due.

Right to Vote on Taxes Initiative-Proposition 218

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

Article XIII C of Proposition 218 requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes, including special taxes deposited into the County's General Fund. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995 and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. The County has not enacted imposed, extended or increased any tax without voter approval since January 1, 1995. These voter approval

requirements of Proposition 218 reduce the flexibility of the County to raise revenues through General Fund taxes, and no assurance can be given that the County will be able to raise such taxes in the future to meet increased expenditure requirements.

Article XIII C of Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after [the effective date of Proposition 218] assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the County's General Fund. Further, "fees" and "charges" are not defined in Article XIII C or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as they do in Article XIII D, as described below. Accordingly, the scope of the initiative power under Article XIII C could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

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

Article XIII D of Proposition 218 adds several new requirements making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined in Proposition 218 and SB 919 to mean any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in County service areas and in special districts. In most instances, in the event that the County is unable to collect assessment revenues relating to specific programs as a consequence of Proposition 218, the County will curtail such services rather than use amounts in the General Fund to finance such programs. Accordingly, the County anticipates that any impact Proposition 218 may have on existing or future taxes, fees, and assessments will not adversely

affect the ability of the County to pay the principal of and interest represented by the Certificates as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the assessments that presently finance them are reduced or repealed.

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

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

Implementing legislation respecting Proposition 218, in addition to SB 919, has been introduced in the State legislature that would supplement and add provisions to California statutory law. No assurance may be given as to the final terms of such legislation or its potential impact on the County.

Future Initiatives

Article XIIIA, Article XIIIB and Proposition 98, 187 and 218 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the County or local districts

to increase revenues or to increase appropriations which may affect the County's revenues or its ability to expend its revenues.

RISK FACTORS

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the Certificates.

Not a Pledge of Taxes

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

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

Additional Obligations of the County

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

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

Limitations on Remedies

The rights of the owners of the Certificates are subject to the limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Certificates, and the obligations incurred by the County, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the

interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights

On January 24, 1996, the United States Bankruptcy Court for the Central District of California held in the case of *County of Orange v. Merrill Lynch* that a State statute providing for a priority of distribution of property held in trust conflicted with, and was preempted by, federal bankruptcy law. In that case, the court addressed the priority of the disposition of moneys held in a county investment pool upon bankruptcy of the county. The County may invest, and direct the Trustee to invest, amounts held in the Certificate Reserve Fund, the Acquisition Fund, the Capitalized Interest Fund, the Base Rental Payment Fund and the Administrative Expense Fund in the County Investment Pool, which amounts are pledged to repay the Certificates. In the event of a petition for the adjustment of County debts under Chapter 9 of the federal bankruptcy code, a court might hold that the Owners of the Certificates do not have a valid lien on the amounts held in such funds where such amounts are deposited in the County Investment Pool and may not provide the Owners of the Certificates with a priority interest in such amounts. In such instance, unless such Owners could "trace" the funds, the Owners would be only unsecured creditors of the County. There can be no assurance that the Owners could successfully so "trace" the amounts representing amounts held in such funds.

Default

In the event of a default, there is no remedy of acceleration of the total Base Rental Payments due over the term of the Sublease and the Trustee is not empowered to sell the Property and use the proceeds of such sale to prepay the Certificates or pay debt service thereon. The County will be liable only for Base Rental Payments on an annual basis, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Base Rental Payments. Any such suit for money damages would be subject to limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds of a fiscal year other than the fiscal year in which the Base Rental Payments were due and against funds needed to serve the public welfare and interest. In addition, pursuant to the Sublease, so long as no event of default shall have occurred and be continuing under the Memorandum and so long as the City is otherwise in compliance with the Memorandum, the County and the Corporation shall honor the right of the City to use up to and occupy up to 180 beds to be located in the Central Jail Project, all as described in the Memorandum, notwithstanding the occurrence of any event of default under the Sublease or the exercise of any remedies as a consequence of any such occurrence.

Abatement

Except to the extent of (i) amounts held by the Trustee in the Base Rental Payment Fund or held by the County in the Certificate Reserve Fund or the Capitalized Interest Fund; (ii) amounts received in respect of use and occupancy insurance; and (iii) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect or condemnation or as a result of a failure to complete the Project, there is substantial interference with the use and possession by the County of any portion of the Property, rental payments due under the Sublease with respect to the Property shall be abated to the extent that the annual fair rental value of the portion of the Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. Any abatement of rental payments pursuant to the Sublease shall not be considered an Event of Default as defined therein. Such abatement will continue for the period commencing with the

date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Property so damaged, destroyed, defective or condemned.

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

Failure to Complete the Project on Schedule

Initial construction of the Project began in February 1995, and is scheduled to be completed in November 1997, with operation scheduled to commence in early 1998. The construction of the Central Jail is on schedule with projected cumulative costs of $58,200,127 and actual cumulative costs of $50,025,524. It is anticipated that as work progresses, the projected costs and the actual costs will eventually balance, with a total estimated cost of approximately $63,332,264. The construction contract is not a fixed fee, guaranteed price contract. From the proceeds of the Certificates, an amount of money will be deposited into a Capitalized Interest Account to pay interest with respect to the Certificates through and including August 1, 1998. The construction agreement with the contractor provides a scheduled completion date and includes a provision for the payment to the Trustee on behalf of the Corporation of liquidated damages for each day beyond the scheduled completion date in an amount at least equal to the daily Base Rental Payment payable under the Sublease. The construction agreement further provides that such liquidated damages be covered by a performance or payment bond. In the event the contractor for any reason cannot deliver possession of the Project on or prior to the date specified in the Sublease, the Base Rental Payments shall be abated with respect to the period between the date specified in the Sublease and the time when the contractor delivers possession of the Central Jail.

Earthquakes

The County is not obligated under the Sublease to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property unless such insurance is commercially available from reputable providers at reasonable rates and the Property cannot satisfy any earthquake standards which may be imposed by AMBAC Indemnity or any nationally recognized rating agency then rating the Certificates.

Rider v. City of San Diego

In May 1996, a taxpayer filed action against the City of San Diego ("San Diego") and the San Diego Convention Center Expansion Authority (the "Authority") challenging the validity of a lease revenue financing involving a lease having features similar to the Sublease of the County entered into in connection with the Certificates. In the Rider Case, the Plaintiffs maintain that voter approval is required for the San Diego lease (a) since the lease constituted indebtedness prohibited by Article XVI, Section 18 of the California Constitution without a two-thirds vote of the electorate, and (b) since San Diego was prohibited under its charter from issuing bonds without a two-thirds vote of the electorate, and the power of the Authority, a joint powers authority, one of the members of which is San Diego, to issue bonds is no greater than the power of the City. In response to San Diego's motion for summary judgment, the trial court rejected the Plaintiffs' arguments and ruled that the lease was constitutionally valid and that the Authority's related lease revenue bonds did not require voter approval. The Plaintiffs appealed the matter to the Court of Appeals for the Fourth District, which affirmed the validity of the lease and of the lease revenue bond financing arrangements. The Plaintiffs filed a petition for discretionary review with the California State Supreme Court,

and, on April 2, 1997, the California Supreme Court granted the Plaintiffs' petition for review. No decision from the State Supreme Court is expected until sometime during the 1998 calendar year.

Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Harrison, Taylor & Bazile LLP, Oakland, California, Co-Special Counsel, are delivering their final approving opinion in the Form of Appendix E to the Official Statement incident the delivery of the Certificates. The final approving opinion is in Co-Special Counsel's standard form of opinion for transactions of this type. The final approving opinion is based on existing laws, regulations, rulings and court decisions (which include California State Supreme Court decisions upholding the validity of the various forms of lease financing). However, no assurance can be given, and Co-Special Bond Counsel is rendering no opinion that, the Supreme Court will not decide that the San Diego lease and Authority lease revenue bonds are invalid, or that the decision of the Supreme Court could not or will not adversely affect the Sublease or the Certificates.

THE CORPORATION

The Corporation was organized on June 12, 1984, as a nonprofit public benefit corporation pursuant to the Nonprofit Public Corporation Law of the State of California. The Corporation's purpose is to render assistance to the County in its acquisition of equipment, real property and improvements on behalf of the County. Under its articles of incorporation, the Corporation has all powers conferred upon nonprofit public benefit corporations by the laws of the State of California, provided that it will not engage in any activity other than that which is necessary or convenient for, or incidental to the purposes for which it was formed.

The Corporation is a separate legal entity from the County. It is governed by a five-member Board of Directors (the "Board of Directors") appointed by the Board of Supervisors of the County. The Corporation has no employees. All staff work is performed by employees of the County. The members of the Corporation's Board of Directors are Barry I. Newman, Morris Slayen, Hardy G. Kuykendall, Tim Considine and Michel Anderson.

The County's Chief Financial Officer/Auditor and Controller, Treasurer-Tax Collector, the County Counsel, Director of General Services, Director of Purchasing and Contracting and other County employees are available to provide staff support to the Corporation.

The Corporation has not entered into any material financing arrangements other than those referred to in this Official Statement. Further information concerning the Corporation may be obtained from the San Diego County Capital Asset Leasing Corporation office at 1600 Pacific Highway, Room 352, San Diego, California 92101.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Harrison, Taylor & Bazile LLP, Oakland, California, Co-Special Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, the portion of each Base Rental Payment designated as and comprising interest 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. Co-Special Counsel are of the further opinion that the portion of each Base Rental Payment due under the Sublease designated as and comprising interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Co-Special Counsel observe that such interest is included in adjusted current earnings in calculating

corporate alternative minimum taxable income. A complete copy of the opinion of Co-Special Counsel is set forth in Appendix E hereto.

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

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of the portion of payments such as the Base Rental Payments designated as and comprising interest. The County has covenanted to comply with certain restrictions designed to assure that the portion of each Base Rental Payment designated as and comprising interest will not be included in gross income for federal income tax purposes. Failure to comply with these covenants may result in the portion of each Base Rental Payment designated as and comprising interest being included in federal gross income, possibly from the date of execution and delivery of the Certificates. The opinion of Co-Special Counsel assumes compliance with these covenants. Co-Special Counsel have not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of execution and delivery of the Certificates may affect the value of, or the tax status of the portion of each Base Rental Payment designated as and comprising interest. Further, no assurance can be given that pending or future legislation or amendments to the Code, if enacted into law, or any proposed legislation or amendments to the Code, will not adversely affect the value of, or the tax status of the portion of each Base Rental Payment designated as and comprising interest. Prospective owners of the Certificates are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Certain requirements and procedures contained or referred to in the Trust Agreement, the Tax Certificate, and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Base Rental Payments evidenced by the Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Co-Special Counsel express no opinion as to the portion of each Base Rental Payment designated as and comprising interest if any such change occurs or action is taken or omitted upon the advice or approval of bond counsel other than Orrick, Herrington & Sutcliffe LLP.

Although Co-Special Counsel have rendered an opinion that the portion of each Base Rental Payment designated as and comprising interest is excluded from gross income for federal income tax purposes, the ownership or disposition of the Certificates, or the accrual or receipt of the portion of each Base Rental Payment designated as and comprising interest, may otherwise affect the tax liability of an owner of a Certificate. The nature and extent of these other tax consequences will depend upon the particular tax status

of the Certificate owner or the Certificate owner's other items of income or deduction. Co-Special Counsel express no opinion regarding any such other tax consequences.

VERIFICATION

Deloitte & Touche LLP independent certified public accountants, will verify certain mathematical computations as to the sufficiency of the Defeasance Securities deposited into the Escrow Fund to pay the Defeasance Obligation.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization, sale, execution and delivery by the County of the Certificates are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, and Harrison, Taylor & Bazile LLP, Oakland, California, Co-Special Counsel. A complete copy of the proposed form of opinion of Co-Special Counsel is contained in Appendix E hereto. Co-Special Counsel undertake no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by their counsel, Hawkins, Delafield & Wood, Los Angeles, California, and for the County and the Corporation by the County Counsel.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement with the Trustee (the "Disclosure Agreement"), the County has agreed to provide, or cause to be provided by no later than 180 days after the end of the prior fiscal year, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data, including its audited financial statements and information of the type set forth in this Official Statement under the heading "County Financial Information." In addition, the County has agreed to provide, or cause to be provided, to each Repository in a timely manner notice of the following "Listed Events" if determined by the County to be material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on the debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the security; (7) modifications to rights of security holders; (8) optional, contingent or unscheduled bond calls; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the securities; and (11) rating changes. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5). The County has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

The County and the Trustee may amend the Disclosure Agreement, and waive any provision thereof, by written agreement of the parties, without the consent of the owners of the Certificates (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the County or the type of business conducted thereby; (2) the Disclosure Agreement as so amended would, in the opinion of nationally recognized bond counsel, have complied with the requirements of Rule 15c2-12 as of the date of the Disclosure Agreement, after taking into account any

amendments or interpretations of the Rule, as well as any change in circumstances; and (3) either (i) the amendment, in the opinion of the Trustee or nationally recognized bond counsel or counsel expert in federal securities laws, does not materially impair the interests of the holders of the Certificates, or (ii) the holders of the Certificates consent to the amendment to the Disclosure Agreement pursuant to the same procedures as are required for amendments to the Trust Agreement with consent of holders of the Certificates pursuant to the terms of the Trust Agreement as in effect on the date of the Disclosure Agreement. The County shall describe such amendment and the reason therefore in its next annual report filed with the Repositories.

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

FINANCIAL STATEMENTS

The general purpose financial statements of the County included in Appendix B to this Official Statement have been audited by Deloitte & Touche LLP, independent certified public accountants, as stated in their report appearing in Appendix B. Deloitte & Touche LLP has not consented to the inclusion of its report as Appendix B and has not undertaken to update its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Deloitte & Touche LLP with respect to any event subsequent to its report dated November 22, 1996.

LITIGATION

No litigation is pending, or to the best knowledge of the County, threatened against the County concerning the validity of the Certificates. The County is not aware of any litigation pending or threatened questioning the political existence of the County or contesting the County's ability to levy and collect *ad valorem* property taxes. There are a number of suits and claims pending against the County, all of which are in the normal course of the County's business. Also pending are a number of personal injury and wrongful death suits and claims, the aggregate amount of which will not, in the opinion of the County Counsel, materially affect the County's finances or impair its ability to pay the Certificates. Under California law, the County can be required to pay any adverse judgment against the County during fiscal year 1996-97 only from funds allocated for this purpose in the 1996-97 budget.

RATINGS

Fitch Investors Service, Inc. ("Fitch") has assigned the Certificates a rating of "AAA" and Standard & Poor's Ratings Services, a division of The MacGraw-Hill Companies, Inc. ("S&P") has assigned the Certificates a rating of "AAA" with the understanding that, upon delivery of the Certificates, the municipal bond insurance policy will be delivered by AMBAC Indemnity. Such ratings reflect only the views of Fitch and S&P, and do not constitute a recommendation to buy, sell or hold the Certificates. Explanation of the significance of such ratings may be obtained only from the respective organizations at: Fitch Investors Service, Inc., One State Street Plaza, New York, New York 10004, telephone number (212) 908-0549; and

Standard & Poor's Ratings Services, a division of The MacGraw-Hill Companies, Inc., 25 Broadway, New York, New York 10004, telephone number (212) 208-1002. There is no assurance that any such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by the respective rating agencies, if in the judgment of any such rating agency circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are being purchased by Merrill Lynch & Co. and the other underwriters named on the cover page hereof (the "Underwriters"). The Underwriters have agreed, subject to certain conditions, to purchase the Certificates at a price of $77,329,728 (which amount represents the principal amount of the Certificates less an underwriter's discount of $546,118.50 and less an original issue discount of $2,799,153.50), plus accrued interest. The purchase agreement relating to the Certificates provides that the Underwriters will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriters may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriters.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or Owners of any of the Certificates.

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

COUNTY OF SAN DIEGO

By: /s/ Lawrence B. Prior III
Chief Administrative Officer

Dated: July 10, 1997

APPENDIX A

ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF SAN DIEGO

General

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

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

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

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

The San Diego Convention Center, containing 354,000 square feet of exhibit space and over 100,000 square feet of meeting/banquet rooms began operation in November 1989. The Convention Center can accommodate events for 30,000 to 40,000 people. During 1990, its first year of operation, 354 events were held, attracting 1.1 million guests. An estimated 280,000 of these guests were from out of town. Major conventions and trade shows are scheduled into the year 2009.

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

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

County Government

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

Growth Management

The County has fostered a regional growth management plan rather than development limitations. The current regional growth management effort was approved by the voters in November 1988 as Proposition C, the only one of five growth-related measures on the ballot to be approved. It provides for a voluntary planning process to help define, plan, and prepare for the impacts of growth on a regional basis. Representatives of the County and each of the 18 incorporated cities within the County agreed to a growth management board that came into being in 1990 through an amendment to the SANDAG joint powers agreement designating SANDAG as the board. The board has no power to limit growth in any jurisdiction.

Population

There are 18 incorporated cities in the County, and a number of unincorporated communities. For many years the population of the County has grown at a greater rate than that of either California or the nation. The County population for 1997 was estimated to be approximately 2,782,800, making it the second largest County by population in California and the sixteenth largest Metropolitan Statistical Area in the United States. The 1997 population increased 1.8% from 1996. Approximately 32% of the growth in population in 1997 can be attributed to migration, a large share of which can be linked to employment opportunities. The remaining 68% is from net natural increases, i.e., births less deaths.

Population in the County is expected to grow to 3.0 million people by the year 2000, and to 3.5 million people by 2010, which is nearly a 17% increase over the existing population.

The City of San Diego is the sixth largest city in the nation, and had a population of approximately 1.2 million people in 1997.

The following table shows changes in the population in the County, the State and the United States for the years 1987 to 1996.

POPULATION TRENDS
(in thousands)

Year	San Diego County (000)[1]	Percent Change	State of California (000)[1]	Percent Change	United States (000)[1]	Percent Change
1987	2,248	3.64%	27,717	2.46%	242,804	0.89%
1988	2,328	3.56	28,393	2.44	245,021	0.91
1989	2,418	3.87	29,142	2.64	247,342	0.95
1990	2,480	2.56	29,976	2.86	249,908	1.04
1991	2,547	2.70	30,646	2.24	252,648	1.10
1992	2,602	2.16	31,320	2.20	255,458	1.11
1993	2,666	2.46	31,746	1.36	258,245	1.09
1994	2,706	1.50	32,140	1.24	260,089	0.71
1995	2,721	0.55	32,344	0.63	262,643	0.99
1996	2,730	1.00	32,231	-1.00	263,434	0.99

(1) Estimated population as of July 1.
Sources: State of California Department of Finance; U.S. Department of Commerce, Bureau of the Census.

Employment

The County's total labor force, the number of persons who work or are available for work, averaged approximately 1,236,300 in calendar year 1996. The number of employed workers in the labor force averaged approximately 1,170,700. The total work age population (15 to 64 years old) employed in the labor force is expected to increase. The following table sets forth information regarding the size of the labor force, employment and unemployment rates for the County, the State and the United States for the years 1992 through 1996.

EMPLOYMENT TRENDS -- ANNUAL AVERAGES 1992-96
By Place of Residence
(in thousands)

	1992	1993	1994	1995	1996
County of San Diego					
Labor Force	1,195.0	1,198.5	1,235.1	1,226.2	1,236.3
Employment (000s)	1,107.0	1,098.0	1,148.2	1,147.8	1,170.7
Unemployment Rate	7.4%	8.4%	7.0%	6.4%	5.3%
State of California					
Labor Force (000s)	15,307.0	15,259.0	15,337.7	15,415.5	16,596.0
Employment (000s)	13,913.0	13,853.0	14,259.4	14,205.9	14,470.0
Unemployment Rate	9.1%	9.2%	7.0%	7.8%	7.2%
United States					
Labor Force (000s)	126,982.0	128,040.0	131,056.0	131,304.0	133,943.0
Employment (000s)	117,598.0	119,306.0	123,060.0	124,900.0	126,708.0
Unemployment Rate	7.4%	6.8%	6.1%	5.6%	5.4%

Sources: California Employment Development Department; California Labor Market Bulletin; Employment Development Department, Labor Market Conditions in California.

The service industries accounted for approximately 30% of total nonagricultural employment in 1996, with a total of 332,300 jobs. The trade industry, including both retail and wholesale businesses, was the second largest sector in 1996, comprising approximately 22% of total County employment with a total of 241,200 jobs.

During 1996, government accounted for approximately 17% of total employment and manufacturing accounted for an additional 10.3%. The construction and transportation sectors of employment are greatly influenced by the general health of the economy due to the fact that they serve exclusively the local market. These two sectors are therefore directly influenced by the growth of population and housing.

The following table sets forth the annual average employment within the County, by employment sector, for the fiscal years 1992 through 1996.

NONAGRICULTURAL EMPLOYMENT -- ANNUAL AVERAGES 1992-1996
By Place of Work
(Amounts in Thousands)

Employment Sector	1992	1993	1994	1995	1996
Total, All Industries	958.4	957.9	960.3	985.4	1,109.3
Mining	0.5	0.4	0.4	0.3	0.3
Transportation and Public Utilities	34.8	35.17	35.18	37.3	38.3
Construction Employment	43.1	39.5	40.0	43.1	46.0
Manufacturing Employment	124.11	117.5	112.3	114.0	114.1
Wholesale and Retail Trade	221.4	225.5	225.4	229.6	241.2
Finance, Insurance and Real Estate Employment	61.9	62.2	60.9	55.3	55.6
Services Employment	283.6	287.3	294.5	310.6	332.3
Government Employment	179.3	179.1	180.6	184.7	191.9

Sources: County of San Diego Auditor and Controller; California Employment Development Department.

The following table sets forth the twenty largest governmental and non-governmental employers in the County:

SAN DIEGO COUNTY
LARGEST EMPLOYERS

Employer	Number of Employees	Product or Service
U.S. Government/Active Duty Military	123,000	National Defense
State of California	29,200	Administration of State Services
U.S. Government/Civilian Employees	23,500	Federal Administration
County of San Diego	17,956	Count Administration
University of California, San Diego	17,000	Educational Institution
Scripps Institution of Medicine and Science	9,395	Health Care/Biomedical Research
City of San Diego	9,565	City Administration
San Diego State University	8,039	Educational Institution
Sharp HealthCare	8,001	Hospitals and Health Care
U.S. Postal Service, San Diego Division	7,091	Mail Services
Kaiser Permanente Medical Center	4,434	Hospital/HMO
San Diego Gas & Electric	4,126	Energy-management Company
Science Applications International Corp.	3,654	Research for national security
National Steel & Shipbuilding Co.	3,273	Builder/Repair Ocean going Vessels
Solar Turbines Inc.	2,951	Design, manufacture, installation and
Sweetwater Union High School District	2,660	K-12 Public Schools
Rohr Inc.	2,391	Aerospace
Callaway Golf	2,001	Manufacturer of golf equipment
Sony San Diego Manufacturing Center	2,000	Manufacturer of electronic components
Foodmaker Inc.	1,956	Operates franchise restaurants

Source: San Diego Business Journal, October 17, 1995.

Regional Economy

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

Although the 1991 figure of the County's total "real" economy showed a decrease for the first time in nine years, the Gross Regional Product ("GRP") for 1990 was $60.4 billion, up 6.3% from 1989. The GRP is an estimate of the value for all goods and services produced in the region. The GRP for 1996 rose to $79.1 billion from $73.6 billion in 1995. The following table presents the County's GRP from 1987 through 1996.

GROSS REGIONAL PRODUCT

Year	Gross Regional Product (Billion $)	Annual Percent Change Current Dollars San Diego	Annual Percent Change Real Change[1] San Diego
1987	46.7	9.1	5.5
1988	51.4	10.0	5.7
1989	56.8	10.5	6.1
1990	60.4	6.5	1.9
1991	61.8	2.2	-1.6
1992	63.4	2.6	-0.2
1993	64.8	2.2	0.7
1994	66.8	3.1	2.2
1995	73.6	5.0	4.6
1996	79.1	7.5	4.7

(1) Adjusted using the GNP Implicit Price Deflator.
Sources: Data for the U.S. by the Department of Commerce, Bureau of Economic Analysis; Economic Research Bureau of the Greater San Diego Chamber of Commerce; County of San Diego Auditor and Controller.

Economic activity and population growth in the local economy are closely related. Helping to sustain the County's economy is the performance of three basic industries of the region, which consist of manufacturing, the military, and tourism. The U.S. Department of Defense contributes about $10 billion annually to the local economy, through wages paid to the uniformed military and civilian personnel, and for equipment and services purchased from local businesses. Although the Department of Defense intends to close and vacate the Naval Training Center by the middle of 1997, the Navy will be moving three major procurement agencies and its Navigation Department to San Diego during 1996 and 1997. San Diego's military presence is anticipated to remain relatively stable and may even increase due to the consolidation of military operations and facilities from elsewhere in California, the West, and throughout the United States.

Building Activity

Building permit valuation in the County in 1996 increased over 1995 levels. Measures limiting new housing remain in effect in areas throughout the County. The number of building permit authorizations has fallen in the last several years.

Annual total building permit valuation and the annual unit total of new residential permits from 1992 through 1996 are shown in the following table.

BUILDING PERMIT ACTIVITY

	1992	1993	1994	1995	1996
Valuation (in 000's)					
Residential(*)	$1,054,395	$1,005,271	$1,218,857	$1,187,952	$1,358,355
Non-Residential	528,323	536,276	449,608	627,298	738,595
Total	$1,582,718	$1,541,547	$1,668,465	$1,815,250	$2,096,950
New Dwelling Units					
Single Family	3,762	4,076	5,247	4,736	5,816
Multiple Family	2,297	1,526	1,688	1,872	1,052
Total	6,059	5,602	6,935	6,608	6,868

Source: Economics Sciences Corporation; Construction Industry Research Board.

Commercial Activity

Consumer spending in Calendar Year 1996 resulted in approximately $11,998,988 in taxable sales in the County.

The following table sets forth information regarding taxable sales in the County for Calendar Years 1992-1996.

