2012-1774 Rec'd 01-03-2013 via email

**NEW ISSUE-BOOK-ENTRY ONLY**

**Ratings:**
**See "RATINGS" herein**

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

# CONTRA COSTA TRANSPORTATION AUTHORITY
# SALES TAX REVENUE BONDS
# (LIMITED TAX BONDS)

**$201,450,000**
**Limited Tax Refunding Bonds**
**Series 2012A**

**$188,770,000**
**Fixed Rate Limited Tax Bonds**
**Series 2012B**

**Dated: Date of Delivery** **Due: March 1,** see inside cover page.

The Contra Costa Transportation Authority (the "Authority") is issuing the two series of bonds identified above (the "Series 2012A Bonds," and the "Series 2012B Bonds," and collectively the "Series 2012 Bonds") pursuant to an Indenture, dated as of September 1, 2009, as supplemented, including by a Third Supplemental Indenture, dated as of December 1, 2012, between the Authority and Deutsche Bank National Trust Company, as trustee.

Each Series of the Series 2012 Bonds has different terms and both Series are secured on a parity basis under the Indenture, as described herein. The Series 2012 Bonds are limited obligations of the Authority payable from and secured solely by a pledge of sales revenues derived from a 0.5% sales tax levied by the Authority, as described herein. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF CONTRA COSTA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE SERIES 2012 BONDS, OTHER THAN SUCH SALES TAX RECEIVED BY THE AUTHORITY. Proceeds of the Series 2012A Bonds will be used to redeem certain bonds previously issued by the Authority and pay certain costs of issuance of the Series 2012A Bonds, and proceeds of the Series 2012B Bonds will be used to pay costs of certain transportation projects and certain costs of issuance of the Series 2012A Bonds and the Series 2012B Bonds, as described herein.

The Series 2012 Bonds will be in authorized denominations of $5,000 and integral multiples and will be registered in the name of Cede & Co, as holder of the Series 2012 Bonds and nominee for The Depository Trust Company ("DTC"), New York, New York. The principal and interest on the Series 2012 Bonds are payable by wire transfer to DTC which, in turn, will remit such principal or interest to the beneficial owners of the Series 2012 Bonds through the process described in APPENDIX D —"BOOK-ENTRY ONLY SYSTEM."

The **SERIES 2012A BONDS** will be initially issued in the Index Mode (the "Initial Mode") and will bear interest at a per annum interest rate determined as set forth on the inside cover page hereof (not to exceed 12%). Interest will be payable on the first Business Day of each month, commencing on January 2, 2013, all as described herein. The Series 2012A Bonds are subject to mandatory tender for purchase on the Initial Tender Date of December 15, 2015 and, if not remarketed on such Initial Tender Date, will not be purchased and will thereafter bear interest at a per annum interest rate of 9% until paid. In addition, the Series 2012A Bonds are also subject to mandatory tender for purchase on earlier dates, to optional and mandatory sinking fund redemption and to conversion to another interest rate Mode, as described herein. **THIS OFFICIAL STATEMENT IS NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE SERIES 2012A BONDS OTHER THAN WHILE THE SERIES 2012A BONDS ARE IN THE INITIAL MODE DURING THE INITIAL RATE PERIOD.**

The **SERIES 2012B BONDS** will mature on March 1 in the years and bear interest at the rates, as set forth on the inside cover of this Official Statement. Interest on the Series 2012B Bonds will be paid on each March 1 and September 1, commencing March 1, 2013. The Series 2012B Bonds are subject to optional redemption, as described herein.

This cover page contains certain information for general reference only. It is not a summary of the security for or the terms of the Series 2012 Bonds. Potential investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision with respect to the Series 2012 Bonds.

*The Series 2012 Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of validity by Best Best & Krieger LLP, Bond Counsel to the Authority, and certain other conditions. Certain legal matters will be passed on for the Authority by its counsel Best Best & Krieger LLP, and by its Disclosure Counsel, Squire Sanders (US) LLP, and for the Underwriters by their counsel, Nixon Peabody LLP. It is anticipated that the Series 2012 Bonds will be available for delivery through DTC on or about December 18, 2012.*

**Series 2012A Bonds**

**RBC Capital Markets**

**Series 2012B Bonds**

**Citigroup**
**BofA Merrill Lynch**

December 4, 2012

## MATURITY SCHEDULE

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**SALES TAX REVENUE BONDS**
**(LIMITED TAX BONDS)**

**$201,450,000**
**Limited Tax Refunding Bonds**
**Series 2012A**

| Maturity Date (March 1) | Principal Amount | Initial Tender Date (mandatory tender date) | First Optional Redemption Date | Interest Rate | CUSIP Number* |
|---|---|---|---|---|---|
| 2034 | $201,450,000 | December 15, 2015 | June 12, 2015 | 67% of one-month LIBOR + 0.37%† | 21221MDW7 |

† *The interest rate on the Series 2012A Bonds will be determined on the Date of Delivery and thereafter, on the First Business Day of each month. If all Series 2012A Bonds then outstanding are not purchased on the Initial Tender Date, which is December 15, 2015, a Delayed Remarketing Period will commence during which time the Series 2012A Bonds will bear interest at the Delayed Remarketing Period Rate of 9% until the Series 2012A Bonds have been remarketed or redeemed.*

**$188,770,000**
**Fixed Rate Limited Tax Bonds**
**Series 2012B**

| Maturity Date (March 1) | Principal Amount | Interest Rate | Yield | CUSIP Number* |
|---|---|---|---|---|
| 2014 | $11,860,000 | 2.000% | 0.280% | 21221MCU2 |
| 2015 | 12,095,000 | 3.000 | 0.350 | 21221MCV0 |
| 2016 | 9,460,000 | 4.000 | 0.500 | 21221MDR8 |
| 2016 | 3,000,000 | 3.000 | 0.500 | 21221MCW8 |
| 2017 | 6,925,000 | 5.000 | 0.640 | 21221MDS6 |
| 2017 | 6,000,000 | 4.000 | 0.640 | 21221MCX6 |
| 2018 | 10,515,000 | 5.000 | 0.790 | 21221MDT4 |
| 2018 | 3,000,000 | 4.000 | 0.790 | 21221MCY4 |
| 2019 | 11,160,000 | 5.000 | 0.920 | 21221MDU1 |
| 2019 | 3,000,000 | 4.000 | 0.920 | 21221MCZ1 |
| 2020 | 11,835,000 | 5.000 | 1.100 | 21221MDV9 |
| 2020 | 3,000,000 | 4.000 | 1.100 | 21221MDA5 |
| 2021 | 15,550,000 | 5.000 | 1.240†† | 21221MDB3 |
| 2022 | 16,325,000 | 5.000 | 1.390†† | 21221MDC1 |
| 2023 | 17,140,000 | 5.000 | 1.540†† | 21221MDD9 |
| 2024 | 18,000,000 | 5.000 | 1.660†† | 21221MDE7 |
| 2025 | 17,455,000 | 5.000 | 1.720†† | 21221MDF4 |
| 2026 | 880,000 | 5.000 | 2.000††† | 21221MDG2 |
| 2027 | 985,000 | 5.000 | 2.060††† | 21221MDH0 |
| 2028 | 1,100,000 | 5.000 | 2.120††† | 21221MDJ6 |
| 2029 | 1,225,000 | 5.000 | 2.180††† | 21221MDK3 |
| 2030 | 1,355,000 | 5.000 | 2.240††† | 21221MDL1 |
| 2031 | 1,495,000 | 5.000 | 2.300††† | 21221MDM9 |
| 2032 | 1,640,000 | 5.000 | 2.360††† | 21221MDN7 |
| 2033 | 1,800,000 | 5.000 | 2.400††† | 21221MDP2 |
| 2034 | 1,970,000 | 5.000 | 2.440††† | 21221MDQ0 |

†† *Priced to par call on March 1, 2020.*
††† *Priced to par call on March 1, 2023.*
* *Copyright 2012, American Bankers Association. CUSIP numbers herein are provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association, and are set forth herein for the convenience of reference only. Neither the Authority nor the Underwriters take any responsibility for the selection or accuracy of such numbers set forth herein.*

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor there any sale, of the Series 2012 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been provided by the Authority, the Underwriters and other sources that are believed by the Authority to be reliable. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

No 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 Authority or the Underwriters.

This Official Statement is not to be construed as a contract with the purchasers of the Series 2012 Bonds.

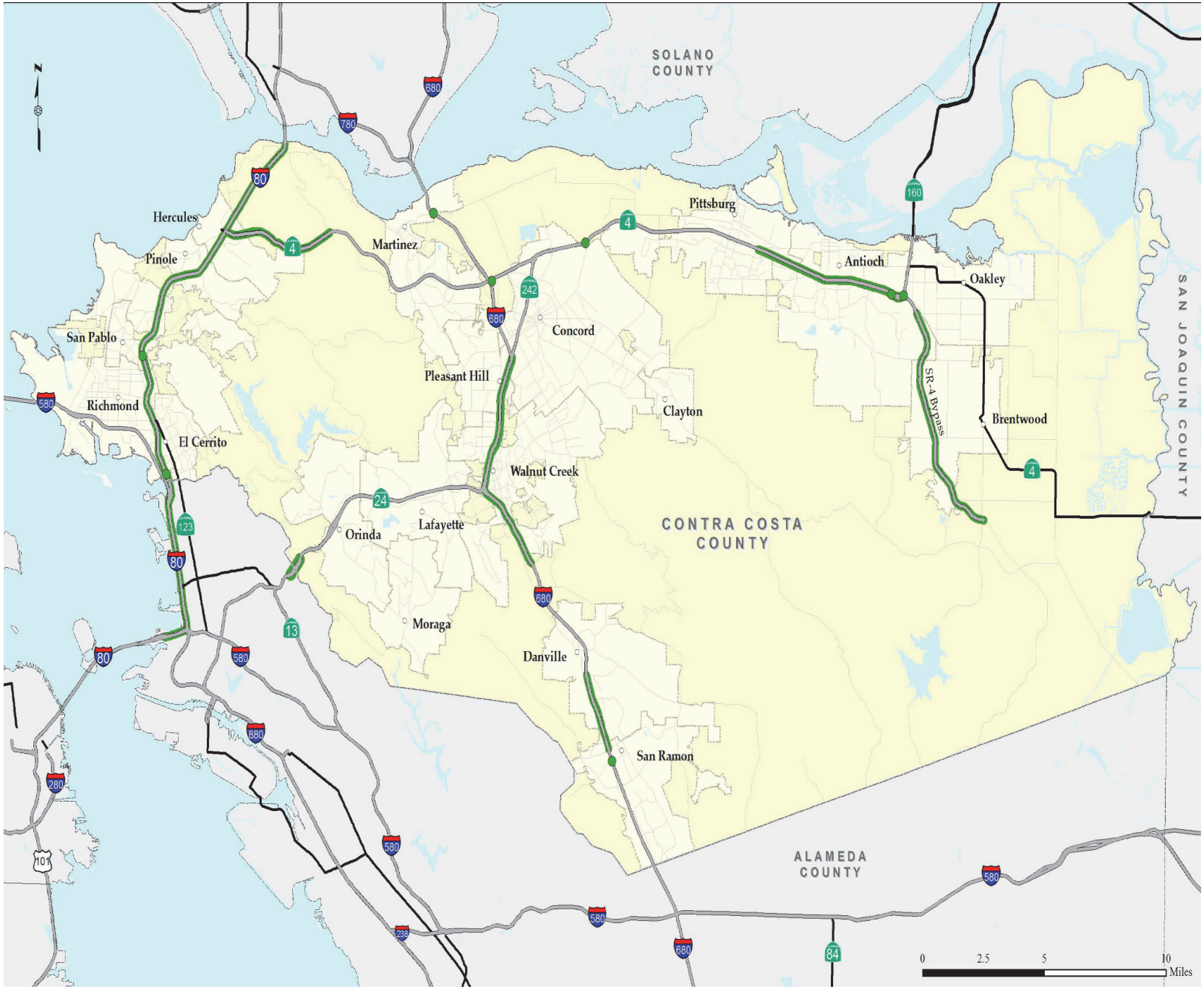
This Official Statement speaks only as of its date. The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made in conjunction herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or other matters described herein since the date hereof. This Official Statement is submitted with respect to the sale of the Series 2012 Bonds 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 Authority. Preparation of this Official Statement and its distribution have been duly authorized and approved by the Authority.

All descriptions and summaries of documents and statutes hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document and statute for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document and statute.

In connection with the offering of the Series 2012 Bonds, the Underwriters may over-allot or effect transactions that stabilize or maintain the market prices of the Series 2012 Bonds at levels above those that might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Series 2012 Bonds to certain dealers, institutional investors and others at prices lower than the public offering prices stated on cover page and such public offering prices may be changed from time to time by the Underwriters.

## CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute forward-looking statements. Such statements are generally identifiable by the terminology used such as "plan," "expectations," "estimate," "project," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the expectations of the Authority in any way, regardless of the level of optimism communicated in the information. The Authority is not obligated to issue nor does it plan to issue any updates or revisions to the forward-looking statements.


SOLANO COUNTY
SAN JOAQUIN COUNTY
CONTRA COSTA COUNTY
ALAMEDA COUNTY
Hercules
Pinole
San Pablo
Richmond
El Cerrito
Martinez
Pittsburg
Antioch
Oakley
Brentwood
Concord
Pleasant Hill
Clayton
Walnut Creek
Lafayette
Orinda
Moraga
Danville
San Ramon
SR-4 Bypass
0 2.5 5 10 Miles

## CONTRA COSTA TRANSPORTATION AUTHORITY

### COMMISSIONERS

| | |
|---|---|
| Don Tatzin, Chair | Council Member, City of Lafayette |
| Janet Abelson, Vice Chair | Council Member, City of El Cerrito |
| Genoveva Calloway | Council Member, City of San Pablo |
| David Durant | Council Member, City of Pleasant Hill |
| Jim Frazier | Council Member, City of Oakley |
| Federal Glover | Supervisor, Board of Supervisors, County of Contra Costa |
| Dave Hudson | Council Member, City of San Ramon |
| Karen Mitchoff | Supervisor, Board of Supervisors, County of Contra Costa |
| Julie Pierce | Council Member, City of Clayton |
| Karen Stepper | Council Member, Town of Danville |
| Robert Taylor | Mayor, City of Brentwood |

### MANAGEMENT STAFF

**Executive Director**
Randell H. Iwasaki

**Chief Financial Officer**
Randall O. Carlton

**Chief Deputy Executive Director, Projects**
Ross A. Chittenden

**Deputy Executive Director, Planning**
Martin R. Engelmann

**Director, Government & Community Relations**
Arielle E. L. Bourgart

### SPECIAL SERVICES

**Financial Advisor**
Public Financial Management, Inc.
San Francisco, California

**Bond Counsel and Authority Counsel**
Best Best & Krieger LLP
Walnut Creek, California

**Disclosure Counsel**
Squire Sanders (US) LLP
San Francisco, California

## TABLE OF CONTENTS

Page

INTRODUCTION ..... 1

General; Use of Proceeds ..... 1
The Authority ..... 2
Sales Tax; Pledge of Revenues; Limited Obligation ..... 2
Plan of Finance ..... 3
No Reserve Fund ..... 3
No Acceleration Provision ..... 3
Bondholders' Risks ..... 3
Book-Entry Only ..... 3
Continuing Disclosure ..... 3
Availability of Documents ..... 3

PLAN OF FINANCE ..... 4

General ..... 4
The 2009 Swap ..... 4
Future Financing Plans ..... 5

ESTIMATED SOURCES AND USES OF FUNDS FOR THE SERIES 2012 BONDS ..... 5
THE SERIES 2012 BONDS ..... 6

General ..... 6
Series 2012A Bonds – General Terms and Provisions ..... 6
Series 2012A Bonds –Initial Index Mode; Determination of Index Interest Rates ..... 7
Series 2012A Bonds – Conversion of Interest Rate Determination Method ..... 8
Series 2012A Bonds – Mandatory Tender for Purchase ..... 11
Series 2012B Bonds – General Terms and Provisions ..... 12
Series 2012 Bonds – Redemption Provisions ..... 13

DEBT SERVICE SCHEDULE AND DEBT SERVICE COVERAGE ..... 16
SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS ..... 17

Pledge of Sales Tax Revenues ..... 17
Revenue Fund; Allocation of Sales Tax Revenues ..... 18
Parity Obligations and Additional Bonds ..... 21
Subordinate Obligations ..... 23
Fee and Expense Obligations ..... 23
Designation of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations ..... 24

THE AUTHORITY ..... 24

General Description ..... 24
Authority Staff ..... 25

THE SALES TAX ..... 26

General Description ..... 26
Collection of Sales Tax Revenues ..... 27
Historical Taxable Transactions ..... 27
Historical Sales Tax Revenues ..... 27

CONTRA COSTA TRANSPORTATION IMPROVEMENT PROGRAM ..... 29

Expenditure Plan and Strategic Plan ..... 29
Project Implementation and Funding ..... 30
Future Financing Plans ..... 30

RISK FACTORS ..... 30

Economic Conditions in the County and the State ..... 30
Access to Capital Markets to Pay Purchase Price on Initial Tender Date ..... 31
Secondary Market ..... 32
No Liquidity Facility During Initial Mode ..... 32
The 2009 Swap ..... 32
Risk Factors Related to Swaps ..... 33
The Sales Tax ..... 33
State and Local Sales Tax ..... 33
Effect of Internet Commerce ..... 34
Proposition 218 ..... 34
Further Initiatives ..... 34
No Acceleration Provision ..... 34
Loss of Tax Exemption ..... 35
Impact of Bankruptcy of the Authority ..... 35

FINANCIAL STATEMENTS ..... 36
INVESTMENTS AND INVESTMENT POLICY ..... 36
ABSENCE OF MATERIAL LITIGATION ..... 36
TAX MATTERS ..... 37

General ..... 37
Internal Revenue Service Audit of Tax-Exempt Issues ..... 39
Information Reporting and Backup Withholding ..... 39

LEGAL MATTERS ..... 39
RELATIONSHIP OF CERTAIN PARTIES ..... 40
RATINGS ..... 40
UNDERWRITING ..... 40
CONTINUING DISCLOSURE ..... 41
FINANCIAL ADVISOR ..... 41
MISCELLANEOUS ..... 42

APPENDIX A AUTHORITY AUDITED FINANCIAL STATEMENTS FISCAL YEAR ENDED 2012 ..... A-1

APPENDIX B GENERAL COUNTY OF CONTRA COSTA DEMOGRAPHIC AND ECONOMIC INFORMATION ..... B-1

APPENDIX C SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE ..... C-1

APPENDIX D BOOK-ENTRY ONLY SYSTEM ..... D-1

APPENDIX E PROPOSED FORMS OF BOND COUNSEL OPINION ..... E-1

APPENDIX F PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT ..... F-1

**OFFICIAL STATEMENT**

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**SALES TAX REVENUE BONDS**
**(LIMITED TAX BONDS)**

| **$201,450,000** | **$188,770,000** |
|---|---|
| **Limited Tax Refunding Bonds** | **Fixed Rate Limited Tax Bonds** |
| **Series 2012A** | **Series 2012B** |

## INTRODUCTION

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents described herein. All statements contained in this Introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, the laws of the State of California (the "State") and any documents referred to herein do not purport to be complete, and such references and summaries are qualified in their entirety by reference to the complete provisions. This Official Statement speaks only as of its date, and the information contained herein is subject to change.