TAXABLE SALES
Calendar Years 1992-1996
(000's Omitted)

Type of Business	1992	1993	1994	1995	1996(*)
Apparel Stores	$ 883,909	$ 892,222	$ 890,813	$ 850,087	$ 396,113
General Merchandise	2,838,241	2,841,444	2,966,086	2,962,497	1,359,808
Specialty stores	1,948,820	2,042,040	2,180,212	2,335,210	1,145,435
Food stores	1,494,288	1,227,909	1,196,519	1,210,908	605,440
Liquor stores	159,383	139,371	130,120	128,024	62,152
Home Furnishings/ Appliances	745,430	725,305	811,149	855,180	428,137
Eating & Drinking Establishments	2,082,647	2,105,137	2,165,277	2,271,296	1,162,519
Building Materials & Farm Implements	1,175,340	1,207,008	1,204,917	1,228,771	642,242
Automotive	2,454,790	2,542,729	2,799,470	2,925,561	1,592,420
Service Stations	1,300,374	1,334,355	1,310,698	1,353,264	736,300
Retail Stores Total	15,083,222	15,241,382	15,718,773	16,181,283	8,162,129
Business & Personal Services	1,172,763	1,173,790	1,211,950	1,270,837	651,258
All Other Outlets	5,101,872	5,161,155	5,444,420	5,981,923	3,185,601
TOTAL ALL OUTLETS**	$21,357,857	$21,576,327	$22,375,143	$23,434,043	$11,998,988

Source: California State Board of Equalization Sales in California., Taxable
* Amounts are for the first half of 1996.
** Columns do not total due to certain omitted categories.

Personal Income

Personal income is income for all sources after deductions for social insurance programs, and before taxes. Earned income, derived primarily from wages and salaries, is the largest component of personal income.

Effective Buying Income ("EBI") is a gross measurement of market potential indicating the ability to buy. EBI is a classification of all personal income (e.g., wages, salaries, other labor-related income, interest income and pension and welfare assistance) less personal taxes (i.e., federal, state, local and Social Security taxes and related fines, penalties and fees) and less non-tax revenues (i.e., payments for overseas diplomatic and military personnel).

In 1995, the County ranked 18 of 320 metropolitan areas in terms of Total EBI, 96 of 320 in terms of Median Household EBI and 24 of 320 in terms of Number of Households with more than $150,000 of EBI.

The following table lists the various income indices for the San Diego Metropolitan Statistical Area and the United States.

INCOME INDICES
Calendar Years 1987 – 1995

	Total EBI		Per Capita Personal Income		Median Household EBI		Number of Households with More than $50,000 EBI (000s)
Year	San Diego MSA (000's)	U.S. (000's)	San Diego MSA	U.S.	San Diego MSA	U.S.	San Diego MSA
1987	$35,704,887	$3,202,847,131	$15,430	$13,040	$29,891	$25,888	208.8
1988	36,146,308	3,064,005,977	15,174	12,359	29,555	24,488	213.7
1989	38,270,528	3,287,489,252	15,391	13,158	29,916	25,976	229.3
1990	41,179,182	3,499,365,237	16,067	13,952	32,013	27,912	257.4
1991	40,840,447	3,728,967,043	15,681	14,702	35,776	32,073	248.2
1992	42,282,698	3,916,947,023	15,947	15,255	36,502	33,178	298.8
1993	43,795,963	4,169,724,052	16,485	16,064	38,082	35,056	319.5
1994	45,541,671	4,436,178,724	17,034	16,918	39,542	37,070	341.3
1995(1)	39,777,129	3,964,285,118	14,609	14,965	33,679	32,238	266.0

(1) Data for 1995 reflects changes in methodology for calculating effective buying income, which new methodology excludes certain sources of income.
Sources: Sales & Marketing Management, Survey of Buying Power.

Transportation

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

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

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

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

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

Visitor and Convention Activity

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

San Diego's visitor industry is a major sector of the region's economy. Visitor revenues in San Diego County reached approximately $4.0 billion in 1996, according to an estimate by the San Diego Convention and Visitors Bureau, up from $3.8 billion in 1995. In 1996, San Diego County hosted 52 conventions and trade shows, attended by approximately 285,800 delegates, who spent nearly $247,300,000.

Education

Forty-three independent school districts provide educational programs for the elementary and secondary public school children in the County. Each school system is governed by a locally elected board of education and administered by a superintendent or other chief administrative officer appointed by the board. In the County there are three types of school districts: elementary, union high and unified. Elementary districts educate elementary students, union high districts educate for the most part secondary students, and unified districts educate both elementary and secondary students. There are currently 10 unified, 27 elementary and 6 union high school districts in the County.

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

Among the institutions of higher education offering bachelors and graduate programs in metropolitan San Diego are San Diego State University; the University of California at San Diego, which, in terms of enrollment is the fifth largest school in the State; National University; the University of San Diego; Point Loma College; California State University - San Marcos; and United States International University.

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APPENDIX B

THE COUNTY OF SAN DIEGO AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 1996

Auditors' Opinion B-2

Combined Balance Sheet -All Fund Types and Account Groups B-3

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types B-5

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - All Governmental Fund Types B-6

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balance - All Proprietary Fund Types and Similar Trust Fund B-11

Combined Statement of Cash Flows - All Proprietary Fund Types B-12

Pension Trust Fund - Statement of Changes in Reserve for Employees' Pension Benefits B-14

Notes to Combined Financial Statements B-15

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the County of San Diego as of June 30, 1996 and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the County of San Diego. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such general purpose financial statements present fairly, in all material respects, the financial position of the County of San Diego at June 30, 1996, and the results of its operations and the cash flows of its proprietary fund types and pension trust fund for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 3 to the financial statements, the market values of certain investments with a carrying amount of $1,717,487,000 have been estimated by management in the absence of readily ascertainable market values. We have reviewed the procedures used by management in arriving at the estimated values of such investments and have inspected underlying documentation, and, in the circumstances, believe the procedures are reasonable and the documentation appropriate. However, determination of the value of these investments involves subjective judgment because the actual market values can be determined only by negotiation between the parties in sales transactions. The estimated value of the investments may differ from the values that would have been used had a ready market existed for the investments, and the differences could be material.

Deloitte & Touche LLP

November 22, 1996

Deloitte Touche
Tohmatsu
International

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 1996
With Comparative Figures for June 30, 1995
(In Thousands)

	GOVERNMENTAL FUND TYPES			
ASSETS AND OTHER DEBITS	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Equity in Pooled Cash and Investments	$ 28,940	63,986	49,178	73,949
Cash with Fiscal Agent	228,137	59	2,610	2,889
Collections in Transit	849	430		2
Imprest Cash	187	13		
Investments				
Taxes Receivable	1,775			
Accounts and Notes Receivable, Net	123,259	17,385	28	9,097
Due from Other Funds	60,907	8,292	380	9,267
Interfund Receivables				
Advances to Other Funds	6,950	157	610	
Inventory of Material and Supplies	11,161	943		
Deposits with Others	15	249		5
Fixed Assets, Net				
Amount Available in Debt Service Funds				
Amount to be Provided for Retirement of General Long–Term Debt				
Total Assets and Other Debits	$ 462,180	91,514	52,806	95,209
LIABILITIES, EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts Payable	$ 32,769	9,986	222	9,601
Accrued Payroll	15,763	940		
Accrued Interest				
Amount Due for Tax and Revenue Anticipation Notes	226,932			
Due to Other Funds	10,526	6,951		8,560
Interfund Payables				
Due to Other Governments				
Advances from Other Funds	60	1,658	287	2,017
Amount Due Employees for Deferred Compensation				
Amount Due for Commercial Paper Notes				
Deferred Revenue	42,589	1,239		1,227
Long–Term Debt Payable				
Total Liabilities	328,639	20,774	509	21,405
Equity and Other Credits:				
Investment in General Fixed Assets				
Contributed Capital				
Retained Earnings:				
Reserved for Solid Waste Contract Covenants				
Unreserved				
Fund Balances:				
Reserved for Encumbrances	59,492	20,401		518
Reserved for Loans	12,195	10,126		
Reserved for Deposits with Others	15	54		
Reserved for Inventory of Material and Supplies	11,161	271		
Reserved for Debt Service			52,297	
Reserved for Employees' Pension Benefits				
Unreserved:				
Designated for Subsequent Years' Expenditures	11,559	87		
Undesignated	39,119	39,801		73,286
Total Equity and Other Credits	133,541	70,740	52,297	73,804
Total Liabilities, Equity and Other Credits	$ 462,180	91,514	52,806	95,209

See Notes to Combined Financial Statements

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 1996
With Comparative Figures for June 30, 1995
(In Thousands)

STATEMENT 1A

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		TOTALS (MEMORANDUM ONLY)	
ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	1996	1995
77,590	33,386	1,403,475			1,730,504	2,094,059
		392,389			626,084	350,882
642	85	14,770			16,778	9,265
16	200	66			482	453
		2,403,307			2,403,307	2,006,687
		238,515			240,290	193,080
5,720	74	242,688			398,251	385,105
29,045	3,277	25,141			136,309	417,507
						99,028
1,518	1,439				10,674	4,009
127	2,311				14,542	13,392
1,924					2,193	2,687
121,998	13,077	194	1,106,447		1,241,716	1,125,217
				52,297	52,297	47,625
				991,388	991,388	917,040
238,580	53,849	4,720,545	1,106,447	1,043,685	7,864,815	7,666,036
8,085	3,113	71,479			135,255	71,1[illegible]6
222					16,925	17,218
3					3	3
					226,932	301,031
1,566	769	107,937			136,309	417,507
						99,028
3,328		1,646,864			1,650,192	1,843,751
6,591		61			10,674	4,009
		168,546			168,546	136,697
		87,500			87,500	
					47,818	44,466
2,763						
54,875	93,527			1,043,685	1,192,087	1,097,429
77,433	97,409	2,082,387		1,043,685	3,672,241	4,032,265
			1,106,447		1,106,447	991,450
45,264	14,550				59,814	60,316
44,550					44,550	43,707
71,333	(58,110)				13,223	24,446
					80,411	73,748
					22,321	11,706
					69	69
					11,432	10,503
					52,297	47,625
		2,638,158			2,638,158	2,244,417
					11,646	18,807
					152,206	106,977
161,147	(43,560)	2,638,158	1,106,447		4,192,574	3,633,771
238,580	53,849	4,720,545	1,106,447	1,043,685	7,864,815	7,666,036

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 1996
With Comparative Figures for Year Ended June 30, 1995
(In Thousands)

STATEMENT 1B

	GENERAL FUND	SPECIAL REVENUE FUNDS	DEBT SERVICE FUNDS	CAPITAL PROJECTS FUNDS	TOTALS (MEMORANDUM ONLY) 1996	TOTALS (MEMORANDUM ONLY) 1995
Revenues:						
Taxes	$ 275,298	22,388	276	1,421	299,383	272,831
Licenses, Permits and Franchises	20,311	6,276			26,587	27,011
Fines, Forfeitures and Penalties	16,248	618		6,921	23,787	18,156
Revenue from Use of Money and Property	17,093	5,164	407	2,655	25,319	26,069
Aid from Other Governmental Agencies:						
State	850,872	76,096		24,107	951,075	899,331
Federal	548,733	46,532		1,288	596,553	581,926
Other	7,786	9,423	1,258	21,315	39,782	51,272
Charges for Current Services	153,101	17,915		63	171,079	156,823
Other Revenue	13,719	1,576	309	2,121	17,725	17,234
Total Revenues	1,903,161	185,988	2,250	59,891	2,151,290	2,050,653
Expenditures:						
Current:						
General	171,373	1,543			172,916	166,381
Public Protection	476,290	5,401			481,691	450,419
Public Ways and Facilities	1,335	68,282			69,617	62,786
Health and Sanitation	249,569	15,827			265,396	256,011
Public Assistance	943,789	48,474			992,263	1,001,420
Education	238	8,735			8,973	8,879
Recreational and Cultural	6,222	887			7,109	6,749
Capital Outlay	1,849			113,321	115,170	60,914
Debt Service	16,866		60,839		77,705	72,894
Total Expenditures	1,867,531	149,149	60,839	113,321	2,190,840	2,086,453
Excess of Revenues Over (Under) Expenditures	35,630	36,839	(58,589)	(53,430)	(39,550)	(35,800)
Other Financing Sources (Uses):						
Sale of Fixed Assets		8		505	513	1,865
Issuance of Lease Purchases	1,849			39,772	41,621	7,018
Operating Transfers In	37,749	33,455	58,175	37,432	166,811	117,339
Operating Transfers (Out)	(53,730)	(69,948)	(7,198)	(35,195)	(166,071)	(116,601)
Long–Term Debt Proceeds		1,049	12,284	43,361	56,694	55,508
Total Other Financing Sources (Uses)	(14,132)	(35,436)	63,261	85,875	99,568	65,129
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	21,498	1,403	4,672	32,445	60,018	29,329
Fund Balances – Beginning of Year	111,148	69,303	47,625	41,359	269,435	252,198
Residual Equity Transfer (Out)						(11,500)
Increase (Decrease) in Reserve for Inventory of Material and Supplies	895	34			929	(592)
Fund Balances – End of Year	$ 133,541	70,740	52,297	73,804	330,382	269,435

See Notes to Combined Financial Statements

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

Year Ended June 30, 1996
(In Thousands)

STATEMENT 1C

	GENERAL FUND		
	ACTUAL ON BUDGETARY BASIS	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:			
Taxes	$ 275,298	268,978	6,320
Licenses, Permits and Franchises	20,311	20,889	(578)
Fines, Forfeitures and Penalties	16,248	15,967	281
Revenue from Use of Money and Property	17,093	16,713	380
Aid from Other Governmental Agencies:			
State	850,872	868,668	(17,796)
Federal	548,733	584,909	(36,176)
Other	7,786	7,126	660
Charges for Current Services	153,101	153,795	(694)
Other Revenue	13,546	16,655	(3,109)
Total Revenues	1,902,988	1,953,700	(50,712)
Expenditures:			
Current:			
General	181,095	200,687	19,592
Public Protection	483,111	493,259	10,148
Public Ways and Facilities	1,483	1,800	317
Health and Sanitation	254,746	272,698	17,952
Public Assistance	943,249	999,203	55,954
Education	238	247	9
Recreational and Cultural	6,362	6,728	366
Capital Outlay			
Debt Service	17,628	27,806	10,178
Total Expenditures	1,887,912	2,002,428	114,516
Excess of Revenues Over (Under) Expenditures	15,076	(48,728)	63,804
Other Financing Sources (Uses):			
Sale of Fixed Assets			
Operating Transfers In	37,749	37,945	(196)
Operating Transfers (Out)	(90,992)	(93,758)	2,766
Issuance of Lease Purchases			
Long-Term Debt Proceeds			
Encumbrances, Beginning of Year	54,379	54,379	
Total Other Financing Sources (Uses)	1,136	(1,434)	2,570
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	16,212	(50,162)	66,374
Fund Balances – Beginning of Year	57,662	57,662	
Residual Equity Transfer In (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Material and Supplies	895		895
Fund Balances – End of Year	$ 74,769	7,500	67,269

See Notes to Combined Financial Statements

(Cont)

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 1996
(In Thousands)

STATEMENT 1C (Cont)

	SPECIAL REVENUE FUNDS		
	ACTUAL ON BUDGETARY BASIS	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:			
Taxes	$ 22,388	59,057	(36,669)
Licenses, Permits and Franchises	6,276	7,497	(1,221)
Fines, Forfeitures and Penalties	618	1,022	(404)
Revenue from Use of Money and Property	5,075	4,293	782
Aid from Other Governmental Agencies:			
State	76,096	72,358	3,738
Federal	46,532	60,885	(14,353)
Other	9,414	4,081	5,333
Charges for Current Services	17,915	24,156	(6,241)
Other Revenue	818	1,033	(215)
Total Revenues	185,132	234,382	(49,250)
Expenditures:			
Current:			
General	1,184	1,207	23
Public Protection	6,680	9,905	3,225
Public Ways and Facilities	77,439	131,288	53,849
Health and Sanitation	21,894	23,861	1,967
Public Assistance	48,474	62,742	14,268
Education	8,950	9,330	380
Recreational and Cultural	911	8,337	7,426
Capital Outlay			
Debt Service			
Total Expenditures	165,532	246,670	81,138
Excess of Revenues Over (Under) Expenditures	19,600	(12,288)	31,888
Other Financing Sources (Uses):			
Sale of Fixed Assets	8		8
Operating Transfers In	3,377	1,498	1,879
Operating Transfers (Out)	(42,840)	(43,062)	222
Issuance of Lease Purchases			
Long–Term Debt Proceeds			
Encumbrances, Beginning of Year	18,966	18,966	
Total Other Financing Sources (Uses)	(20,489)	(22,598)	2,109
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	(889)	(34,886)	33,997
Fund Balances – Beginning of Year	54,061	54,061	
Residual Equity Transfer In (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Material and Supplies	34		34
Fund Balances – End of Year	$ 53,206	19,175	34,031

See Notes to Combined Financial Statements

(Cont)

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 1996
(In Thousands)

STATEMENT 1C (Cont)

	DEBT SERVICE FUNDS		
	ACTUAL ON BUDGETARY BASIS	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:			
Taxes	$ 276	270	6
Licenses, Permits and Franchises			
Fines, Forfeitures and Penalties			
Revenue from Use of Money and Property	398		398
Aid from Other Governmental Agencies:			
State			
Federal			
Other	48	48	
Charges for Current Services			
Other Revenue			
Total Revenues	722	318	404
Expenditures:			
Current:			
General			
Public Protection			
Public Ways and Facilities			
Health and Sanitation			
Public Assistance			
Education			
Recreational and Cultural			
Capital Outlay			
Debt Service	26,602	26,798	196
Total Expenditures	26,602	26,798	196
Excess of Revenues Over (Under) Expenditures	(25,880)	(26,480)	600
Other Financing Sources (Uses):			
Sale of Fixed Assets			
Operating Transfers In	25,184	26,444	(1,260)
Operating Transfers (Out)			
Issuance of Lease Purchases			
Long-Term Debt Proceeds	459		459
Encumbrances, Beginning of Year			
Total Other Financing Sources (Uses)	25,643	26,444	(801)
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	(237)	(36)	(201)
Fund Balances – Beginning of Year	1,357	1,357	
Residual Equity Transfer In (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Material and Supplies			
Fund Balances – End of Year	$ 1,120	1,321	(201)

See Notes to Combined Financial Statements

(Cont)

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 1996
(In Thousands)

STATEMENT 1C (Cont)

	CAPITAL PROJECTS FUNDS		
	ACTUAL ON BUDGETARY BASIS	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:			
Taxes	$ 1,421	8,619	(7,198)
Licenses, Permits and Franchises			
Fines, Forfeitures and Penalties	6,921	8,612	(1,691)
Revenue from Use of Money and Property	666	386	280
Aid from Other Governmental Agencies:			
State	24,107	38,017	(13,910)
Federal	1,288	3,259	(1,971)
Other	21,315	157,512	(136,197)
Charges for Current Services	63	535	(472)
Other Revenue	2,054	2,536	(482)
Total Revenues	57,835	219,476	(161,641)
Expenditures:			
Current:			
General			
Public Protection			
Public Ways and Facilities			
Health and Sanitation			
Public Assistance			
Education			
Recreational and Cultural			
Capital Outlay	113,412	281,376	167,964
Debt Service			
Total Expenditures	113,412	281,376	167,964
Excess of Revenues Over (Under) Expenditures	(55,577)	(61,900)	6,323
Other Financing Sources (Uses):			
Sale of Fixed Assets	505		505
Operating Transfers In	37,117	52,350	(15,233)
Operating Transfers (Out)	(25,547)	(11,576)	(13,971)
Issuance of Lease Purchases	39,772		39,772
Long-Term Debt Proceeds	4,641	9,373	(4,732)
Encumbrances, Beginning of Year	403	403	
Total Other Financing Sources (Uses)	56,891	50,550	6,341
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	1,314	(11,350)	12,664
Fund Balances – Beginning of Year	1,136	1,136	
Residual Equity Transfer In (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Material and Supplies			
Fund Balances – End of Year	$ 2,450	(10,214)	12,664

See Notes to Combined Financial Statements

(Cont)

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
(BUDGET AND ACTUAL) NONGAAP BUDGETARY BASIS
ALL GOVERNMENTAL FUND TYPES
Year Ended June 30, 1996
(In Thousands)

STATEMENT 1C (Cont)

	TOTALS (MEMORANDUM ONLY)		
	ACTUAL ON BUDGETARY BASIS	BUDGET	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:			
Taxes	$ 299,383	336,924	(37,541)
Licenses, Permits and Franchises	26,587	28,386	(1,799)
Fines, Forfeitures and Penalties	23,787	25,601	(1,814)
Revenue from Use of Money and Property	23,232	21,392	1,840
Aid from Other Governmental Agencies:			
State	951,075	979,043	(27,968)
Federal	596,553	649,053	(52,500)
Other	38,563	168,767	(130,204)
Charges for Current Services	171,079	178,486	(7,407)
Other Revenue	16,418	20,224	(3,806)
Total Revenues	2,146,677	2,407,876	(261,199)
Expenditures:			
Current:			
General	182,279	201,894	19,615
Public Protection	489,791	503,164	13,373
Public Ways and Facilities	78,922	133,088	54,166
Health and Sanitation	276,640	296,559	19,919
Public Assistance	991,723	1,061,945	70,222
Education	9,188	9,577	389
Recreational and Cultural	7,273	15,065	7,792
Capital Outlay	113,412	281,376	167,964
Debt Service	44,230	54,604	10,374
Total Expenditures	2,193,458	2,557,272	363,814
Excess of Revenues Over (Under) Expenditures	(46,781)	(149,396)	102,615
Other Financing Sources (Uses):			
Sale of Fixed Assets	513		513
Operating Transfers In	103,427	118,237	(14,810)
Operating Transfers (Out)	(159,379)	(148,396)	(10,983)
Issuance of Lease Purchases	39,772		39,772
Long–Term Debt Proceeds	5,100	9,373	(4,273)
Encumbrances, Beginning of Year	73,748	73,748	
Total Other Financing Sources (Uses)	63,181	52,962	10,219
Excess of Revenues Over (Under) Expenditures and Other Financing Sources (Uses)	16,400	(96,434)	112,834
Fund Balances – Beginning of Year	114,216	114,216	
Residual Equity Transfer In (Out)			
Increase (Decrease) in:			
Reserve for Inventory of Material and Supplies	929		929
Fund Balances – End of Year	$ 131,545	17,782	113,763

See Notes to Combined Financial Statements

COMBINED STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS/FUND BALANCE
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUND
Year Ended June 30, 1996
With Comparative Figures for Year Ended June 30, 1995
(In Thousands)

STATEMENT 1D

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	1996	1995
Operating Revenues:				
Charges for Services	$ 83,943	83,394	167,337	158,267
Operating Expenses:				
Salaries	9,640		9,640	10,283
Claims and Judgments		38,521	38,521	76,841
Cost of Materials		37,705	37,705	29,739
Repairs and Maintenance	13,940	3,121	17,061	6,884
Fuel		581	581	952
Equipment Rental	1,353		1,353	1,854
Sewage Processing	14,998		14,998	12,392
Contracted Services	44,261		44,261	50,963
Depreciation	9,550	1,391	10,941	5,073
Utilities	323		323	317
Other	7,706	1,751	9,457	12,601
Total Operating Expenses	101,771	83,070	184,841	207,899
Operating Income (Loss)	(17,828)	324	(17,504)	(49,632)
Nonoperating Revenues:				
Interest	4,019	854	4,873	5,673
Taxes	19		19	71
Grants	1,126		1,126	1,618
Gain on Disposal of Equipment		29	29	
Other	1,096	200	1,296	1,534
Total Nonoperating Revenues	6,260	1,083	7,343	8,896
Nonoperating Expenses:				
Interest on Long–Term Debt	19		19	99
Loss on Disposal of Equipment	38		38	537
Other	124		124	292
Total Nonoperating Expenses	181		181	928
Nonoperating Income (Loss)	6,079	1,083	7,162	7,968
Net Income (Loss) Before Operating Transfers	(11,749)	1,407	(10,342)	(41,664)
Operating Transfers In	38		38	1,600
Operating Transfers (Out)	(340)	(438)	(778)	(2,338)
Net Income (Loss)	(12,051)	969	(11,082)	(42,402)
Depreciation on Grant Funded Fixed Assets	702		702	630
Increase (Decrease) in Retained Earnings	(11,349)	969	(10,380)	(41,772)
Retained Earnings/Fund Balance – Beginning Balance	127,232	(59,079)	68,153	109,925
Retained Earnings/Fund Balance – Ending Balance	$ 115,883	(58,110)	57,773	68,153

See Notes to Combined Financial Statements

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
Year Ended June 30, 1996
With Comparative Figures for June 30, 1995
(In Thousands)

STATEMENT 1E

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	1996	1995
Cash Flows from Operating Activities:				
Operating Income (Loss)	$ (17,828)	324	(17,504)	(49,632)
Adjustments to Reconcile Operating Income(Loss) to Net Cash Provided by Operating Activities:				
Depreciation	9,550	1,391	10,941	5,073
Decrease (Increase) in Accounts Receivable and Notes Receivable, Net	2,808	50	2,858	(1,277)
Decrease (Increase) in Prepaid Expenses				167
Decrease (Increase) in Due from Other Funds	(10,628)	(837)	(11,465)	(1,766)
Decrease (Increase) in Inventory of Material and Supplies, Net	6	(145)	(139)	(50)
Increase (Decrease) in Accounts Payable	(6,177)	527	(5,650)	4,452
Increase (Decrease) in Accrued Payroll	(5)		(5)	(445)
Increase (Decrease) in Due to Other Funds	(318)	105	(213)	(1,075)
Increase (Decrease) in Due to Other Governments	6,160		6,160	2,712
Increase (Decrease) in Long-Term Debt Payable	14,460	1,194	15,654	55,884
Increase (Decrease) in Advances to Other Funds				1,600
Increase (Decrease) in Deferred Revenue	(18)		(18)	(182)
Transfers from (to) Other Funds	(340)	(38)	(378)	(2,033)
Other Revenue	194		194	103
Other Expense	(133)		(133)	(275)
Net Cash Provided (Used) by Operating Activities	(2,269)	2,571	302	13,256
Cash Flows from Non-Capital Financing Activities:				
Residual Equity Transfer from the General Fund				11,500
Payments From Other Funds	3,709	1,542	5,251	(38)
Loan Repayment from Other Agency	20		20	20
Advances Made on Long-Term Loans		(626)	(626)	(189)
Grants	707		707	2,049
Subsidies Received from Other Funds	38		38	
Loans to Other Funds	(287)		(287)	(1,835)
Net Cash Provided (Used) by Non-Capital Financing Activities	4,187	916	5,103	11,507
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Fixed Assets	(7,367)	(4,270)	(11,637)	(15,409)
Proceeds from Sale of Equipment	20	513	533	628
Grants	39		39	1,353
Principal Paid on Long-Term Debt	(18)		(18)	(311)
Interest Paid on Long-Term Debt	(10)		(10)	(78)
Deposit with Others	10		10	(10)
Net Cash Provided (Used) by Capital and Related Financing Activities	(7,326)	(3,757)	(11,083)	(13,827)
Cash Flows from Investing Activities:				
Interest	3,980	895	4,875	5,701
Net Increase (Decrease) in Cash and Cash Equivalents	(1,428)	625	(803)	16,637
Cash and Cash Equivalents-Beginning of Year	84,025	33,895	117,920	101,283
Cash and Cash Equivalents-End of Year	$ 82,597	34,520	117,117	117,920

(Cont)

See Notes to Combined Financial Statements

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
Year Ended June 30, 1996
With Comparative Figures for June 30, 1995
(In Thousands)

STATEMENT 1E (Cont)

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	1996	1995
Reconciliation of Cash and Cash Equivalents to the Balance Sheet:				
Total Cash and Investments Per Balance Sheet	$ 78,248	33,671	111,919	111,474
Add: Unrealized Loss on Pooled Investments	4,349	849	5,198	6,446
Cash and Cash Equivalents – End of Year	$ 82,597	34,520	117,117	117,920

Noncash Investing, Capital Financing Activities for Fiscal Year 1994–95:

Sanitation Districts – Fixed Assets (Sewer Lines) were dontated to Sanitation Districts by various developers in the amount of $339 thousand.

Allocated unrealized losses on pooled investments are not included as a cash flow item per GASB Statement No. 9.

See Notes to Combined Financial Statements

PENSION TRUST FUND
STATEMENT OF CHANGES IN RESERVE FOR EMPLOYEES' PENSION BENEFITS
Year Ended June 30, 1996
With Comparative Figures for Year Ended June 30, 1995
(In Thousands)

STATEMENT 1F

	TOTALS	
	1996	1995
ADDITIONS:		
Contributions:		
Employer	$ 74,810	71,460
Plan Members	5,271	5,370
Total Contributions	80,081	76,830
Investment Income:		
Net Unrealized Appreciation (Depreciation) in Fair Market Value of Investments	352,374	209,029
Interest Income	44,625	43,498
Other Income	18,222	26,492
Total Investment Income	415,221	279,019
Total Additions	495,302	355,849
DEDUCTIONS:		
Benefits	97,784	94,888
Refunds of Contributions	1,255	480
Administrative Expense	2,468	1,783
Depreciation	54	41
Total Deductions	101,561	97,192
Net Increase (Decrease)	393,741	258,657
Reserve for Employees' Pension Benefits: Beginning of Year	2,244,417	1,985,760
End of Year	$ 2,638,158	2,244,417

See Notes to Combined Financial Statements

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 1996

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. THE FINANCIAL REPORTING ENTITY

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

B. INDIVIDUAL COMPONENT UNIT DISCLOSURES

Blended component units are listed below. The first seven component units listed below are legally separate entities which are governed by the San Diego County Board of Supervisors and are reported as if they were part of the primary government because they benefit the County exclusively. The Vista - County of San Diego Building Authority (the "Authority") is a legally separate entity which is governed by a three-member board, two members of which are appointed by the County Board of Supervisors. The San Diego County Capital Asset Leasing Corporation (SANCAL) is a non-profit corporation governed by a five-member Board of Directors which is appointed by the County Board of Supervisors. The Authority and SANCAL are reported as if they were part of the primary government because their sole purpose is to finance the acquisition of County buildings and equipment. The San Diego County Employees Retirement Association (SDCERA) is governed by a nine-person Board of Directors of which four members are appointed by the County Board of Supervisors. SDCERA is a legally separate entity reported as if it were part of the primary government, because it exclusively benefits the County by providing pensions for retired County employees. Separate financial statements for the individual component units described above may be obtained from the County Auditor and Controller.

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

County Service Areas
Flood Control Districts
Lighting Maintenance Districts
Air Pollution Control District
County of San Diego Housing Authority
Sanitation Districts
San Diego County Redevelopment Agency
Vista - County of San Diego Building Authority
San Diego County Capital Asset Leasing Corporation
San Diego County Employees' Retirement Association

C. BASIS OF PRESENTATION

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

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

Governmental Fund Types

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

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

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

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

Proprietary Fund Types

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

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

Fiduciary Fund Types

Pension Trust Fund - To account for the financial activities of the San Diego County Employees' Retirement Association.

Agency Funds - To account for assets held by the County as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not purport to present the financial position or results of operations of the related entities.

Account Groups

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

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

D. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

Governmental and Agency fund types are accounted for on the modified accrual basis of accounting. Revenues are recognized when susceptible to accrual, (i.e., both measurable and available). Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Revenues which are accrued include property taxes, sales tax, interest, and state and federal grants and subventions.

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

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

The financial statements of SDCERA pension plan are accounted for as a Pension Trust Fund using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The County's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

E. PROPERTY TAXES

Real property taxes are levied on October 15 against owners of record at March 1, the lien date. The taxes are due in two installments on November 1 and February 1 and become delinquent after December 10 and April 10, respectively. Secured (real) property taxes which are delinquent and unpaid as of June 30 are declared to be tax defaulted and are subject to redemption penalties, costs and interest when paid. If the delinquent taxes are not paid at the end of five (5) years, the property may be sold at public auction. Delinquent secured property taxes of all taxing jurisdictions and the subsequent collections of these delinquent taxes are held in an agency fund.

F. ASSETS, LIABILITIES, AND FUND EQUITY

Cash and Investments

Investments in the County's cash and investment pool are stated at lower of cost or market. Market value for certain securities were determined by the use of analytical pricing techniques based on interest rate sensitivity (See Note 3A). These securities were purchased to provide stability of yield during periods of interest rate declines and have interest rates that either vary inversely with current market rates of interest or have interest rates that are determined based on the spread relationship between two indices. Accordingly, such securities, which approximate 35% of the total "Equity in pooled cash and investments" account, are subject to market risk during times of increasing rates and could result in a loss of principal if sold during such a period. Investments reported in the Pension

Trust Fund are carried at fair value. Short-term investments in the Pension Trust Fund are reported at cost, which approximates fair value. Securities of the Pension Trust Fund which are traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of Pension Trust Fund real estate investments is based on independent appraisals. Investments of the Pension Trust Fund that do not have an established market are reported at estimated fair value. Deferred compensation investments are stated at market value.

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

Inventories

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

Fixed Assets

General fixed assets are recorded as expenditures in the governmental fund types at time of purchase. These assets are capitalized at cost in the General Fixed Assets Account Group. In the case of acquisitions through gifts or contributions, such assets are recorded at fair market value at the time received. No depreciation has been provided on general fixed assets. Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, and drainage systems have not been capitalized. Such assets normally are immovable and of value only to the County; therefore, the purposes of stewardship and cumulative accountability for capital expenditures are satisfied without recording these assets. Proprietary fund type fixed assets are reported in those funds at cost or estimated fair market value at time of donation. Depreciation is charged to operations of proprietary funds over the fixed assets' estimated useful lives using the straight-line method for structures and improvements, and the hours/miles-of-service method for equipment. The estimated useful lives are as follows:

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

Long-Term Liabilities

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

Amounts recorded as accumulated leave benefits include an amount representing salary-related payments such as the employer's share of social security and medicare taxes associated with payments made for such compensated absences. Accumulated leave benefits including vacation, sick leave, and compensatory time worked in the amount of approximately $61.2 million for the governmental fund types as of June 30, 1996, is recorded in the General Long-Term Debt Account Group. These amounts would not be expected to be liquidated from expendable available financial resources but would be expected to be liquidated in future years as employees elect to use these benefits as prescribed by Civil Service rules and regulations.

Reservation/Designation of Fund Equity

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

Comparative Data/Totals-Memorandum Only

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

General Budget Policies

An operating budget is adopted each fiscal year for the governmental funds. Annual budgets are not required to be adopted for the Vista - County of San Diego Building Authority and SANCAL, a non-profit corporation. Accordingly, Special Revenue, Debt Service, and Capital Projects Funds for these entities are not included in the accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - (Budget and Actual) NonGAAP Budgetary Basis. Budgets for the governmental funds are adopted on a basis of accounting which is different from generally accepted accounting principles.

The major areas of differences are as follows:

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

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

Loans and deposits to other agencies, if any, and their subsequent repayments are budgeted as expenditures and revenues, respectively. Under a GAAP basis, these items are not recognized as expenditures and revenues.

Unrealized losses on valuation of investments at market are not budgeted as a use of funds, since management has the intention to hold to maturity those investments having a decline in market value below cost. Under a GAAP basis, investments are valued at lower of cost or market.

The following encumbrance amounts existed at year-end and, therefore, were included in the Statements of Revenue and Expenditures and Changes in Fund Balances - (Budget and Actual) NonGAAP Budgetary Basis in order to provide a meaningful comparison of the actual results of operations with the budget (In Thousands):

	Encumbrances
General Fund	$59,492
Special Revenue Funds	20,401
Capital Projects Funds	518

Expenditures may not legally exceed budgeted appropriations at the expenditure object level within each department. Departmental intrafund expenditure transfers do not have the budgetary status of legal appropriations. Therefore, variances between estimated transfers and actual transfers are not displayed in the general purpose financial statements, but are displayed as a general fund schedule within the Comprehensive Annual Financial Report. All amendments to the adopted budget require Board approval and, as such, reported budget figures are as originally adopted or subsequently amended by the Board. Supplemental appropriations during the year ended June 30, 1996, amounted to $123,061,039 in the general fund.

B. BUDGETARY TO GAAP BASIS RECONCILIATION

The following schedule is a reconciliation of the budgetary and GAAP fund balances (In Thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Fund Balance-Budgetary Basis	$ 74,769	$53,210	$ 1,120	$ 2,454
Encumbrances Outstanding at Year-End	59,492	20,401	-	518
Remaining Unrealized Loss on Pooled Investments from Prior Year	(720)	(3,152)	(2)	(226)
Fund Balances-Non Budgeted Funds	-	281	51,179	71,058
Fund Balances-GAAP Basis	$133,541	$70,740	$52,297	$73,804

C. FUND DEFICITS

The following funds have an accumulated deficit at June 30, 1996 (In Thousands):

Enterprise Funds

Transit	$ 107

Internal Service Funds

Risk Financing	$79,482

The deficit in the Transit Fund is due to the recognition in prior years of unrealized losses on pooled investments. This deficit is expected to be reduced in future years as pooled investments are held to maturity. The deficit in the Risk Financing Internal Service Fund is due to the prior years recognition of liabilities based on an actuarial study. Partial funding of these liabilities was provided by the General Fund at the end of Fiscal Year 1994/95. This deficit is expected to be reduced over a 10-year period beginning July 1, 1997, through increased rates to County departments.

3. DETAIL NOTES ON ALL FUNDS AND ACCOUNT GROUPS

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

The County maintains a cash and investment pool that is available for use by all funds of the County as well as the funds of other agencies for which the County Treasury is the depository. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments." Interest earned on the pooled funds is accrued in a pooled interest apportionment fund and is allocated based on the average daily cash balances of the participating funds.

"Cash with Fiscal Agents," represents amounts on deposit with trustees for the Vista - County of San Diego Building Authority, SANCAL, San Diego County Housing Authority, SDCERA, County revolving funds, deferred compensation, and repayment of short term obligations.

"Investments," represents Pension Trust Fund investments and bonds held for other agencies.

Deposits: At year-end the carrying amount of the County's deposits was $704,997,000 and the balance per various financial institutions was $704,651,000. Of the balance in financial institutions, $300,000 was covered by federal depository insurance. The remaining $704,351,000 was collateralized according to State statutes which require depositories having public funds on deposit to maintain a pool of securities with the agent of the depository having a market value of at least 10% in excess of the total amount of all public funds on deposit. These securities are held by the depository's trust department or agent in the County's name.

Investments: State statutes authorize the County to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, and negotiable certificates of deposit issued by national and state licensed or chartered banks or federal or state savings and loan associations. Pension Trust Fund investments are authorized by the County Employees' Retirement Law of 1937. Statutes authorize "Prudent Expert" guidelines as to the form and types of investments which may be purchased. The County's investments categorized by type, carrying value, and market value at June 30, 1996, are shown below. All investments are either held by the County or its agent in the County's name.

	Carrying Amount (In Thousands)	Market Value (In Thousands)
Repurchase agreements	$ 75,000	$ 75,000
U.S. Government securities	1,120,933	1,145,611
Negotiable certificates of deposit	447,366	453,548
Corporate notes	149,188	152,004
Corporate bonds	650,486	650,486
Common and preferred stock	1,076,839	1,076,839
Total Investments held by County or its agent in the County's name	3,519,812	3,553,488
Mutual Funds	400,865	400,865
Real Estate Equity	134,048	134,048
Total Investments of the County	4,054,725	4,088,401
Investments held by the County for other agencies	173	179
Total Investments	$4,054,898	$4,088,580

The market value of certain U.S. Government securities, negotiable certificates of deposit and corporate notes held in the County's cash and investment pool were not readily ascertainable and could only be determined by negotiation between the parties in sales transactions. Consequently, estimates for the June 30, 1996, market values of the securities described above were determined by the use of analytical pricing techniques based on interest rate sensitivity. The carrying amounts in the preceding table reflect the recognition in the 1993/94 fiscal year financial statements of a decline below original cost of certain U.S. Government securities, negotiable certificates of deposit and corporate notes due to increases in interest rates occurring in fiscal year 1993/94.

Due to significantly higher cash flows and market conditions at certain times during 1995/96 fiscal year, the County's investments in repurchase agreements increased significantly and were substantially higher at those times than at year-end.

Reverse Repurchase Agreements: State statutes permit the County to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The County had no reverse repurchase agreements outstanding at June 30, 1996.

B. GENERAL FIXED ASSETS

The following is a summary of investments in general fixed assets by sources and a summary of changes in general fixed assets as of and for the year ended June 30, 1996.

Sources of Investments in General Fixed Assets
By Fund at June 30, 1996 (In Thousands)

General Fund:	
General Fund Revenues	$ 743,759
Federal and State Grants	3,744
Special Revenue Funds:	
Special Revenue Fund Revenues	25,969
Special Revenue State & Federal Grants	260
Capital Projects Funds:	
Lease Revenue Bonds	175,944
Certificates of Participation	156,771
Total	$1,106,447

Summary of Changes in General Fixed Assets by Class
For the Year Ended June 30, 1996 (In Thousands)

	Beginning Balance	Additions	Deletions	Ending Balance
Land	$162,989	$ 1,175	$ 245	$ 163,919
Structures & Improvements	395,189	12,681	200	407,670
Equipment	192,500	31,598	17,783	206,315
Construction in Progress	240,772	105,179	17,408	328,543
Total	$991,450	$150,633	$35,636	$1,106,447

C. PROPRIETARY FUND TYPE FIXED ASSETS

Following is a summary of Proprietary Fund Type Fixed Assets by class as of June 30, 1996 (In Thousands):

	Enterprise	Internal Service
Land	$ 29,520	-
Structures & Improvements	123,007	-
Equipment	10,784	$22,427
Construction in Progress	8,772	-
Total	172,083	22,427
Less Accumulated Depreciation	50,085	9,350
Net	$121,998	$13,077

D. LEASE COMMITMENTS

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

Fiscal Year	Minimum Lease Payments
1996/97	$ 6,741
1997/98	4,641
1998/99	3,324
1999/20	2,368
2001/01	971
Thereafter	8,306
Total	$26,351

Total rental expense for all real property operating leases for the year ended June 30, 1996, was approximately $19.7 million.

In addition to real property leases, the County has also entered into long-term operating leases for personal property, a large portion of which represents data processing and duplicating equipment. Many of these leases are subject to annual adjustment based upon negotiations. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases. Total rental expense for these operating leases for the year ended June 30, 1996, was approximately $9.0 million.

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

Capital Lease-Property Class	June 30, 1996 (In Thousands)
Structures and Improvements	$133,560
Equipment	44,153
Total	$177,713

Future minimum lease payments under capital leases consisted of the following at June 30, 1996 (In Thousands):

Fiscal Year	Minimum Payments
1996/97	$ 15,238
1997/98	17,829
1998/99	16,657
1999/2000	15,725
2000/01	15,513
Thereafter	222,761
Total Minimum Lease Payments	303,723
Less: Amount Representing Interest	(126,010)
Net Lease Payments	$177,713

E. GENERAL LONG-TERM DEBT

General Long-Term Debt outstanding at June 30, 1996, consists of lease revenue bonds/certificates of participation, capital lease obligations accounted for in accordance with NCGA Statement 5 (See Note 3D), pension obligation bonds, accumulated unpaid employee leave benefits (See Note 1F) as follows (In Thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding
Lease Revenue Bonds/Certificates of Participation:				
Vista-County of San Diego Building Authority Certificates of Participation issued March, 1993	3.25 - 5.10%	2007	$ 26,085	$ 23,825
San Diego County Capital Asset Leasing Corporation (SANCAL):				
1989 Certificates of Participation issued November, 1989	6.20 - 7.10%	2010	24,433	18,863
1991 Certificates of Participation issued September, 1991	4.80 - 6.50%	2007	38,045	30,515
1993 Certificates of Participation Issued March, 1993	3.00 - 5.25%	2013	7,640	7,145
1993 Certificates of Participation issued May, 1993	2.50 - 11.25%	2012	203,400	177,995
1994 Certificates of Participation Issued November, 1994	4.62 - 6.75%	2024	58,530	58,530
1996 Certificates of Participation issued May, 1996	4.30 - 5.50%	2018	52,230	52,230
Total Lease Revenue Bonds/Certificates of Participation			410,363	369,103
Capitalized Leases:				
San Diego Regional Building Authority Lease beginning October, 1991	4.60 - 7.45%	2019	46,965	43,885
San Diego Regional Building Authority Lease beginning April, 1993	4.50 - 6.00%	2002	10,465	8,810
San Diego Regional Building Authority Lease beginning July, 1993	4.00 - 7.56%	2023	71,630	71,630
San Diego Regional Building Authority Lease beginning November, 1994	4.62 - 6.75%	2012	6,395	6,185
Motorola Corporation Lease beginning December 1995	5.65%	2011	39,772	39,772
Other Capitalized Leases with various beginning dates from December, 1991 to the present	5.19 - 7.25%	1996-2001	9,800	7,431
Total Capitalized Leases			185,027	177,713
Taxable Pension Obligation Bonds Series A	4.7 - 6.6%	2007	430,430	430,430
Revenue Bonds Redevelopment Agency Series 1995	4.75 - 6.75%	2020	5,100	5,100
Total			$1,030,920	982,346
Arbitrage Rebate				145
Accumulated Unpaid Employee Leave Benefits				61,194
Total General Long-Term Debt				$1,043,685

The lease revenue bonds and certificates of participation of the Vista - County of San Diego Building Authority, and the SANCAL non-profit corporation listed above are secured by annual base rental lease payments payable by the County for use of the facilities constructed or equipment purchased from debt proceeds. The capital leases between the County and the Authority and between the County and SANCAL have been eliminated for financial reporting purposes and the related assets and debt (e.g., lease revenue bonds and certificates of participation of the Authority and SANCAL) are reported as San Diego County's assets and debt, respectively.

Changes in General Long-Term Debt for the year ended June 30, 1996, are summarized as follows (In Thousands):

	Beginning Balance	Additions	Retirements	Ending Balance
Lease Revenue Bonds/Certificates of Participation	$ 332,563	$ 52,230	$15,690	$ 369,103
Capital Lease Obligations	141,340	41,621	5,248	177,713
Pension Obligation Bonds	430,430	-	-	430,430
Redevelopment Agency Revenue Bonds	-	5,100	-	5,100
Arbitrage Rebate	507	-	362	145
Accumulated Unpaid Employee Leave Benefits	59,825	1,369	-	61,194
Total	$964,665	$100,320	$21,300	$1,043,685

The following is a schedule of debt service requirements to maturity, including interest, for General Long-Term Debt outstanding at June 30, 1996 (In Thousands). Accumulated unpaid employee leave benefits are excluded because they are not estimable due to timing of payments.

Fiscal Years Ending June 30	Certificates Of Participation	Capital Leases	Pension Obligation Bonds	Redevelop-ment Agency	Arbitrage Rebate	Total
1997	$ 33,615	$ 15,238	$ 42,110	$ 325	-	$ 91,288
1998	34,188	17,829	44,216	388	-	96,621
1999	34,190	16,657	46,427	395	-	97,669
2000	38,401	15,725	48,756	405	-	103,287
2001	38,396	15,513	51,195	411	-	105,515
2002-2006	188,912	76,786	297,057	2,116	$ 19	564,890
2007-2011	122,491	68,075	94,685	2,149	57	287,457
2012-2016	45,588	41,192	-	2,179	47	89,006
2017-2021	27,924	30,701	-	2,216	22	60,863
2022-2025	18,364	6,007	-	-	-	24,371
Total	$582,069	$303,723	$624,446	$10,584	$145	$1,520,967

Prior Year Defeasance of Debt

In prior years, the County defeased certain lease revenue bonds by placing the proceeds of the original issue plus additional County contributions in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. At June 30, 1996, $148.1 million of bonds outstanding are considered defeased.

New Issues

San Diego County Redevelopment Agency (the "Agency")

On November 2, 1995, the Agency issued $5.1 million in Revenue Bonds with an average interest rate of 6.57% with maturities from 1997 to 2020. Bond proceeds of $5.1 million were used to finance the construction of roadways, storm drains, and other public facilities within the Agency's Gillespie Field Project area.

San Diego County Capital Asset Leasing Corporation (SANCAL):

On May 1, 1996, SANCAL issued $52.2 million in Certificates of Participation (COP) with an average interest rate of 5.28% with maturities from 1999 to 2018. COP proceeds of $51.6 million, net of $.6 million in bond discount, were used to finance site construction and component acquisitions for a wireless 800 Mhz regional public safety communications system.

Significant Long-Term Capital Lease

In December 1995, the County entered into a long-term capital lease with Motorola Corporation to provide financing for the acquisition of communications equipment to be used for a new 800 Mhz regional public safety communications system. The net present value of the lease is $39.8 million with an average interest rate of 5.65% terminating in 2011.

F. PROPRIETARY FUND TYPES LONG-TERM DEBT

Proprietary fund types long-term debt consists of revenue bonds, loans payable, contracts payable, and unpaid accumulated employee leave benefits. The revenue bonds are general obligations of the issuing district and as such, the district is empowered and obligated to levy ad valorem taxes upon all taxable property within the district without limit as to rate or amount for the purpose of paying the principal and interest. The bonds are also payable from restricted sewer service revenues of the issuing districts. A schedule of Proprietary Fund Types Long-Term Debt is as follows (In Thousands):

Obligation	Interest Rate	Final Maturity Date	Original Amount	Amount Outstanding 6/30/96
Revenue Bonds:				
Alpine Sanitation 1970A	6.70 - 7.00%	2002	$285	$ 120
Loans:				
Julian Sanitation	5.3%	2003	61	27
Solid Waste	5.83 - 5.87%	2016	1,400	1,400
Total			$1,746	1,547
Contract Payable Spring Valley				702
Landfill Closure-Solid Waste				51,966
Unpaid Accumulated Employee Leave Benefits				660
Total Proprietary Fund Types Long-Term Debt				$54,875

The following is a schedule of debt service requirements to maturity, including interest, for Proprietary Fund Types Revenue Bonds and Loans outstanding at June 30, 1996 (In Thousands). Accumulated unpaid employee leave benefits are excluded because they are not estimable due to timing of payments. Landfill closure costs are also excluded since they are based on estimates which are uncertain as to the probable date of payment.

Years Ending June 30	Revenue Bonds	Loans	Total
1997	$ 22	$ 157	$ 179
1998	26	152	178
1999	25	148	173
2000	24	144	168
2001	22	140	162
2002-2006	26	626	652
2007-2011	-	514	514
2012-2016	-	412	412
Total	$145	$2,293	$2,438

Landfill Closure Costs

State and Federal laws and regulations require the County to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the sites for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on each County landfill's capacity used as of each balance sheet date. The $52.0 million reported as the County landfills' closure and postclosure care liability at June 30, 1996, represents the cumulative amount reported to date based on the use of 53% of the estimated capacity of the landfills. The County will recognize the remaining estimated cost of closure and postclosure care of $32.9 million as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 1995 as adjusted for inflation. The County estimates the system wide closing of the landfills to be in the year 2016. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The County is required by State and Federal laws and regulations to make annual contributions to a trust to finance closure and postclosure care. At June 30, 1996, $26.7 million has been deposited for these purposes. If additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

G. SPECIAL ASSESSMENT DEBT

The County Treasurer/Tax Collector acts as an agent for property owners and bondholders in collecting and forwarding special assessment monies. The County is not obligated for repayment of any special assessment bonds and all special assessment debt is solely the obligation of various separate governmental agencies. The amount of special assessment debt outstanding for which the County is a fiduciary is $23.3 million at June 30, 1996.

H. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Individual Fund interfund balances at June 30, 1996 were (In Thousands):

	Due From Other Funds	Due To Other Funds
General Fund	$60,907	$10,526
Special Revenue Funds:		
Road Fund	2,021	1,070
Survey Monument Preservation Fund	-	3
Fish & Game Propagation Fund	2	-
County Library Fund	28	228
Asset Forfeiture Program Fund	39	107
Inmate Welfare Program	44	193
Special Aviation Fund	2	-
Cable TV Fund	23	-
Park Land Dedication Fund	108	92
Trial Court Operations	4,656	3,826
Nonprofit Corporation Funds	6	4
County Service Area Funds	125	145
Flood Control District Funds	22	144
Housing Authority Fund	1,024	907
Other Special District Funds	192	232
Total Special Revenue Funds	8,292	6,951
Debt Service Funds:		
Pension	79	-
Nonprofit Corporation Funds	295	-
Redevelopment Agency Funds	6	-
Total Debt Service Funds	380	-
Capital Projects Funds:		
Capital Outlay Funds	7,172	6,270
Edgemoor Development Fund	4	34
Nonprofit Corporation Funds	2,044	2,204
Redevelopment Agency Funds	47	52
Total Capital Projects Funds	9,267	8,560

H. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)

	Due From Other Funds	Due To Other Funds
Enterprise Funds:		
Airport Fund	$ 88	$ 100
Liquid Waste Fund	883	153
Transit Fund	34	21
Solid Waste Fund	27,519	699
Sanitation Districts Funds	521	593
Total Enterprise Funds	29,045	1,566
Internal Service Funds:		
Road & Communication Funds	454	279
Purchasing Funds	2,163	5
Risk Financing	636	384
Other Miscellaneous Funds	24	101
Total Internal Service Funds	3,277	769
Trust and Agency Funds:		
Pension Trust Fund	305	38
Property Tax Collection Funds	3,444	12,680
Interest Apportionment Fund	-	9,777
County Departmental Funds	3,842	36,173
Special Purpose Funds	13,836	16,719
Funds Held for Special & School	3,714	32,550
Total Trust & Agency Funds	25,141	107,937
Total Due From - Due To	$136,309	$136,309

H. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)

	Advances To Other Funds	Advances From Other Funds
General Fund	$ 6,950	$ 60
Special Revenue Funds:		
County Service Area Funds	-	827
Flood Control District Funds	157	831
Total Special Revenue Funds	157	1,658
Debt Service Funds:		
Nonprofit Corporation Funds	610	-
Redevelopment Agency Funds	-	287
Total Debt Service Funds	610	287
Capital Projects Funds:		
Redevelopment Agency Funds	-	2,017
Enterprise Funds:		
Airport Fund	1,323	-
Sanitation Districts Fund	195	391
Solid Waste	-	6,200
Total Enterprise Funds	1,518	6,591
Internal Service Funds:		
Road & Communication Funds	831	-
Special District Loans Funds	608	-
Total Internal Service Funds	1,439	-
Trust and Agency Funds:		
Funds Held for Special & School Districts Funds	-	61
Total Advances To - Advances From	$10,674	$10,674

I. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The County maintains four Enterprise Funds which provide airport, liquid and solid waste, and transit services. Segment information for the year ended June 30, 1996, for those funds and eight sanitation districts for which the Board of Supervisors has oversight responsibility was as follows (In Thousands):

	Airport	Liquid Waste	Transit	Solid Waste	Sanitation Districts	Totals
Operating Revenue	$ 3,951	$5,348	$7,438	$50,205	$ 17,001	$ 83,943
Depreciation	594	28	702	6,848	1,378	9,550
Operating Income (Loss)	9	274	(794)	(15,283)	(2,034)	(17,828)
Tax Revenue	-	-	-	-	19	19
Grant Revenue	579	-	-	424	123	1,126
Other Nonoperating Revenue	354	49	118	2,706	1,888	5,115
Nonoperating Expenses	2	23	-	13	143	181
Nonoperating Income or (Loss)	931	26	118	3,117	1,887	6,079
Net Income (Loss)	903	190	(676)	(12,298)	(170)	(12,051)
Capital Contributions	-	-	31	-	160	191
Plant, Property and Equipment:						
Additions	727	138	40	5,256	2,533	8,694
Deletions	14	49	9	60	-	132
Net Working Capital	8,479	1,469	(107)	50,227	33,956	94,024
Total Assets	26,100	2,047	5,563	121,548	83,322	238,580
Total Equity	25,749	1,571	3,521	49,331	80,975	161,147
Long-Term Liabilities	77	234	-	53,715	849	54,875

J. CONTRIBUTED CAPITAL

During fiscal year 1995/96, contributed capital increased or decreased by the following amounts (In Thousands):

Enterprise Funds

SOURCE	Airport	Liquid Waste	Transit	Solid Waste	Sanitation Districts
Capital Grants	-	-	$ 31	-	-
Developer's Contributions					$ 160
Government's Contributions	-	-	-	-	-
Total Additions (Reductions)	-	-	31	-	160
Accumulated Depreciation on Grant Funded Fixed Assets	-	-	(3,947)	-	-
Contributed Capital, July 1	$14,533	$695	7,544	$5,708	20,540
Contributed Capital, June 30	$14,533	$695	$3,628	$5,708	$20,700

Internal Service Funds

Source	Road And Communication Equipment	Purchasing	Special District Loans	Risk Financing	Other Misc
Governments' Contributions	-	-	-	-	-
Total Additions (Reductions)					
Contributed Capital, July 1	$12,469	$1,171	$906	-	$ 4
Contributed Capital, June 30	$12,469	$1,171	$906	-	$ 4

4. OTHER NOTE DISCLOSURES

A. COMMITMENTS AND CONTINGENCIES

(1) LITIGATION

In addition to the accrued liability for litigation and Workers Compensation claims described in Note 4B, the County has a potential liability of $30.9 million that could result if unfavorable final decisions were rendered in numerous lawsuits to which the County is a named defendant. Appropriations are budgeted annually for those portions of obligations coming due that fiscal year. Estimates of potential liabilities described above include estimates of claims incurred, but not reported at June 30, 1996.

(2) UNRECORDED LEAVE BENEFITS

County employees have unrecorded accumulated benefits of approximately $79.0 million in sick leave. These benefits are not payable to employees upon termination and are normally liquidated in future years as employees elect to use their benefits as prescribed by Civil Service rules and regulations. Accumulated vacation, sick leave, and compensatory time-off for which employees are eligible for payment upon separation has been recorded as current or long-term liabilities in the appropriate funds or Long-Term Debt Account Group as described in Note 1F.

(3) TAX AND REVENUE ANTICIPATION NOTES

At June 30, 1996, $215 million of Tax and Revenue Anticipation Notes issued during fiscal year 1995/96 were still outstanding. Monies for complete redemption of these notes were fully segregated with an independent trustee at June 30, 1996, and subsequently used to redeem the notes on September 30, 1996. On July 1, 1996, the County issued $210 million of Tax and Revenue Anticipation notes to finance fiscal year 1996/97 General Fund cash flow requirements. The issues will be redeemed on September 30, 1997.

(4) TEETER OBLIGATION COMMERCIAL PAPER NOTES

On November 29, 1995, the County issued $25.9 million in taxable and $42.4 million in tax-exempt commercial paper notes (CP) to provide ongoing financing for tax apportionments to taxing jurisdictions within the County in the amount of delinquent secured property taxes due these districts. The notes are secured by delinquent secured property tax collections. Additionally, on June 26, 1996, another $37.5 million in tax exempt CP was issued to provide similar financing. No CP can be issued for a longer period then 270 days. At June 30, 1996, the outstanding balances of CP were $19.5 and $68 million for taxable and tax-exempt notes, respectively.

(5) THIRD PARTY DEBT

Mortgage Revenue Bonds

Single Family Mortgage Revenue Bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences. The purpose of this program is to provide low interest rate home mortgage loans to persons of low or moderate income who are unable to qualify for conventional mortgages at market rates. Multi-family Housing Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the County to be partially occupied by persons of low or moderate income. Between December 1985 and December 1995, the County issued $70.2 million of Mortgage Revenue Bonds of which $27.6 million were still outstanding on June 30, 1996.

Industrial Development Revenue Bonds

Industrial Development Revenue Bonds have been issued to provide financial assistance for the acquisition, construction, and installation of facilities for industrial, commercial, or business purposes to mutually benefit the citizens of the County. The County issued $3.5 million of Industrial Development Revenue Bonds in October 1987 of which $2.4 million were still outstanding on June 30, 1996.

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

(6) FEDERAL PROGRAMS

The County participates in a number of federal financial assistance programs. Although these programs have been audited through June 30, 1995, in accordance with the provisions of the Single Audit Act of 1984, the resolution of previously identified questioned costs has not occurred. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

(7) SDCERA

SDCERA is party to managed future contracts financial instruments with off-balance sheet risk to generate earnings and to hedge the investments in fixed income securities and common stocks, thereby reducing its own exposure to fluctuations in market conditions. These contracts include, but are not limited to contracts for delayed delivery of securities, commodities or currencies in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Risks arise from the possible inability of counterparties to meet the terms of their contract. The risk of accounting loss from this off-balance sheet financial instrument includes the credit risks and the possibility that future changes in market prices may make such a financial instrument less valuable (market risk).

Not reflected in the pension trust fund financial statements are commitments to acquire real estate totaling $19 million.

(8) POTENTIAL SOLID WASTE SYSTEM DEFICITS

The County currently operates the financial aspects of the Solid Waste System (the "System") through the Solid Waste Enterprise Fund. Over the last several years, the total amount of solid waste disposed of at County landfills has decreased from over 2.4 million tons per year in Fiscal Year 1989/90 to approximately 1 million tons in Fiscal Year 1995/96. This decrease is the result of several factors including the increased availability of disposal alternatives. The loss in solid waste tonnage coupled with the anticipated early closing of one of the County's landfills in 1997 and the need for approximately $115 million in capital improvements for the System in subsequent years, will place financial stress on the System and could impact General Fund resources. At present, the County can not reasonably estimate the future financial impact of these conditions on the General Fund.

B. RISK MANAGEMENT

The County operates a Risk Management Program, whereby it is self-insured for premises liability at medical facilities, medical malpractice, errors and omissions, false arrest, forgery, general liability, and workers' compensation. The County purchases insurance for property damage, certain casualty claims, and loss of money up to $10,000 per selected site locations. The amount and coverage remains the same as in the prior year. Settlements in the areas covered have not exceeded insurance coverage for each of the past three fiscal years. During the prior fiscal year 1994/95, the County established an Internal Service Fund (ISF) to report all of its uninsured risk management activities. Risk management liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. An actuarial evaluation was used to determine the outstanding liabilities at June 30, 1995, to include an estimate of claims incurred but not reported. The actuarial estimate was based partially on the experience of similar governmental entities. This estimate may be modified in future years to reflect the historical accumulation of the County's actual claims experience. At June 30, 1996, the amount of these liabilities was estimated at $93.5 million, including $37.9 million in public liability and $55.6 million in workers' compensation. Initial funding for the ISF was provided through a residual equity transfer from the General Fund to contributed capital of the ISF. The County began allocating the cost of providing claims service to all its operating funds as a "premium" charge expressed as a percentage of payroll beginning fiscal year 1995/96. Changes in the balances of claim liabilities for fiscal year 1994/95 and 1995/96 were as follows (In Thousands):

	Beginning-of-Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
1994/95	$38,221	$73,513	$(19,401)	$92,333
1995/96	92,333	24,583	(23,389)	93,527

Also, the County, in compliance with the Tax Reform Act of 1986 and subsequent U.S. Treasury Regulations, has performed arbitrage rebate calculations to determine probable amounts due to the Federal government. An estimate of probable arbitrage rebate in the amount of $145,000 has been included in the General Long-Term Debt Account Group.

C. JOINT VENTURE

The County is a participant with 16 incorporated cities in a joint venture to operate an emergency services organization for the purpose of providing regional planning and mutual assistance in the event of an emergency or disaster in the region including accidents involving hazardous waste. The organization is governed by the Unified Disaster Council composed of one voting member from each represented jurisdiction. A contractual agreement requires that the cities provide one half of the total required funding each year. The County, by agreement, also provides one half of the required yearly funding. Any participant may terminate participation in the agreement by giving 120 days notice prior to the beginning of the next fiscal year. Total participant contributions for the 1995/96 fiscal year were $687,202. The organization had a cumulative surplus of $335,435 at June 30, 1996.

D. JOINTLY GOVERNED ORGANIZATIONS

The County Board of Supervisors jointly governs two service authorities, the Service Authority for Abandoned Vehicles and the Service Authority for Freeway Emergencies. These Authorities are governed by two seven-member boards, consisting of representatives from the city councils of the incorporated cities within the County and two members of the County Board of Supervisors. The purpose of the authorities is to provide for the removal of abandoned vehicles on streets and highways and to provide for freeway emergency call boxes on major freeways within the County, respectively. Funding for the authorities is derived from vehicle license fee surcharges, which are collected by the State and deposited into the County Treasury. The County provides minimal administrative staff support for these authorities.

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

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

E. SAN DIEGO COUNTY EMPLOYEES' RETIREMENT SYSTEM

(1) Plan Description

The SDCERA administers a single-employer defined benefit pension plan which provides retirement, disability, and death benefits for plan members and beneficiaries pursuant to the County Retirement Law of 1937 enacted and amended by the State legislature. The plan is integrated with the Federal Social Security System. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the SDCERA Board of Retirement. SDCERA issues a publicly available financial report that includes financial statements and required supplementary information for the pension plan. The financial report may be obtained by writing to the San Diego County Employees Retirement Association, 1495 Pacific Highway, Suite 350, San Diego, California 92101 or by calling (619) 515-0150.

(2) Funding Policy

State statutes require member contributions to be actuarially determined to provide a specific statutory level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level, and certain negotiated contracts which provide for the County to pay a portion of the employees' contribution. Member contribution rates range from 5.32% to 15.24% of salary. The County is also required by State statutes to contribute at an actuarially determined rate; the current rates, expressed as a percentage of covered payroll, are 6.22% for general members and 12.33% for safety members.

(3) Annual Pension Cost

For Fiscal Year 1995/96, the annual pension cost of $33.6 million for the SDCERA pension plan was equal to the County's required and actual contributions. The required contribution was determined as part of the June 30, 1994, actuarial evaluation using the entry age actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return; (b) projected salary increases of 5.5%. Both (a) and (b) included an inflation component of 5%.

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
6/30/94	$1,947.3	$2,006.7	$59.4	97.0%	$536.0	11.1%
6/30/95	2,172.9	2,148.6	-0-	101.1%	550.7	-0-%
6/30/96	2,370.5	2,340.1	-0-	101.3%	561.2	-0-%

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

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/94	$48,591	100%	$-0-
6/30/95	33,305	100%	-0-
6/30/96	37,577	100%	-0-

(6) Postretirement Health Care Benefits:

Depending on the availability of fund earnings, SDCERA provides postretirement health care benefits on a pay as you go basis for retirees who have had at least ten years employment with the County. SDCERA contributes health insurance premiums for five sponsored health maintenance organizations of $160 per month for each retiree under the age of 65 with 20 or more years of service and $83 per month for each retiree over the age of 65 with 10 or more years of service plus a cost of living adjustment based on years since retirement. Premium amounts in excess of these amounts are paid by the retiree. SDCERA also reimburses a fixed amount of $31 per month for a Medicare supplement for each retiree over age 65. State statutes governing County retirement systems provide authority for SDCERA, with the consent of the SDCERA Board of Directors, to make such payments from interest earnings in excess of interest required to be credited to specific statutory reserves. SDCERA is not obligated to provide such benefits in future years and retired employees have no vested rights to receive such benefits. Accordingly, these postretirement health care benefits are not defined benefits as are pension plan benefits. Approximately 6,500 retirees or surviving spouses are eligible to receive these benefits. SDCERA recognizes the cost of providing those benefits by expending annual insurance premiums, which were $7.4 million for fiscal year 1995/96. A reserve established by the SDCERA Board of Directors for the payment of postretirement health care benefits was $27 million at June 30, 1996, the same as the previous fiscal year.

(7) Equity and Bond Swaps and Futures Contracts:

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

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

F. DEFERRED COMPENSATION PLAN

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant.

It is the opinion of the County legal counsel that the County has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

The assets and liabilities of the deferred compensation plan are accounted for in an agency fund of the County. Total assets of the plan at June 30, 1996, are valued at $168.5 million and are reported at market value.

G. NEW GOVERNMENTAL ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance" which establishes accounting and financial reporting standards for pass-through grants, food stamps and on-behalf payments for fringe benefits and salaries. The County has adopted the new standard for the current year. The adoption of this standard has no effect on ending account balances of the prior year since the County maintained its accounts in accordance with the standards promulgated by this statement.

GASB has also issued Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions," which establishes accounting and reporting standards for these transactions. The County has not adopted the new standard for the current year but must adopt the new requirement during the fiscal year ending June 30, 1997. The County has not determined the effect on the financial statements in the year of adoption.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following summary discussion of selected features of the Trust Agreement, the Lease, the Sublease and the Assignment Agreement are made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and prospective purchasers of Certificates are referred to the complete texts of said documents, copies of which are available upon request sent to the Trustee.

DEFINITIONS

Additional Certificates

The term "Additional Certificates" means the certificates of participation authorized by a Supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

Additional Rental

The term "Additional Rental" means the additional rental payments payable by the County under and pursuant to the Sublease.

Administrative Expense Fund

The term "Administrative Expense Fund" means the fund by that name established in accordance with the Trust Agreement.

Assignment Agreement

The term "Assignment Agreement" means that certain Assignment Agreement dated as of July 15, 1997 by and between the Corporation and the Trustee, as it may from time to time be amended.

Auditor and Controller

The term "Auditor and Controller" means the person holding the office of Chief Financial Officer/Auditor and Controller of the County, including any Acting or Interim Chief Financial Officer/Auditor and Controller.

Authorized Denominations

The term "Authorized Denominations" means $5,000 or any integral multiple thereof.

Base Rental Payment Fund

The term "Base Rental Payment Fund" means the fund by that name established in accordance with the Trust Agreement.

Base Rental Payments

The term "Base Rental Payments" means the aggregate base rental payments with interest components and principal components payable by the County under and pursuant to the Sublease in the amounts and at the times set forth therein.

Business Day

The term "Business Day" means a day other than (i) Saturday or Sunday or (ii) a day on which banking institutions in Los Angeles, California, New York, New York, or the city or cities in which the principal corporate trust office of the Trustee are closed or (iii) a day on which the New York Stock Exchange is closed. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Trust Agreement, shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Trust Agreement, and, unless otherwise specifically provided in the Trust Agreement, no interest shall accrue for the period from and after such nominal date.

Capitalized Interest Fund

The term "Capitalized Interest Fund" means the fund by that name established in accordance with the Trust Agreement.

Central Jail Project

The term "Central Jail Project" means the 297,600 square foot, 900-bed inmate reception center in the downtown area of the City of San Diego.

Central Jail Property

The term "Central Jail Property" means the property on which the Central Jail Project is located.

Certificate Fund

The term "Certificate Fund" means the fund by that name established in accordance with the Trust Agreement.

Certificate of Occupancy

The term "Certificate of Occupancy" means a Certificate of the County stating the fact and date of completion of the Central Jail Project and stating that all of the costs of construction thereof and incidental expenses have been determined and paid (or that all of such costs and expenses have been paid less specified claims which are subject to dispute and for which a retention

in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved) and that the Central Jail Project is available for the County's use and occupancy.

Certificate of the Corporation

The term "Certificate of the Corporation" means an instrument in writing signed by the President or the Treasurer of the Corporation.

Certificate of the County

The term "Certificate of the County" means an instrument in writing signed by the Auditor and Controller.

Certificate Reserve Fund

The term "Certificate Reserve Fund" means the fund by that name established in accordance with the Trust Agreement.

Certificate Reserve Fund Requirement

The term "Certificate Reserve Fund Requirement" means, as of any date of calculation, an amount initially equal to $5,538,342.50 but in no event less than the lesser of (i) maximum prospective annual Base Rental Payments with respect to Outstanding Certificates and Additional Certificates to be made by the County under the Sublease in any Lease Year or (ii) 10% of the proceeds of the Certificates and any Additional Certificates, in accordance with the Tax Certificate.

Certificates

The term "Certificates" means the $80,675,000 County of San Diego Certificates of Participation (1997 Central Jail Refunding) executed and delivered by the Trustee pursuant to the Trust Agreement.

Certificates of Participation Purchase Contract

The term "Certificates of Participation Purchase Contract" means that certain Purchase Contract, dated July 10, 1997, by and between the Purchaser and the County relating to the Certificates.

City

The term "City" means the City of San Diego, a municipal corporation duly organized and existing under its charter and the Constitution and laws of the State of California.

Closing Date

The term "Closing Date" means July 22, 1997.

Code

The term "Code" means the Internal Revenue Code of 1986, as amended.

Completion Date

The term "Completion Date" means the date upon which the County delivers the Certificate of Occupancy or Temporary Certificate of Occupancy to the Trustee.

Continuing Disclosure Agreement

The term "Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the County, the Dissemination Agent and the Trustee dated the date of execution and delivery of the Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

Corporation

The term "Corporation" means the San Diego County Capital Asset Leasing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California.

Costs of Issuance

The term "Costs of Issuance" means all the costs of executing and delivering the Certificates, including, but not limited to, all printing and document preparation expenses in connection with the Trust Agreement, the Lease, the Sublease, the Assignment Agreement, the Escrow Agreement, the Certificates and the preliminary official statement and final official statement pertaining to the Certificates; rating agency fees; CUSIP Service Bureau charges; market study fees; legal fees and expenses of counsel with respect to the lease of the Property and the refunding of the Prior Obligations; any computer and other expenses incurred in connection with the Certificates; the fees and expenses of the Trustee and the Escrow Agent including fees and expenses of their respective counsel; and other fees and expenses incurred in connection with the execution of the Certificates or the implementation of the refunding of the Prior Obligations, to the extent such fees and expenses are approved by the County.

Cost of Issuance Fund

The term "Cost of Issuance Fund" means the fund by that name established in accordance with the Trust Agreement.

County

The term "County" means the County of San Diego, a political subdivision duly organized and existing under the Constitution and laws of the State of California.

Defeasance Securities

The term "Defeasance Securities" means any of the following:

(1) U.S. Treasury Certificates, Notes and Bonds (including State and Local Government Series -- "SLGS");

(2) Direct obligations of the Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;

(3) The interest component of Resolution Funding Corp. strips which have been stripped by request to the Federal Reserve Bank of New York, in book entry form;

(4) Pre-refunded municipal bonds rated "Aaa" by Moody's and "AAA" by S&P;

(5) Obligations issued or fully guaranteed by the following agencies which are backed by the full faith and credit of the United States:

a. U.S. Export-Import Bank

Direct obligations or fully guaranteed certificates of beneficial ownership

b. Farmers Home Administration

Certificates of beneficial ownership

c. Federal Financing Bank

d. General Services Administration

Participation certificates

e. U.S. Maritime Administration

Guaranteed Title XI financing

f. U.S. Department of Housing and Urban Development (HUD)

Project Notes

New Communities Debentures - U.S. government guaranteed debentures

U.S. Public Housing Notes and Bonds - U.S. government guaranteed public housing notes and bonds

DTC

The term "DTC" means The Depository Trust Company, New York, New York, a limited-purpose trust company organized under the laws of the State of New York, and its successors as securities depository for the Certificates including any such successor appointed pursuant to the Trust Agreement.

Escrow Agent

The term "Escrow Agent" means U.S. Trust Company of California, N.A.

Event of Default

The term "Event of Default" means any occurrence or event specified in and defined by the Trust Agreement.

Expiry Date

The term "Expiry Date" means October 1, 2025.

Financial Newspaper

The term "Financial Newspaper" means The Wall Street Journal or The Bond Buyer or, if neither such newspaper is being regularly published, any other newspaper or journal publishing financial news and selected by the County that is printed in the English language, is customarily published on each Business Day and is circulated in Los Angeles, California and New York, New York.

Fitch

The term "Fitch" means Fitch Investors Services, Inc., or any successor credit rating agency selected by the County.

Insurance Consultant

The term "Insurance Consultant" means an individual or firm retained by the County as an independent insurance consultant, experienced in the field of risk management.

Insurance Proceeds and Condemnation Awards Fund

The term "Insurance Proceeds and Condemnation Awards Fund" means the fund by that name established in accordance with the Trust Agreement.

Insurer

The term "Insurer" means AMBAC Indemnity Corporation, a Wisconsin domiciled stock insurance corporation.

Interest Fund

The term "Interest Fund" means the fund by that name established in accordance with the Trust Agreement.

Interest Payment Date

The term "Interest Payment Date" means April 1, 1998 and each April 1 and October 1 thereafter.

Interest Period

The term "Interest Period" means each period from and including one Interest Payment Date to but excluding the next following Interest Payment Date, except that the initial Interest Period will be the period from and including July 15, 1997, to but excluding April 1, 1998.

Lease

The term "Lease" means that certain Amended and Restated Lease dated as of July 15, 1997, with respect to the Property, by and between the County as lessor and the Corporation as lessee, as originally executed and as it may from time to time be amended.

Lease Year

The term "Lease Year" means the period from each October 1 to and including the following September 30, during the term of the Lease.

Mandatory Sinking Account Payment

The term "Mandatory Sinking Account Payment" means the principal amount of any Additional Certificates required to be paid on each Mandatory Sinking Account Payment Date pursuant to the terms of a Supplement Trust Agreement.

Mandatory Sinking Account Payment Date

The term "Mandatory Sinking Account Payment Date," if applicable, means October 1 of each year set forth in a Supplemental Trust Agreement.