All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE" or, if not defined therein, in the Indenture.

***THIS OFFICIAL STATEMENT DESCRIBES THE SERIES 2012A BONDS ONLY WHILE THEY BEAR INTEREST IN THE INDEX MODE (THE "INITIAL MODE"), DURING THE INITIAL RATE PERIOD (AS DEFINED HEREIN). THE SERIES 2012A BONDS MAY BE CONVERTED TO BEAR INTEREST IN MODES OTHER THAN THE INITIAL MODE. THERE ARE SIGNIFICANT CHANGES IN THE TERMS OF THE SERIES 2012A BONDS AFTER THE INITIAL RATE PERIOD AND WHILE THEY BEAR INTEREST IN A MODE OTHER THAN THE INITIAL MODE. THIS OFFICIAL STATEMENT DOES NOT, NOR IS IT INTENDED TO, PROVIDE INFORMATION WITH RESPECT TO THE SERIES 2012A BONDS OTHER THAN WHILE THE SERIES 2012A BONDS BEAR INTEREST IN THE INITIAL MODE DURING THE INITIAL RATE PERIOD.*** For the definition of "Initial Rate Period" see "THE SERIES 2012 BONDS—Series 2012A Bonds—Initial Index Mode; Determination of Index Interest Rates" below.

### *General; Use of Proceeds*

This Official Statement, which includes the cover page and the appendices hereto, sets forth certain information in connection with the initial offering by the Contra Costa Transportation Authority (the "Authority") of two separate series of bonds, being $201,450,000 aggregate principal amount of its Contra Costa Transportation Authority Sales Tax Revenue Bonds (Limited Tax Bonds) Limited Tax Refunding Bonds, Series 2012A (the "Series 2012A Bonds") and $188,770,000 aggregate principal amount of its Contra Costa Transportation Authority Sales Tax Revenue Bonds (Limited Tax Bonds) Fixed Rate Limited Tax Bonds, Series 2012B (the "Series 2012B Bonds," collectively referred to as the "Series 2012 Bonds" and individually a "Series"). The Series 2012 Bonds are being issued pursuant to the Indenture, dated as of September 1, 2009 (the "Master Indenture"), between the Authority and

Deutsche Bank National Trust Company, as trustee (the "Trustee"), as previously supplemented by the First Supplemental Indenture, dated as of September 1, 2009 (the "First Supplemental Indenture"), as further supplemented by the Second Supplemental Indenture, dated as of October 1, 2010 (the "Second Supplemental Indenture") and as further supplemented by a Third Supplemental Indenture, dated as of December 1, 2012 (the "Third Supplemental Indenture"), each between the Authority and the Trustee. The Master Indenture, as so supplemented and as further supplemented from time to time pursuant to its terms, is hereinafter referred to as the "Indenture."

The Series 2012A Bonds and the Series 2012B Bonds have different terms, but are secured on a parity basis under the Indenture, as described herein. See "THE SERIES 2012 BONDS" and "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS."

***The Authority***

The Authority is a local transportation authority organized under the provisions of the Local Transportation Authority and Improvement Act, constituting Division 19 of the Public Utilities Code of the State of California, commencing with Section 180000 (hereinafter collectively referred to as the "Act"). The Authority was created on February 8, 1988 by action of the Board of Supervisors of Contra Costa County (the "County"). See "THE AUTHORITY."

The Series 2012 Bonds are being issued pursuant to the authority granted under the Act and Ordinance 88-01, as amended and supplemented from time to time pursuant to its terms, including as amended and supplemented by Ordinance 04-02, which, by its terms, became effective at the close of the polls in the County of Contra Costa on November 2, 2004, the date of the general election at which a ballot measure ("Measure J") authorizing the extension of an existing retail transactions and use tax through March 31, 2034 was approved by 71% of the voters voting on Measure J. Ordinance 88-01 was amended and restated by Ordinance 06-01 and as so amended, supplemented and restated, and as it may be further amended and supplemented pursuant to its terms, is hereinafter referred to as the "Ordinance."

***Sales Tax; Pledge of Revenues; Limited Obligation***

The Series 2012 Bonds are limited obligations of the Authority payable solely from and secured solely by a pledge of certain revenues defined in the Indenture (the "Revenues") and certain funds held by the Trustee under the Indenture, including a pledge of amounts collected (the "Sales Tax Revenues") from a one-half of one percent (0.5%) retail transactions and use tax authorized by Measure J and levied by the Authority for transportation purposes in the incorporated and unincorporated territory of the County (as hereinafter described, the "Sales Tax"), net of an administrative fee paid to the California State Board of Equalization (the "Board of Equalization" or "BOE") in connection with the collection and disbursement of the Sales Tax. The Sales Tax will expire on March 31, 2034. See "THE SALES TAX." The Authority may issue additional Bonds and Parity Obligations secured on a parity with the Series 2012 Bonds, as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS – Parity Obligations and Additional Bonds" and "PLAN OF FINANCE—Future Financing Plans."

THE SERIES 2012 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED SOLELY BY A PLEDGE OF SALES TAX REVENUES DERIVED FROM A 0.5% SALES TAX LEVIED BY THE AUTHORITY, AS DESCRIBED HEREIN. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE SERIES 2012 BONDS, OTHER THAN THE SALES TAX REVENUES RECEIVED BY THE AUTHORITY.

***Plan of Finance***

Proceeds of the Series 2012A Bonds will be applied, together with other available moneys, to pay and redeem all of the Contra Costa Transportation Authority Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2010 (the "Series 2010 Bonds") previously issued by the Authority to finance costs of certain transportation facility and service improvements within the County.

Proceeds of the Series 2012B Bonds will be applied to (i) finance a portion of the costs associated with certain transportation projects authorized by the expenditure plan (as modified from time to time, the "Expenditure Plan"), which was authorized by the Ordinance and (ii) pay certain costs of issuance of the Series 2012A Bonds and the Series 2012B Bonds. See "PLAN OF FINANCE."

***No Reserve Fund***

The Series 2012 Bonds will not be secured by any debt service reserve fund.

***No Acceleration Provision***

The Indenture does not contain a provision allowing for the acceleration of the Series 2012 Bonds or an increase in the interest rate on the Series 2012 Bonds in the event of a default in the payment of principal of or interest on the Series 2012 Bonds when due, except that if the Series 2012A Bonds are not purchased on the Initial Tender Date, the Series 2012A Bonds will bear interest at the Delayed Remarketing Period Rate, as described under "THE SERIES 2012 BONDS—Series 2012A Bonds – General Terms and Provisions." If an Event of Default (as defined in the Indenture) occurs, the Holders of at least a majority of the aggregate principal amount of the Series 2012 Bonds will have the right to request the Trustee to exercise the remedies and each Holder will have certain remedies, all subject to limitations as provided in the Indenture. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Events of Default and Remedies."

***Bondholders' Risks***

There are a number of risks associated with the purchase of the Series 2012 Bonds. See "RISK FACTORS" herein for a discussion of certain of these risks.

***Book-Entry Only***

The Series 2012 Bonds, when issued, will be payable solely in book-entry form through The Depository Trust Company. See APPENDIX D—"BOOK-ENTRY ONLY SYSTEM."

***Continuing Disclosure***

The Authority has covenanted that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement relating to providing annually certain information and providing notices of occurrence of certain events. See "CONTINUING DISCLOSURE" herein and APPENDIX F—"FORM OF CONTINUING DISCLOSURE AGREEMENT."

***Availability of Documents***

Copies of the Indenture are available upon request to the inspection at the Authority and, following delivery of the Series 2012 Bonds, will be available upon request to the Trustee.

## PLAN OF FINANCE

### *General*

Proceeds of the Series 2012A Bonds will be applied (i) on the date of closing by the Authority, together with other available moneys, to pay and redeem all of the Series 2010 Bonds, which will no longer be outstanding on the date of issuance of the Series 2012A Bonds, and (ii) to pay certain costs of issuance of the Series 2012A Bonds.

Proceeds of the Series 2012B Bonds will be applied to (i) finance costs of certain transportation facility and service improvements within the County, including highway improvements, public transit improvements, local street maintenance and improvements and other transportation related purposes authorized by the Ordinance (the "Project") and described under "CONTRA COSTA TRANSPORTATION IMPROVEMENT PROGRAM" herein and (ii) pay certain costs of issuance of the Series 2012B Bonds and the Series 2012A Bonds.

### *The 2009 Swap*

On September 18, 2009, the Authority and Bank of America, N.A. ("BANA") entered into swap transactions (the "2009 Swap") with a notional amount of $200,000,000 that amended and restated a prior swap transaction, as set forth in the Confirmation dated September 18, 2009, governed by the terms of an ISDA Master Agreement, including the U.S. Municipal Counterparty Schedule (the "Schedule") and Credit Support Annex (the "Credit Support Annex") thereto. The Authority expects that the amortization of the Series 2012A Bonds will match the amortization of the notional amount of the 2009 Swap.

Under the terms of the 2009 Swap, the Authority is required to make payments to BANA based on a fixed rate of 3.6574% and receives floating rate payments from BANA, currently calculated as the sum of (i) 63.5% of the London Interbank Offered Rate ("LIBOR") and (ii) 0.29%, in each case on the notional amount of the 2009 Swap of $200,000,000 amortizing to March 1, 2034. Such payments began to accrue on September 23, 2009 and will terminate on March 1, 2034. The Authority is currently negotiating with BANA an amendment to the 2009 Swap. The amendment (i) will include the addition of "Fitch Ratings" to the definition of "Rating Agency" in the Credit Support Annex and the addition of "Fitch Ratings" to the "Additional Termination Event" in the Schedule and (ii) may include, in the event the Series 2012A Bonds are issued in the Index Mode, a modification to the percentages used to calculate the floating rate payments under the 2009 Swap from BANA to the Authority in order to match more closely such floating rate payments to the interest payments by the Authority on the Series 2012A Bonds issued in the Index Mode. No assurance can be made that the 2009 Swap will be amended, or that the 2009 Swap, as amended, will more closely match the floating rate payments from BANA to the floating interest rate payments on the Series 2012A Bonds.

The 2009 Swap is subject to early termination, including, without limitation, upon the occurrence of certain customary termination events and events of default which may be outside the control of the Authority. If an early termination occurs, a payment by the Authority to BANA may be required, and the amount of any such termination payment could be substantial. Under certain circumstances, pursuant to the provisions of the 2009 Swap, the Authority is required, from time to time, to post collateral, which posting of collateral is required based upon (i) the value of the 2009 Swap at the time of calculation and (ii) the credit ratings of the Authority. Based on the Authority's current credit ratings and pursuant to the terms of the 2009 Swap, the Authority is required to post collateral if the termination value payable by the Authority of the 2009 Swap exceeds $40,000,000. The termination value payable by the Authority as of November 13, 2012 was $59,000,000. The Authority has recently been required to post collateral in an amount equal to approximately $20,000,000.

Pursuant to the Indenture, regularly scheduled payments by the Authority under the 2009 Swap constitute Parity Obligations, and fees and expenses and termination payments under the 2009 Swap constitute Fee and Expense Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Parity Obligations and Additional Bonds," "—Fee and Expense Obligations" and "—Designation of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations."

### *Future Financing Plans*

The Authority currently anticipates issuing one or more additional series of Bonds to fund portions of the costs of transportation projects authorized under the Expenditure Plan and described in its 2011 Strategic Plan. Such issuance or issuances is currently expected to occur in fiscal year 2014 and in the aggregate principal amount of approximately $61 million. The Authority's 2011 Strategic Plan and its financing plans may change. See "CONTRA COSTA TRANSPORTATION IMPROVEMENT PROGRAM."

The principal amount of additional Bonds, Parity Obligations or other financial obligations secured by Sales Tax Revenues, and the timing of any such future issuance or issuances, will be determined by the Authority based on a variety of factors including: project readiness; the costs and timing of design and construction of the transportation projects to be financed; the amount of Sales Tax Revenues then available to the Authority and the availability of other funding sources for authorized transportation projects; and market conditions. The issuance of additional Bonds and Parity Obligations and other financial obligations secured by Sales Tax Revenues is subject to the requirements of the Indenture. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Parity Obligations and Additional Bonds."

## ESTIMATED SOURCES AND USES OF FUNDS FOR THE SERIES 2012 BONDS

The estimated sources and uses of the funds are as follows:

| Series 2012A Bonds | | Series 2012B Bonds | |
|---|---|---|---|
| **Sources of Funds:** | | **Sources of Funds:** | |
| Par Amount of Series 2012A Bonds | $201,450,000.00 | Par Amount of Series 2012B Bonds | $188,770,000.00 |
| Funds held by trustee for the Series 2010 Bonds | 76,277.35 | Premium | 37,223,698.50 |
| Total Sources: | $201,526,277.35 | Total Sources: | $225,993,698.50 |
| **Uses of Funds:** | | **Uses of Funds:** | |
| Redeem the Series 2010 Bonds | $201,066,277.35 | Deposit to Project Fund | $225,000,000.00 |
| Cost of Issuance[1] | 460,000.00 | Costs of Issuance[2] | 993,698.50 |
| Total Uses: | $201,526,277.35 | Total Uses: | $225,993,698.50 |

(1) Includes underwriter's discount and expenses, and other costs of issuance.

(2) Includes underwriters' discount, rating agency fees, trustee fees, printing costs, bond counsel, disclosure counsel and financial advisor fees and expenses and other miscellaneous expenses for the Series 2012 Bonds.

## THE SERIES 2012 BONDS

### *General*

The Series 2012 Bonds will be issued by the Authority pursuant to the Indenture in fully registered form without coupons in authorized denominations of $5,000 and will initially be registered in the name of Cede & Co, as nominee of The Depository Trust Company ("DTC"), the initial Securities Depository for the Series 2012 Bonds, and will held by DTC in DTC's book-entry only system (the "Book-Entry System"). While the Series 2012 Bonds are in the Book-Entry System, the information under this caption "THE SERIES 2012 BONDS" is subject in its entirety to the provisions described in APPENDIX D—"BOOK-ENTRY ONLY SYSTEM."

The term "Holder" as used herein (except under "TAX MATTERS") shall refer to DTC as the Registered Owner of the Series 2012 Bonds. Payment of principal of and interest on the Series 2012 Bonds will be made by the Trustee to DTC, and DTC is to distribute such payments to its Direct Participants as described in APPENDIX D—"BOOK ENTRY ONLY SYSTEM." Disbursement of such payments to Beneficial Owners of the Series 2012 Bonds is the responsibility of DTC's Direct and Indirect Participants, and not the Authority or the Trustee.

The Trustee may treat the Holder of any Series 2012 Bonds as the absolute owner of such Series 2012 Bonds for all purposes, whether or not such Series 2012 Bonds shall be overdue, and the Trustee shall not be affected by any knowledge of notice to the contrary. Payment of the principal of and interest on the Series 2012 Bonds shall be made only to such Holder as above provided, which payments shall be valid and effectual to satisfy and discharge the liability evidenced and represented by such Series 2012 Bonds to the extent of the sum or sums so paid.

Below, the terms and provisions of the Series 2012A Bonds are first described, and then the terms and provisions of the Series 2012B Bonds are described.

### *Series 2012A Bonds – General Terms and Provisions*

The Series 2012A Bonds shall be dated their Date of Delivery, shall be issued in the aggregate principal amount, and shall mature and be payable on March 1, 2034, as set forth on the inside cover of this Official Statement. The Series 2012A Bonds shall be issued in the Index Mode (as hereinafter defined and referred to herein as the "Initial Mode") and shall initially bear interest at the Index Rate, calculated pursuant to the Indenture and as described herein (the "Initial Rate"). Thereafter, the Series 2012A Bonds may be converted to a different Interest Rate Determination Method (or Mode) in accordance with the Indenture or may bear interest at the Delayed Remarketing Period Rate (as described under "—Series 2012A Bonds—Initial Index Mode; Determination of Index Interest Rates" and "Series 2012A Bonds—Delayed Remarketing Period," below).

***THIS OFFICIAL STATEMENT DESCRIBES THE SERIES 2012A BONDS ONLY WHILE THEY BEAR INTEREST IN THE INITIAL MODE, DURING THE INITIAL RATE PERIOD. THE SERIES 2012A BONDS MAY BE CONVERTED TO BEAR INTEREST IN MODES OTHER THAN THE INITIAL MODE. THERE ARE SIGNIFICANT CHANGES IN THE TERMS OF THE SERIES 2012A BONDS AFTER THE INITIAL RATE PERIOD AND WHILE THEY BEAR INTEREST IN A MODE OTHER THAN THE INITIAL MODE. THIS OFFICIAL STATEMENT DOES NOT, NOR IS IT INTENDED TO, PROVIDE INFORMATION WITH RESPECT TO THE SERIES 2012A BONDS OTHER THAN WHILE THE SERIES 2012A BONDS BEAR INTEREST IN THE INITIAL MODE DURING THE INITIAL RATE PERIOD.***

During the Initial Mode, the Series 2012A Bonds are subject to mandatory tender on December 15, 2015 (the "Initial Tender Date") and certain other dates, as described under "—Series 2012A Bonds—Mandatory Tender for Purchase" below.

Interest on the Series 2012A Bonds during the Initial Mode will be calculated on the basis of a 365/366 day year for the actual number of days elapsed. Interest on the Series 2012A Bonds during the Initial Mode is payable without duplication (i) on the first Business Day of each month, commencing on January 2, 2013, (ii) on the Initial Tender Date, (iii) on other Mandatory Tender Dates, (iv) on any Mode Change Date and (v) maturity or earlier redemption (each, an "Interest Payment Date" with respect to such 2012A Bonds). Interest will be payable to the Holder of the Series 2012A Bonds of record on the day (whether or not a Business Day) immediately preceding each Interest Payment Date.

The Series 2012A Bonds are subject to optional and mandatory sinking fund redemption, as described under "—Series 2012 Bonds—Redemption Provisions" below.

During the Initial Mode, the Series 2012A Bonds are subject to mandatory tender at the times and under the circumstances as more fully described herein. See "—Series 21012A Bonds—Mandatory Tender for Purchase." During the Initial Mode and the Delayed Remarketing Period, the Series 2012A Bonds are not subject to tender for purchase at the option of the Holders.

The Authority may convert the Series 2012A Bonds to a different Interest Rate Determination Method, as described below under "—Series 2012A Bonds—Conversion of Interest Rate Determination Method."