Memorandum of Understanding

The term "Memorandum of Understanding" means the Memorandum of Understanding, dated as of May 17, 1994, executed by and among the City, the County and the Redevelopment Agency of the City of San Diego, concerning the financing, construction, maintenance and operation of the Central Jail Project.

Moody's

The term "Moody's" means Moody's Investor's Services, or any successor credit rating agency selected by the County.

Municipal Bond Insurance Policy

The term "Municipal Bond Insurance Policy" means the municipal bond insurance policy issued by the Insurer insuring the payment when due, in whole or in part, of the principal and interest with respect to the Certificates as provided therein.

Opinion of Counsel

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

Outstanding

The term "Outstanding" when used as of any particular time with reference to Certificates and Additional Certificates, means all Certificates and Additional Certificates except--

(1) Certificates and Additional Certificates previously canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Certificates and Additional Certificates which pursuant to the Trust Agreement are not deemed outstanding;

(3) Certificates and Additional Certificates paid or deemed to have been paid within the meaning of the Trust Agreement; and

(4) Certificates and Additional Certificates in lieu of or in substitution for which other Certificates or Additional Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

Owner

The term "Owner" means any person who shall be the registered owner of any Outstanding Certificate or Additional Certificate as indicated in the registration books of the Trustee.

Permitted Encumbrances

The term "Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the County may, pursuant to the Sublease, permit to remain unpaid; (ii) the Assignment Agreement, as it may be amended from time to time; (iii) the Sublease, as it may be amended from time to time; (iv) the rights of the City to have access to a number of beds in the Central Jail Project in accordance with the Memorandum of Understanding; (v) the Lease, as it may be amended from time to time; (vi) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, which exist of record as of the date of initial delivery of the Certificates; and (viii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions, all of a non-monetary nature, established following the date of recordation of this Sublease and to which the Corporation and the County consent in writing.

Permitted Investments

The term "Permitted Investments" means any of the following to the extent then permitted by applicable laws and any investment policies of the County:

(1) 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, including obligations of any federal agencies, to the extent such obligations are unconditionally guaranteed by the United States of America;

(2) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks or the Federal Home Loan Bank Board, or obligations, participations or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association, the Government National Mortgage Association or the Federal Home Loan Mortgage Corporation; or guaranteed Small Business Administration notes or portions thereof;

(3) Obligations of the State of California or of any state or any local agency of either thereof which are rated in one of the two highest long-term rating categories of Moody's and S&P;

(4) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers acceptances, with a maximum term of one year, which are eligible for purchase by the Federal Reserve System, or deposit accounts of any bank which has unsecured, uninsured and unguaranteed obligation ratings of "Prime-1" or "A3" or better by Moody's and "A-1+" by S&P;

(5) Commercial paper of "prime" quality of the highest ranking or of the highest letter and numerical rating at the time of investment therein as provided by Moody's and S&P;

(6) Negotiable certificates of deposit issued by a nationally or state-chartered bank, or a state or federal savings and loan association or by a state-licensed branch of a foreign bank qualified as a depository of public funds in the State of California, including the Trustee or any affiliate thereof, which are fully insured by the Federal Deposit Insurance Corporation;

(7) Any repurchase agreement or reverse repurchase agreement with members of the Association of Primary Dealers of United States Government Securities or institutions insured by the Federal Deposit Insurance Corporation, which are rated at the time of investment therein not lower than A by Moody's and A by S&P, to the extent such agreements are fully collateralized at levels acceptable to the Insurer by obligations described in clauses (1) and (2) of this definition, if the Trustee holds or appoints some intermediary bank or savings association to hold the collateral securing such agreement and the Trustee or its appointed agent has a first priority security interest in such collateral, and the repurchase agreement or reverse repurchase agreement is free and clear of any third party lien or claim;

(8) For amounts less than $10,000, interest-bearing demand or time deposits (including certificates of deposit) in a national or state-chartered bank, or state or federal savings and loan association in the State of California, fully insured by the Federal Deposit Insurance Corporation or any successor thereto, including the Trustee or any affiliate thereof;

(9) Bonds or obligations issued by the County which are rated in one of the two highest long-term rating categories of Moody's and S&P, including bonds or obligations payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the County or by a department, board, agency or authority thereof;

(10) Shares in money market funds investing in the securities and obligations as authorized by clauses (1) to (9), inclusive, of this definition and which comply with the investment restrictions of Articles 1 and 2 of Chapter 4 of Title 5 of the California Government Code (commencing with Section 53630). To be eligible for investment pursuant to this clause (10) these

companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by S&P, or (2) have an investment adviser registered with the Securities and Exchange Commission with not less than five years experience investing in the securities and obligations as authorized by clauses (1) to (9), inclusive, of this definition and with assets under management in excess of $500,000,000. The purchase price of shares of beneficial interest purchased pursuant to this clause (10) shall not include any commission that these companies may charge;

(11) Investment agreements (including guaranteed investment contracts), debt service fund float agreements and debt service reserve fund put agreements reviewed by and acceptable to Moody's, S&P and the Insurer;

(12) The San Diego County Pooled Investment Fund; and

(13) Any other investments which the County deems to be prudent investments and in which the County invests or directs the Trustee to invest, provided that such investments are approved by Moody's, S&P and the Insurer.

Any references to long-term rating categories in this definition shall not take into account any plus or minus sign or numerical modifiers.

Prepayment Fund

The term "Prepayment Fund" means the fund by that name established in accordance with the Trust Agreement.

Principal Corporate Trust Office

The term "Principal Corporate Trust Office" means the corporate trust office of the Trustee at the address set forth in the Trust Agreement, except for purposes of payment, registration, transfer, exchange and surrender of Certificates, means the corporate trust office of the corporate parent of the Trustee in Los Angeles, California or such other office specified by the Trustee.

Principal Fund

The term "Principal Fund" means the fund by that name established in accordance with the Trust Agreement.

Principal Payment

The term "Principal Payment" means the principal amount of Certificates required to be paid on each Principal Payment Date.

Principal Payment Date

The term "Principal Payment Date" means October 1 of each year, commencing October 1, 1998.

Prior Obligations

The term "Prior Obligations" means the $64,925,000 County of San Diego Certificates of Participation (1994 Inmate Reception Center and Cooling Plant Financing) executed and delivered by U.S. Trust Company of California, N.A. ("U.S. Trust"), pursuant to that Trust Agreement, dated as of November 1, 1994, by and among the County, the Corporation, the San Diego Regional Building Authority and U.S. Trust, as trustee.

Project Fund

The term "Project Fund" means the fund by that name established in accordance with the Trust Agreement.

Property

The term "Property" means the real property, together with any improvements thereon or to be located thereon, as more fully described in the Sublease (as the same may be changed from time to time by Removal or Substitution, as defined in the Sublease).

Purchaser

The term "Purchaser" means, collectively, Merrill Lynch & Co., Goldman Sachs & Co., Morgan Stanley & Co. Inc. and Samuel A. Ramirez & Co., Inc., as underwriters and purchasers of the Certificates pursuant to the Certificates of Participation Purchase Contract.

Rebate Fund

The term "Rebate Fund" means the fund by that name created in the Trust Agreement.

Rebate Requirement

The term "Rebate Requirement" means the Rebate Requirement as defined in the Tax Certificate.

Record Date

The term "Record Date" means the close of business on the fifteenth day of the month preceding any Interest Payment Date, whether or not such day is a Business Day.

Removal

The term "Removal" means the release of all or a portion of the Property from the leasehold of the Sublease and the Lease.

Rental Payments

The term "Rental Payments" means, collectively, the Base Rental Payments and the Additional Rental.

Representation Letter

The term "Representation Letter" means the Letter of Representations from the County and the Trustee to DTC, or any successor securities depository for the Certificates, in which the County and the Trustee make certain representations with respect to the Certificates, the payment with respect thereto and delivery of notices with respect thereto.

Reserve Fund Credit Facility

The term "Reserve Fund Credit Facility" shall mean a letter of credit, line of credit, surety bond, insurance policy or similar facility deposited in the Certificate Reserve Fund in lieu of or in partial substitution for cash or securities on deposit therein. The entity providing such Reserve Fund Credit Facility shall be approved by the Insurer.

S&P

The term "S&P" means Standard & Poor's Ratings Services, or any successor credit rating agency selected by the County.

Sublease

The term "Sublease" means that certain Amended and Restated Sublease dated as of July 15, 1997, with respect to the Property, by and between the County as sublessee and the Corporation as sublessor, as originally executed and as it may from time to time be amended.

Substitution

The term "Substitution" means the release of all or a portion of the Property from the leasehold of the Sublease and the Lease, and the lease of substituted real property and improvements under the Sublease and the Lease.

Supplemental Trust Agreement

The term "Supplemental Trust Agreement" means an agreement amending or supplementing the terms the Trust Agreement entered into pursuant to the terms thereof.

Tax Certificate

The term "Tax Certificate" means that tax certificate and agreement executed by the County and the Corporation at the time of execution and delivery of the Certificates relating to the requirements of Section 148 of the Code, as such certificate may be amended or supplemented.

Temporary Certificate of Occupancy

The term "Temporary Certificate of Occupancy" means a Certificate of the County stating the fact and date of substantial completion of the Central Jail Project and further stating that such project is available for the County's use and occupancy.

Term Certificates

The term "Term Certificates" means and Additional Certificates which are subject to prepayment prior to their stated maturity dates from Mandatory Sinking Account Payments.

Trust Agreement

The term "Trust Agreement" means the Trust Agreement by and among the Trustee, the County and the Corporation, dated as of July 15, 1997, as originally executed and as it may from time to time be amended or supplemented in accordance therewith.

Trustee

The term "Trustee" means State Street Bank and Trust Company of California, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States of America and having a principal corporate trust office located at Los Angeles, California, or any other bank or trust company which may at any time be substituted in its place as provided in the Trust Agreement.

Written Request of the County

The term "Written Request of the County" means an instrument in writing signed by the Auditor and Controller or other officers who are specifically authorized by resolution of Board of Supervisors of the County to sign or execute such a document on its behalf, as reflected in a Certificate of the County to such effect delivered to the Trustee.

TRUST AGREEMENT

General

The Trust Agreement sets forth the terms of the Certificates, the nature and extent of the security for the Certificates, various rights of the Owners of the Certificates, rights, duties and immunities of the Trustee and the rights and obligations of the County. Certain provisions of the Trust Agreement are summarized below. Other provisions are summarized in this Official Statement under the caption "THE CERTIFICATES." This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Trust Agreement.

Security for Certificates

Equal Security. In consideration of the acceptance of the Certificates by the Owners, the Trust Agreement shall be deemed to be and shall constitute a contract between the Trustee and the Owners to secure the full and final payment of the interest and principal, and premium, if any, represented by the Certificates which may be executed and delivered thereunder, subject to each of the agreements, conditions, covenants and terms contained therein; and all agreements, conditions, covenants and terms contained therein required to be observed or performed by or on behalf of the Trustee shall be for the equal and proportionate benefit, protection and security of all Owners without distinction, preference or priority as to security or otherwise of any Certificates over any other Certificates by reason of the number or date thereof or the time of execution or delivery thereof or for any cause whatsoever, except as expressly provided in the Trust Agreement or the Certificates.

Pledge of Base Rental Payments and Additional Rental; Base Rental Payment Fund. There is established a special fund designated as the "Base Rental Payment Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds and moneys held by the Trustee. The County irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of its right, title and interest in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement and in and to the Base Rental Payments, which shall be used for the punctual payment of the interest and principal represented by the Certificates and any Additional Certificates and the Base Rental Payments shall not be used for any other purpose while any of the Certificates or Additional Certificates remain Outstanding. It is the intent of the parties to the Trust Agreement that the Corporation shall not have any right, title, in or to the Base Rental Payments. In the event, however, that it should be determined that the Corporation has any right, title or interest in or to the Base Rental Payments, then the Corporation irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of such right, title and interest, which shall be used for the punctual payment of the interest and principal represented by the Certificates and any Additional Certificates. These pledges shall constitute a first and exclusive lien on the funds established under the Trust Agreement and the Base Rental Payments in accordance with the terms of the Trust Agreement subject in all events to the power of the County to cause the execution and delivery of Additional Certificates pursuant to the Trust Agreement which shall be on a parity with the Certificates and any Additional Certificates Outstanding.

All Base Rental Payments shall be paid directly by the County to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation, as the case may be, with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments, the proceeds of rental interruption insurance and liquidated damages, if any, shall be deposited by the Trustee in the Base Rental Payment Fund and all amounts on deposit therein shall be held in trust by the Trustee, which fund the Trustee agrees to establish and maintain for the benefit of the Owners until all required Base Rental Payments are paid in full pursuant to the Sublease or until such date as the Certificates and any Additional Certificates are no longer Outstanding; provided, however, and notwithstanding the foregoing, if the Trustee receives a Base Rental Payment amount in excess of the amount necessary to pay the amount due and owing on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date, as the case may be, after giving effect to the funds then on deposit in the Base Rental Payment Fund not needed for any other purpose under the Trust Agreement, and if the amount then in the Certificate Reserve Fund is at least equal to the Certificate Reserve Fund Requirement and there exists no Event of Default under the Trust Agreement, then amounts in the Base Rental Payment Fund not needed to make such payments may be utilized by the Trustee, as directed in writing by the County, to make any regular periodic payment due to provider of a Reserve Fund Credit Facility or a Certificate Reserve Fund investment which provides for such payments.

Deposit of Base Rental Payments. Except as otherwise provided in the Trust Agreement, the Trustee shall deposit the amounts in the Base Rental Payment Fund at the time and in the priority and manner provided in the Trust Agreement in the following respective funds, each of which the Trustee agrees to establish and maintain until all required Base Rental Payments are paid in full pursuant to the Sublease or until such date as the Certificates and any Additional Certificates are no longer Outstanding, and the moneys in each of such funds shall be disbursed only for the purposes and uses authorized in the Trust Agreement.

(a) Interest Fund. The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion

of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. Monies in the Interest Fund shall be used and withdrawn by the Trustee for the purpose of paying the interest represented by the Certificates and any Additional Certificates when due and payable.

(b) Principal Fund. The Trustee, on each Principal Payment Date and Mandatory Sinking Account Payment Date, shall deposit in the Principal Fund a sufficient amount of money such that the aggregate of amounts therein equal the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. Monies in the Principal Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal represented by the Certificates and any Additional Certificates when due and payable at maturity or upon earlier prepayment from Mandatory Sinking Account Payments.

(c) Prepayment Fund. The Trustee, on the prepayment date specified in the Written Request of the County filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Sublease, shall deposit in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Monies in the Prepayment Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal, premium, if any, and interest represented by the Certificates and any Additional Certificates to be prepaid.

Certain Funds

Project Fund. There is established in trust a special fund designated as the "Project Fund" which shall be held by the County and which shall be kept separate and apart from all other funds held by the County. Moneys in the Project Fund shall be used and withdrawn by the County solely for the purposes set forth in the Trust Agreement.

The County will promptly enter into contracts providing for the acquisition, construction and installation of the Central Jail Project with the lowest responsive and responsible bidders therefor, and will supervise and provide for the complete acquisitions, construction and installation of the Central Jail Project. The County agrees that the Central Jail Project will be acquired, constructed and installed in accordance with the plans and specifications approved by the County, within the time set forth in such specifications. The County may issue change orders altering the plans and specifications for the Central Jail Project during the course of acquisition, construction and installation thereof if such changes do not materially reduce or diminish the capacity, adaptability or usefulness of the Central Jail Project.

All moneys in the Project Fund shall be held by the County in trust and applied by the County to the payment of the costs of design, acquisition, construction and installation of the Central Jail Project and of expenses incident thereto (or for making reimbursements to the County, the Corporation or any other person, firm or corporation for such costs theretofore paid by him or it), including, without limitation, architectural and engineering fees and expenses, furniture and equipment, tests and inspections, surveys, land acquisition, insurance premiums and losses during construction not insured against because of deductible amounts.

Before any payment is made from the Project Fund by the County, the County shall record the following information with respect to such payment:

(1) the item number of the payment;

(2) the name of the person, corporation or entity to whom payment is due;

(3) the amount to be paid; and

(4) the purpose for which the obligation to be paid was incurred.

Each such written record shall state the following:

(i) that obligations in the stated amounts have been incurred by the County or the Corporation and that each item thereof is a proper charge against the Project Fund; and

(ii) that there has not been filed with or served upon the County or the Corporation notice of any lien, stop notice, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys payable to any of the persons named in such written record, which has not been released or will not be released simultaneously with the payment of such obligation, other than materialmen's or mechanics' liens accruing by mere operation of law, unless a payment bond issued by a company or companies qualified to do business in California and rated "B.VIII" or better by A.M. Best Company in the amount of such lien or attachment has been posted with the County.

The County shall not withhold its consent to the payment of any cost of acquisition or construction of the Central Jail Project pursuant to the Trust Agreement so long as the item for which payment is sought shall have been completed and accepted as conforming.

Upon completion of the Central Jail Project, provided that the County shall have determined not to use any remaining amounts in the Project Fund for any other lawful purposes, the County shall transfer any remaining balance in the Project Fund (but less the amount of any retention as specified in the Certificate of Occupancy) first to the Rebate Fund to the extent the amount on deposit therein is less than the Rebate Requirement, then to the Certificate Reserve Fund to the extent the amount on deposit therein is less than the Certificate Reserve Fund Requirement, then to the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County relating to the Certificates, and thereafter to the Principal Fund.

Certificate Reserve Fund. There is established in trust a special fund designated as the "Certificate Reserve Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee . Moneys in the Certificate Reserve Fund shall be in the amount of the Certificate Reserve Requirement and shall be used and withdrawn by the Trustee solely for the purposes set forth in the Trust Agreement.

(i) If, on any Interest Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Certificate Reserve Fund investment), the amount on deposit in the Interest Fund is insufficient to pay the interest due with respect to the Certificates and any Additional Certificates on such Interest Payment Date, the Trustee shall transfer from the Certificate Reserve Fund and deposit in the Interest Fund an amount sufficient to make up such deficiency.

(ii) If, on any Principal Payment Date or any Mandatory Sinking Account Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Certificate Reserve Fund investment), the amount on deposit in the Principal Fund is insufficient to pay the principal due with respect to the Certificates and any Additional Certificates on such Principal Payment Date or Mandatory Sinking Account Payment Date, the Trustee shall transfer from the Certificate Reserve Fund and deposit in the Principal Fund an amount sufficient to make up such deficiency.

(iii) Monies on deposit in the Certificate Reserve Fund shall be withdrawn and transferred by the Trustee to be applied for the final payment on the Certificates and any Additional Certificates.

In the event of any withdrawal or transfer from the Certificate Reserve Fund, the Trustee shall, within five days thereafter, provide written notice to the County and the Insurer of the amount and date of such transfer. If at any time the balance in the Certificate Reserve Fund shall be reduced below the Certificate Reserve Fund Requirement, the first of Base Rental Payments thereafter payable by the County under the Sublease and not needed to pay the interest and principal components of Base Rental Payments payable by the County under the Sublease to the Owners on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be used to increase the balance in the Certificate Reserve Fund to the Certificate Reserve Fund Requirement. If after the payment of principal and interest on any Interest Payment Date the balance in the Certificate Reserve Fund shall be in excess of the Certificate Reserve Fund Requirement, the Trustee shall (a) prior to the Completion Date, transfer such excess to the Project Fund, and (b) after the Completion Date, transfer such excess first to the Rebate Fund to the extent the amount on deposit therein is less than the Rebate Requirement, then to the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County relating to the Certificates upon Written Request of the County, and thereafter to the Principal Fund. At the termination of the Sublease in accordance with its terms, any balance remaining in the Certificate Reserve Fund shall be released and may be transferred to such other fund or account of the County, or otherwise used by the County for any other lawful purposes, as the County may direct. For purposes of determining the amount on deposit in the Certificate Reserve Fund, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Certificate Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment.

At the option of the County, one or more Reserve Fund Credit Facilities may be substituted for the funds held by the Trustee in the Certificate Reserve Fund such that the amount available to be drawn under such Reserve Fund Credit Facilities together with funds remaining in the Certificate Reserve Fund satisfies the Certificate Reserve Fund Requirement.

If the County exercises its option to substitute a Reserve Fund Credit Facility for all or a portion of the moneys held by the Trustee in the Certificate Reserve Fund, then such moneys, on or after the date that the Reserve Fund Credit Facility becomes effective, at the option of the County, shall be transferred (A) to the Base Rental Payment Fund and on each applicable Principal Payment Date a pro rata portion thereof shall be transferred to the Principal Fund and used to pay a portion of the principal with respect to the Certificates due on such Principal Payment Date, or (B) to a construction fund to be held by the County and used for capital projects of the County in accordance with the Tax Certificate. Neither the County nor the Trustee may invest such amounts transferred so as to produce a yield greater than the yield permitted under the Tax Certificate. In the event any Reserve Fund Credit

Facility is scheduled to terminate prior to the final maturity date of the Certificates and any Additional Certificates and such Reserve Fund Credit Facility is not extended, renewed or replaced with another Reserve Fund Credit Facility or with cash or Permitted Investments in the amount of such Reserve Fund Credit Facility, the Trustee shall draw on or make a claim under such Reserve Fund Credit Facility ten days prior to the date of such expiration in an amount equal to the lesser of (i) the maximum amount available thereunder or (ii) the Certificate Reserve Fund Requirement, in either case for deposit into the Certificate Reserve Fund.

In the event a Reserve Fund Credit Facility is substituted for all or a portion of the moneys held by the Trustee in the Certificate Reserve Fund pursuant to the terms of the Trust Agreement, then, notwithstanding any other provision of the Trust Agreement, (1) the Trustee shall draw upon the Reserve Fund Credit Facility for amounts which the terms of the Trust Agreement require to be transferred from the Certificate Reserve Fund; provided that the Trustee shall first draw upon any cash or Permitted Investments on deposit in the Certificate Reserve Fund prior to drawing upon any Reserve Fund Credit Facility, and thereafter shall draw upon all such Reserve Fund Credit Facilities on a pro rata basis, and (2) amounts required by the terms of the Trust Agreement to be deposited or transferred to the Certificate Reserve Fund shall (y) in the event the Reserve Fund Credit Facility has been drawn upon, be paid to the provider of such Reserve Fund Credit Facility if the County has an outstanding reimbursement obligation to such provider resulting from such draw, which payment shall result in an increase in the amount then available under the Reserve Fund Credit Facility equal to such payment or (z) otherwise be transferred or deposited pursuant to the terms of the Trust Agreement as if no deposit or transfer to the Certificate Reserve Fund were required.

The County shall be permitted to make use of a Reserve Fund Credit Facility pursuant to the Trust Agreement at any time.

Cost of Issuance Fund. There is established in trust a special fund designated as the "Cost of Issuance Fund" which shall be held by the County and which shall be kept separate and apart from all other funds held by the County. The County shall disburse moneys from the Cost of Issuance Fund on such dates and in such amounts as are necessary to pay Costs of Issuance in accordance with the Tax Certificate. Pursuant to the Trust Agreement, on or after January 31, 1998, the County shall transfer any amounts then remaining in the Cost of Issuance Fund first to the Rebate Fund to the extent the amount on deposit therein is less than the Rebate Requirement, then to the Certificate Reserve Fund to the extent the amount on deposit therein is less than the Certificate Reserve Fund Requirement, then to the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County relating to the Certificates, and thereafter to the Trustee for deposit in the Principal Fund.

Administrative Expense Fund. There is established in trust a special fund designated as the "Administrative Expense Fund" which shall be held by the County and which shall be kept separate and apart from all other funds held by the County.

Amounts in the Administrative Expense Fund shall be paid out from time to time by the County for reasonable and necessary operating expenses of the County relating to the Certificates including, without limitation, expenses incidentally incurred in connection with the purchase or prepayment of any Certificates, which expenses shall not include the payment of principal or interest with respect to any Certificates.

Amounts in the Administrative Expense Fund which the County at any time determines to be in excess of the requirements of such Administrative Expense Fund shall be transferred to the Trustee for deposit in the Principal Fund.

Capitalized Interest Fund. There is established in trust a special fund designated as the "Capitalized Interest Fund," which shall be held by the County and which shall be kept separate and apart from all other funds held by the County.

Amounts in the Capitalized Interest Fund shall be used to pay accrued interest with respect to the Certificates and interest represented by the Certificates prior to the County's delivery to the Trustee of a Certificate of Occupancy or a Temporary Certificate of Occupancy with respect to the Central Jail Project. On the dates set forth in the Trust Agreement, the County shall transfer to the Trustee the amount specified in the Trust Agreement (or such lesser amount as shall then be on deposit in the Capitalized Interest Fund) for deposit in the Interest Fund.

Application of Insurance Proceeds and Condemnation Awards. The Trustee shall receive from the County all moneys which may become due and payable under any insurance policies obtained pursuant to the Sublease and shall apply the proceeds of such insurance as provided in the Sublease. The Trustee shall not be responsible for the sufficiency of any insurance required by the Sublease and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County or the Corporation. Delivery to the Trustee of the schedule of insurance policies under the Sublease shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies. The Trustee may request, in writing, that the County deliver to the Trustee certificates or duplicate originals or certified copies of each insurance policy described in the schedule required to be delivered by the County to the Trustee pursuant to the Sublease.

Except as provided in the Trust Agreement, in the event of any damage to or destruction of any part of the Property, caused by the perils covered by the policies of insurance required to be maintained by the County pursuant to the Sublease, the County and the Corporation shall cause the proceeds of such insurance (other than rental interruption insurance which is to be placed in the Base Rental Payment Fund) to be used in accordance with the Sublease. The County shall hold said proceeds in a separate fund to be established and maintained by the County and designated the "Insurance Proceeds and Condemnation Awards Fund," to the end that such proceeds shall be applied to the repair, reconstruction or replacement of the Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds. The County shall permit withdrawals of said proceeds from time to time upon making a written record of such payment, stating that the County or the Corporation has expended moneys or incurred liabilities in an amount equal to the amount therein requested to be paid over to it for the purpose of repair, reconstruction or replacement, and specifying the items for which such moneys were expended, or such liabilities were incurred, in reasonable detail. Any balance of said proceeds not required for such repair, reconstruction or replacement as evidenced by a Certificate of the County to the effect that such repair, reconstruction or replacement has been completed and all amounts owing therefor have been paid or provision for the payment therefor has been made shall be treated by the County as prepaid Base Rental Payments and transferred to the Prepayment Fund and applied in the manner provided by the Trust Agreement. Alternatively, the County, at its option, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay all Outstanding Certificates and Additional Certificates, may elect not to repair, reconstruct

or replace the damaged or destroyed portion of the Property and thereupon shall cause said proceeds to be transferred to the Prepayment Fund and used for the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement. Notwithstanding the foregoing, the County shall cause the proceeds of such insurance to be utilized for the purpose of repair, reconstruction or replacement in the event the County is directed to do so by the Corporation and the proceeds of such insurance are sufficient to pay the costs of all of such repair, reconstruction or replacement or, if such proceeds are insufficient for that purpose, the County shall deposit, to the extent permitted by law, prior to the commencement of the work of repair, reconstruction or replacement, an amount equal to the amount by which such proceeds are less than the amount necessary to complete such repair, reconstruction or replacement. The proceeds of any award in eminent domain shall be transferred by the County to the Trustee for deposit in the Prepayment Fund and applied to the prepayment of Outstanding Certificates and Additional Certificates pursuant to the Trust Agreement.

Title Insurance. Proceeds of any policy of title insurance received by the County in respect of the Property shall be applied and disbursed by the County as follows:

(a) If the County determines that the title defect giving rise to such proceeds has not materially affected the operation of the Property and will not result in an abatement of Rental Payments payable by the County under the Sublease, such proceeds shall be deposited first in the Rebate Fund to the extent the amount on deposit therein is less than the Rebate Requirement, then in the Certificate Reserve Fund to the extent that the amount therein is less than the Certificate Reserve Fund Requirement, then in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County with respect to the Certificates, and thereafter amounts not required to be so deposited shall be remitted to the County and used for any lawful purpose thereof; or

(b) If any portion of the Property has been affected by such title defect, and if the County determines that such title defect will result in an abatement of Rental Payments payable by the County under the Sublease, then the County shall immediately transfer such proceeds to the Trustee for deposit in the Prepayment Fund and such proceeds shall be applied to the prepayment of Certificates and Additional Certificates in the manner provided in the Trust Agreement.

Investments. Any moneys held by the County in the funds and accounts established under the Trust Agreement shall be invested only in Permitted Investments. Any moneys held by the Trustee in the funds and accounts established under the Trust Agreement shall be invested by the Trustee upon the Written Request of the County only in Permitted Investments. In the absence of such direction, moneys shall be invested by the Trustee solely in Permitted Investments set forth in clause (10) of the definition thereof. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with the Trust Agreement. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. Prior to the Completion Date, any interest or profits on such investments shall be deposited in the Project Fund. After the Completion Date, any interest or profits on such investments shall be deposited first in the Rebate Fund to the extent the amount on deposit therein is less than the Rebate Requirement, then in the Certificate Reserve Fund to the extent that the amount on deposit therein is less than the Certificate Reserve Fund Requirement, then in the Administrative Expense Fund to the extent needed to pay reasonable and necessary operating expenses of the County

relating to the Certificates, and thereafter transferred to the Trustee for deposit in the Principal Fund. For purposes of determining the amount on deposit in any fund or account under the Trust Agreement, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions).

Additional Certificates

Execution and Delivery of Additional Certificates. In addition to the County's Certificates of Participation (1997 Central Jail Refunding), the County, the Corporation and the Trustee may, by execution of a Supplemental Trust Agreement without the consent of the Owners, provide for the execution and delivery of Additional Certificates representing additional Base Rental Payments (which Additional Certificates shall not use the numbers "1997" in the title thereof). The Trustee may execute and deliver to or upon the request of the County such Additional Certificates, in such principal amount as shall reflect the additional principal components and interest components of the Base Rental Payments, and the proceeds of such Additional Certificates may be applied to any lawful purposes of the County or the Corporation, but such Additional Certificates may only be executed and delivered upon compliance by the County with the provisions of the Trust Agreement and subject to the following specific conditions, which are made conditions precedent to the execution and delivery of any such Additional Certificates:

(a) Neither of the County nor the Corporation shall be in default under the Trust Agreement or any Supplemental Trust Agreement or under the applicable Lease or the applicable Sublease;

(b) Said Supplemental Trust Agreement shall provide that from such proceeds or other sources an amount shall be deposited in the Certificate Reserve Fund so that following such deposit there shall be on deposit in the Certificate Reserve Fund an amount at least equal to the Certificate Reserve Fund Requirement;

(c) The Additional Certificates shall be payable as to principal only on a Principal Payment Date of each year in which principal components are due and shall be payable as to interest only on an Interest Payment Date of each year commencing with the first Interest Payment Date occurring after their date of execution and delivery;

(d) The interest with respect to the Additional Certificates shall be payable at a fixed rate;

(e) The aggregate principal amount of Certificates executed and delivered and at any time Outstanding under the Trust Agreement or under any Supplemental Trust Agreement shall not exceed any limit imposed by law, by the Trust Agreement or by any Supplemental Trust Agreement;

(f) The Lease and the Sublease shall have been amended, to the extent necessary, so as to increase the Base Rental Payments payable by the County thereunder by an aggregate amount equal to the principal and interest represented by such Additional Certificates, payable at such times and in such manner as may be necessary to provide for the payment of the principal and interest represented by such Certificates; provided, however, that no such amendment shall be made such that the sum of Base Rental Payments, including any such amendment, plus

Additional Rental in any year shall be in excess of the annual fair rental value of the Property (without taking into account the use of the proceeds of any Additional Certificates executed and delivered in connection therewith) and evidence of the satisfaction of this condition shall be made by a Certificate of the County; and

(g) Said Supplemental Trust Agreement shall provide Principal Payment Dates and/or mandatory prepayments of Additional Certificates in amounts sufficient to provide for payment of the Additional Certificates when principal and interest components of Base Rental Payments are due.

Any Additional Certificates shall be on a parity with the Certificates and each Owner thereof shall have the same rights upon an Event of Default as the Owner of any other Certificates executed and delivered under the Trust Agreement, except as otherwise provided in the Supplemental Trust Agreement under which Additional Certificates are executed and delivered.

Proceedings for Authorization of Additional Certificates. Whenever the County and the Corporation shall determine to authorize the execution and delivery of any Additional Certificates pursuant to the Trust Agreement, the County, the Corporation and the Trustee shall enter into a Supplemental Trust Agreement without the consent of the Owners of any Certificates, providing for the execution and delivery of such Additional Certificates, specifying the maximum principal amount of such Additional Certificates and prescribing the terms and conditions of such Additional Certificates.

Such Supplemental Trust Agreement shall prescribe the form or forms of such Additional Certificates and, subject to the provisions of the Trust Agreement, shall provide for the distinctive designation, denominations, method of numbering, dates, Principal Payment Dates, interest rates, Interest Payment Dates, provisions for prepayment (if desired) and places of payment of principal and interest.

Before such Additional Certificates shall be executed and delivered, the County, the Corporation shall file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Counsel setting forth (1) that such Counsel has examined the Supplemental Trust Agreement and the amendment, if any, to the Lease and the Sublease required by the Trust Agreement; (2) that the execution and delivery of the Additional Certificates have been sufficiently and duly authorized by the County and the Corporation; (3) that said amendments to the Lease and the Sublease and the Supplemental Trust Agreement, when duly executed by the County and the Corporation, will be valid and binding obligations of the County and the Corporation; (4) that said amendments to the Lease and the Sublease have been duly authorized, executed and delivered and have been duly recorded; and (5) that the amendments to the Lease and the Sublease do not adversely affect the tax-exempt status of interest evidenced by Outstanding Certificates;

(b) A Certificate of the County that the requirements of the Trust Agreement have been met, which shall include a Certificate by the County as to the annual fair rental value of the Property, without giving effect to the execution and delivery of the Additional Certificates and to the use of proceeds received therefrom;

(c) Certified copies of the resolutions of the County and the Corporation, authorizing the execution of the amendments to the Lease and Sublease required by the Trust Agreement;

(d) An executed counterpart or duly authenticated copy of the amendments to the Lease and Sublease required by the Trust Agreement;

(e) Certified copies of the policies of insurance required by the Sublease or certificates thereof, which shall evidence that the amounts of the insurance required under the Sublease have been increased, if necessary, to cover the amount of such Additional Certificates;

(f) A CLTA title insurance policy or other appropriate form of policy in the amount of the Additional Certificates of the type and with the endorsements described in the Sublease; and

(g) The written consent of the Insurer permitting the execution and delivery of such Additional Certificates (unless such Additional Certificates are being executed and delivered to refund Outstanding Certificates or Additional Certificates, and such refunding results in present value savings to the County).

Upon the delivery to the Trustee of the foregoing instruments so as to permit the execution and delivery of the Additional Certificates in accordance with the Supplemental Trust Agreement then delivered to the Trustee, the Trustee shall execute and deliver said Additional Certificates, in the aggregate principal amount specified in such Supplemental Trust Agreement, to, or upon the request of, the County.

Selected Covenants

Other Liens. The County will keep the Property, the Central Jail Project and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the County ten days' written notice to comply therewith and failure of the County to take any necessary steps to defend against or to so comply within such ten-day period) may defend against any and all actions or proceedings in which the validity the Trust Agreement is or might be questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its liability under the Trust Agreement to defend the validity thereof and to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Certificates or Additional Certificates are Outstanding, neither the County nor the Corporation will create or suffer to be created any pledge of or lien on the Base Rental Payments other than as provided or permitted under the Trust Agreement.

Prosecution and Defense of Suits. The County will promptly take such action from time to time as may be necessary or proper, in its reasonable discretion, to remedy or cure any known cloud upon or defect in the title to the Property or any portion thereof, whether now existing or hereafter developing, and will prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions made by it relating to the receipt, deposit and disbursement of the Base Rental Payments, and such accounting records shall be available for inspection by the County or the Corporation at reasonable hours, under reasonable conditions and with reasonable notice. The Trustee will, upon written request, make copies of the foregoing available to any Owner of at least five percent in aggregate principal amount of Outstanding Certificates and Additional Certificates or his agent duly authorized in writing. The Trustee shall deliver a monthly accounting to the County; provided that the Trustee shall not be obligated to report as to any fund or account that (a) has a balance of zero and (b) has not had any activity since the last reporting date.

Rebate Fund; Tax Covenants. In addition to the other funds and accounts created pursuant to the Trust Agreement, the County shall establish and maintain a fund separate from any other fund or account established and maintained thereunder designated the "County of San Diego Certificates of Participation (1997 Central Jail Refunding) Rebate Fund" (the "Rebate Fund"). There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate. All money at any time deposited in the Rebate Fund shall be held by the County in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Certificates and the Additional Certificates pursuant to the Trust Agreement or anything to the contrary contained therein, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by the Trust Agreement and by the Tax Certificate. The Trustee shall have no duty or obligation to monitor the compliance by the County with the requirements of the Tax Certificate.

Any funds remaining in the Rebate Fund after payment in full of all of the Certificates and any Additional Certificates and after payment of any amounts described in the Trust Agreement, shall be withdrawn by the County to be used for any lawful purpose.

Continuing Disclosure. The County and the Trustee, in its capacity as trustee and dissemination agent, covenant and agree that they will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Trust Agreement, failure of the County or the Trustee to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee (and, at the request of the Purchaser or the Owners of at least 25% aggregate principal amount of Outstanding Certificates, shall), or any Owner or Beneficial Owner of Certificates, may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County or the Trustee, as the case may be, to comply with its obligations under the Trust Agreement.

Events of Default and Remedies

Events of Default. The following events shall be Events of Default:

(a) default in the due and punctual payment of the principal of or premium, if any, on any Certificate or Additional Certificate when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for prepayment, by declaration or otherwise;

(b) default in the due and punctual payment of any installment of interest on any Certificate or Additional Certificate when and as such interest installment shall become due and payable;

(c) default by the County in the observance of any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the County and the Corporation by the Trustee, or to the County, the Corporation and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Certificates and Additional Certificates at the time Outstanding; provided, however, that if such default can be remedied but not within such 30-day period and if the County has taken all action reasonably possible to remedy such default within such 30-day period, such default shall not become an Event of Default for so long as the County shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or

(d) an event of default shall have occurred and be continuing under the Sublease.

Action on Default. In each and every case during the continuance of an Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount represented by the Certificates and any Additional Certificates at the time Outstanding (subject to the provisions of the Trust Agreement) shall be entitled, upon notice in writing to the County and the Corporation to exercise any of the remedies granted to the County under the Lease, to the Corporation under the Sublease, and in addition, to take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates and any Additional Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement.

Other Remedies of the Trustee. The Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the County, the Corporation or any director, officer or employee thereof, and to compel the County or the Corporation or any such director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any default under the Trust Agreement to require the County and the Corporation to account as the trustee of an express trust.

Application of Amounts After Default. Notwithstanding anything to the contrary contained in the Trust Agreement, after a default by the County, all funds and accounts held by the Trustee and all payments received by the Trustee with respect to the rental of the Property after a default by the County pursuant to the Sublease, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Sublease, shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

(a) to the payment of all amounts due the Trustee under the Trust Agreement; and

(b) to the payment of all amounts then due as interest with respect to the Certificates and any Additional Certificates, and thereafter to the payment of all amounts due as principal with respect to the Certificates and any Additional Certificates, in respect of which or for the benefit of which, money has been collected (other than Certificates and any Additional Certificates which have matured or otherwise become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable with respect to such Certificates and Additional Certificates.

Limitation on Suits. No Owner of any Certificate or Additional Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless such Owner has previously given written notice to the Trustee of a continuing Event of Default; the Owners of not less than 25% in principal amount of the Outstanding Certificates and Additional Certificates shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Agreement; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in principal amount of the Outstanding Certificates and Additional Certificates; it being understood and intended that no one or more Owners of Certificates and Additional Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates or Additional Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal and ratable benefit of all the Owners of Certificates and Additional Certificates. Nothing contained in the Trust Agreement shall, however, affect or impair the right of any Owner to enforce the payment of the principal component of or the prepayment price of and the interest component of the Base Rental Payments represented by any Certificate or Additional Certificate at and after the maturity or earlier prepayment.

The Trustee

Employment of the Trustee. The County and the Corporation appoint and employ the Trustee to receive, deposit and disburse the Rental Payments, to prepare, execute, deliver and transfer the Certificates and Additional Certificates and to perform the other functions contained in the Trust Agreement; all in the manner provided in the Trust Agreement and subject to the conditions and terms of the Trust Agreement. By executing and delivering the Trust Agreement, the Trustee accepts the appointment and employment referred to in the Trust Agreement and accepts the rights and obligations

of the Trustee provided in the Trust Agreement, subject to the conditions and terms therein. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Trust Agreement, and no implied covenants or obligations shall be read into the Trust Agreement against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

Duties, Removal and Resignation of the Trustee. The County and the Corporation may, by an instrument in writing, remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount represented by the Certificates and Additional Certificates at the time Outstanding (or their attorneys duly authorized in writing) or the Insurer and shall appoint a successor Trustee, with the prior written approval of the Insurer, but any such successor Trustee shall be a bank with trust powers or trust company doing business and having a principal corporate trust office in California or New York, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars ($50,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Trust Agreement the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the County, the Corporation and the Insurer and by mailing notice, first class, postage prepaid, of such resignation to the Owners at their addresses appearing on the books required to be kept by the Trustee pursuant to the Trust Agreement. Upon receiving such notice of resignation, the County and the Corporation shall, with the prior written approval of the Insurer, promptly appoint a successor Trustee by an instrument in writing; provided, however, that in the event the County and the Corporation do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the County, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

Amendment or Supplement to Trust Agreement

The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee thereunder may be amended or supplemented at any time by an amendment of or supplement to the Trust Agreement, which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Certificates and Additional Certificates then Outstanding, exclusive of Certificates and Additional Certificates disqualified as provided in the Trust Agreement, are filed with the Trustee. No such amendment or supplement shall (1) extend the Principal Payment Date of any Certificate or Additional Certificate or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby or reduce the amount of any Mandatory Sinking Account Payment without the

prior written consent of the Owner of each Certificate and Additional Certificate so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment the Trust Agreement or supplement to the Trust Agreement without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) amend the Trust Agreement relating to amendments and supplements without the prior written consent of the Owners of all Certificates or Additional Certificates then Outstanding.

The Trust Agreement and the rights and obligations of the County, the Corporation, the Owners and the Trustee thereunder may also be amended or supplemented at any time by an amendment of or supplement to the Trust Agreement, which shall become binding upon execution, but without the written consents of any Owners, but only to the extent permitted by law and after receipt of an unqualified approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required to be observed or performed in the Trust Agreement by the County or the Corporation, or to surrender any right or power reserved to or conferred therein on the County or the Corporation, and which in either case shall not materially adversely affect the interests of the Owners; or

(b) to provide for additional or substitute Property as may be requested from time to time by the County in accordance with the Sublease; or

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Trust Agreement or in regard to questions arising thereunder, which the County or the Corporation may deem desirable or necessary and not inconsistent with the Trust Agreement, and which shall not materially adversely affect the interests of the Owners; or

(d) to provide for the execution and delivery of Additional Certificates in accordance with the Trust Agreement; or

(e) for any other reason, provided such amendment or supplement does not materially adversely affect the interests of the Owners, provided further that the County, the Corporation and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this subsection (e) have been met with respect to such amendment or supplement.

Defeasance of Certificates

Discharge of Certificates and Trust Agreement. If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Certificates and Additional Certificates the interest and principal represented thereby at the times and in the manner stipulated in the Trust Agreement and the Certificates, then such Owners shall cease to be entitled to the pledge of and lien on the Base Rental Payments as provided in the Trust Agreement, and all agreements and covenants of the County, the Corporation and the Trustee to such Owners under the Trust Agreement shall thereupon cease, terminate and become void and shall be discharged and satisfied.

Any Outstanding Certificates or Additional Certificates shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in the Trust Agreement if (i) in case said Certificates or Additional Certificates are to be prepaid on any date prior to their maturity, the County shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the provisions of the Trust Agreement, notice of prepayment of such Certificates or Additional Certificates on said prepayment date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities which are not callable or subject to prepayment prior to their respective maturity dates, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient (as verified by a report of an independent certified public accountant or other independent financial consultant), to pay when due the principal or prepayment price (if applicable) of, and interest due and to become due on, said Certificates or Additional Certificates on and prior to the prepayment date or maturity date thereof, as the case may be, and (iii) in the event any of said Certificates or Additional Certificates are not to be prepaid within the next succeeding 60 days, the County shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of prepayment is mailed pursuant to the Trust Agreement, a notice to the Owners of such Certificates or Additional Certificates and to the securities depositories and information services specified in the Trust Agreement that the deposit required by (ii) above has been made with the Trustee and that said Certificates or Additional Certificates are deemed to have been paid in accordance with the Trust Agreement and stating such maturity or prepayment dates upon which moneys are to be available for the payment of the principal or prepayment price (if applicable) of said Certificates or Additional Certificates. Neither the securities nor moneys deposited with the Trustee pursuant to the Trust Agreement nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or prepayment price (if applicable) of, and interest on said Certificates or Additional Certificates; provided that Defeasance Securities deposited with the Trustee pursuant to the Trust Agreement may be sold upon the written request of the County and the proceeds concurrently reinvested in other Defeasance Securities which satisfy the conditions of (ii) above provided that the Trustee receives an Opinion of Counsel to the effect that such sale and reinvestment does not adversely affect the exclusion of interest on the Certificates and Additional Certificates from federal income taxes, and provided further that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the County, be reinvested in Defeasance Securities maturing at times and in amounts, together with the other moneys and payments with respect to securities then held by the Trustee pursuant to the Trust Agreement, sufficient to pay when due the principal or prepayment price (if applicable) of, and interest to become due with respect to said Certificates or Additional Certificates on and prior to such prepayment date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall, upon receipt by the Trustee of a Written Request of the County, be paid over to the County, as received by the Trustee, free and clear of any trust, lien or pledge.

After the payment or deemed payment of all the interest and principal represented by all Outstanding Certificates and Additional Certificates as provided in the Trust Agreement, the Trustee shall execute and deliver to the Corporation and the County all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Trust Agreement, and the Trustee shall pay over or deliver to the County all moneys or securities held by it pursuant to the Trust Agreement, which are not required for the payment of the interest and principal represented by such Certificates and

Additional Certificates. Notwithstanding the discharge and satisfaction of the Trust Agreement, Owners of Certificates and Additional Certificates shall thereafter be entitled to payments due under the Certificates and Additional Certificates pursuant to the Sublease, but only from amounts deposited pursuant to the Trust Agreement and from no other source.

Unclaimed Moneys. Anything contrary contained in the Trust Agreement notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the interest or principal represented by any of the Certificates or Additional Certificates which remain unclaimed for two years after the date when the payments represented by such Certificates or Additional Certificates have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the interest and principal represented by such Certificates or Additional Certificates have become payable, shall at the Written Request of the County be repaid by the Trustee to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the County for the payment of the interest and principal represented by such Certificates or Additional Certificates; provided, however, that before being required to make any such payment to the County, the Trustee shall mail a notice to the Owner that such unclaimed funds shall be returned to the County within 30 days.

Insurance

Payments from Municipal Bond Insurance Policy. Payment of the principal and interest with respect to the Certificates shall be insured by the Municipal Bond Insurance Policy provided by the Insurer. So long as the Municipal Bond Insurance Policy is in full force and effect and the Insurer is not in default thereunder, the County and the Trustee agree to comply with the following provisions by which the Insurer will pay any principal or interest payment due and payable with respect to the Certificates but for which there are insufficient funds for the payment thereof:

(a) At least one day prior to all Interest Payment Dates, the Trustee will determine whether there will be sufficient funds in the funds and accounts maintained by it under the Trust Agreement to pay the principal or interest with respect to the Certificates on such Interest Payment Date. If the Trustee determines that there will be insufficient funds in such funds or accounts, the Trustee shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Certificates to which such deficiency is applicable and whether such deficiency will be as to principal or interest, or both. If the Trustee has not so notified the Insurer at least one day prior to an Interest Payment Date, the Insurer will make payments of principal or interest with respect to the Certificates on or before the first day next following the date on which the Insurer shall have received notice of nonpayment from the Trustee.

(b) The Trustee shall, after giving notice to the Insurer as provided in (a) above, make available to the Insurer and, at the Insurer's direction, to the United States Trust Company of New York, as insurance trustee for the Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books for the Certificates maintained by the Trustee and all records relating to the funds and accounts maintained by the Trustee under the Trust Agreement.

(c) The Trustee shall provide the Insurer and the Insurance Trustee with a list of the Owners of the Certificates entitled to receive principal or interest payments from the Insurer under the terms of the Municipal Bond Insurance Policy, and shall make arrangements with the Insurance

Trustee (i) to mail checks or drafts to the Owners of the Certificates entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal represented by the Certificates surrendered to the Insurance Trustee by the Owners of the Certificates entitled to receive full or partial principal payments from the Insurer.

(d) The Trustee shall, at the time it provides notice to the Insurer pursuant to (a) above, will notify Owners of the Certificates entitled to receive the payment of principal or interest with respect to the Certificates from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or part of the interest payments next coming due upon proof of entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of such Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Certificates (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Certificates to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Certificates for payment thereon first to the Trustee who shall note on such Certificates the portion of the principal paid by the Trustee, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Trustee has notice that any payment of principal or interest with respect to the Certificates which has become Due For Payment (as defined in the Municipal Bond Insurance Policy) due and payable and which is made to such Owner by or on behalf of the County has been deemed a preferential transfer and theretofore recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall notify the Insurer and, at the time the Insurer is notified, notify all Owners of the Certificates that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Insurer its records evidencing the payments of principal and interest with respect to the Certificates which have been made by the Trustee and subsequently recovered from such Owner and the dates on which such payments were made.

(f) In addition to those rights granted the Insurer under the Trust Agreement, the Insurer shall, to the extent it makes payment of principal or interest with respect to the Certificates, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Municipal Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon receipt from the Insurer of proof of the payment of interest thereon to the Owners of the Certificates, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Certificates maintained by the Trustee upon surrender of the Certificates by the Owners thereof, together with proof of the payment of principal thereof.

Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest due with respect to the Certificates shall be paid by the Insurer pursuant to the Municipal Bond Insurance Policy, such Certificates shall remain Outstanding for all purposes, not to be defeased or otherwise satisfied and not be considered paid by the County, and the assignment and

pledge of the Base Rental Payment Fund and the Certificate Reserve Fund and all covenants, agreements and other obligations of the County to the Owners of the Certificates shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such Owners.

Consent of Insurer. So long as the Insurer is not in default under the Municipal Bond Insurance Policy, the Insurer's consent shall be required for the following purposes: (i) execution and delivery of any amendment, modification or supplement to the Trust Agreement which requires the consent of any Owners, (ii) removal of the Trustee and any successor thereto and appointment of any successor trustee and (iii) initiation or approval of any action not described in (i) or (ii) above which requires the consent of the Owners. Notwithstanding anything to the contrary in the Trust Agreement, the rights given to the Insurer hereunder to give consents, directions and approvals shall not be effective so long as it is in default of its obligations under the Municipal Bond Insurance Policy.

Exercise of Remedies Upon Default. Notwithstanding anything to the contrary in the Trust Agreement, so long as the Insurer is not in default under the Municipal Bond Insurance Policy, upon the occurrence and continuance of an Event of Default as defined in the Trust Agreement, the Insurer shall entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Trust Agreement.

LEASE

General

The Lease provides the terms and conditions of the lease of the Property by the Corporation. Certain provisions of the Lease are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Lease.