***Series 2012A Bonds –Initial Index Mode; Determination of Index Interest Rates***

The Series 2012A Bonds shall bear interest at the Index Rate and shall be in the Index Mode (the "Initial Index Mode"). During the Initial Index Mode, the Series 2012A Bonds shall bear interest (i) for the period from the Date of Delivery to and including January 1, 2013, at the Index Rate determined by the Calculation Agent on the second Business Day preceding the Date of Delivery based on the LIBOR Index in effect on such date and (ii) thereafter, at the Index Rate determined on each Reset Date by the Trustee, as the Calculation Agent, in accordance with the Indenture and as described below.

The Index Rate is defined in the Indenture as the sum of (i) the product of the Index (as of the date of determination) multiplied by the Applicable Factor plus (ii) the Applicable Spread, as described below, but not exceeding the Maximum Rate of 12%. During the Delayed Remarketing Period (described under "—Series 2012A Bonds—Conversion of Interest Rate Determination Method" and "—Delayed Remarketing Period" below), the Series 2012A Bonds will bear interest at the Delayed Remarketing Period Rate, which is 9%. Interest during the Delayed Remarketing Period shall be computed on the basis of a 360 – day year and the actual days elapsed.

The "Index" means LIBOR.

"LIBOR" means, for each Reset Date, the London interbank offered rate for U.S. dollar deposits for a one-month period, as reported on the Reuters Screen LIBOR01 Page (or any successor) as of 11:00 a.m., London time, on the second Business Day preceding such Reset Date. If such rate is not then reported by Reuters, then "LIBOR" shall mean the rate then reported by any successor to or substitute for such service designated by the Calculation Agent and the Authority in writing that provides rate quotations comparable to those provided on such Reuters screen page.

The "Applicable Factor" means, during the Initial Index Mode, 67%.

The "Applicable Spread" means, during the Initial Index Mode, 0.37%.

The "Reset Date" is the first Business Day of each month. If such Reset Date falls on a day that is not a Business Day, then such Reset Date shall be the next succeeding Business Day.

While the Series 2012A Bonds are in the Index Mode, the Index Rate shall be determined by the Calculation Agent at or before Noon, New York City time, on each Reset Date. The Calculation Agent shall furnish each Index Rate so determined to the other Notice Parties by Electronic Means not later than such Reset Date. Upon the request of any Bondholder, the Trustee shall confirm the Index Rate then in effect.

If, for any reason, the Index Rate is not established by the Calculation Agent, there is no Calculation Agent then serving, or any Index Rate so established is held to be invalid or enforceable for the Initial Rate Period, then the interest rate shall be equal to the Alternate Rate determined by the Trustee on such date, as set forth in the Indenture. The Alternate Rate, while the Series 2012A Bonds are in the Initial Index Mode, is an interest rate per annum equal to the product of LIBOR and the Applicable Factor, plus the Applicable Spread then in effect for the Index Mode.

The Trustee will serve as the Calculation Agent in connection with the Series 2012A Bonds in the Index Mode. In the absence of manifest error, the determination by the Calculation Agent of the Index Rate calculated will be conclusive and binding on the Holders and the Authority.

The Initial Index Mode for the Series 2012A Bonds will commence on their Date of Delivery and shall end on the first to occur of (i) the Initial Index Tender Date; (ii) with respect to a change in Mode after the Date of Delivery, the Conversion Date so specified by the Authority pursuant to the Indenture, (iii) a Mandatory Tender Date or (iv) the date on which all the Series 2012A Bonds are redeemed in accordance with the terms of the Indenture. Such period is referred to herein as "Initial Rate Period." See "—Series 2012A Bonds—Conversion of Interest Rate Determination Method,"—"Mandatory Tender for Purchase," and "Series 2012 Bonds—Redemption Provisions."

***Series 2012A Bonds – Conversion of Interest Rate Determination Method***

During the Initial Mode, the Authority may elect to change the Interest Rate Determination Method of the Series 2012A Bonds to a new Mode on any date on which the Series 2012A Bonds are subject to optional redemption or mandatory tender for purchase, pursuant to the terms of the Indenture and described below. If all the Series 2012A Bonds are not successfully remarketed on the date of the new Mode was to have become effective, the Series 2012A Bonds will not be subject to mandatory purchase and shall have the terms which are described under "—Failure of Conditions to be Met" below.

***Authority's Right to Convert to New Interest Mode***

The Interest Rate Determination Method for the Series 2012A Bonds is subject to conversion from time to time by the Authority, with such right to be exercised by delivery of a notice of an Authorized Representative (each such notice being a "Conversion Notice") to the Trustee and the other Notice Parties. The Conversion Notice must include a certificate stating that the Authority has complied with the conversion provisions in the Indenture, including a certification that no Conversion shall become effective unless Bond Counsel delivers a Favorable Opinion of Bond Counsel on the applicable Conversion Date. The Authority must deliver the Conversion Notice at least one Business Days prior to the 15th day preceding the effective date of such proposed Conversion, in the event of a Conversion to a Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period, Index Rate Period or SIFMA

Rate Period, and at least two Business Days prior to the 15th day preceding the effective date of such proposed Conversion, in the event of a Conversion to a Long-Term Rate or a Fixed Rate.

An Authorized Representative may deliver a Conversion Notice to change the Interest Rate Determination Method at such times or times as the officer executing the Conversion Notice determines to be in the best interests of the Authority, such determination to be conclusively evidenced by such execution.

In the event of a Conversion to a different Interest Rate Determination Method, all Series 2012A Bonds will be subject to mandatory tender for purchase on the Conversion Date (which will be a Business Day not less than 15 days following the mailing of the notice described below) at the Purchase Price. See "—Series 2012A Bonds—Mandatory Tender for Purchase" below.

***Notice of Conversion to Holders***

The Indenture has procedures and conditions for the exercise by the Authority of its right of conversion of the Series 2012A Bonds from one Interest Rate Determination Method to another. Upon receipt of a Conversion Notice from an Authorized Representative, the Trustee shall give notice as soon as possible, but in any event not less than 15 days prior to the proposed Conversion Date by first-class mail or by electronic means via the Municipal Securities Rulemaking Board's ("MSRB's") Electronic Municipal Market Access ("EMMA") system to the Holders of Series 2012A Bonds.

The notice must state in substance:

(A) that the Interest Rate Determination Method for the Series 2012A Bonds will be converted on the Conversation Date to the specified Mode, if the conditions specified in the Indenture are satisfied on or before such date;

(B) the applicable Conversion Date;

(C) that the Authority has received a letter of Bond Counsel to the effect that Bond Counsel expects to be able to deliver a Favorable Opinion of Bond Counsel relating to the Conversion on the Conversion Date;

(D) that the Interest Rate Determination Method for the Series 2012A Bonds shall not be converted unless such Favorable Opinion of Bond Counsel is delivered to the Trustee on (and as of) the Conversion Date and all the Series 2012A Bonds are successfully purchased and remarketed in the new Interest Rate Determination Method on the Conversion Date;

(E) the CUSIP numbers or other identification information of the Series 2012A Bonds;

(F) that all the Series 2012A Bonds are subject to mandatory tender for purchase on the Conversion Date at the applicable Purchase Price, which Purchase Price shall be specified in the notice; and

(G) that, to the extent that there shall be on deposit with the Trustee on the applicable Conversion Date an amount of money sufficient to pay the Purchase Price thereof, all Series 2012A Bonds to be converted on the Conversion Date not delivered to the Trustee on or prior to the Conversion Date shall be deemed to have been properly tendered for purchase and shall cease to constitute or represent a right on behalf of the Holder thereof to the payment of principal thereof or interest thereon and shall represent and constitute only the right to payment of the Purchase Price on deposit with the Trustee, without interest accruing thereon after the Conversion Date.

***Failure of Conditions to be Met***

If the Authority fails to meet any of the requirements set forth above, including a failure to deliver the required Favorable Opinion of Bond Counsel to the Trustee, or if the Trustee receives written notice to the effect that a Remarketing Agent appointed by the Authority has not successfully remarketed all of the Series 2012A Bonds to be Converted on the Conversion Date, the Series 2012A Bonds shall continue to bear interest at the Initial Rate.

In the event of a failed Conversion from the Initial Mode on the Initial Tender Date, the Series 2012A Bonds will not be purchased, the Initial Rate Period will automatically convert to the Delayed Remarketing Period and the Series 2012A Bonds will bear interest at the Delayed Remarketing Period Rate, as described below.

***Inadequate Funds for Purchase of Bonds Upon Change in Mode***

No change from one Mode to another Mode shall take effect, and the Series 2012A Bonds shall not be subject to mandatory tender for purchase, unless the remarketing proceeds available on the Conversion Date shall be not less than the amount required to pay the Purchase Price of all Tendered Bonds on such Conversion Date (unless the Authority, in its sole discretion, elects to transfer to the Trustee the amount of such deficiency on or before such Conversion Date).

***Delayed Remarketing Period***

If the Purchase Price of all of the then Outstanding Series 2012A Bonds required to be purchased on the Initial Tender Date cannot be paid because sufficient remarketing proceeds or other moneys furnished by the Authority in its sole discretion are not available, a Delayed Remarketing Period will commence on such date. During a Delayed Remarketing Period, the following will apply:

(i) All of the Series 2012A Bonds will bear interest at the Delayed Remarketing Period Rate equal to 9% per annum;

(ii) The Delayed Remarketing Period will commence on the date that all the then Outstanding Series 2012A Bonds in the Initial Mode are not remarketed on the Initial Tender Date and will end on the date that such Series 2012A Bonds are remarketed or redeemed;

(iii) The Series 2012A Bonds will continue to be subject to optional redemption by the Authority as described under the caption "Series 2012 Bonds—Redemption Provisions—*Optional Redemption;*"

(iv) The Authority may direct a Conversion of the Mode for the Series 2012A Bonds as set forth in the Indenture;

(v) Interest on the Series 2012A Bonds shall be due and payable on the first Business Day of each month and on the day following the last day of the Delayed Remarketing Period; and

(vi) If the Series 2012A Bonds are successfully remarketed, the Holders will be obligated to tender, sell and deliver their Series 2012A Bonds to the paying agent or registrar.

***Notice Failure No Bar to Conversion***

Failure of a Holder of a Series 2012A Bond to receive any Conversion notice, or any defect therein, shall not affect the validity of any Rate or any continuation of or change in the Interest Rate

Determination Method for any of the Series 2012A Bonds or extend the period for tendering any of the Series 2012A Bonds for mandatory purchase, and neither the Authority nor the Trustee will be liable to any Holder of a Series 2012A Bond by reason of the failure of such Holder to receive such notice or any defect therein.

***Rescission of Election Regarding Conversion***

The Authority may rescind any Conversion Notice prior to the proposed Conversion Date set forth in the Conversion Notice by giving written notice thereof to the Notice Parties at least two Business Days prior to such proposed Conversion Date. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Holders of the Series 2012A Bonds, then the Conversion Notice previously delivered by the Authority shall be of no force and effect.

***Series 2012A Bonds – Mandatory Tender for Purchase***

***General***

The Series 2012A Bonds shall be subject to mandatory tender for purchase ("Mandatory Tender") at an amount equal to 100% of the principal amount of such Series 2012A Bond, plus accrued interest thereon to such purchase date (the "Purchase Price"), at the following times and upon the occurrence of any of the events stated below:

(i) on the Conversion Date for the Series 2012A Bonds to a new Interest Rate Determination Method specified in a Conversion Notice (provided, however, that the mandatory tender will be cancelled if the proposed Conversion does not occur on such date); and

(ii) on the Initial Tender Date; provided, however, that if any portion of the Series 2012A Bonds is not paid or successfully remarketed on such the Initial Tender Date, then no Series 2012A Bonds will be purchased and the Series 2012A Bonds shall be converted into a Delayed Remarketing Period and shall bear interest at the Delayed Remarketing Period Rate until the Series 2012A Bonds are remarketed or redeemed.

The Trustee shall give notice of such Mandatory Tender for purchase by first-class mail or by electronic means via the MSRB EMMA system to the Holders not less than 15 days prior to the Conversion Date or the Initial Tender Date, as the case may be (each a "Mandatory Tender Date"). The failure to pay the Purchase Price of all Series 2012A Bonds tendered for purchase shall not constitute and Event of Default under the Indenture.

***Delivery of Tendered Series 2012A Bonds***

While the Series 2012A Bond are registered in name of DTC, the Indenture provides that delivery of such Series 2012A Bond to the Trustee in connection with any Mandatory Tender for purchase shall be effected by the making of, or the irrevocable authorization to make, appropriate entries on the books of DTC for such Series 2012A Bond or of any Participant of DTC, to reflect the transfer of the Beneficial Interest in such Series 2012A Bond to the account of the Trustee, or to the account of a Participant of DTC acting on behalf of the Trustee.

***Deemed Purchased***

If moneys sufficient to pay the Purchase Price of Series 2012A Bonds required by the Indenture to be mandatorily tendered for purchase shall be held by the Trustee on the applicable Mandatory Tender Date, the Series 2012A Bonds shall be deemed to have been purchased for all purposes of the Indenture,

irrespective of whether or not the Series 2012A Bonds shall have been delivered to the Trustee or transferred on the books of DTC, and neither the former Holder or Beneficial Owner of the Series 2012A Bonds nor any other person shall have any claim thereon, under the Indenture or otherwise, for any amount other than the Purchase Price thereof.

In the event of non-delivery of any Series 2012 Bond required to be mandatorily tendered for purchased pursuant to the Indenture, the Trustee shall segregate and hold uninvested the moneys for the Purchase Price of such Series 2012A Bond in trust, without liability for interest thereon, for the benefit of the former Holders or Beneficial Owners of such Series 2012A Bond, who shall, except as provided in the following sentence, thereafter be restricted exclusively to such moneys for the satisfaction of any claim for the Purchase Price of such Series 2012A Bond. Any moneys that the Trustee shall segregate and hold in trust for the payment of the Purchase Price of any Series 2012A Bond and remaining unclaimed for 1 year after the date of purchase shall be paid automatically to the Authority. After the payment of such unclaimed moneys to the Authority, the former Holder or Beneficial Owner of such Series 2012A Bond shall look only to the Authority for the payment thereof.

***No Liquidity Facility; Remarketing Agents for the Series 2012A Bonds***

While the Outstanding Series 2012A Bonds are in the Initial Mode, the Authority is not required to provide to the Trustee a liquidity facility for the Series 2012A Bonds.

Prior to any Mandatory Tender Date, the Indenture requires the Authority to appoint and employ one or more remarketing agents for the Series 2012A Bonds to provide for remarketing of the Series 2012A Bonds in connection with the mandatory tender of the Series 2012A Bonds on the Mandatory Tender Date.

**THERE IS NO LIQUIDITY FACILITY OR CREDIT FACILITY BEING PROVIDED FOR THE SERIES 2012A BONDS AND THE AUTHORITY DOES NOT PRESENTLY INTEND TO PROVIDE ANY SUCH LIQUIDITY FACILITY OR CREDIT FACILITY. THIS OFFICIAL STATEMENT IS NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE SERIES 2012A BONDS FOLLOWING ANY ADDITION OF A LIQUIDITY FACILITY OR A CREDIT FACILITY.**

***Sources of Funds for Purchase of Tendered Bonds***

The Authority expects funds to be made available to purchase Series 2012A Bonds tendered for purchase pursuant to the mandatory tender provisions in the Indenture by having a remarketing agent remarket the tendered Series 2012A Bonds and having the proceeds applied to purchase such tendered Series 2012A Bonds. See "RISK FACTORS— Access to Capital Markets to Pay Purchase Price on Initial Tender Date." The Authority may, in its sole discretion, elect to furnish monies to the Trustee for payment of tendered 2012A Bonds. Failure to pay the Purchase Price upon Mandatory Tender is not a default under the Indenture.

***Series 2012B Bonds – General Terms and Provisions***

The Series 2012B Bonds shall be dated their Date of Delivery, be issued in the aggregate principal amount, have the maturity dates, be in the principal amounts and bear interest (computed on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover of this Official Statement.

The interest on Series the 2012B Bonds shall be payable on each March 1 and September 1, commencing on March 1, 2013 (each, an "Interest Payment Date," with respect to the Series 2012B Bonds).

The Series 2012B Bonds shall bear interest from their Date of Delivery, and if interest has not been paid when due with respect to any Outstanding Series 2012B Bonds, interest shall be payable from the Interest Payment Date to which interest has been paid or made available for payment with respect to the Outstanding Series 2012B Bonds. Interest on the Series 2012B Bonds shall be payable from the Interest Payment Date next preceding the date of execution thereof, unless such date of execution is on or after the Record Date and on or prior to such Interest Payment Date, in which case it is payable from such Interest Payment Date, or unless the date of execution is prior to February 15, 2013, in which case interest is payable from the Date of Delivery.

***Series 2012 Bonds – Redemption Provisions***

*Optional Redemption of the Series 2012A Bonds*. Series 2012A Bonds in the Initial Mode are subject to optional redemption or mandatory tender for purchase, at the option of the Authority, in whole or in part, on any Business Day during the period beginning six months prior to the Initial Tender Date, to and including such Initial Tender Date, and during a Delayed Remarketing Period, on any Business Day at a redemption price or purchase price equal to 100% of the principal amount of the Series 2012A Bonds called for redemption or mandatory tender, plus accrued interest, if any, to the date of redemption or purchase, as the case may be.

*Optional Redemption of the Series 2012B Bonds*. Series 2012B Bonds maturing on or after March 1, 2021 through and including March 1, 2025, are subject to redemption in whole or in part at the option of the Authority on March 1, 2020, or any date thereafter, at a redemption price equal to 100% of the principal amount called for redemption plus interest accrued with respect thereto to the date fixed for redemption.

Series 2012B Bonds maturing on or after March 1, 2026 are subject to redemption in whole or in part at the option of the Authority on March 1, 2023, or any date thereafter at a redemption price equal to 100% of the principal amount thereof together with interest accrued with respect thereto to the date fixed for redemption.

*Selection of Series 2012 Bonds for Redemption*. The Authority shall designate which maturities of the Series 2012 Bonds are to be called for optional redemption. If less than all Series 2012 Bonds of any maturity are to be redeemed at any one time, the Trustee shall select the Series 2012 Bonds of such maturity date to be redeemed by lottery.

*Conditional Notice; Rescission*. Any optional redemption of Series 2012 Bonds and notice thereof may be conditional and rescinded and cancelled if for any reason on the date fixed for redemption moneys are not available in the Redemption Fund or otherwise held in trust for such purpose in an amount sufficient to pay in full on said date the principal of and interest on the Series 2012 Bonds called for redemption. Any such rescission shall not constitute an Event of Default.

Any notice of optional redemption of the Series 2012 Bonds may contain such conditions as the Authorized Representative of the Authority shall specify in writing to the Trustee and may be rescinded (and any such rescission shall not constitute an Event of Default under the Indenture).

*Mandatory Sinking Account Redemption*.

*Series 2012A Bonds Mandatory Sinking Account Redemption*. Series 2012A Bonds are subject to mandatory redemption from Mandatory Sinking Account Payments on each date a Mandatory Sinking Account Payment for the Series 2012A Bonds is due, and in the principal amount equal to the Mandatory Sinking Account Payment due on such date at a Redemption Price equal to the principal amount thereof, plus accrued interest to the redemption date, without premium.

Mandatory Sinking Account Payments for Series 2012A Bonds shall be due in such amounts and on such dates as follows:

| Mandatory Redemption Date (March 1) | Mandatory Sinking Account Payment |
|---|---|
| 2025 | $ 1,450,000 |
| 2026 | 19,100,000 |
| 2027 | 19,815,000 |
| 2028 | 20,555,000 |
| 2029 | 21,325,000 |
| 2030 | 22,120,000 |
| 2031 | 22,950,000 |
| 2032 | 23,810,000 |
| 2033 | 24,700,000 |
| 2034 | 25,625,000† |

† Final Maturity.

*Selection of Series 2012A Bonds for Mandatory Sinking Account Redemption*. If less than all Series 2012A Bonds maturing by their terms on any one date are to be redeemed at any one time with Mandatory Sinking Account Payments, the Trustee shall select the Series 2012A Bonds by lot in any manner that it deems appropriate. For purposes of such selection, Series 2012A Bonds of each maturity date shall be deemed to be composed of multiples of minimum Authorized Denominations and any such multiple may be separately redeemed.

***Purchase in Lieu of Redemption***

The Authority reserves the right at all times to purchase any of its Series 2012 Bonds on the open market. In lieu of mandatory redemption, the Authority may surrender to the Trustee for cancellation Series 2012 Bonds purchased on the open market, and the Series 2012 Bonds shall be cancelled by the Trustee. If the Series 2012 Bonds are so cancelled, the Authority may designate the Mandatory Sinking Account Payments or portions thereof that are to be reduced as a result of such cancellation.

***Notice of Redemption***

The Trustee shall mail each notice of redemption not less than 20 days prior to the redemption date, to the registered owner of such Series 2012 Bonds and to the MSRB via its EMMA System except that for Series 2012A Bonds in the Index Delayed Remarketing Period, such notice may be delivered by electronic means via the MSRB EMMA System by the Trustee not less than five days prior to the date fixed for redemption. Notice of redemption to the Holders shall be given by first class mail. Each notice of redemption shall state the date of such notice, the date of issue of the Series 2012 Bonds to which such

notice relates, the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the maturity or maturities, and, if less than all of any such maturity, the distinctive certificate numbers of the Series 2012 Bonds of such maturity, if any, to be redeemed and, in the case of Series 2012 Bonds to be redeemed in part only, the respective portion of the principal amount thereof to be redeemed. Each such notice shall also state that on such date there will become due and payable on each of the Series 2012 Bonds called for redemption the redemption price thereof or of said specified portion of the principal amount thereof in the case of a Series 2012 Bond to be redeemed in part only, together with interest accrued thereon to the date fixed for redemption, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Series 2012 Bonds be then surrendered at the address of the Trustee specified in the redemption notice.

Any notice of optional redemption may contain such conditions as specified by the Authority and shall state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of amounts sufficient to pay the principal of, and premium, if any, and interest on, such Series 2012 Bonds to be redeemed, and that if such amounts shall not have been so received, the notice shall be of no force and effect and the Authority shall not be required to redeem such Series 2012 Bonds. Neither the Authority nor the Trustee shall have any responsibility or any defect in the CUSIP number that appears on any Series 2012 Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by and independent service for convenience or reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such CUSIP numbers. Notwithstanding the foregoing, failure by the Trustee to give notice or failure to receive notice or any defect in any such notice shall not affect the sufficiency or validity of the proceedings for redemption.

Any notice given pursuant to the previous paragraph may be rescinded by written notice given to the Trustee by the Authority and the Trustee shall give notice of such rescission as soon thereafter as practicable in the same manner and to the same persons as notice of such redemption was given.

[*REMAINDER OF PAGE INTENTIONALLY LEFT BLANK*]

## DEBT SERVICE SCHEDULE AND DEBT SERVICE COVERAGE

The following sets forth the debt service schedule for the Series 2012 Bonds in each fiscal year of the Authority.

| Fiscal Year Ending June 30[1] | Series 2012A Bonds | | | Series 2012B Bonds | | | Debt Service Total |
|---|---|---|---|---|---|---|---|
| | Principal | Interest[2] | Total | Principal | Interest | Total | |
| 2013 | — | $ 3,676,477 | $ 3,676,477 | — | $ 1,730,952 | $ 1,730,952 | $ 5,407,429 |
| 2014 | — | 8,070,315 | 8,070,315 | $ 11,860,000 | 8,536,200 | 20,396,200 | 28,466,515 |
| 2015 | — | 8,070,315 | 8,070,315 | 12,095,000 | 8,299,000 | 20,394,000 | 28,464,315 |
| 2016 | — | 8,070,315 | 8,070,315 | 12,460,000 | 7,936,150 | 20,396,150 | 28,466,465 |
| 2017 | — | 8,070,315 | 8,070,315 | 12,925,000 | 7,467,750 | 20,392,750 | 28,463,065 |
| 2018 | — | 8,070,315 | 8,070,315 | 13,515,000 | 6,881,500 | 20,396,500 | 28,466,815 |
| 2019 | — | 8,070,315 | 8,070,315 | 14,160,000 | 6,235,750 | 20,395,750 | 28,466,065 |
| 2020 | — | 8,070,315 | 8,070,315 | 14,835,000 | 5,557,750 | 20,392,750 | 28,463,065 |
| 2021 | — | 8,070,315 | 8,070,315 | 15,550,000 | 4,846,000 | 20,396,000 | 28,466,315 |
| 2022 | — | 8,070,315 | 8,070,315 | 16,325,000 | 4,068,500 | 20,393,500 | 28,463,815 |
| 2023 | — | 8,070,315 | 8,070,315 | 17,140,000 | 3,252,250 | 20,392,250 | 28,462,565 |
| 2024 | — | 8,070,315 | 8,070,315 | 18,000,000 | 2,395,250 | 20,395,250 | 28,465,565 |
| 2025 | $ 1,450,000 | 8,066,393[3] | 9,516,393 | 17,455,000 | 1,495,250 | 18,950,250 | 28,466,643 |
| 2026 | 19,100,000 | 7,860,355 | 26,960,355 | 880,000 | 622,500 | 1,502,500 | 28,462,855 |
| 2027 | 19,815,000 | 7,083,843 | 26,898,843 | 985,000 | 578,500 | 1,563,500 | 28,462,343 |
| 2028 | 20,555,000 | 6,278,280 | 26,833,280 | 1,100,000 | 529,250 | 1,629,250 | 28,462,530 |
| 2029 | 21,325,000 | 5,442,609 | 26,767,609 | 1,225,000 | 474,250 | 1,699,250 | 28,466,859 |
| 2030 | 22,120,000 | 4,575,672 | 26,695,672 | 1,355,000 | 413,000 | 1,768,000 | 28,463,672 |
| 2031 | 22,950,000 | 3,676,362 | 26,626,362 | 1,495,000 | 345,250 | 1,840,250 | 28,466,612 |
| 2032 | 23,810,000 | 2,743,318 | 26,553,318 | 1,640,000 | 270,500 | 1,910,500 | 28,463,818 |
| 2033 | 24,700,000 | 1,775,334 | 26,475,334 | 1,800,000 | 188,500 | 1,988,500 | 28,463,834 |
| 2034 | 25,625,000 | 771,149 | 26,396,149 | 1,970,000 | 98,500 | 2,068,500 | 28,464,649 |
| **Total** | $201,450,000 | $140,723,256 | $342,173,256 | $188,770,000 | $72,222,552 | $260,992,552 | $603,165,808 |

[1] The Authority's fiscal year runs from July 1 through June 30. The figures in this table represent principal and interest payable on March 1 in the fiscal year shown and interest payable on the prior September 1.

[2] Interest is assumed to be 4.0274%, which is the rate of the Authority's fixed payment under the 2009 Swap plus the Applicable Spread of 0.37% on the Series 2012A Bonds.

[3] Assumes 5-year average SIFMA rate.

The pro forma debt service coverage on the Series 2012 Bonds is 2.41 times maximum annual debt service. This coverage is calculated as follows: dividing (a) $68.7 million, being the Sales Tax Revenues received by the Authority during its fiscal year ended June 30, 2012, as shown under "THE SALES TAX—Historical Sales Tax Revenues," by (b) $28,466,859, being the maximum annual debt service on the Series 2012 Bonds, as shown above.

## SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS

### *Pledge of Sales Tax Revenues*

The Series 2012 Bonds are limited obligations of the Authority and are payable as to principal and interest exclusively from Revenues, consisting of Sales Tax Revenues and Swap Revenues, and from all amounts, including proceeds of the Series 2012 Bonds, held in the funds and accounts established under the Indenture (other than the Rebate Fund, any Letter of Credit Fund and any Purchase Fund), subject to application thereof as provided pursuant to the Indenture. "Sales Tax Revenues" means the amounts collected on account of the Sales Tax after deducting amounts payable by the Authority to the Board of Equalization for costs and expenses for its services in connection with the Sales Tax (the "BOE Fee"). For a discussion of the Sales Tax, see "THE SALES TAX" herein. For a discussion of the historical sales tax revenues, see "THE SALES TAX—Historical Sales Tax Revenues" herein.

Pursuant to the Indenture, as security for the payment of all amounts owing on the Series 2012 Bonds, any additional Bonds which the Authority may subsequently issue (the Series 2012 Bonds and any additional Bonds being hereinafter collectively referred to as "Bonds"), Parity Obligations, Subordinate Obligations and Fee and Expense Obligations, the Authority has irrevocably pledged to the Trustee (i) all Revenues; and (ii) all amounts, including proceeds of the Bonds, held on deposit in the funds and accounts established under the Indenture (except for amounts held in the Rebate Fund, any Letter of Credit Fund and any Purchase Fund), subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture provides that such collateral shall constitute a first lien on and security interest in such collateral and shall immediately attach thereto and shall be effective, binding and enforceable from and after initial delivery by the Trustee of the Series 2012 Bonds, without the need for any physical delivery, recordation, filing or further act.

All Bonds and Parity Obligations (including the scheduled payments payable by the Authority under the 2009 Swap) shall be of equal rank without preference, priority or distinction of any Bonds or Parity Obligations over any other Bonds or Parity Obligations. All Subordinate Obligations shall be of equal rank without preference, priority or distinction of any Subordinate Obligations over any other Subordinate Obligations. All Fee and Expense Obligations (including any termination payments and other fees and expenses required to be paid under the 2009 Swap) shall be of equal rank without preference, priority or distinction of any Fee and Expense Obligations over any other Fee and Expense Obligation. The Sales Tax Revenues and all other amounts held on deposit in the Revenue Fund and the other funds and accounts established under the Indenture (except for amounts held in the Rebate Fund, any Letter of Credit Fund and any Purchase Fund) shall be received and held in trust by the Trustee for the benefit of the Holders of the Bonds, Parity Obligations, Subordinate Obligations and Fee and Expense Obligations as their respective interests appear under the Indenture and shall be disbursed, allocated and applied solely for the purposes set forth in and in accordance with the Indenture.

**THE SERIES 2012 BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE FROM AND SECURED BY A PLEDGE OF SALES TAX REVENUES DERIVED FROM A 0.5% SALES TAX LEVIED BY THE AUTHORITY, AS DESCRIBED IN THIS OFFICIAL STATEMENT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY OF CONTRA COSTA, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF PRINCIPAL OF OR INTEREST ON THE SERIES 2012 BONDS, OTHER THAN THE SALES TAX RECEIVED BY THE AUTHORITY.**

***Revenue Fund; Allocation of Sales Tax Revenues***

As long as any Bonds are Outstanding or any Parity Obligations remain unpaid, the Authority has assigned the Sales Tax Revenues to the Trustee and shall cause the Board of Equalization to transmit the same directly to the Trustee each month, net of the BOE Fee which is deducted quarterly. The Trustee will forthwith deposit all Sales Tax Revenues in the Revenue Fund, maintained and held in trust by the Trustee, when and as such Sales Tax Revenues are received by the Trustee. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Allocation of Sales Tax Revenues." The Sales Tax Revenues are to be received and held in trust by the Trustee for the benefit of the Holders of the Bonds and Parity Obligations and will be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

So long as any Bonds are Outstanding or any Parity Obligations, Subordinate Obligations, Fee and Expense Obligations or other amounts payable under the Indenture remain unpaid, the Trustee shall set aside in each month following receipt of the Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee will establish, maintain and hold in trust for the benefit of the Holders of the Bonds and, as and to the extent applicable, the holders of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that (i) on a parity with such deposits the Trustee may set aside or transfer amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee pursuant to the Indenture (which shall be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations), (ii) regularly scheduled payments on Interest Rate Swap Agreements, including, without limitation, the 2009 Swap, which constitute Parity Obligations, shall be payable from the Interest Fund and the required deposits below shall be adjusted to include payments on such Interest Rate Swap Agreements in accordance with the Indenture and (iii) in the event any of the deposits or transfers requires more than one such deposit or payment and there is not then on deposit in the Revenue Fund sufficient funds to make all such deposits and payments, then such deposits and payments shall be made pro rata (based on the total amount of such deposits and payments then due) to the extent of available funds.

(1) *Interest Fund*. Following receipt of the Sales Tax Revenues in each month, the Trustee shall set aside in the Interest Fund as soon as practicable in such month an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by the provision of the Indenture described in subparagraph (b) below) during the next ensuing six months (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest during said next ensuing six months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which shall be governed by the provision in the Indenture described in subparagraph (b) below) is on deposit in such fund; provided that from the date of delivery of a Series of Current Interest Bonds until the first Interest Payment Date with respect to such Series of Bonds the amounts set aside in such fund with respect to such Series of Bonds shall be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on said Interest Payment Date with respect to such Series of Bonds, plus (b) the aggregate amount of interest to accrue during that month on Outstanding Variable Rate Indebtedness, calculated, if the actual rate of interest is not known, at the interest rate specified in writing by the Authority, or if the Authority shall not have specified an interest rate in writing, calculated at the

maximum interest rate borne by such Variable Rate Indebtedness during the month prior to the month of deposit plus 100 basis points (provided, however, that the amount of such deposit into the Interest Fund for any month may be reduced by the amount by which the deposit in the prior month exceeded the actual amount of interest accrued and paid during that month on said Outstanding Variable Rate Indebtedness and provided further that the amount of such deposit into the Interest Fund for any month shall be increased by the amount by which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Dates falling within the next six months upon all of the Bonds issued hereunder and then Outstanding, and on March 1 and September 1 of each year any excess amounts in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having Interest Payment Dates other than March 1 and September 1) shall be transferred to the Authority (but excluding, in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future Interest Payment Dates following such Interest Payment Dates).

When there are Liquidity Facility Bonds outstanding, such deposits shall take into account the Liquidity Facility Rate on Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds. For purposes of the provisions set forth above relating to the Principal Fund, Liquidity Facility Bonds shall be treated as Serial Bonds with maturity dates on the payment dates specified for any amortizations or redemptions.

(2) *Principal Fund; Sinking Accounts*. Following receipt of the Sales Tax Revenues in each month, the Trustee shall deposit in the Principal Fund as soon as practicable in such month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next 12 months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts shall have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the Authority certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with future Mandatory Sinking Account Payments shall be made without priority of any payment over any other such payment.

In the event that the Sales Tax Revenues shall not be sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys shall be applied on a Proportionate Basis and in such proportion as said Serial Bonds and said Term Bonds shall bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as shall have been redeemed or purchased during the preceding 12-month period and any of said Term Bonds required to be redeemed semiannually as shall have been redeemed or purchased during the

six-month period ending on such date or the immediately preceding six month period. In the event that the Sales Tax Revenues shall not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts shall be made on a Proportionate Basis, in proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there shall be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued hereunder and then Outstanding and maturing by their terms within the next 12 months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Authority certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than March 1 of each year, the Trustee shall request from the Authority a Certificate of the Authority setting forth the principal payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On March 1 of each year or as soon as practicable thereafter any excess amounts in the Principal Fund not needed to pay principal on such date (and not held to pay principal on Bonds having principal payment dates other than March 1) shall be transferred to the Authority.

When there are Liquidity Facility Bonds outstanding, such deposits shall take into account any amortizations of any Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds.

(3) *Bond Reserve Fund*. Upon the occurrence of any deficiency in any Bond Reserve Fund, the Trustee shall make such deposit to such Bond Reserve Fund as is required pursuant to the Indenture, each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement. No reserve fund has been established for the Series 2012 Bonds. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Establishment and Application of Funds and Accounts and Application of Bond Reserve Funds."

(4) *Subordinate Obligations Fund*. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Subordinate Obligations Fund." After the transfers described above in (1), (2) and (3) have been made, the Trustee shall deposit in the Subordinate Obligations Fund in each month such amount as the Authority shall specify in writing is necessary to make payments due and payable during the following month with respect to Subordinate Obligations then outstanding.

(5) *Fees and Expenses Fund*. The Trustee shall establish, maintain and hold in trust a separate fund designated as the "Fees and Expenses Fund." After the transfers described in (1), (2), (3) and (4) above have been made, the Trustee shall deposit in the Fees and Expenses Fund in each month the amounts necessary for the payment of Fee and Expense Obligations owing in such month or owing in the following month by the Authority.

Any Revenues remaining in the Revenue Fund after the foregoing transfers described in (1), (2), (3), (4) and (5), except as the Authority shall otherwise direct in writing or as is otherwise provided in a Supplemental Indenture, shall be transferred to the Authority on the same Business Day or as soon as practicable thereafter. The Authority may use and apply the Revenues when received by it for any lawful

purpose of the Authority, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds and the purchase of Bonds as and when and at such prices as it may determine and the posting of collateral in accordance with the provisions of the 2009 Swap or other Interest Rate Swap Agreement. Any Revenues used to post collateral under the 2009 Swap or any other interest rate swap agreement are no longer subject to the pledge under the Indenture.

If five days prior to any principal payment date, Interest Payment Date or mandatory redemption date, the amounts on deposit in the Revenue Fund, the Interest Fund, the Principal Fund, including the Sinking Accounts therein, and, as and to the extent applicable, any Bond Reserve Fund established in connection with a Series of Bonds with respect to the payments to be made on such upcoming date are insufficient to make such payments, the Trustee shall immediately notify the Authority, in writing, of such deficiency and direct that the Authority transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Authority has covenanted and agreed to transfer to the Trustee from any Revenues then its possession, the amount of such deficiency on or prior to the principal, interest or mandatory redemption date referenced in such notice by the Authority to the Trustee.

See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Establishment and Application of Funds and Accounts" for a summary of certain additional provisions of the Indenture relating to application of the funds held by the Trustee described above.