Property

The County leases to the Corporation and the Corporation hires from the County, on the terms and conditions set forth in the Lease, those certain parcels of real property and improvements thereon or to be located thereon situated in the State of California, County of San Diego, City of San Diego, described in Exhibit A attached to and made a part of the Lease (the "Property").

Term

The term of the Lease commenced on November 30, 1994 and shall end on the Expiry Date, unless such term is sooner terminated or is extended as provided in the Lease. If prior to the Expiry Date, all Base Rental Payments under the Sublease shall have been paid, or provision therefor has been made in accordance with the Trust Agreement, the term of the Lease shall end ten (10) days thereafter or ten (10) days after written notice by the County to the Corporation in accordance with the Lease, whichever is earlier.

If the Sublease is extended beyond the Expiry Date, pursuant to the terms thereof, the Lease shall also be extended to the day following the date of termination of the Sublease.

SUBLEASE

General

The Sublease provides the terms and conditions of the sublease of the Property by the County. Certain provisions of the Sublease are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Sublease.

Property

Lease of the Property. The Corporation leases to the County, and the County rents and hires from the Corporation, the Property on the conditions and terms set forth in the Sublease. The County agrees and covenants that during the term of the Sublease, except as therein provided, it will use the Property for public purposes so as to afford the public the benefits contemplated and so as to permit the Corporation to carry out its agreements and covenants contained in the Sublease and the Trust Agreement, and the County further agrees and covenants that during the term of the Sublease that it will not abandon or vacate the Property.

Prohibition Against Encumbrance or Sale. The County and the Corporation will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Property, except Permitted Encumbrances, and except incident to the execution and delivery of Additional Certificates as contemplated by the Sublease. The County and the Corporation will not sell or otherwise dispose of the Property or any property essential to the proper operation of the Property, except as otherwise provided in the Sublease. Notwithstanding anything to the contrary contained in the Sublease, with the consent of the Insurer, which will not be unreasonably withheld, the County may assign, transfer or sublease any and all of the Property or its other rights under the Lease, provided that (a) the rights of any assignee, transferee or sublessee shall be subordinate to all rights of the Corporation under the Sublease, (b) no such assignment, transfer or sublease shall relieve the County of any of its obligations under the Sublease, (c) the assignment, transfer or sublease shall not result in a breach of any covenant of the County contained in the Sublease, (d) any such assignment, transfer or sublease shall by its terms expressly provide that the fair rental value of the Property for all purposes shall be first allocated to the Sublease, as the same may be amended from time to time before or after any such assignment, transfer or sublease and (e) no such assignment, transfer or sublease shall confer upon the parties thereto any remedy which allows reentry upon the Property unless concurrently with granting such remedy the same shall be also granted under the Sublease by an amendment to the Sublease which shall in all instances be prior to and superior to any such assignment, transfer or sublease.

Liens. In the event the County shall at any time during the term of the Sublease cause any improvements to the Property to be constructed or materials to be supplied in or upon or attached to the Property, the County shall pay or cause to be paid when due all sums of money that

may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the County in, upon, about or relating to the Property and shall keep the Property free of any and all liens against the Property or the Corporation's interest therein. In the event any such lien attaches to or is filed against the Property or the Corporation's interest therein, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the County shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the County shall forthwith pay and discharge or cause to be paid and discharged such judgment. The County shall, to the maximum extent permitted by law, indemnify and hold the Corporation and its assignee and its directors, officers and employees harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the Property or the Corporation's interest therein.

Substitution or Removal of Leased Property. The County may amend the Sublease and the Lease to substitute other real property and/or improvements (the "Substituted Property") for existing Property and/or to remove real property (including undivided interests therein) and/or improvements from the definition of Property, with the consent of the Insurer, which shall not be unreasonably withheld, and upon compliance with all of the conditions set forth below. After a Substitution or Removal, the part of the Property for which the Substitution or Removal has been effected shall be released from the leasehold under the Sublease and under the Lease.

No Substitution or Removal shall take place under the Sublease until the County delivers to the Corporation and the Trustee the following:

(1) A Certificate of the County containing a description of all or part of the Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place;

(2) A Certificate of the County (A) stating that the annual fair rental value of the Property after a Substitution or Removal, in each year during the remaining term of the Sublease, is at least equal to the maximum annual Base Rental Payments attributable to the Property prior to said Substitution or Removal, as determined by the County on the basis of an appraisal of the Property after said Substitution or Removal conducted by a member of the Appraisal Institute of America (MAI) designated by the County; (B) demonstrating that the useful life of the Property after Substitution or Removal equals or exceeds the remaining term of the Sublease; and (C) stating that the Property after a Substitution or Removal is as essential to the operations of the County as was the Property immediately prior to such Substitution or Removal;

(3) An Opinion of Counsel to the effect that the amendments to the Sublease and the Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the County and the Corporation enforceable in accordance with their terms;

(4) (A) In the event of a Substitution, a policy of title insurance in an amount equal to the same proportion of the principal amount as the principal portion of Base Rental Payments for the Substituted Property bears to the total principal portion of Base Rental Payments,

insuring the County's leasehold interest in the Substituted Property (except any portion thereof which is not real property) subject only to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the Certificates and any Additional Certificates, and (B) in the event of a partial Removal, evidence that the title insurance in effect immediately prior thereto is not affected;

(5) In the event of a Substitution, an opinion of the County Counsel of the County to the effect that the exceptions, if any, contained in the title insurance policy referred to in (4) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the County for the purposes of leasing or using the Substituted Property;

(6) An Opinion of Counsel that the Substitution or Removal does not cause the interest with respect to the Certificates and any Additional Certificates to be includable in gross income of the Owners thereof for federal income tax purposes;

(7) Evidence that the County has complied with the covenants contained in the Sublease with respect to the Substituted Property; and

(8) Evidence that the Substitution or Removal, in and of itself, has not or will not cause a downgrade or withdrawal of the then existing credit ratings on the Certificates and any Additional Certificates.

Memorandum of Understanding. Pursuant to the Memorandum of Understanding, the County has agreed that the City may occupy up to 180 beds to be located in the Central Jail Project, all as more fully described in the Memorandum of Understanding. The County and the Corporation each agrees that its respective rights under the Sublease are subject to the rights of the City under the Memorandum of Understanding. Without the consent of the Corporation, the Owners or the Insurer, the County and the City may at any time terminate the Memorandum of Understanding, in whole or in part, or otherwise amend or modify the same in any other respect.

Construction of Central Jail Project. The Corporation has commenced and agrees to complete the construction of the Central Jail Project as promptly as possible after the Closing Date, provided that the Corporation shall not be required to commit any of its own funds for the Central Jail Project but will be required only to utilize funds in the Project Fund under the Trust Agreement for that purpose in accordance with the provisions of the Sublease and the Trust Agreement. To fulfill its obligation under the Sublease, the Corporation and the County have entered into an Agency Agreement dated as of November 1, 1994, pursuant to which the County will act as the Corporation's agent to construct the Central Jail Project

Term of Sublease

Commencement of the Sublease. The term of the Sublease commenced on the November 1, 1994, and shall end on the Expiry Date, unless such term is extended or sooner terminated as provided in the Sublease. If on the Expiry Date, the rental payable under the Sublease shall not be fully paid and all Certificates and Additional Certificates shall not be fully paid and retired, or if the rental payable under the Sublease shall have been abated at any time and for any reason, then the term of the Sublease shall be extended until ten days after the rental payable under the Sublease shall be fully paid and all Certificates and Additional Certificates shall be fully paid, except that the term of the Sublease shall in no event be extended beyond a date specified in the

Sublease. If prior to the Expiry Date, the rental payable under the Sublease shall be fully paid and all Certificates and Additional Certificates shall have been fully paid, or deemed fully paid, in accordance with the Trust Agreement, the term of the Sublease shall end ten days thereafter or ten days after written notice by the County to the Corporation to the effect that the rental payable under the Sublease shall be fully paid and all Certificates and Additional Certificates have been fully paid, whichever is earlier, and the Sublease shall thereupon terminate.

Rental Payments

Base Rental. The County shall pay to the Corporation rental under the Sublease as Base Rental Payments with respect to the Property at the times and in the amounts set forth in the Base Rental Payment Schedule attached to the Sublease as Exhibits B-1, B-2 and C, a portion of which Base Rental Payments shall constitute interest. The interest components of the Base Rental Payments shall be paid by the County as and constitute interest paid on the principal components of the Base Rental Payments to be paid by the County under the Sublease. The obligation to make the Base Rental Payments set forth on Exhibits B-1 and B-2 attached to the Sublease arose on November 1, 1994. The Base Rental Payments set forth on Exhibits B-1 and B-2 shall be payable solely and exclusively from amounts deposited in the escrow fund established under the Escrow Agreement. The Base Rental Payments set forth on Exhibit C shall arise as of the Closing Date; provided, however, the obligation of the County to pay Base Rental Payments and Additional Rental under the Sublease shall be limited to amounts on deposit in the Capitalized Interest Fund under the Trust Agreement and the County's General Fund shall not be obligated therefor, unless and until the Central Jail Project has been substantially completed and a Temporary Certificate of Occupancy or a Certificate of Occupancy has been issued therefor. Notwithstanding the foregoing, each Base Rental Payment shall be paid by wire transfer to the Corporation or its assignee not later than one Business Day preceding its due date.

Additional Rental. The County shall also pay, as rental under the Sublease in addition to the Base Rental Payments, to the Corporation or the Trustee, as provided in the Sublease, such amounts ("Additional Rental") in each year as shall be required for the payment of all costs and expenses incurred by the Corporation in connection with the execution, performance or enforcement of the Sublease or the assignment thereof, the Trust Agreement or the respective interests in the Property and the lease of the Property by the Corporation to the County under the Sublease, including but not limited to all fees, costs and expenses and all administrative costs of the Corporation relating to the Property including, without limiting the generality of the foregoing, salaries and wages of employees, overhead, insurance premiums, taxes and assessments (if any), expenses, compensation and indemnification of the Trustee (to the extent not paid or otherwise provided for out of the proceeds of the sale of the Certificates or any Additional Certificates), fees of auditors, accountants, attorneys or engineers, insurance premiums, and all other reasonable and necessary administrative costs of the Corporation or charges required to be paid by it to comply with the terms of the Certificates, any Additional Certificates or the Trust Agreement.

The foregoing Additional Rental shall be billed to the County by the Corporation or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Corporation, the Trustee or the Trustee on behalf of the Corporation for one or more of the items above described, or that such amount is then so payable for such items. Amounts so billed shall be paid by the County not later than the latest time as such amounts may be

paid without penalty or, if no penalty is associated with a late payment of such amounts, within 30 days after receipt of a bill by the County for such amounts.

The Corporation has issued and may issue bonds and may enter into leases to finance facilities other than the Central Jail Project. The administrative costs of the Corporation shall be allocated among said facilities and the Central Jail Project, as hereinafter in this paragraph provided. Any taxes levied against the Corporation with respect to the Property, the fees of the Trustee, and any other expenses directly attributable to the Property shall be included in the Additional Rental payable under the Sublease. Any taxes levied against the Corporation with respect to real property other than the Property, the fees of any trustee or paying agent under any resolution securing bonds of the Corporation or any trust agreement other than the Trust Agreement, and any other expenses directly attributable to any facilities other than the Central Jail Project shall not be included in the administrative costs of the Central Jail Project and shall not be paid from the Additional Rental payable under the Sublease. Any expenses of the Corporation not directly attributable to any particular project of the Corporation shall be equitably allocated among all such projects, including the Central Jail Project, in accordance with sound accounting practice. In the event of any question or dispute as to such allocation, the written opinion of an independent firm of certified public accountants, employed by the Corporation to consider the question and render an opinion thereon, shall be final and conclusive determination as to such allocation. The Trustee may conclusively rely upon a Certificate of the Corporation in making any determination that costs are payable as Additional Rental hereunder, and shall not be required to make any investigation as to whether or not the items so requested to be paid are expenses of operation of the Central Jail Project.

Consideration. Such payments of Base Rental Payments and Additional Rental for each Lease Year or portion thereof during the term of the Sublease shall constitute the total rental for such Lease Year or portion thereof and shall be paid or payable by the County for and in consideration of the right of the use and possession, and the continued quiet use and enjoyment, of the Property. On the Closing Date, the County shall deliver a certificate to the Corporation and the Trustee which shall set forth the annual fair rental value of the Property. The parties to the Sublease have agreed and determined that the annual fair rental value of the Property is not less than the maximum Base Rental Payments payable under the Sublease in any year. In making such determinations of annual fair rental value, consideration has been given to a variety of factors including the replacement costs of the existing improvements on the Property, other obligations of the parties under the Sublease, the uses and purposes which may be served by the improvements on the Property and the benefits therefrom which will accrue to the County and the general public.

The parties to the Sublease acknowledge that the parties thereto may amend the Sublease from time to time to increase the Base Rental Payments payable under the Sublease so that Additional Certificates may be executed and delivered pursuant to the Sublease and the Trust Agreement. The proceeds of such Additional Certificates shall be used for any lawful purpose. Notwithstanding anything to the contrary therein contained, the Sublease may not be amended in a manner such that the sum of Base Rental Payments, including Base Rental Payments payable pursuant to such amendment, and Additional Rental with respect to the prorated portion of Outstanding Certificates and Additional Certificates secured by the Property in any year, is in excess of the annual fair rental value of the Property and other land and improvements leased to the County under the Sublease.

Payment; Credit. Each installment of Base Rental Payments payable under the Sublease shall be paid in lawful money of the United States of America to or upon the order of the Corporation at the principal corporate trust office of the Trustee in Los Angeles, California, or such other place as the Corporation shall designate. Any such installment of rental accruing under the Sublease which shall not be paid when due shall remain due and payable until received by the Trustee, except as provided in the Sublease, and to the extent permitted by law shall bear interest at the rate of ten percent per annum from the date when the same is due under the Sublease until the same shall be paid. Notwithstanding any dispute between the County and the Corporation, the County shall make all rental payments when due, without deduction or offset of any kind, and shall not withhold any rental payments pending the final resolution of any such dispute. In the event of a determination that the County was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, shall, at the option of the County, be credited against subsequent rental payments due under the Sublease or be refunded at the time of such determination. Amounts required to be deposited by the County with the Trustee pursuant to the Sublease on any date shall be reduced to the extent of available amounts on deposit on such date in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

Annual Budgets; Reporting Requirements. The County covenants to take such action as may be necessary to include all Base Rental Payments and Additional Rental payments due under the Sublease in its operating budget for each fiscal year commencing after the date of the Sublease (an "Operating Budget") and to make all necessary appropriations for such Base Rental Payments and Additional Rental payments. In addition, to the extent permitted by law, the County covenants to take such action as may be necessary to amend or supplement the budget appropriations for payments under the Sublease at any time and from time to time during any fiscal year in the event that the actual Base Rental Payments and Additional Rental paid in any fiscal year exceeds the pro rata portion of the appropriations then contained in the County's budget.

Application of Rental Payments. All Base Rental Payments received shall be applied first to the interest components of the Base Rental Payments due under the Sublease, then to the principal components (including any prepayment premium components) of the Base Rental Payments due under the Sublease and thereafter to all Additional Rental due under the Sublease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Sublease.

Rental Abatement. Except to the extent of (a) amounts held by the Trustee in the Base Rental Payment Fund or held by the County in the Capitalized Interest Fund and the Certificate Reserve Fund, (b) amounts received in respect of use and occupancy insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Certificates, during any period in which, by reason of material damage, destruction, title defect, condemnation or as a result of failure to complete the Central Jail Project, there is substantial interference with the use and possession by the County of any portion of the Property, rental payments due under the Sublease with respect to the Property shall be abated to the extent that the annual fair rental value of the portion of the Property in respect of which there is no substantial interference is less than the annual Base Rental Payments and Additional Rental, in which case rental payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or sublease any or all of the Property or other rights under the Sublease, as permitted by the Sublease, for purposes of determining the annual fair rental value available to pay Base Rental Payments and Additional Rental, annual fair rental value of the Property shall first be allocated to the Sublease as provided in

the Sublease. Any abatement of rental payments pursuant to the Sublease shall not be considered an Event of Default as defined in the Sublease. The County waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Sublease by virtue of any such interference and the Sublease shall continue in full force and effect. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Property so damaged, destroyed, defective or condemned.

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

Prepayment of Rental Payments. The County may prepay, from eminent domain proceeds or net insurance proceeds received by it pursuant to the Sublease, all or any portion of the components of Base Rental Payments relating to any portion of the Property then unpaid, in whole on any date, or in part on any date in integral multiples of an Authorized Denomination so that the aggregate annual amounts of principal components of Base Rental Payments represented by the Certificates and any Additional Certificates which shall be payable after such prepayment date shall each be in an integral multiple of an Authorized Denomination and shall be as nearly proportional as practicable to the aggregate annual amounts of principal components of Base Rental Payments represented by the Certificates and any Additional Certificates, with respect to the portion of the Property so prepaid.

The County may prepay, from any source of available moneys pursuant to the Trust Agreement, all or any part (in an integral multiple of an Authorized Denomination) of the principal components of Base Rental Payments then unpaid so that the aggregate annual amounts of principal components of Base Rental Payments under the Sublease which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual amounts of principal components represented by the Certificates and any Additional Certificates unpaid prior to the prepayment date, at a prepayment amount equal to the principal component prepaid plus accrued interest thereon to the date of prepayment plus any applicable premium.

Before making any prepayment pursuant to the Sublease, at least 45 days before the prepayment date the County shall give written notice to the Corporation and the Trustee describing such event, specifying the order of Principal Payment Dates and specifying the date on which the prepayment will be made, which date shall be not less than 30 nor more than 60 days from the date such written notice is given to the Corporation and the Trustee.

Additional Certificates. In addition to the Certificates to be executed and delivered under the Trust Agreement the County may, from time to time, but only upon satisfaction of the conditions to the execution and delivery of Additional Certificates set forth in the Trust Agreement, enter into a Supplemental Trust Agreement to execute and deliver Additional Certificates on a parity with the Certificates and any previously executed and delivered Additional Certificates (unless otherwise provided in the related Supplemental Trust Agreement), the proceeds of which may be used for any lawful purpose by the County, as provided in the Supplemental Trust Agreement; provided that prior to or concurrently with the execution and delivery of the Additional Certificates,

the County and the Corporation shall have entered into an amendment to the Sublease providing for an increase in the Base Rental Payments to be made under the Sublease subject to the limitations set forth therein.

Certain Covenants

Insurance. The County shall secure and maintain or cause to be secured and maintained at all time with insurers of recognized responsibility or through a program of self-insurance or self-funding to the extent specifically permitted in the Sublease, all coverage on the Property required thereby. Such insurance shall consist of :

(1) A policy or policies of insurance against loss or damage to the Property known as "all risk," including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the lesser of (i) the cumulative replacement values of the Property and, in the case of a policy covering more than the Property, as permitted by the next succeeding sentence, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the unpaid principal or face amounts due on all Obligations and Certificates which are Outstanding; provided that with the consent of the Insurer the amount of coverage required by this sentence may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot, flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. Such insurance may be in the form of a policy which covers the Property and one or more additional parcels of real property leased or owned by the County which may be limited in an amount per occurrence in the aggregate to the amount required by the preceding sentence. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss (except for flood, in which case the deductible may not exceed $250,000 for any one loss). The County may obtain such coverage as a joint insured with one or more other public agencies located within or without the County of San Diego which may be limited in an amount per occurrence in the aggregate for all insureds as described in the first sentence of this paragraph (1). Otherwise conforming policies satisfying the requirements of this paragraph (1) may provide that amounts payable as coverage under this paragraph (1) may be reduced by amounts payable under paragraph (4) for the same occurrence, and vice versa.

(2) In the event that such coverage is not included in paragraph (1) above, boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Property in an amount not less than $50,000,000 per occurrence; provided, however, that the amount of coverage required by this sentence may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of loss or damage by steam boilers, pressure vessels and similar apparatus, now or hereafter installed on the Property, a specified smaller amount is believed to be reasonable. Such insurance may be in the form of a policy which covers the Property and one or more additional parcels of real property leased or owned by the County which may be limited in amount to $50,000,000 per occurrence in the aggregate for all properties. Such insurance may at any time include a deductible clause providing for a deductible not to exceed $100,000 for any one loss.

The County may obtain such coverage as a joint insured with one or more public agencies located within or without the County of San Diego which may be limited in amount to $50,000,000 per occurrence in the aggregate for all insureds. Otherwise conforming policies satisfying the requirements described in this paragraph (2) may provide that amounts payable as coverage under this paragraph (2) may be reduced by amounts payable under paragraph (4) for the same occurrence, and vice versa.

(3) A policy or policies of insurance against loss or damage to the Property by earthquake, which shall be maintained at any time in an amount not less than (i) the cumulative replacement values of the Property and, in the case of a policy covering more than the Property, as permitted by the next succeeding sentence, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which Obligations have been issued or (ii) the unpaid principal or face amounts due on all Obligations and Certificates which are Outstanding; provided, however, that the amount of coverage required by this sentence may be reduced to a smaller amount if an insurance consultant or insurance broker retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major earthquake, a specified smaller amount is believed to be reasonable. Earthquake coverage shall be required only if and to the extent: (a) available from reputable insurers or the State of California at commercially reasonable rates, and (b) the Property in question cannot satisfy any earthquake standards which may be imposed by the Insurer or any nationally recognized rating agency then rating the Certificates. Such insurance may at any time include a deductible clause providing for a deductible not to exceed ten percent of the replacement value at the time of the loss per occurrence with a minimum of $500,000. The County may obtain such coverage as a joint insured with one or more other public agencies located within or without the County of San Diego which may be limited in an amount per occurrence in the aggregate for all insureds as described in the first sentence of this paragraph (3). Otherwise conforming policies satisfying the requirements of this paragraph (3) may provide that amounts payable as coverage under this paragraph (3) may be reduced by amounts payable under paragraph (4) for the same occurrence, and vice versa.

(4) Rental interruption insurance to cover loss, total or partial, of the use of any part of the Property as a result of any of the hazards covered by the insurance required pursuant to paragraph (1), (2) or (3) above, as the case may be, in an amount sufficient at all times to pay the total rent payable under the Sublease for a period adequate to cover the period of repair or replacement, but in no event shall such policy be in an amount less than two years' Base Rental Payments for the Property; provided that such rental interruption insurance may be included in the policy or policies provided pursuant to paragraph (1), (2) or (3) without increasing the aggregate limits for coverage with respect to any hazard covered thereby and no such rental interruption insurance shall be required for a hazard described in paragraph (3) if the County is not, by the terms thereof, required to provide any coverage under such paragraph. Such insurance also may be in the form of a policy which covers the Property and one or more additional parcels of real property leased or owned by the County. The County also may obtain an otherwise conforming policy required by this paragraph (4) as a joint insured with one or more other public agencies within or without the County of San Diego which may, with respect to any hazard, be limited in aggregate amount for all insureds to the amount of the policy or policies required pursuant to paragraph (1), (2) or (3) above, as the case may be, which insures against such hazard. Otherwise conforming policies satisfying the requirements of this paragraph (4) may provide that amounts payable as coverage

under this paragraph (4) may be reduced by amounts payable under paragraph (1), (2) or (3), as the case may be, for the same occurrence, and vice versa.

The County shall collect, adjust and receive all moneys which may become due and payable under any policies contemplated by paragraphs (1), (2) and (3) above, and, may compromise any and all claims thereunder and shall transfer the net proceeds of such insurance for application as provided in the Sublease or the Trust Agreement. The Trustee shall not be responsible for the sufficiency of any insurance required in the Sublease. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County.

Any insurance policy issued pursuant to paragraph (1), (2) or (3) above shall be so written or endorsed as to make losses, if any, payable to the County, the Corporation and the Trustee as their respective interests may appear and the net proceeds of the insurance required by paragraphs (1), (2) and (3) above shall be applied as provided in the Sublease. The net proceeds, if any, of the insurance policy described in paragraphs (1), (2) and (3) above shall be payable to the County for deposit in the Insurance Proceeds and Condemnation Awards Fund. The net proceeds, if any, of the insurance policy described in paragraph (4) above shall be payable to the Trustee and deposited in the Base Rental Payment Fund. Each insurance policy provided for in the Sublease shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Corporation or the Trustee without first giving written notice thereof to the Corporation and the Trustee at least 30 days in advance of such intended cancellation or modification.

Notwithstanding the above provisions, as an alternative to providing the insurance required by paragraph (1) above, the County may, with the consent of the Insurer, provide a self-insurance or self-funding method or plan of protection for any part or all of the requirements for such insurance and, through such a plan or method, provide for deductible or retention amounts greater than those contemplated by paragraph (1) above. Any such self-insurance or self-funding maintained by the County pursuant to the foregoing shall comply with the following terms:

(i) the self-insurance or self-funding program shall be approved by an Insurance Consultant;

(ii) the self-insurance or self-funding program shall include a reasonable claims reserve fund out of which each self-insured or self-funded claim and any deductible amount authorized by paragraph (1) above shall be paid; prior to the end of the first Lease Year, the adequacy of each such fund shall be evaluated by an Insurance Consultant who shall also evaluate the appropriateness of the reserving methods and practices employed in establishing and maintaining each such fund; any deficiencies in any claims reserve fund shall be remedied in accordance with the recommendation of the Insurance Consultant and any recommended changes in the reserving methods or practices shall be adopted in accordance with the recommendation of the Insurance Consultant; after the first Lease Year, at least annually and not later than January 31 of each year that is a Lease Year, the County shall provide to the Trustee a report by either the independent accountants which provide the audit report on the County's annual audited financial statements or by an Insurance Consultant, as selected by the County, as to the appropriateness of the reserving and self-funding methods and practices employed by the County in funding the claims funds, and any changes recommended by the report shall promptly be implemented by the County;

(iii) the claims reserve fund shall be held in a separate fund by the County but may be invested as other County funds are invested in the San Diego County Pooled Investment Fund; and

(iv) in the event the self-insurance or self-funding program shall be discontinued, the soundness of its claim and deductible or retention reserve fund, as determined by the Insurance Consultant, shall be maintained.