***Parity Obligations and Additional Bonds***

Regularly scheduled payments made pursuant to the 2009 Swap constitute Parity Obligations under the Indenture. Such payments are the only Parity Obligations that will be secured by Sales Tax Revenues upon delivery of the Series 2012 Bonds. See "PLAN OF FINANCE—The 2009 Swap" above for a description of certain terms of the 2009 Swap. The Authority may issue additional Bonds and may issue or incur other obligations secured in whole or in part by a pledge of Sales Tax Revenues on parity with the Series 2012 Bonds, the existing Parity Obligations and any additional Parity Obligations, subject to the limitations in and compliance with the terms and provisions set forth in the Indenture. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Issuance of Additional Bonds and Other Obligations."

*Issuance of Additional Bonds*. Subsequent to the issuance of the Series 2012 Bonds, the Authority may by Supplemental Indenture establish one or more series of Bonds payable from Sales Tax Revenues and secured by the pledge made under the Indenture equally and ratably with the Series 2012 Bonds and other Parity Obligations, but only upon compliance by the Authority with certain provisions of the Indenture. These provisions include:

(a) No Event of Default shall have occurred and then be continuing.

(b) If the Supplemental Indenture providing for the issuance of such Series of Bonds requires either (i) the establishment of a Bond Reserve Fund to provide additional security for such Series of Bonds or (ii) that the balance on deposit in an existing Bond Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Bonds, the Supplemental Indenture providing for the issuance of such additional Bonds shall require deposit of the amount necessary. Such deposit may be made from the proceeds of the sale of such additional Bonds or from other funds of the Authority or from both such sources or in the form of a Reserve Facility as described under APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions" and

"—Establishment and Application of Funds and Accounts - Funding and Application of Bond Reserve Funds." No reserve fund has been established for the Series 2012 Bonds.

(c) The aggregate principal amount of Bonds issued under the Indenture shall not exceed any limitation imposed by the Act or any other law or by any Supplemental Indenture.

(d) The Authority shall place on file with the Trustee a Certificate of the Authority certifying: (i) that the amount of Sales Tax Revenues collected during any 12 consecutive calendar months specified by the Authority within the most recent 18 calendar months immediately preceding the date on which such additional Bonds will become Outstanding shall have been at least equal to 1.75 times Maximum Annual Debt Service on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued and (ii) that the amount of Sales Tax Revenues collected during any 12 consecutive calendar months specified by the Authority within the most recent 18 calendar months immediately preceding the date on which such additional Series of Bonds will become Outstanding shall have been at least equal to 1.15 times Maximum Annual Debt Service on all Series of Bonds, Parity Obligations and Subordinate Obligations then Outstanding and the additional Series of Bonds then proposed to be issued, which Certificate shall also set forth the computations upon which such Certificate is based.

(e) Principal payments of each Series of additional Bonds shall be due on March 1 or September 1 in each year in which principal is to be paid if and to the extent deemed practical in the reasonable judgment of the Authority with regard to the type of additional Bond to be issued, and, if the interest on such Series of additional Bonds is to be paid semiannually, such interest payments shall be due on March 1 and September 1 in each year to the extent deemed practical in the reasonable judgment of the Authority with regard to the type of additional Bond to be issued.

Nothing contained in the Indenture shall prevent or be construed to prevent the Supplemental Indenture providing for the issuance of a Series of additional Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of such Series of additional Bonds or any portion thereof.

In the event additional assets or revenues are included within the definition of "Revenues" by a Supplemental Indenture, such additional assets or revenues shall be included in the calculations to be provided pursuant to the Indenture provisions described in subsection (d) above as if such additional assets or revenues had always been included in "Revenues."

See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Issuance of Additional Bonds and Other Obligations" for a summary of restrictions and additional provisions of the Indenture relating to the issuance of additional Bonds.

*Issuance of Refunding Bonds*. Refunding Bonds may be authorized and issued by the Authority without compliance with the provisions of the Indenture summarized above under the caption "—Issuance of Additional Bonds;" provided that the Trustee shall have been provided with a Certificate of the Authority to the effect that the Authority has determined that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance of such Refunding Bonds. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Issuance of Additional Bonds and Other Obligations—Issuance of Refunding Bonds" for a summary of restrictions and additional provisions of the Indenture relating to the issuance of Refunding Bonds.

*Parity Obligations*. As defined in the Indenture, "Parity Obligations" includes (i) any indebtedness, installment sale obligation, lease obligation or other obligation of the Authority for borrowed money, (ii) any obligation to pay the Rebate Requirement, or (iii) regularly scheduled payments on any Interest Rate Swap Agreement entered into in connection with a Series of Bonds, in each case incurred in accordance with the Indenture, and in each case having an equal lien and charge upon the Sales Tax Revenues and therefore being payable on a parity with the Bonds (whether or not any Bonds are Outstanding). The regularly scheduled payments on the 2009 Swap will constitute Parity Obligations. Parity Obligations do not include termination payments or payments for fees and expenses incurred in connection with any Interest Rate Swap Agreement, including the 2009 Swap, which payments shall be secured as Fee and Expense Obligations. The Authority may issue or incur additional Parity Obligations which will have, when issued, an equal lien and charge upon the Sales Tax Revenues, provided that the conditions to the issuance of such Parity Obligations set forth in the Indenture are satisfied, including satisfaction of the coverage test described in subsection (d) above under the caption "—Issuance of Additional Bonds," unless such Parity Obligations are being issued for refunding purposes, in which case the coverage test shall not apply. The Authority may issue, from time to time, Parity Obligations that constitute Interest Rate Swap Agreements being entered into in advance of the issuance of a Series of Bonds to which such Interest Rate Swap Agreements relate, provided that the Authority certifies that the issuance of the Series of Bonds to which such Interest Rate Swap Agreement relates is expected to satisfy the coverage test described in subsection (d) above under the caption "—Issuance of Additional Bonds," after taking into account adjustment of Debt Service on such Bonds to reflect the impact of such Forward Starting Swap.

See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Issuance of Additional Bonds and Other Obligations—Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations" for a summary of restrictions and additional provisions of the Indenture relating to the issuance of Parity Obligations.

***Subordinate Obligations***

In accordance with the provisions of the Indenture, the Authority may incur other obligations payable out of Sales Tax Revenues on a basis junior and subordinate to the payment of the principal, interest and reserve fund requirements for the Bonds and Parity Obligations, as the same become due and payable and at the times and in the manner as required by the Indenture or as required by the instrument pursuant to which such Bonds or Parity Obligations were issued or incurred, as applicable (collectively, the "Subordinate Obligations"). See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Issuance of Additional Bonds and Other Obligations—Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations" for a summary of the restrictions and additional provisions of the Indenture relating to the issuance of Subordinate Obligations.

***Fee and Expense Obligations***

In accordance with the provisions of the Indenture, the Authority may incur other obligations (collectively, the "Fee and Expense Obligations"), which obligations are payable from Sales Tax Revenues on a basis junior and directly subordinate to the Bonds, Parity Obligations and Subordinate Obligations. "Fee and Expense Obligations" include interest rate swap termination payments, including termination payments on the 2009 Swap and any other Interest Rate Swap Agreements and other obligations of the Authority that constitute fees, expenses and similar charges in connection with any Bonds, Parity Obligations or Subordinate Obligations. See "PLAN OF FINANCE—The 2009 Swap" herein. See also APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—

Issuance of Additional Bonds and Other Obligations—Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations" for a summary of the provisions of the Indenture relating to the issuance of Fee and Expense Obligations.

***Designation of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations***

Pursuant to the Indenture, the regularly scheduled payments required to be paid by the Authority under the 2009 Swap (excluding fees and expenses and termination payments under the 2009 Swap) will constitute Parity Obligations under the Indenture and the fees and expenses and termination payments, if any, required to be paid by the Authority under the 2009 Swap will constitute Fee and Expense Obligations. Upon the issuance or incurrence of any other obligations that constitute Parity Obligations, Subordinate Obligations or Fee and Expense Obligations, the Authority shall, in a certificate to the Trustee, identify such obligations as Parity Obligations, Subordinate Obligations or Fee and Expense Obligations.

## THE AUTHORITY

***General Description***

The Authority is a local transportation authority organized under the provisions of the Act, which was created on February 2, 1988 by action of the Board of Supervisors of the County, designating the Contra Costa Transportation Partnership Commission (the "Partnership Commission") as the Authority. The Partnership Commission was a planning committee created by the Contra Costa Conference of Mayors in February 1987 in order to develop a County-wide transportation master plan and improvement program. Membership of the Partnership Commission consisted of two representatives from each of four regional transportation planning committees, the memberships of which consisted of elected officials and other representatives of the cities and Board of Supervisors of the County, two representatives of the Board of Supervisors of the County and one representative from the Conference of Mayors. By designating the Partnership Commission as the Authority, the Board of Supervisors of the County determined the membership of the Authority to be the membership as determined by the Partnership Commission. The determination of the membership of the Authority was concurred in by a majority of the cities having a majority of the population in the incorporated area of the County. No city is guaranteed a position on the Authority, however each member of the Authority must be an elected official of a local governmental entity within the County. Members of the Board of Supervisors of the County must comprise less than a majority of the Authority.

The current members of the Authority and their elected offices are presented below:

| | |
|---|---|
| Don Tatzin, Chair | Council Member, City of Lafayette |
| Janet Abelson, Vice Chair | Council Member, City of El Cerrito |
| Genoveva Calloway | Council Member, City of San Pablo |
| David Durant | Council Member, City of Pleasant Hill |
| Jim Frazier | Council Member, City of Oakley |
| Federal Glover | Supervisor, Board of Supervisors, County of Contra Costa |
| Dave Hudson | Council Member, City of San Ramon |
| Karen Mitchoff | Supervisor, Board of Supervisors, County of Contra Costa |

| | |
|---|---|
| Julie Pierce | Council Member, City of Clayton |
| Karen Stepper | Council Member, Town of Danville |
| Robert Taylor | Mayor, City of Brentwood |

The Authority is primarily a planning and funding agency and does not operate transportation programs or facilities. The Authority is responsible for carrying out the provisions of the Ordinance and the Expenditure Plan, which include: allocating the Sales Tax Revenues pursuant to the Ordinance and the Expenditure Plan; determining the timing of funding and construction of the capital projects in the Expenditure Plan; developing a County congestion management program, as the County's designated congestion management agency; developing a model Transportation Systems Management ordinance; and developing a model Growth Management element for inclusion in the General Plans of the County and the cities within the County. The Authority has only 20 employees and has no responsibility for the operation of any of the public transit programs or transportation capital projects which are included in the Expenditure Plan. See "CONTRA COSTA TRANSPORTATION IMPROVEMENT PROGRAM" herein.

***Authority Staff***

Key members of the Authority staff are identified below:

**Randell H. Iwasaki**, Executive Director. Mr. Iwasaki serves as the Authority's chief executive and is responsible for the overall management of the Authority, including its projects, programs, policies and procedures, the board-approved budget, and all personnel decisions. Mr. Iwasaki has served the Authority since April 2010. Prior to joining the Authority, he was appointed by Governor Schwarzenegger in August 2009 as Director of the California Department of Transportation (Caltrans). Mr. Iwasaki was with Caltrans for more than 26 years serving in various engineering and management positions. Mr. Iwasaki earned his bachelor's degree in Engineering from California Polytechnic State University, San Luis Obispo, and a Master's in Engineering from California State University, Fresno.

**Randall O. Carlton**, Chief Financial Officer. Mr. Carlton serves as the chief financial officer and director of administrative, personnel and support functions at the Authority. In this capacity, he also serves as the treasurer, managing the Authority's investments. Mr. Carlton joined the Authority in 2007. Prior to joining the Authority, he served as the Chief Financial Officer/Controller for the East Bay Regional Park District for approximately 5 years. Prior to the Park District, Mr. Carlton was employed by the City of Fresno where he held various positions in financial management over a 14 year period, including the positions of City Controller and Treasury Manager. Mr. Carlton holds a Bachelor of Arts degree in Public Administration and a Masters of Public Administration from the California State University at Fresno.

**Ross A. Chittenden**, Chief Deputy Executive Director, Projects. Mr. Chittenden is directly responsible for managing the Authority's involvement in the Authority's capital improvement program. He coordinates, through the Authority's program management consultant, Parsons Transportation Group, Inc., the implementation of the program of projects identified in the Expenditure Plan by proponent jurisdictions. Mr. Chittenden joined the Authority in 2010. Mr. Chittenden served as Caltrans District 10 Director and has over 27 years of service with before joining the Authority. Mr. Chittenden holds a Bachelor of Science degree from the University of Michigan, and is certified as a Project Management Professional by the Project Management Institute.

**Martin R. Engelmann**, Deputy Executive Director, Planning. Mr. Engelmann is responsible for implementing the Authority's Growth Management Program. He is also in charge of implementing the

State-mandated Congestion Management Program for the County. Mr. Engelmann joined the Authority in 1990. Prior to joining the Authority, Mr. Engelmann worked with Bechtel Corporation for 8 years, serving on the program management staff for the Santa Clara Traffic Authority and on several international airport projects. Mr. Engelmann holds a Bachelor of Science degree in Civil Engineering and a Bachelor of Arts degree in Economics from the University of Maryland, and a Master of Science degree in Transportation Engineering and Planning from the University of California at Berkeley. He is a registered Civil Engineer in California.

**Arielle E. L. Bourgart**, Assistant Director, Community and Government Affairs. Ms. Bourgart manages legislative and key community issues for the Authority and oversees the Authority's communications to the press, local jurisdictions and interest groups. She represents the Authority on statewide and regional public policy organizations, committees and working groups. Ms. Bourgart joined the Authority in November 1990. Prior to joining the Authority, she served as Director of Transportation and Land Use for the Silicon Valley Leadership Group, a Silicon Valley business association, and as Public Relations Director of RIDES for Bay Area Commuters in San Francisco. Ms. Bourgart holds a Bachelor of Arts degree in History from LeMoyne College, Syracuse, New York.

## THE SALES TAX

### *General Description*

The Act, among other things, authorizes the Authority to establish a retail transactions and use tax applicable in the incorporated and unincorporated territory of the County in accordance with the California Transactions and Use Tax Law (Revenue and Taxation Code Sections 7251 et seq.) upon authorization by a majority of the electors voting on the issue. On November 8, 1988, in accordance with the Act, the voters of the County approved Measure C by a 58% majority vote and thereby imposed the Sales Tax in the County for a period of twenty years, which began on April 1, 1989 and expired on March 31, 2009 (the "Measure C Sales Tax"). On November 2, 2004, in accordance with the Act, the voters of the County approved Measure J by a 71% majority vote and thereby authorized the extension of the Measure C Sales Tax, which commenced on April 1, 2009 and expires on March 31, 2034. Such extension of the Measure C Sales Tax by Measure J is referred to herein as the "Sales Tax." The Sales Tax consists of a one-half of one percent (½%) sales tax on the gross receipts of retailers from the sale of tangible personal property sold in the County and a use tax at the same rate upon the storage, use or other consumption in the County of such property purchased from any retailer for storage, use or other consumption in the County, subject to certain limited exceptions described below.

The Sales Tax imposed by the Authority is in addition to a one-half of one percent (½%) sales tax levied in the County for transit purposes and in addition to the eight and one-quarter percent (8¼%) sales and use tax currently levied statewide (which will increase by ¼% from January 1, 2013 through December 31, 2016) (the "Statewide Sales Tax"). In general, the Statewide Sales Tax applies to the gross receipts of retailers from the sale of tangible personal property and the statewide use tax is imposed on the storage, use or other consumption in the State of property purchased from a retailer for such storage, use or other consumption. The statewide use tax does not apply to cases where the sale of the property is subject to the sales tax, therefore the application of the statewide use tax is generally applied to purchases made outside of the State for use within the State.

The Sales Tax is generally imposed upon the same transactions and items subject to the Statewide Sales Tax, with generally the same exceptions. Several categories of transactions are exempt from the State Sales Tax and the Sales Tax. Significant exemptions include: sales of food products for human consumption (this exemption does not include hot prepared foods and food consumed on the premises

where purchased), prescription medicine, edible livestock and their feed, seed and fertilizer used in raising food for human consumption, and gas, electricity and water when delivering to consumers through mains, lines and pipes. In addition, "occasional sales" (i.e., sales of property not held or used by a seller in the course of activities for which he or she is required to hold a seller's permit) are generally exempt from the State Sales Tax and from the Sales Tax; however, the "occasional sales" exemption does not apply to the sale of an entire business and other sales of machinery and equipment used in a business. Sales of property to be used outside the County which is shipped to a point outside the County, pursuant to the contract of sale, by delivery to such point by the retailer, or by delivery by the retailer to a carrier for shipment to a consignee at such point, are exempt from the State Sales Tax and from the Sales Tax.

Action by the State legislature or by voter initiative could change the transactions and items upon which the State Sales Tax and the Sales Tax are imposed. A voter initiative approved in 1992 eliminated taxation for candy, gum, bottled water and confectionery. In 1993, certain types of transactions subject to the State Sales Tax were eliminated through repeal of legislation. The State legislature could further change the transactions and items upon which the State Sales Tax and the Sales Tax are imposed. In addition, other voter initiative measures could be adopted, further affecting the receipt of Sales Tax Revenues. Such changes or amendments could have either an adverse or a beneficial effect on Sales Tax Revenues. The Authority is not currently aware of any proposed legislative change which would have a material adverse effect on Sales Tax Revenues. See "RISK FACTORS—Proposition 218."

### *Collection of Sales Tax Revenues*

Collection of the Sales Tax is administered by the Board of Equalization. The Authority and the Board of Equalization have entered into an Amended and Restated Agreement for State Administration of a Transactions and Use Tax to authorize payment of Sales Tax Revenues directly to the Trustee. The State Board of Equalization, after deducting amounts payable to itself, is required to remit the balance of amounts received from the Sales Tax directly to the Trustee.

Prior to July 1, 1993, the amount retained by the Board of Equalization was based on a flat 0.82% of the receipts of the Sales Tax. Effective July 1, 1993, the amount retained by the Board of Equalization is based on the total special taxing jurisdiction costs reflected in the annual budget of the State of California, and includes direct, shared and central agency costs incurred by the Board of Equalization. For fiscal year 1995 and each fiscal year thereafter, the amount retained by the Board of Equalization will be adjusted to account for the difference between the Board of Equalization's recovered costs and the actual costs incurred by the Board of Equalization during the prior two fiscal years. Commencing July 1, 1998, the amount retained by the Board of Equalization may not exceed the lesser of the percentage retained for the fiscal year ended June 30, 1999 and 1.5% of the receipts of the Sales Tax. The amount retained by the Board of Equalization for the fiscal year ended June 30, 2012 was $685,530. The Authority has been advised by the Board of Equalization that the estimated amount to be retained by the Board of Equalization for the fiscal year ending June 30, 2013 is $712,610.

### *Historical Taxable Transactions*

For information concerning historical taxable transactions in the County, see APPENDIX B—"GENERAL COUNTY OF CONTRA COSTA DEMOGRAPHIC AND ECONOMIC INFORMATION—Commercial Activity."