The County shall file a Certificate of the County with the Trustee and the Insurer not later than January 31 of each year certifying that the insurance policies required by the Sublease are in full force and effect and that the Corporation and/or the Trustee is named as a loss payee on each insurance policy which the Sublease requires to be so endorsed. The County will provide the Insurer with copies of such insurance policies upon request. The Trustee shall have no responsibility whatsoever for determining the adequacy of any insurance required under the Sublease.

Title Insurance. The County covenants and agrees to deliver or cause to be delivered to the Trustee on the Closing Date a CLTA leasehold owner's policy or policies, or a commitment for such policy or policies, with respect to the Property with liability in the aggregate amount equal to the prorated principal amount of Certificates secured by the Property. Such policy or policies, when issued, shall name the Trustee as the insured and shall insure the leasehold estate of the County in the Property subject only to such exceptions as do not materially affect the County's right to the use and occupancy of the Property.

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds. If prior to the termination of the term of the Sublease (a) the Property or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty; or (b) title to, or the temporary use of, the Property or any portion thereof or the estate of the County or the Corporation in the Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or corporation acting under governmental authority, then the County and the Corporation will cause the net proceeds of any insurance claim or condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of the damaged, destroyed, defective or condemned portion of the Property, and any balance of the net proceeds remaining after such work has been completed shall be paid to the County; provided, that the County, at its option and provided the proceeds of such insurance or condemnation award together with any other moneys then available for the purpose are at least sufficient to prepay the aggregate annual amounts of principal and interest represented by Outstanding Certificates and Additional Certificates attributable to the portion of the Property so destroyed, damaged, defective or condemned (determined by reference to the proportion which the annual fair rental value of the destroyed, damaged, defective or condemned portion thereof bears to the annual fair rental value of the entire Property), may elect not to repair, reconstruct or replace the damaged, destroyed, defective or condemned portion of the Property and thereupon shall cause said proceeds to be used for the prepayment of Outstanding Certificates and Additional Certificates pursuant to the provisions of the Trust Agreement.

In the event that the proceeds, if any, of said insurance or condemnation award are insufficient either to (i) repair, rebuild or replace the Property so that the fair rental value of the Property would be at least equal to the Base Rental Payments or (ii) to prepay the Outstanding Certificates and Additional Certificates, both as provided in the preceding paragraph, then the

County may, in its sole discretion, budget and appropriate an amount necessary to effect such repair, rebuilding or replacement or prepayment; provided that the failure of the County to so budget and/or appropriate shall not be a breach of or default under the Sublease.

Tax Covenants. The County will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest evidenced and represented by the Certificates and any Additional Certificates pursuant to Section 103 of the Code, and specifically the County will not directly or indirectly use or make any use of the proceeds of the Certificates and any Additional Certificates or any other funds of the County or take or omit to take any action that would cause the Certificates or any Additional Certificates to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code or "private activity bonds" subject to federal income taxation by reason of Section 141(a) of the Code or obligations subject to federal income taxation because they are "federally guaranteed" as provided in Section 149(b) of the Code; and to that end the County, with respect to the proceeds of the Certificates and any Additional Certificates and such other funds, will comply with all requirements of such sections of the Code to the extent that such requirements are, at the time, applicable and in effect; provided, that if the County shall obtain an Opinion of Counsel to the effect that any action required under the Sublease is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest evidenced and represented by the Certificates and any Additional Certificates pursuant to Section 103 of the Code, the County may rely conclusively on such opinion in complying with the provisions of the Sublease. In the event that at any time the County is of the opinion that for purposes of the Sublease it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Trust Agreement or otherwise the County shall so instruct the Trustee in writing, and the Trustee shall take such action in accordance with such instructions.

To the ends covenanted in the Sublease, the County specifically agrees to ensure that the following requirements are met:

(1) No more than five percent of the Property or the Central Jail Project (determined both on the basis of space and on the basis of cost) shall be used in the trade or business of one or more nongovernmental persons (not including the portion of the proceeds properly allocable to facilities expected to be used by an organization described in Section 501(c)(3) of the Code).

(2) The County will not invest or allow to be invested proceeds of the Sublease, the Certificates or any Additional Certificates at a yield in excess of the yield on the Sublease, the Certificates and such Additional Certificates, except to the extent allowed under the Tax Certificate.

(3) The County will rebate or cause to be rebated any amounts due to the federal government, as provided in the Tax Certificate.

Events of Defaults and Remedies

Defaults. (a) The following events shall be "events of default" under the Sublease and the terms "event of default" and "default" shall mean, whenever they are used in the Sublease, any one or more of the following events:

(i) The County shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Sublease, provided, that the failure to deposit any Base Rental Payments abated pursuant to the Sublease shall not constitute an event of default;

(ii) The County shall fail to pay any item of Additional Rental when the same shall become due and payable pursuant to the Sublease; or

(iii) The County shall breach any other terms, covenants or conditions contained in the Sublease or the Trust Agreement, and shall fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Corporation to the County; provided, however, that if the failure stated in the notice cannot be corrected within such period, then the Corporation shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the County within such period and is diligently pursued until the default is corrected.

Upon the happening of any of the events described in subparagraph (a) above or (b) below (in either case an "Event of Default"), it shall be lawful for the Corporation or its assignee, subject to the terms of the Sublease, and to the direction and control of the Insurer, so long as the Insurer is not in default under the Municipal Bond Insurance Policy, to exercise any and all remedies available or granted to it pursuant to law or the Sublease.

The Corporation or its assignee, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following, subject to the direction and control of the Insurer, so long as the Insurer is not in default under the Municipal Bond Insurance Policy:

(1) To terminate the Sublease in the manner provided in the Sublease on account of default by the County, notwithstanding any retaking of possession or re-letting of the Property as hereinafter provided for in subparagraph (2) below, and to retake possession of the Property. In the event of such termination, the County agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Corporation or its assignee all damages recoverable at law that the Corporation or its assignee may incur by reason of default by the County, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such retaking possession of the Property; provided, however, that in the event the County is called upon to surrender possession of the Central Jail Property pursuant to this subparagraph (1), the Corporation, for itself and its successors and assigns, agrees to assume each and every obligation of the County to the City under the Memorandum of Understanding and so long as the City is not in default under the Memorandum of Understanding, shall permit the City to stay in possession of the Central Jail Property in accordance with the terms of the Memorandum of Understanding. Neither notice to pay rent nor to deliver up possession of the Property given pursuant to law nor any proceeding in unlawful detainer, or otherwise, brought by the Corporation or its assignee for the purpose of obtaining possession of the Property nor the appointment of a receiver upon initiative of the Corporation or its assignee to protect the Corporation's or its assignee's interest under the Sublease shall of itself operate to terminate the Sublease, and no termination of the Sublease on account of default by the County shall be or become effective by operation of law or acts of the parties to the Sublease, unless and until the Corporation or its assignee shall have given written notice to the County of the election on the part of the Corporation or its assignee to terminate the Sublease.

(2) Without terminating the Sublease, (i) to collect each installment of rent as it becomes due and enforce any other term or provision of the Sublease to be kept or performed by the County and/or (ii) to exercise any and all rights to retake possession of the Property; provided, however, that should the Corporation, or its successors or assigns, retake possession of the Central Jail Property under this subparagraph (2), it shall assume all each and every obligation of the County to the City under the Memorandum of Understanding and agrees that so long as the City is not in default under the Memorandum of Understanding, it will permit the City to stay in possession of the Central Jail Property in accordance with the Memorandum of Understanding. In the event the Corporation or its assignee does not elect to terminate the Sublease in the manner described in subparagraph (1) above, the County shall remain liable and agrees to keep or perform all covenants and conditions contained in the Sublease to be kept or performed by the County and, to pay the rent to the end of the term of the Sublease or, in the event that the Property is re-let, to pay any deficiency in rent that results therefrom; and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as hereinabove provided for the payment of rent under the Sublease (without acceleration), notwithstanding the fact that the Corporation or its assignee may have received in previous years or may receive thereafter in subsequent years rental in excess of the rental specified in the Sublease and notwithstanding any retaking of possession of the Property by the Corporation or its assignee or suit in unlawful detainer, or otherwise, brought by the Corporation or its assignee for the purpose of obtaining possession of the Property. Should the Corporation or its assignee elect to retake possession of the Property as provided in the Sublease, the County irrevocably appoints the Corporation or its assignee as the agent and attorney-in-fact of the County to re-let the Property (subject to the rights of the City under the Memorandum of Understanding), or any items thereof, from time to time, either in the Corporation's or its assignee's name or otherwise, upon such terms and conditions and for such use and period as the Corporation or its assignee may deem advisable and the County indemnifies and agrees to save harmless the Corporation or its assignee from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any retaking of possession of and re-letting of the Property by the Corporation or its assignee or its duly authorized agents in accordance with the provisions contained in the Sublease. The County agrees that the terms of the Sublease constitute full and sufficient notice of the right of the Corporation or its assignee to re-let the Property in the event of such reentry without effecting a surrender of the Sublease, and further agrees that no acts of the Corporation or its assignee in effecting such re-letting shall constitute a surrender of termination of the Sublease irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that on the contrary, in the event of such default by the County the right to terminate the Sublease shall vest in the Corporation or its assignee to be effected in the sole and exclusive manner described in subparagraph (1) above. The County further waives the right to rental obtained by the Corporation or its assignee in excess of the rental specified in the Sublease and conveys and releases such excess to the Corporation or its assignee as compensation to the Corporation or its assignee for its services in re-letting the Property or any items thereof. The County further agrees to pay the Corporation or its assignee the cost of any alterations or repairs to the Property or any items thereof necessary to place the Property or any items thereof in condition for re-letting immediately upon notice to the County of the completion and installation of such alterations or repairs.

Any actions taken by the Trustee with respect to the Memorandum of Understanding shall be solely in its capacity as Trustee under the Trust Agreement and the Trustee shall be entitled to the protections, immunities, limitations from liability and indemnities afforded it under the Sublease and the Trust Agreement in any action taken by it with respect to the Memorandum of Understanding.

The County waives any and all claims for damages caused or which may be caused by the Corporation or its assignee in taking possession of the Property as provided in the Sublease and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the County, or any other person, that may be on or about the Property.

The Corporation expressly waives the right to receive any amount from the County pursuant to Section 1951.2(a)(3) of the California Civil Code.

(b) In addition to any default resulting from breach by the County of any agreement, condition, covenant or term of the Sublease, if (1) the County's interest in the Sublease or any part thereof be assigned, sublet or transferred without the written consent of the Corporation (except as otherwise permitted by the Sublease), either voluntarily or by operation of law; or (2) the County or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts, either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the County shall make a general or any assignment for the benefit of its creditors; or (3) the County shall abandon or vacate the Property or any portion thereof (except as permitted by the Sublease); then in each and every such case the County shall be deemed to be in default under the Sublease.

(c) Neither the County nor the Corporation shall be in default in the performance of any of its obligations under the Sublease (except for the obligation to make Base Rental Payments pursuant to the Sublease) unless and until it shall have failed to perform such obligation within 30 days after notice by the County or the Corporation, as the case may be, to the other party properly specifying wherein it has failed to perform such obligation.

(d) Notwithstanding anything to the contrary in the Sublease, so long as no event of default shall have occurred and be continuing under the Memorandum of Understanding and so long as the City is otherwise in compliance with the Memorandum of Understanding, the County and the Corporation and their successors and assigns shall honor the right of the City to use and occupy up to 180 beds to be located in the Central Jail Project, all as described in the Memorandum of Understanding, notwithstanding the occurrence of any event of default under the Sublease or the exercise of any remedies as a consequence of any such occurrence.

Amendments to Sublease

The Sublease may be amended in writing as may be mutually agreed by the Corporation and the County, subject to the written approval of the Trustee; provided, that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by the Owners of more than 50% in principal amount of the Certificates and Additional Certificates Outstanding, and provided further, that no such amendment shall (a) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each Certificate and Additional Certificate so affected, or (b) reduce the percentage of

the principal amount of the Certificates and Additional Certificates Outstanding the consent of the Owners of which is required for the execution of any amendment of the Sublease. So long as the Insurer is not in default under the Municipal Bond Insurance Policy, (i) the Insurer's consent shall be required for any amendment to the Sublease which requires the consent of any Owners and (ii) the Insurer shall receive written notice, at least 30 days in advance of soliciting consents of Owners, with respect to each amendment of the Sublease requiring the consent of Owners.

The Sublease and the rights and obligations of the Corporation and the County under the Sublease may also be amended or supplemented at any time by an amendment of or supplement to the Sublease, which shall become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes --

(a) to add to the agreements, conditions, covenants and terms required by the Corporation or the County to be observed or performed in the Sublease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the County, or to surrender any right or power reserved to, or conferred in the Sublease on, the Corporation or the County, and which in either case shall not materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in, or in regard to questions arising under, the Sublease which the Corporation or the County may deem desirable or necessary and not inconsistent herewith, and which shall not materially adversely affect the interests of the Owners;

(c) to effect a Substitution or Removal in accordance with the Sublease;

(d) to facilitate the issuance of Additional Certificates as provided in the Sublease; or

(e) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners.

Discharge of County

Upon the payment of all Base Rental Payments and Additional Rental payable under the Sublease, all of the obligations of the County under the Sublease shall thereupon cease, terminate and become void and shall be discharged and satisfied; provided, however, if any Outstanding Certificates and Additional Certificates shall be deemed to have been paid by virtue of a deposit of Base Rental Payments under the Sublease pursuant to the Trust Agreement, then the obligation of the County under the Sublease to make Base Rental Payments under the Sublease shall continue in full force and effect until the Outstanding Certificates and Additional Certificates so deemed paid have in fact been paid, but such payments shall be made solely and exclusively from moneys and securities deposited with the Trustee as contemplated by the Trust Agreement, and that shall be the sole source of satisfaction of the County's obligation to make Base Rental Payments. The time period for giving notice by the County to the Corporation and the Trustee specified in the Sublease shall not apply incident to the payment to the Owners of all Outstanding Certificates and Additional Certificates in accordance with the Trust Agreement.

ASSIGNMENT AGREEMENT

The Corporation will assign its rights to receive Base Rental Payments from the County under the Sublease to the Trustee for the benefit of the Owners of the Certificates pursuant to the Assignment Agreement, the terms of which are summarized below. These summaries do not purport to be complete or definitive and are qualified in their entireties by reference to the full terms of the Assignment Agreement.

Assignment

The Corporation unconditionally grants, transfers and assigns to the Trustee, without recourse, (i) all right, title and interest of the Corporation as lessee under the Lease, (ii) all rights of the Corporation to receive the Base Rental Payments scheduled to be paid by the County under and pursuant to the Sublease for the benefit of the Owners of the Certificates, (iii) all rents, profits and products from the Property to which the Corporation has any right or claim whatsoever under the Sublease, (iv) the right to take all actions and give all consents under the Sublease, (v) the right of access more particularly described in the Sublease and (vi) any and all other rights and remedies of the Corporation in the Sublease as lessor thereunder for the purpose of (a) paying all sums due and owing to the Owners of the Certificates under the terms of the Trust Agreement; and (b) performing and discharging each agreement, covenant and obligation of the County contained in the Sublease and in the Trust Agreement.

Acceptance

The Trustee accepts the assignment for the benefit of the Owners of the Certificates, subject to the conditions and terms of the Trust Agreement, and all such Base Rental Payments shall be applied and all such rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

Conditions

The Assignment Agreement shall confer no rights and shall impose no obligations upon the Trustee beyond those expressly provided in the Trust Agreement. The Trustee shall not be responsible for the accuracy of the recitals in the Assignment Agreement. The Trustee is entering into the Assignment Agreement solely in its capacity as Trustee under the Trust Agreement and not in its individual or personal capacity. The Trustee is not responsible for the duties or obligations of the Corporation under the Lease or the Sublease or for any recitals, covenants, representations or warranties of the Corporation thereunder.

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APPENDIX D

BOOK-ENTRY SYSTEM

General

Purchasers of beneficial ownership interests in the Certificates will not receive certificates representing their interests in the Certificates purchased. The Underwriters will confirm original issuance purchases with statements containing certain terms of the Certificates purchased.

The following information concerning DTC and DTCs book-entry system has been obtained from sources the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.

The Certificates will be held by DTC as securities depository. The ownership of one fully registered Certificate for each maturity of Certificates, each in the aggregate principal amount of such maturity, is registered in the name of Cede & Co., as nominee for DTC. DTC, an automated clearinghouse for securities transactions, will act as securities depository for the Certificates. DTC is a limited-purpose trust company organized under the laws of the State of New York, 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, as amended. DTC was created to hold securities of its participants (the "DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need of physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Beneficial ownership interests in the Certificates may be purchased by or through DTC Participants. Such DTC Participants and the persons for whom they acquire interests in the Certificates as nominees will not receive certificated Certificates, but each such DTC Participant will receive a credit balance in the records of DTC in the amount of such DTC Participant's interest in the Certificates, which will be confirmed in accordance with DTI's standard procedures. Each such person for whom a DTC Participant acquires an interest in the Certificates, as nominee, may desire to make arrangements with such DTC Participant to receive a credit balance in the records of such DTC Participant, and may desire to make arrangements with such DTC Participant to have notices of prepayment, or all other communications of the County to DTC which may affect such persons, forwarded in writing by such DTC Participant and to have notifications made of all payments of principal of or interest on his beneficial interest. NEITHER THE COUNTY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE CERTIFICATES IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR PREPAYMENT PRICE OF OR INTEREST REPRESENTED BY THE CERTIFICATES; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO CERTIFICATE HOLDERS UNDER THE TRUST AGREEMENT; THE SELECTION BY DTC OR ANY DTC PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL

PREPAYMENT OF THE CERTIFICATES; OR ANY OTHER ACTION TAKEN BY DTC AS CERTIFICATE HOLDER.

The County and the Trustee may treat DTC (or its nominee) as the sole and exclusive owner of the Certificates registered in its name for the purposes of payment of the principal or interest represented by the Certificates, giving any notice permitted or required to be given to registered owners under the Trust Agreement, registering the transfer of the Certificates, or other action to be taken by registered owners and for all other purposes whatsoever, and shall not be affected by any notice to the contrary. Conveyances of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants, and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time. Interest and principal will be paid by the Trustee to DTC, or its nominee. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants or the Indirect Participants.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE CERTIFICATES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE OWNERS OR HOLDERS OF THE CERTIFICATES (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE CERTIFICATES.

Discontinuance of DTC Services

In the event (I) DTC, including any successor as securities depository for the Certificates, determines not to continue to act as securities depository for the Certificates; (ii) DTC shall no longer so act and gives notice to the Trustee of such determination, DTC services will be discontinued. If the County determines to replace DTC with another qualified securities depository, the County shall prepare or direct the preparation of a new single, separate, fully registered Certificate for each of the maturities of the Certificates, registered in the name of such successor or substitute qualified securities depository or its nominee or make such other arrangement acceptable to the County, the Trustee and the successor securities depository, or its nominee or make such other arrangement acceptable to the County, the Trustee and the successor securities depository as are not inconsistent with the terms of the Trust Agreement. If the County fails to identify another qualified securities depository to replace DTC then the Certificates shall no longer be restricted to being registered in the Certificate registration books in the name of Cede & Co., but shall be registered in such names as are requested in a certificate of the County, in accordance with the Trust Agreement.

APPENDIX E

FORM OF LEGAL OPINION

Upon the execution and delivery of the Certificates, Orrick, Herrington & Sutcliffe LLP, Los Angeles, California and Harrison, Taylor & Bazile, Oakland, California, Special Counsel propose to issue their approving opinion in substantially the following form:

Orrick, Herrington & Sutcliffe LLP
777 S. Figueroa Street, Suite 3200
Los Angeles, California 90017

Harrison, Taylor & Bazile
449 15th Street, Suite 303
Oakland, California 94612

July 22, 1997

County of San Diego
1600 Pacific Highway
San Diego, California 92101

$80,675,000
County of San Diego
Certificates of Participation
(1997 Central Jail Refunding)
(Final Opinion)

Ladies and Gentlemen:

We have acted as co-special counsel in connection with the execution and delivery of $80,675,000 aggregate principal amount of County of San Diego Certificates of Participation (1997 Central Jail Financing) (the "Certificates"). In such connection, we have reviewed an amended and restated lease, dated as of July 15, 1997 (the "Lease"), between the County of San Diego (the "County") and the San Diego County Capital Asset Leasing Corporation (the "Corporation"), an amended and restated sublease, dated as of July 15, 1997 (the "Sublease"), between the County and the Corporation, a trust agreement, dated as of July 15, 1997 (the "Trust Agreement"), among State Street Bank and Trust Company of California, N.A. (the "Trustee"), the County and the Corporation, a tax certificate of the County, dated as of the date hereof (the "Tax Certificate"), an assignment agreement, dated as of July 15, 1997 (the "Assignment Agreement"), between the Corporation and the Trustee, opinions of counsel to the County, the Corporation and the Trustee, certificates of the County, the Trustee, the Corporation and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement, the Lease, the Sublease, the Tax Certificate, the Assignment Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Sublease) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest portion of any Base

Rental Payment if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur. Our engagement with respect to the Certificates has concluded with their execution and delivery, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the County. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the first paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Lease, the Sublease, the Trust Agreement, the Tax Certificate and the Assignment Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest portion of Base Rental Payments to be included in gross income for federal income tax purposes.

In addition, we call attention to the fact that the rights and obligations under the Certificates, the Lease, the Sublease, the Trust Agreement, the Tax Certificate and the Assignment Agreement and their enforceability are subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against counties in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject the lien of the Sublease, the Lease or the Trust Agreement or the Assignment Agreement or the accuracy or sufficiency of the description of any such property contained therein. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The County is a political subdivision organized and existing under and by virtue of the Constitution and laws of the State of California.

2. The Lease, the Sublease and the Trust Agreement have been duly executed and delivered by the County and, assuming due authorization, execution and delivery by the other parties thereto, constitute valid and binding obligations of the County.

3. The obligation of the County to make the Base Rental Payments during the term of the Sublease constitutes a valid and binding obligation of the County, payable from funds of the County lawfully available therefor, and does not constitute a debt of the County or of the State of California within the

meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the County or the State of California is obligated to levy or pledge any form of taxation or for which the County or the State of California has levied or pledged any form of taxation.

4. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

5. The portion of each Base Rental Payment designated as and constituting interest paid by the County under the Sublease and received by the registered owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the accrual or receipt of such interest or the ownership or disposition of the Certificates.

Faithfully yours,

ORRICK, HERRINGTON &
SUTCLIFFE LLP

per

Very truly yours,

HARRISON, TAYLOR & BAZILE

per

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APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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AMBAC Municipal Bond Insurance Policy

AMBAC Indemnity Corporation
c/o CT Corporation Systems
44 East Mifflin St., Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, NY 10004
Telephone: (212) 668-0340

Issuer:

Policy Number:

Bonds:

Premium:

SPECIMEN

AMBAC Indemnity Corporation (AMBAC) A Wisconsin Stock Insurance Company

in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to the United States Trust Company of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of Bondholders, that portion of the principal of and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

AMBAC will make such payments to the Insurance Trustee within one (1) business day following notification to AMBAC of Nonpayment. Upon a Bondholder's presentation and surrender to the Insurance Trustee of such unpaid Bonds or appurtenant coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, AMBAC shall become the owner of the surrendered Bonds and coupons and shall be fully subrogated to all of the Bondholders' rights to payment.

In cases where the Bonds are issuable only in a form whereby principal is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse principal to a Bondholder as aforesaid only upon presentation and surrender to the Insurance Trustee of the unpaid Bond, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to the Insurance Trustee, duly executed by the Bondholder or such Bondholder's duly authorized representative, so as to permit ownership of such Bond to be registered in the name of AMBAC or its nominee. In cases where the Bonds are issuable only in a form whereby interest is payable to registered Bondholders or their assigns, the Insurance Trustee shall disburse interest to a Bondholder as aforesaid only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Bond and delivery to the Insurance Trustee of an instrument of assignment in form satisfactory to the Insurance Trustee, duly executed by the claimant Bondholder or such Bondholder's duly authorized representative, transferring to AMBAC all rights under such Bond to receive the interest in respect of which the insurance disbursement was made. AMBAC shall be subrogated to all the Bondholders' rights to payment on registered Bonds to the extent of the insurance disbursements so made.

In the event the trustee or paying agent for the Bonds has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Bondholder by or on behalf of the Issuer of the Bonds has been deemed a preferential transfer and therefore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from AMBAC to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Bondholder" means any person other than the Issuer who, at the time of Nonpayment, is the owner of a Bond or of a coupon appertaining to a Bond. As used herein, "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal of and interest on the Bonds which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Bonds prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of AMBAC, nor against any risk other than Nonpayment.

In witness whereof, AMBAC has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon AMBAC by virtue of the countersignature of its duly authorized representative.

President

AMBAC INDEMNITY CORPORATION CORPORATE SEAL WISCONSIN

Secretary

Effective Date:

Authorized Representative

UNITED STATES TRUST COMPANY OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer

Form # S66-0003 (8/92)

AMBAC

AMBAC Indemnity Corporation
c/o CT Corporation Systems
44 East Mifflin Street
Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza
New York, New York 10004

Endorsement

Policy issued to:

Attached to and forming part of

Effective Date of Endorsement:

In the event that AMBAC Indemnity Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California. Payments due under the Policy with respect to the Bonds, as defined in the Policy, may not be accelerated by the issuer of, the obligor on, or any trustee or paying agent for, the Bonds.

SPECIMEN

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof the Company has caused its Corporate Seal to be hereto affixed and these presents to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding on the Company by virtue of countersignature by its duly authorized agent.

AMBAC Indemnity Corporation

President

AMBAC INDEMNITY CORPORATION
SEAL
WISCONSIN

Secretary

Authorized Representative