### *Historical Sales Tax Revenues*

The Measure C Sales Tax went into effect on April 1, 1989, and the first collections were remitted to the Authority on June 12, 1989. Pursuant to its procedures, the Board of Equalization projects

receipts of the Sales Tax on a quarterly basis and remits an advance of the receipts of the Sales Tax to the Authority on a monthly basis. The amount of each monthly advance is based upon the Board of Equalization quarterly projection. During the last month of each quarter, the Board of Equalization adjusts the amount remitted to reflect the actual receipts of the Sales Tax for the previous quarter.

The following table shows Sales Tax Revenues received by the Authority from the Board of Equalization for the 10 fiscal years ended June 30, 2012. Sales Tax Revenues set forth in the following table are the amounts received from the Board of Equalization after deduction by the Board of Equalization of the amount payable to the Board of Equalization and do not include any investment earnings.

**HISTORICAL SALES TAX REVENUES**
(Dollars in Thousands)

| Fiscal Year Ended June 30, | Sales Tax Revenues[1] | Percentage Change[2] |
|---|---|---|
| 2002 | $65,168 | (1.3) |
| 2003 | 65,782 | 0.9 |
| 2004 | 65,684 | (0.2) |
| 2005 | 71,014 | 8.1 |
| 2006 | 74,676 | 5.2 |
| 2007 | 75,738 | 1.4 |
| 2008 | 74,680 | (1.4) |
| 2009 | 64,322 | (13.9) |
| 2010 | 61,527 | (4.3) |
| 2011 | 65,060 | 5.7 |
| 2012 | 68,728 | 5.6 |

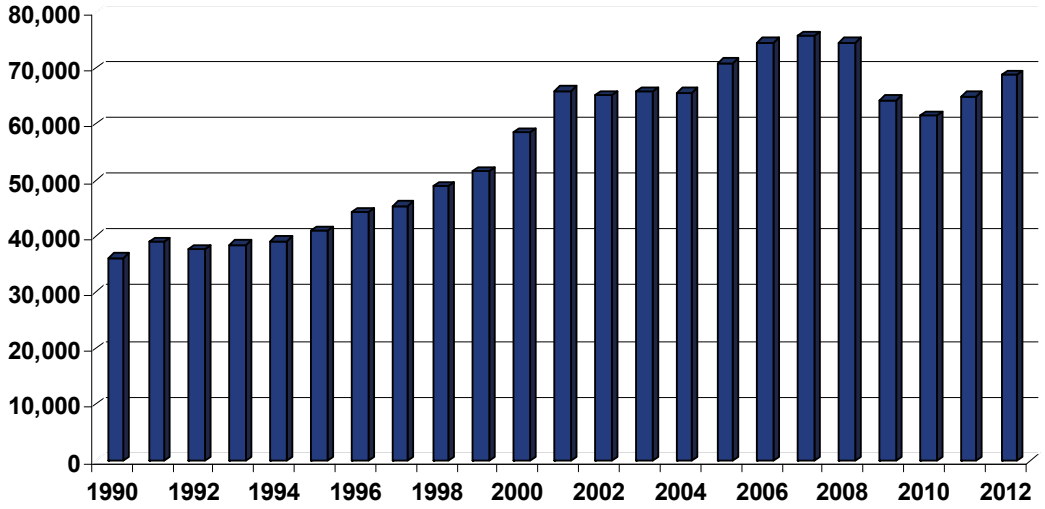
(1) Sales Tax Revenues are as set forth in the audited financial statements of the Authority and have been rounded to the nearest thousand and represent receipts from the Measure C Sales Tax through March 31, 2009 and thereafter Sales Tax Revenues received pursuant to Measure J.

(2) Percentages have been calculated based on rounded Sales Tax Revenues.

Source: The Authority.

Sales Tax receipts for the year ended June 30, 2011 totaled approximately $65.1 million, and Sales Tax receipts for the following fiscal year ending June 30, 2012 totaled approximately $68.7 million, which represents an increase of approximately 5.7% and 5.6%, respectively.

**HISTORICAL SALES TAX REVENUES**
(Dollars in Thousands)




## CONTRA COSTA TRANSPORTATION IMPROVEMENT PROGRAM

***Expenditure Plan and Strategic Plan***

The Expenditure Plan, authorized by the Ordinance, allocates Sales Tax Revenues to the various capital projects and non-capital transportation programs authorized by Measure J.

To determine the specific projects to be implemented within the Expenditure Plan, the Authority adopted a strategic plan (the "Strategic Plan"), which the Authority reviews and updates on a periodic basis, usually every two years. In connection with each review and update of the Strategic Plan, the Authority assesses financial assumptions, revenue forecasts and project delivery in order to determine how to allocate future anticipated resources. The current Strategic Plan relating to Measure J, herein referred to as the 2011 Strategic Plan, was adopted by the Authority on July 20, 2011 and makes programming recommendations through fiscal year 2014-15.

Included in the Expenditure Plan and each update of the Strategic Plan are funding categories for capital projects (such as Caldecott Tunnel 4th Bore, State Route 4 East Widening and BART extension), and non-capital programs, including transportation for seniors and people with disabilities, local streets maintenance and improvements, bus services, transportation for livable communities, commute alternatives, and others.

The Authority programs funds for individual capital projects, provided that the total project category does not exceed a percentage (determined by the Authority) of the amount identified for that project category in the Expenditure Plan, such percentage amount being hereinafter referred to as an "Expenditure Cap." Each update of the Strategic Plan includes a review of capital projects and budgeted revenues and, if warranted, the Expenditure Caps are adjusted.

Funding of the major non-capital program categories identified in the Expenditure Plan, including but not limited to, transportation for seniors and people with disabilities, local streets maintenance and

improvements, bus services, transportation for livable communities, commute alternatives, and others, is allocated on an annual basis, based upon a percentage of annual revenues. Such programs receive a total of approximately 57.5% of annual Sales Tax Revenues. The balance of 42.5% of Sales Tax Revenues is allocated by the Authority, as provided in the Expenditure Plan, to pay costs of capital projects, including debt service on the Series 2012 Bond and any additional Bonds and Parity Obligations.

The 2011 Strategic Plan (i) refines the overall estimate of the Sales Tax Revenues expected by the Authority to be received through fiscal year 2034, (ii) sets forth the policies of the Authority for programming of projects and the policies specific to individual projects and (iii) makes financial commitments, in specific fiscal years, to individual projects. The 2011 Strategic Plan forecasts Measure J revenues will total approximately $2.45 billion (in 2011 dollars) over the life of the Measure J through fiscal year 2034. The 2011 Strategic Plan also imposed an Expenditure Cap for most of the capital project categories and prioritized key projects and programs by working with the regional transportation planning committees to keep key projects like Caldecott Tunnel 4th Bore, State Route 4 Widening and BART extension projects moving forward. An update of the Strategic Plan to reflect revised revenue and cost assumptions is scheduled for approval by the governing body of the Authority in the latter half of 2013.

### *Project Implementation and Funding*

The Authority provides funds to various local and government agencies for the design and construction or operation of certain transportation projects. The Authority itself manages the design of several projects and the construction of a limited number of other projects identified in the Strategic Plan. The funding commitment of the Authority to any project represents a "not to exceed" limit of Measure J funds, and is in not a commitment to reserve such funds for a given project if such funds are not needed. The Authority has entered into cooperative agreements with sponsoring agencies, such as the County, the various cities in the County, BART and the State of California Department of Transportation, defining the responsibilities of each party for implementing various projects.

### *Future Financing Plans*

In the Authority's 2011 Strategic Plan, the Authority anticipates that the Expenditure Plan, as prioritized in the 2011 Strategic Plan, will be funded through a combination of sources, including pay-as-you-go, the Series 2010 Bonds, the Series 2012B Bonds and possible future Bond financings of approximately $61 million in fiscal year 2014. The issuance of additional Bonds is subject to complying with the tests in the Indenture for issuing additional Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Parity Obligations and Additional Bonds." The issuance of 2012A Bonds to pay the principal amount of all of the Series 2010 Bonds is an assumption of the 2011 Strategic Plan. The principal amount of additional Series of Bonds and other financing instruments to be subsequently issued by Authority and the timing of any such issuance(s) will be determined by the Authority based on a variety of factors, which are discussed under "PLAN OF FINANCE—Future Financing Plans."

## RISK FACTORS

### *Economic Conditions in the County and the State*

The Series 2012 Bonds are secured by a pledge of Sales Tax Revenues which revenues consist of the Sales Tax collections less the BOE Fees. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS." The amount of Sales Tax Revenues at any time is dependent upon the

level of retail sales within the County, which level of retail sales is, in turn, dependent upon the level of economic activity in the County and in the State generally.

As a result, any substantial deterioration in the level of economic activity within the County or in the State could have a material adverse impact upon the amount of Sales Tax Revenues and therefore upon the ability of the Authority to pay principal of and interest on the Series 2012 Bonds. For certain information relating to economic conditions within the County see APPENDIX B—"GENERAL COUNTY OF CONTRA COSTA DEMOGRAPHIC AND ECONOMIC INFORMATION" which is the most current information available from the sources cited therein; however, the information in APPENDIX B has not been updated to reflect the most recent economic conditions which may exist in the County.

The economy of the County was in a recession as evidenced by a decrease in Sales Tax Revenues during fiscal years 2008, 2009 and 2010, an increased unemployment rate, a decrease in total personal income and taxable sales, a drop in residential and commercial building permits, a decline in the rate of home sales and the median price of single-family homes and condominiums, an increase in notices of default on mortgage loans secured by homes and condominiums and an increase in foreclosures resulting from such defaults. The recent domestic and international recession and financial crisis had, and may continue to have, significant negative repercussions upon the County, State, national and global economies, including reduced revenues for government, increased unemployment, lack of confidence in the financial sector, volatility in the financial markets, reduced business activity, increased consumer bankruptcies and increased business failures and bankruptcies. Furthermore, as with other states, the State has had to address significant budget deficits by, in part, reducing payments to local governments, including those in the County, and to individuals eligible for various forms of governmental assistance, including residents of the County.

The Authority has significant holdings in a broad range of investments. Market fluctuations have affected and will continue to affect materially the value of those investments and those fluctuations may be and historically have been material. The market disruptions have exacerbated the market fluctuations, but as a result of stable investments in government securities, the Authority's portfolio has not suffered any major losses with respect to the principal amount of funds invested. The Authority has experienced a reduction in interest income on such investments as a result of current market conditions.

***Access to Capital Markets to Pay Purchase Price on Initial Tender Date***

The Series 2012A Bonds are subject to mandatory tender for purchase on the Initial Tender Date, as discussed under "THE SERIES 2012 BONDS—SERIES 2012A BONDS—Mandatory Tender For Purchase."

The Authority expects funds to be made available to purchase Series 2012A Bonds tendered for purchase on the Initial Tender Date by appointing a remarketing agent to remarket the tendered Series 2012A Bonds and having the proceeds of such remarketing applied pay the Purchase Price of such tendered Series 2012A Bonds. The Authority intends to enter into a remarketing agreement with a remarketing agent that will require the remarketing agent to use its best efforts to find purchasers for such tendered Series 2012A Bonds to provide funds to pay the Purchase Price thereof. However, it is possible that the remarketing agent will be unable to find purchasers for such tendered bonds. In the event the Series 2012A Bonds are not remarketed, converted to another Mode or redeemed on the Initial Tender Date, none of the Series 2012A Bonds will be purchased and the Series 2012A Bonds will enter a Delayed Remarketing Period and will accrue interest at the Delayed Remarketing Rate. A failure to remarket the Series 2012A Bonds on the Initial Tender Date is not an Event of Default under the

Indenture. There is no assurance that Sales Tax Revenues will be sufficient to pay the Purchase Price of the Series 2012A Bonds on the Initial Tender Date.

***Secondary Market***

There can be no guarantee that there will be a secondary market for the Series 2012 Bonds or, if a secondary market exists, that such Series 2012 Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

***No Liquidity Facility During Initial Mode***

The Series 2012A Bonds are subject for mandatory tender for purchase on the Initial Tender Date. There is no liquidity facility or credit facility being provided for the mandatory purchase of the Series 2012A Bonds on the Initial Tender Date, and the Authority does not presently intend to provide any such liquidity facility or credit facility.

***The 2009 Swap***

The Authority entered into the 2009 Swap on September 18, 2009. See "PLAN OF FINANCE—The 2009 Swap" for a description of the terms of the 2009 Swap. Under the 2009 Swap, the Authority is required to make payments to BANA based on a fixed rate of 3.6574% and BANA is required to make floating payments to the Authority calculated as the sum of (i) 63.5% of the London Interbank Offered Rate and (ii) 0.299%, in each case on the notional amount of the 2009 Swap amortizing to March 1, 2034. The terms of the 2009 Swap may be amended, as described in "PLAN OF FINANCE—The 2009 Swap." Payments on the 2009 Swap began on September 23, 2009, and the termination date of the 2009 Swap is March 1, 2034. The amortization of the Series 2012A Bonds is expected to match the amortization of the notional amount of the 2009 Swap. The purpose of the 2009 Swap is generally to convert, in effect, the Authority's obligation to pay variable interest rates on the Series 2012A Bonds to a fixed rate obligation. Pursuant to the Indenture, the regularly scheduled payments by the Authority on the 2009 Swap constitute Parity Obligations that are secured by a pledge of and lien on Revenues on a parity with the pledge of Revenues that secures the repayment of the Series 2012 Bonds. All other Authority payments with respect to the 2009 Swap, including termination payments and other fees and expenses, constitute Fee and Expense Obligations and are secured on a basis subordinate to payments on the Series 2012 Bonds and the regularly scheduled payments on the 2009 Swap. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 Bonds—Designation of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations" herein.

Under certain circumstances, the 2009 Swap is subject to termination prior to its scheduled termination date and prior to the maturity of the Series 2012 Bonds. In the event of an early termination of the 2009 Swap, there can be no assurance that (i) the Authority will have sufficient amounts to pay any termination payment payable by it to BANA, (ii) the Authority will receive any termination payment payable to it by BANA or (iii) the Authority will be able to obtain a replacement swap agreement with comparable terms. Payments due upon early termination may be substantial.

The agreement by BANA to pay certain amounts to the Authority pursuant to the 2009 Swap will not alter or affect the Authority's obligations to pay the principal of or interest on the Series 2012 Bonds. BANA will have no obligation to make any payments with respect to the principal of or interest on the Series 2012 Bonds. Neither the Holders of the Series 2012 Bonds nor any other person other than the

Authority will have any rights under the 2009 Swap or against BANA. See "—Risk Factors Related to Swaps" below.

***Risk Factors Related to Swaps***

Pursuant to the Indenture, the Authority may enter into other interest rate swaps or hedge agreements that may be secured by a pledge of Revenues similar to the 2009 Swap. Any interest rate swap or other hedge agreement, including the 2009 Swap, to which the Authority is or may be a party may, at any time, have a negative value to the Authority. The Authority does not expect any automatic termination events under the 2009 Swap, but expects there will be various events that will give the Authority and BANA the right to terminate the 2009 Swap. Other swaps or hedge agreements entered into by the Authority may have early termination rights for the Authority and the counterparty or counterparties. If either a swap or other hedge counterparty or the Authority terminates such an agreement when the agreement has a negative value to the Authority, the Authority would generally be obligated to make a termination payment to the counterparty or counterparties in the amount of such negative value, and such payment could be substantial. A termination payment on the 2009 Swap is secured, and on any other interest rate swap agreements could be secured, as a Fee and Expense Obligation, as described under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 BONDS—Fee and Expense Obligations" herein. An early termination of the 2009 Swap could reduce the amount of funds available to the Authority to pay the principal of and interest due on the Series 2012 Bonds. A counterparty may generally only terminate such an agreement upon the occurrence of defined events of default and termination events including without limitation nonpayment by the Authority or in the event a rating agency withdraws or downgrades its rating of the Authority below specified levels.

In addition, if certain events occur, the Authority expects it will be required to deliver collateral under the 2009 Swap and may be required to deliver collateral to secure the amount that would be owed to a counterparty under any interest rate swap or other hedge agreement, and the amount of collateral required to be delivered could be substantial. For a discussion of the terms of the 2009 Swap requiring the Authority to post collateral, see "PLAN OF FINANCE—The 2009 Swap" herein. A required posting of collateral could reduce the amount of funds available to the Authority to pay the principal of and interest due on the Series 2012 Bonds. Any Sales Tax Revenues used to post such collateral are no longer subject to the pledge of the Indenture. If the Authority were unable to secure its obligations under the 2009 Swap with required collateral, the Authority expects that, pursuant to the 2009 Swap, BANA will have the right to terminate the 2009 Swap, and the Authority could be required to make a termination payment to BANA, the amount of which could be substantial.

***The Sales Tax***

With limited exceptions, the Sales Tax is imposed upon the same transactions and items subject to the Statewide Sales Taxes by the State. The State Legislature or the voters within the State, through the initiative process, could change or limit the transactions and items upon which the Statewide Sales Tax and the Sales Tax are imposed. Such changes or amendments could have either an adverse or beneficial impact on the Sales Tax Revenues. The Authority is not currently aware of any proposed legislative change which would have a material adverse effect on Sales Tax Revenues. See also "—Proposition 218" below. For a further description of the Sales Tax, see "THE SALES TAX."

***State and Local Sales Tax***

The Sales Tax is in addition to the existing 7.25% State Sales Tax (which will increase by ¼% on January 1, 2013 through 2016). There could be additional increases in the State Sales Tax which could

have an adverse effect on purchases subject to the Sales Tax and result in a reduction in the Sales Tax Revenues.

***Effect of Internet Commerce***

Legislation enacted as part of the State 2011 Budget Act changed the definition of "nexus" for internet retailers so as to expand the State's ability to collect the Statewide Sales Tax from sales of goods over the internet; this measure was expected to increase Statewide Sales Tax revenues by about $200 million in fiscal year 2011-12. However, this measure was never implemented by the State because a major internet retailer (Amazon Inc.), started a process to overturn this law by placing a referendum on the June 2012 statewide ballot. A compromise was reached which was signed into law by the Governor of the State on September 23, 2011 ("AB 155"). Under AB 155, the implementation of the expanded Statewide Sales Tax on internet sales was delayed until either September 15, 2012, or January 1, 2013, depending on the status of federal and state legislation. The Authority is unable to predict the impact of AB 155 on its Sales Tax Revenues.

The increasing use of the internet to conduct electronic commerce may adversely impact Sales Tax Revenues. To the extent that transactions otherwise subject to the retail transactions and use tax imposed by the 2004 Ordinance avoid the imposition of sales and use tax because they constitute sales over the internet that are not subject to such tax, the Sales Tax Revenues may be negatively impacted. There can be no assurance that internet sales will not adversely impact the amount of Sales Tax Revenues available to meet the obligations of the Series 2012 Bonds.

***Proposition 218***

On November 5, 1996, voters in the State approved an initiative known as the Right to Vote on Taxes Act ("Proposition 218"). Proposition 218 added Articles XIIIC and XIIID to the California Constitution. Article XIIIC 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 by a local government, which is defined to include local or regional governmental agencies such as the Authority. More than two-thirds of the voters approved Measure J in 2004, the continuation of half percent countywide sales tax to March 31, 2034, as required by Article XIIIC. Article XIIIC also removes limitations that may have applied to the voter initiative power with regard to reducing or repealing previously authorized taxes. In the opinion of the Authority, however, any attempt by the voters to use the initiative provisions under Proposition 218 to rescind or reduce the levy and collection of the Measure J Sales Tax in a manner which would prevent the payment of debt service on the Series 2012 Bonds would violate the Impairment Clause of the United States Constitution and, accordingly, would be precluded. The interpretation and application of Proposition 218 to the Sales Tax has not been the subject of any court decision.

***Further Initiatives***

Proposition 218 was adopted as a measure that qualified for the ballot pursuant to California's initiative process. From time to time, other initiative or measures could be adopted, which may affect the Authority's ability to levy and collect the Sales Tax.

***No Acceleration Provision***

The Indenture does not contain a provision allowing for the acceleration of the Series 2012 Bonds in the event of a default in the payment of principal and interest on, or Purchase Price of, the Series 2012 Bonds when due. In the event of a default by the Authority, each Holder of a Series 2012 Bonds will

have the right to exercise the remedies, subject to the limitations thereon, set forth in the Indenture. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Events of Default and Remedies—Application of Revenues and Other Funds After Default; No Acceleration."

***Loss of Tax Exemption***

As discussed under "TAX MATTERS," interest on the Series 2012 Bonds could become includable in federal gross income, possibly from the date of issuance of the Series 2012 Bonds, as a result of acts or omissions of the Authority subsequent to the issuance of the Series 2012 Bonds. Should interest become includable in federal gross income, the Series 2012 Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity. Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2012 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners of the Series 2012 Bonds from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Series 2012 Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Series 2012 Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2012 Bonds.

Prospective purchasers of the Series 2012 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

***Impact of Bankruptcy of the Authority***

California law authorizes a Chapter 9 bankruptcy filing by a municipality, under certain circumstances. The Authority would likely qualify as a municipality and be eligible for Chapter 9 proceedings, if necessary. The Authority has no plans to initiate bankruptcy. However, if the Authority did so, post-filing Sales Tax Revenues would be subject to the lien of the Indenture if a bankruptcy court determines that the Sales Tax Revenues are "special revenues" under Bankruptcy Code § 902(2) ("Special Revenues").

The results of Chapter 9 proceedings are difficult to predict. The fact that a portion of the Sales Tax was earmarked to finance the projects described in the Contra Costa County Transportation Expenditure Plan (the "Project") would support a determination that the Sales Tax Revenues constitute Special Revenues. However, if a bankruptcy court concludes that the Sales Tax is a general sales tax levied to finance the general purposes of the Authority as well as the Project, the court could rule that the Sales Tax Revenues do not constitute Special Revenues. If a bankruptcy court rules that the Sales Tax Revenues constitute Special Revenues, the court could further rule that the pledge is subordinate to the payment of necessary operating expenses of the Project. In order to make such a ruling, however, the court must first determine that the Sales Tax Revenues are "derived from" the Project. Such a determination does not appear to be supported by the facts and would involve the court holding that an indirect nexus is sufficient to find that sales taxes specifically levied to finance a transportation project are "derived from" the transportation system.

If the bankruptcy court did not determine the Sales Tax Revenues to be "Special Revenues," the Series 2012 Bonds would be treated as general unsecured claims against the Authority with no recourse to

any of the Authority's specific assets except to the extent of Sales Tax Revenues received prior to the bankruptcy filing. During a bankruptcy proceeding, alterations to the terms and the security of the Series 2012 Bonds (including terminating the direct transfer of Sales Tax Revenues from the Board of Equalization to the Trustee) could be made. A filing by the Authority under Chapter 9 may adversely affect the marketability and value of the Series 2012 Bonds, and have other possible consequences, which could result in losses for the Series 2012 Holders.

## FINANCIAL STATEMENTS

The financial statements of the Authority for the Fiscal Year ended June 30, 2012, included in APPENDIX A of this Official Statement have been audited by Macias, Gini, O'Connoll LLP ("MGO"), independent auditors, as stated in their report therein. The governing board of the Authority has not yet accepted these financial statements but is scheduled to do so at its December 16, 2012 meeting. MGO was not requested to consent to the inclusion of its report in APPENDIX A, nor has it 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 MGO with respect to any event subsequent to the date of its report. The Authority represents that there has been no material adverse change in its financial position since June 30, 2012. For more recent financial information with respect to the collection of Sales Tax Revenues, see "THE SALES TAX—Historical Sales Tax Revenues" herein.

## INVESTMENTS AND INVESTMENT POLICY

All funds of the Authority are invested in accordance with the investment policy adopted by the Authority on June 20, 2012 (the "Investment Policy") and the provisions of the Government Code of the State of California which regulate the investment of public funds. A copy of the investment policy of the Authority is available upon request to the Authority's Chief Financial Officer.

All amounts held under the Indenture are invested at the direction of the Authority, but only in Investment Securities, as defined in the Indenture, and are subject to certain limitations contained in the Indenture. See APPENDIX C—"SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE—Definitions" and "—Investment in Funds and Accounts."

## ABSENCE OF MATERIAL LITIGATION

There is not now pending or, to the knowledge of the Authority, threatened, any litigation restraining or enjoining the issuance or delivery of the Series 2012 Bonds or questioning or affecting the validity of the Series 2012 Bonds or the proceedings and authority under which they are to be issued or the levy, collection and pledge of Sales Tax Revenues. Neither the creation, organization or existence of the Authority, nor the title of the present members of the Authority to their respective offices, is being contested.

## TAX MATTERS

### *General*

In the opinion of Best Best & Krieger LLP, Bond Counsel to the Authority ("Bond Counsel"), based on existing statutes, regulations, rulings and court decisions, interest on the Series 2012 Bonds is excludable from gross income for federal income tax purposes and is exempt from State of California personal income taxes. Copies of the proposed forms of opinions of Bond Counsel are set forth in APPENDIX E hereto.

The Internal Revenue Code of 1986 (the "Code"), imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2012 Bonds. The Authority has covenanted to comply with certain restrictions designed to assure that interest on the Series 2012 Bonds will not be includable in federal gross income. Failure to comply with these covenants may result in interest on the Series 2012 Bonds being includable in federal gross income, possibly from the date of issuance of the Series 2012 Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 2012 Bonds may affect the value of, or the tax status of interest on the Series 2012 Bonds. Further, no assurance can be given that pending or future legislation or amendments to the Code, will not adversely affect the value of, or the tax status of interest on, the Series 2012 Bonds. Prospective owners are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Bond Counsel is further of the opinion that interest on the Series 2012 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. Bond Counsel observes, however, that interest on the Series 2012 Bonds is included in adjusted current earnings in calculating corporate alternative minimum taxable income.

Prospective purchasers of the Series 2012 Bonds should be aware that (i) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest with respect to the Series 2012 Bonds, (ii) interest with respect to the Series 2012 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iii) passive investment income, including interest with respect to the Series 2012 Bonds, may be subject to federal income taxation under Section 1375 of the Code for subchapter S corporations having subchapter C earnings and profits at the close of the taxable year and gross receipts more than 25% of which constitute passive investment income, and (iv) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Series 2012 Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Series 2012 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Series 2012 Bond is sold is greater than the amount payable at maturity thereof, then the excess of the tax basis of a purchaser of such Series 2012 Bond (other than a purchaser who holds such Series 2012 Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Series 2012 Bond constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes.

Under the Code, original issue discount is excludable from gross income for federal income tax purposes to the same extent as interest on the Series 2012 Bonds. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each such Series 2012 Bond and the basis of such Series 2012 Bond acquired at such initial offering price by an initial purchaser of each such Series 2012 Bond will be increased by the amount of such accrued discount. The Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of such Series 2012 Bonds who purchase such Series 2012 Bonds after the initial offering of a substantial amount thereof. Holders who do not purchase such Series 2012 Bonds in the initial offering at the initial offering prices should consult their own tax advisors with respect to the tax consequences of ownership of such Series 2012 Bonds. All holders of such Series 2012 Bonds should consult their own tax advisors with respect to the allowance of a deduction for any loss on a sale or other disposition to the extent that calculation of such loss is based on accrued original issue discount.

Under the Code, original issue premium is amortized for federal income tax purposes over the term of such a Series 2012 Bond based on the purchaser's yield to maturity in such Series 2012 Bonds, except that in the case of such a Series 2012 Bond callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Series 2012 Bond. A purchaser of such a Series 2012 Bond is required to decrease his or her adjusted basis in such Series 2012 Bond by the amount of Series 2012 Bond premium attributable to each taxable year in which such purchaser holds such Series 2012 Bond. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of such Series 2012 Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of such a Series 2012 Bond, and with respect to the state and local tax consequences of owning and disposing of such a Series 2012 Bond.

Certain agreements, requirements and procedures contained or referred to in the Indenture and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in those documents, upon the advice or with the approving opinion of nationally recognized bond counsel. Bond Counsel expresses no opinion as to the effect on any Series 2012 Bond or the interest payable with respect thereto if any change occurs or action is taken or omitted upon the advice or approval of counsel other than Bond Counsel.

Although Bond Counsel has rendered an opinion that interest on the Series 2012 Bonds is excludable from federal gross income, and is exempt from State of California personal income taxes, the ownership or disposition of the Series 2012 Bonds, and the accrual or receipt of interest on the Series 2012 Bonds may otherwise affect an Holder's state or federal tax liability. The nature and extent of these other tax consequences will depend upon each Holder's particular tax status and the Holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future rulings, court decisions, legislative proposals, if enacted into law, or clarification of the Code may cause interest on the Series 2012 Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Holders from realizing the full current benefit of the tax status of such interest. There can be no assurance that such future rulings, court decisions, legislative proposals, if enacted into law, or clarification of the Code enacted or proposed after the date of issuance of the Series 2012 Bonds will not have an adverse effect on the tax exempt status or market price of the Series 2012 Bonds.

### *Internal Revenue Service Audit of Tax-Exempt Issues*

The Internal Revenue Service ("IRS") has initiated an expanded program for the auditing of tax-exempt issues, including both random and targeted audits. It is possible that the Series 2012 Bonds will be selected for audit by the IRS. It is also possible that the market value of the Series 2012 Bonds might be affected as a result of such an audit of the Series 2012 Bonds (or by an audit of similar obligations).

### *Information Reporting and Backup Withholding*

Information reporting requirements apply to interest (including original issue discount) paid after March 31, 2007 on tax-exempt obligations, including the Series 2012 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If a Holder purchasing a Series 2012 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2012 Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the Holder's federal income tax once the required information is furnished to the Internal Revenue Service.

## LEGAL MATTERS

The validity of the Series 2012 Bonds and certain other legal matters are subject to the approving opinion of Best Best & Krieger LLP, Bond Counsel to the Authority. Complete copies of the proposed forms of Bond Counsel opinions are contained in Appendix E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority by the counsel for the Authority, Best Best and Krieger LLP, and by Disclosure Counsel to the Authority, Squire Sanders (US) LLP. Certain legal matters will be passed upon for the Underwriters by their counsel, Nixon Peabody, LLP.

Squire Sanders (US) LLP has served as Disclosure Counsel to the Authority and in such capacity has advised the Authority concerning applicable securities laws and participated with responsible Authority officials and staff in conferences where information contained in this Official Statement was reviewed for accuracy and completeness. Disclosure Counsel is not responsible for the accuracy or completeness of the statements or information presented in this Official Statement or omitted therefrom and has not undertaken to independently verify any of such statements or information. No purchaser or holder of the Series 2012 Bonds, or anyone else other than the Authority, will be entitled to or may rely on the letter addressed to the Authority by Squire Sanders (US) LLP, as Disclosure Counsel to the Authority.

## RELATIONSHIP OF CERTAIN PARTIES

Merrill Lynch, Pierce, Fenner & Smith Incorporated is an underwriter for the Series 2012B Bonds. Bank of America, N.A. is the counterparty to the 2009 Swap. Merrill Lynch, Pierce, Fenner & Smith Incorporated and Bank of America, N.A. are affiliates and are indirect subsidiaries of Bank of America Corporation.

## RATINGS

Fitch Ratings ("Fitch") and Standard & Poor's Rating Services, a Division of The McGraw-Hill Companies ("S&P"), have assigned ratings of "AA+" and "AA+," respectively, to the Series 2012 Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch, One State Street Plaza, New York, New York, 10004; Standard & Poor's Ratings Services, 55 Water Street, New York, New York 10041.

The Authority furnished to the rating agencies certain information, including information not included herein. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance any such rating will continue for any given period of time or will not be revised downward or withdrawn entirely by a rating agency, if in the judgment of such rating agency, circumstances so warrant. The Authority undertakes no responsibility to oppose any such revision, suspension or withdrawal. Any such downward revision, suspension or withdrawal of the rating obtained, or other actions by a rating agency relating to its rating, may have an adverse effect on the market price and marketability of the Series 2012 Bonds.

The Authority expects to furnish to each rating agency such information and materials as it may request. The Authority, however, assumes no obligation to furnish requested information and materials, and may issue debt for which a rating is not requested. The failure to furnish requested information and materials, or the issuance of debt for which a rating is not requested, may result in the suspension or withdrawal of a rating on the Series 2012 Bonds. Any such downward revision or withdrawal of any of such ratings, or other actions by a rating agency, may have an adverse effect on the market price and marketability of such Series 2012 Bonds.

A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

## UNDERWRITING

Pursuant to the terms and conditions of the Series 2012A purchase contract (the "Series 2012A Purchase Contract") between RBC Capital Markets, LLC (the "Series 2012A Underwriter") and the Authority, the Series 2012A Underwriter has agreed to purchase the Series 2012A Bonds at an aggregate purchase price of $200,994,838.21(representing $201,450,000.00 aggregate principal amount of Series 2012A Bonds, less an underwriter's discount of $455,161.79). The Series 2012A Purchase Contract provides that the Series 2012A Underwriter will purchase all the Series 2012A Bonds if any are purchased.

Pursuant to the terms and conditions of the Series 2012B purchase contract (the "Series 2012B Purchase Contract") among Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith

Incorporated (the "Series 2012B Underwriters" and, together with the Series 2012A Underwriters, the "Underwriters") and the Authority, the Series 2012B Underwriters have agreed to purchase the Series 2012B Bonds at an aggregate purchase price of $225,742,815.49 (representing $188,770,000.00 aggregate principal amount of Series 2012B Bonds, plus a premium of $37,223,698.50, less an underwriters' discount of $250,883.01. The Series 2012B Purchase Contract provides that the Series 2012B Underwriters will purchase all the Series 2012B Bonds if any are purchased.

Citigroup Global Markets Inc. has entered into a retail brokerage joint venture. As part of the joint venture, Citigroup Global Markets Inc. will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Citigroup Global Markets Inc. will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with its respective allocations of the Series 2012B Bonds.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for Authority for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of Authority.

## CONTINUING DISCLOSURE

The Authority will enter into a Continuing Disclosure Agreement concurrently with the issuance of the Series 2012 Bonds pursuant to which it will file annually certain financial information and operating data related to the Authority and file notices of the occurrence of certain specified events, in both cases with the MSRB through its EMMA website. See APPENDIX F—"PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT." The Authority will enter into the Continuing Disclosure Agreement in order to assist the Underwriters in complying with SEC Rule 15c2-12. The Authority has never failed to comply in all material respects with any previous undertakings with regard to SEC Rule 15c2-12 to provide annual reports or notices of specified events.

## FINANCIAL ADVISOR

The Authority has retained Public Financial Management Inc., San Francisco, California, as financial advisor (the "Financial Advisor") in connection with the issuance of the Series 2012 Bonds. The Financial Advisor has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. Compensation paid to the Financial Advisor in connection with the issuance of the Series 2012 Bonds is contingent upon the issuance of the Series 2012 Bonds.

## MISCELLANEOUS

Any statement 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 Authority and the purchasers or Holders of any of the Series 2012 Bonds.

[*REMAINDER OF PAGE INTENTIONALLY LEFT BLANK*]

The preparation, execution and distribution of this Official Statement has been duly authorized by the Authority.

**CONTRA COSTA TRANSPORTATION AUTHORITY**

By:_____

Executive Director

# APPENDIX A

## AUTHORITY AUDITED FINANCIAL STATEMENTS FISCAL YEAR ENDED JUNE 30, 2012

(THIS PAGE INTENTIONALLY LEFT BLANK)

CONTRA COSTA TRANSPORTATION AUTHORITY
WALNUT CREEK, CA

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012

# CONTRA COSTA TRANSPORTATION AUTHORITY

## WALNUT CREEK, CA

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

## FOR THE YEAR ENDED JUNE 30, 2012

**Prepared by: Finance Department**

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**Comprehensive Annual Financial Report**
**For the Year Ended June 30, 2012**

## *Table of Contents*


***Introductory Section***

Letter of Transmittal ..... i

Board Members ..... vii

Organizational Chart ..... viii

***Financial Section***

Independent Auditor's Report ..... 1

Management's Discussion and Analysis ..... 3

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets ..... 18

Statement of Activities ..... 19

Fund Financial Statements:

Government Funds:

Balance Sheet ..... 22

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets ..... 23

Statement of Revenues, Expenditures, and Changes in Fund Balances ..... 24

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities ..... 25

Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual:

Measure J General Fund ..... 26

Measure J Local Streets and Roads Special Revenue Fund ..... 27

Measure C Special Revenue Fund ..... 28

***Table of Contents Continued***

Notes to Basic Financial Statements ..... 29

Other Supplementary Information:

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual:

Measure J Debt Service Fund ..... 57

Combining Financial Statements—Other Governmental Funds:

Combining Balance Sheet ..... 58

Combining Statement of Revenues, Expenditures and Changes in Fund Balances ..... 59

***Statistical Section***

Financial Trends:

Net Assets by Component – Last Ten Fiscal Years ..... 61

Changes in Net Assets – Last Ten Fiscal Years ..... 62

Changes in Fund Balances – Last Ten Fiscal Years ..... 63

Fund Balances of Governmental Funds ..... 65

Revenue Capacity:

Sales Tax Revenues – Last Ten Fiscal Years ..... 66

Taxable Sales by Type of Business – Contra Costa County ..... 67

Debt Capacity:

Outstanding Debt by Type – Last Ten Fiscal Years ..... 68

Economic and Demographic Information:

Demographics and Economic Statistics – Contra Costa County ..... 69

Top 25 Principal Employers – Contra Costa County ..... 70

Operating Information:

Authority Employees by Function ..... 71

# *Introductory Section*

CONTRA COSTA
transportation
authority

COMMISSIONERS

Don Tatzin, Chair

Janet Abelson,
Vice Chair

Genoveva Calloway

David Durant

Jim Frazier

Federal Glover

Dave Hudson

Karen Mitchoff

Julie Pierce

Karen Stepper

Robert Taylor

Randell H. Iwasaki,
Executive Director

November 16, 2012

To the Contra Costa County Taxpayers & Contra Costa Transportation Authority Board:

The Comprehensive Annual Financial Report for the Contra Costa Transportation Authority (the Authority) for the year ended June 30, 2012 is hereby submitted. Responsibility for both accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Authority. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The Authority was established in 1988 when Contra Costa voters passed Measure C which was a 20-year, one-half of one percent (½%) sales tax for specified transportation purposes. In 2004, based upon the success of Measure C, the voters of Contra Costa passed Measure J which extended the one-half of one percent countywide transportation sales tax through 2034.

The Authority's financial statements have been audited by the accounting firm Macias Gini & O'Connell LLP. The independent auditor concluded that the Authority's financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditor's report is presented as the first component of the Financial Section.

The Management's Discussion & Analysis (MD&A) provides a narrative introduction, overview and analysis to accompany the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A is found immediately following the independent auditor's report in the financial section.

This comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the Authority's organizational chart and a list of principal officials. The financial section includes the basic financial statements and the combining financial statements and schedules, the independent auditor's report on these financial statements and schedules, and the MD&A. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

*2999 Oak Road*
*Suite 100*
*Walnut Creek*
*CA 94597*
*PHONE: 925.256.4700*
*FAX: 925.256.4701*
*www.ccta.net*

## Internal Controls

The Authority's management is responsible for establishing and maintaining an internal control structure designed to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the calculation of costs and benefits requires estimates and judgments by management.

## Profile of the Authority

The Authority serves Contra Costa County and its nineteen cities and towns, located in the East Bay of the San Francisco Bay Area. The county covers approximately 733 square miles and has a population of 1.1 million people.

The Authority was established with the passage of Contra Costa's Measure C in November 1988. As required under the Local Transportation Authority and Improvement Act (SB 142, Chapter 786, Statues of 1987: §180000 et seq. of the Public Utilities Code), the expenditures by Measure C are "for the construction and improvement of state highways, the construction, maintenance, improvement, and operation of local streets, roads, and highways, and the construction, improvement, and operation of public transit systems", including paratransit services (California Public Utilities Code §180205) and for specific efforts supporting such investments.

In June 1990, the Authority was designated by the cities and towns in Contra Costa County and the County (collectively, the Members) as the Congestion Management Agency (CMA) for the County pursuant to provisions of Senate Constitutional Amendment 1, approved by the voters of the State, thereby being charged with the statutory obligation to carry out congestion management responsibilities for Contra Costa County.

In 2004, the voters extended the sales tax measure by passing Measure J which extended the one-half of one percent countywide from 2009 to 2034. Measure J built on the foundation established by Measure C, by providing needed transportation projects and programs throughout Contra Costa County.

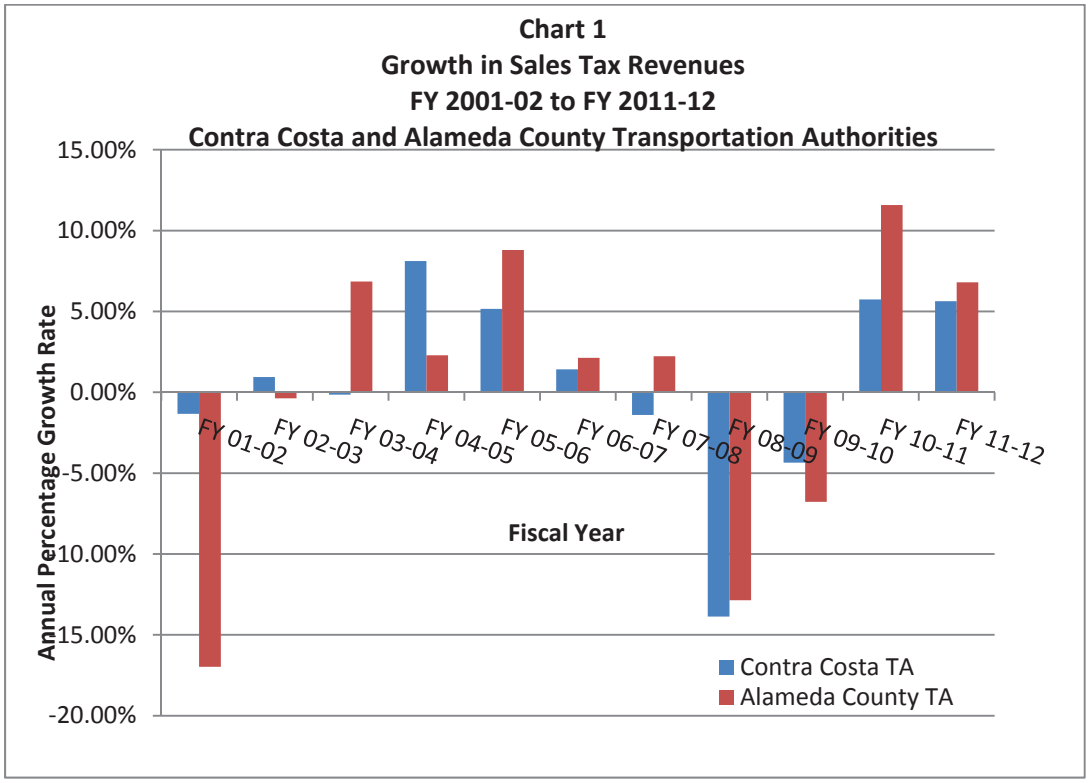
The Authority Board is comprised of eleven members: eight elected officials appointed by each of the four sub-regional transportation committees from central, east, southwest and west parts of the County; two elected County officials appointed by the Board of Supervisors representing the County; and one elected official appointed by the Contra Costa Conference of Mayors. The Executive Director of the Authority is appointed by the Authority Board and runs the day-to-day business.

## Economic Condition and Outlook

The local economy has started showing real signs of recovery, which is expected to continue through the coming year with improvements in consumer confidence and a reduction in the unemployment rate. This has resulted in consumers purchasing larger retail goods such as new automobiles, even with rising gas prices. Construction and heavy equipment has improved for the first time since the beginning of the recession, and home prices are beginning to climb again as Contra Costa was deeply impacted by the housing bubble. After seeing a 20% drop in sales tax revenues during fiscal years 2008 through 2010, the Authority has seen increases of 5.74% and 5.64% in fiscal year 2011 and 2012, respectively. The county is seeing positive trends, such as taxable sales captured from online purchases, which should help revenues. This is tempered by state, national and international economic issues that could reverse or stall some of the gains we have seen.

## Economic Base for Sales Tax Revenues

The economic base in Contra Costa is somewhat different than the sales tax base in adjacent Bay Area counties. Chart 1 illustrates the different growth rates in sales tax revenues in Contra Costa and Alameda counties over the past several years. The chart clearly shows the effect of the recession on sales tax revenues in both counties.




*Source: Authority audited financial statements and Alameda County Transportation Authority*

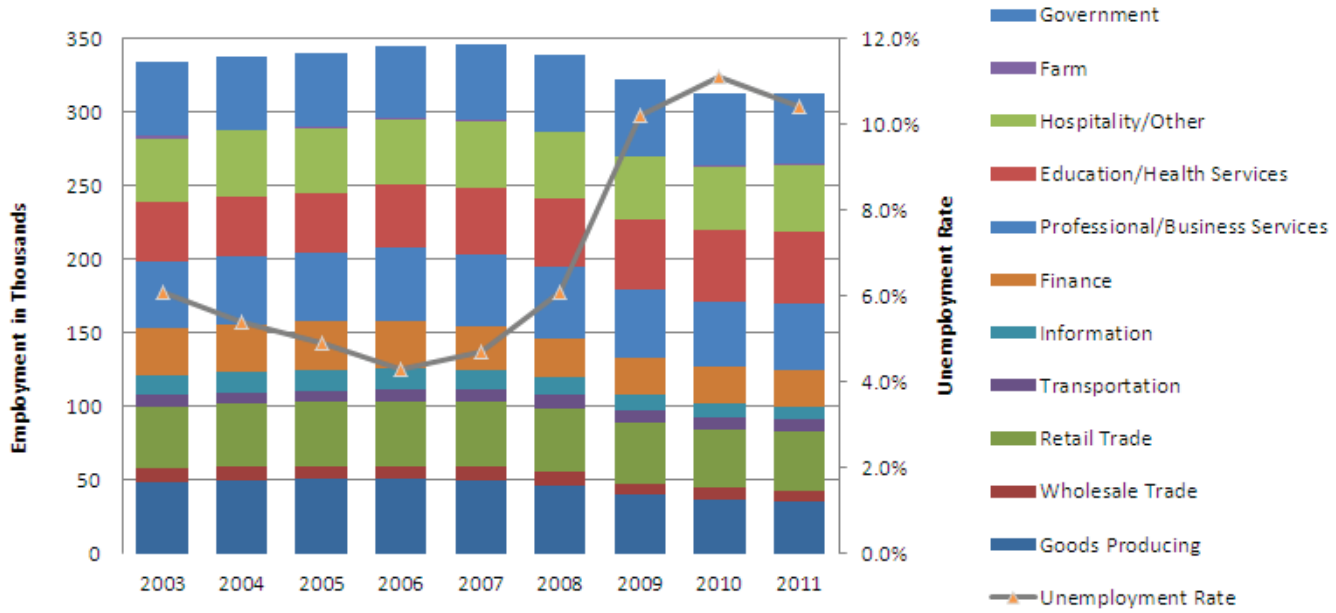
## Components of Taxable Transactions

Consumption-based retail sales are a dominant portion of the sales tax revenues that the Authority receives. For Contra Costa, retail sales were 73% of total taxable transactions in 2010 (the most recent data available) and continue to be the source of the majority of the Authority's sales tax revenue. In comparison, Alameda County's retail sales as a percentage of total taxable transactions was 62% of total sales tax revenues for 2010.

## Employment

Chart 2 shows the employment diversity in the county as of December 2011 (most recent data available). Unemployment remains high in the county at 10.4% in December 2011, but has decreased from 11.1% in the prior year. The region has lost 9.8% of its work force since the peak in December 2007, as goods producing and finance related sectors were hit hard with a housing market that has been saturated with foreclosed homes as developers delayed or pulled out of residential projects. Recent economic news suggests that housing has at least found a bottom and is seeing improvement. Local and county government agencies continue to lose jobs to balance budgets with reduced revenues from taxes and state funding.

**Chart 2**
**Contra Costa County**
**Employees Classified by Job Sector**
**& Unemployment Rate**
**2003 to 2011**




*Source: State of California – Employment Development Department*

## Long Range Financial Planning

The Authority updates the Measure C and Measure J Expenditure Plan by preparing Strategic Plans approximately every two years. The update provides the opportunity to review our plans and policies and amend them to respond to new or evolving issues. More specifically, the sales tax revenues update allows us to commit funding to specific projects and programs for a specified period of time (approximately 4 to 7 years). It also gives the Authority the ability to look long term and, if needed, allows us to make adjustments to projects and programs based sales tax revenue reductions or increases.

The Measure C Strategic Plan update was approved by the Authority Board in January 2012. Measure C stopped collecting sales tax receipts on March 31, 2009, and the majority of Measure C projects and programs are complete. There are several projects still underway, and this update committed funds to I-680 Corridor and State Route 4. The strategic plan also includes policies to wind down Measure C by fiscal year 2016 and maintains a $6 million reserve.

The Measure J Strategic Plan update was approved by the Authority Board in July 2011. The update dealt with lower sales tax revenues, forecasted to be 25% less over the Measure's twenty five year life, to $1.5 billion (in 2004 dollars). The Authority worked closely with its regional transportation planning committees and other stakeholders to prioritize projects and programs. One of the key elements of the update was the flexibility provided by the Authority, allowing each region to decide which projects and programs in their area would be affected by the reduced revenue.

The result of the work done by the Authority and the regional transportation planning committees kept projects moving forward. The tunneling of 3,400 feet of rock, mud, clay and sand is now complete in the Caldecott Tunnel Fourth Bore, which is expected to open to traffic in late 2013. The State Route 4 widening construction continues and has become more visible to commuters as concrete is poured and retaining walls erected. eBART work continues on the transfer platform and facilities in the median, and a groundbreaking ceremony is being planned for in the latter half of 2012.

## Acknowledgements

This is the first year the Authority has prepared the comprehensive annual financial report, made possible by the dedication of the finance staff. I would also like to thank all Authority staff, as without their efforts this report would not be possible. Credit must be given to the Authority Board and the Executive Director for their support and leadership. Finally, we thank the taxpayers of Contra Costa who have entrusted the Authority with the responsibility to provide improved transportation systems throughout the county.

Sincerely,

Randall O. Carlton
Chief Financial Officer

This Page Intentionally Left Blank

# CONTRA COSTA TRANSPORTATION AUTHORITY

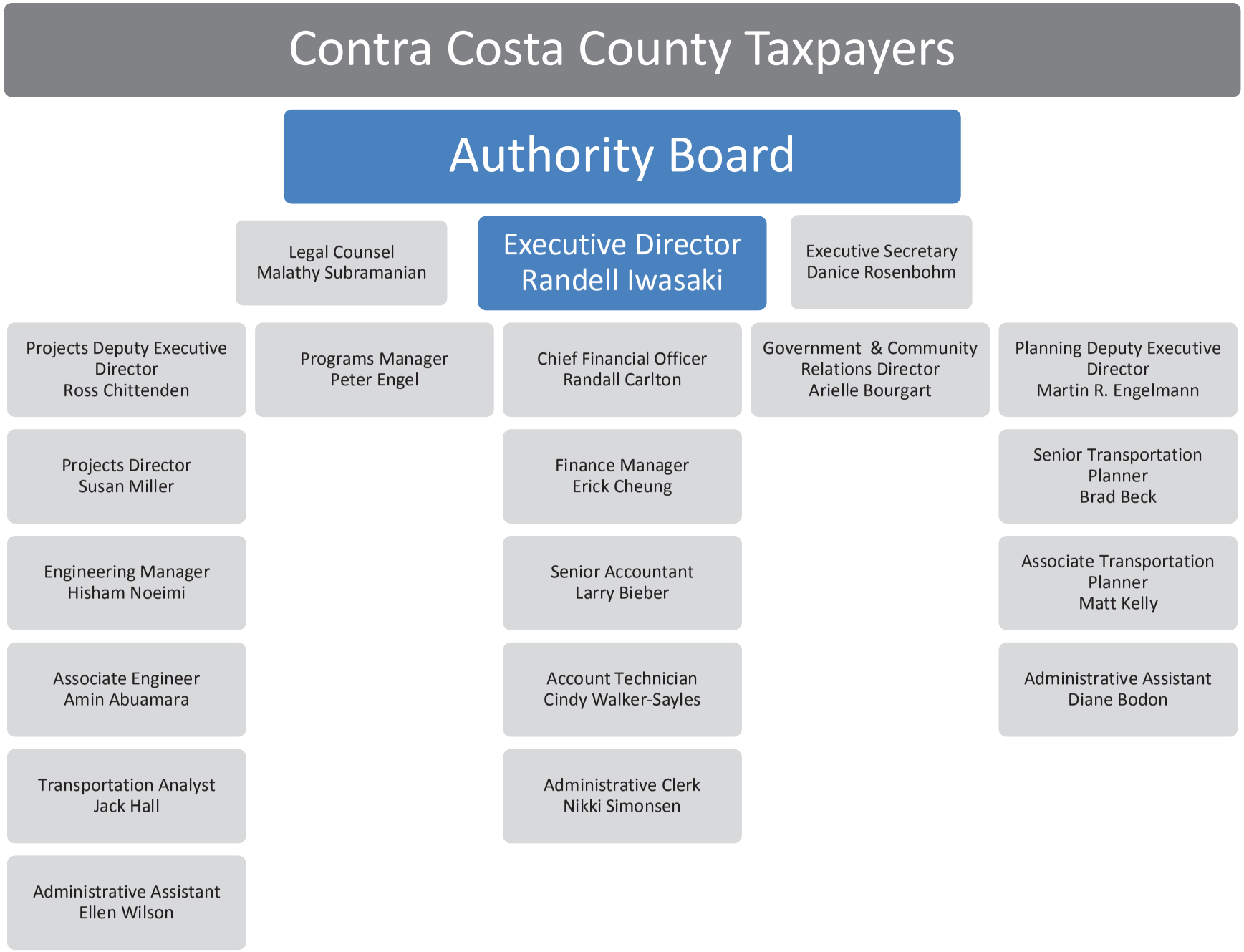
# BOARD MEMBERS

| COMMISSIONERS | NAMES | APPOINTED BY |
|---|---|---|
| BOARD CHAIR | DON TATZIN | SWAT |
| BOARD VICE CHAIR | JANET ABELSON | WCCTAC |
| COMMISSIONER | GENOVEVA CALLOWAY | WCCTAC |
| COMMISSIONER | DAVID DURANT | TRANSPAC |
| COMMISSIONER | JIM FRAZIER | TRANSPLAN |
| COMMISSIONER | FEDERAL GLOVER | BOARD OF SUPERVISORS |
| COMMISSIONER | DAVE HUDSON | CONFERENCE OF MAYORS |
| COMMISSIONER | KAREN MITCHOFF | BOARD OF SUPERVISORS |
| COMMISSOINER | JULIE PIERCE | TRANSPAC |
| COMMISSIONER | KAREN STEPPER | SWAT |
| COMMISSIONER | ROBERT TAYLOR | TRANSPLAN |

| ALTERNATE COMMISSIONERS | NAMES | APPOINTED BY |
|---|---|---|
| COMMISSIONER | CANDACE ANDERSEN | BOARD OF SUPERVISORS |
| COMMISSIONER | NEWELL ARNERICH | CONFERENCE OF MAYORS |
| COMMISSIONER | JOHN GIOIA | BOARD OF SUPERVISORS |
| COMMISSIONER | BRIAN KALINOWSKI | TRANSPLAN |
| COMMISSIONER | KRISTINA LAWSON | TRANSPAC |
| COMMISSIONER | MIKE METCALF | SWAT |
| COMMISSOINER | MARY PIEPHO | BOARD OF SUPERVISORS |
| COMMISSIONER | KEVIN ROMICK | TRANSPLAN |
| COMMISSIONER | ROY SWEARINGEN | WCCTAC |
| COMMISSIONER | WILLIAM WILKINS | WCCTAC |
| COMMISSIONER | DAVE HUDSON | SWAT |

| EX-OFFICIOS | NAMES | APPOINTED BY |
|---|---|---|
| REPRESENTATIVE | AMY WORTH | MTC |
| REPRESENTATIVE | JOEL KELLER | BART |
| REPRESENTATIVE | BEN JOHNSON | PUBLIC TRANSIT BUS OPERATORS |

# CONTRA COSTA TRANSPORTATION AUTHORITY ORGANIZATION CHART



# *Financial Section*

MGO Certified Public Accountants.

Walnut Creek
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596
925.274.0190

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

To the Authority Board
Contra Costa Transportation Authority
Walnut Creek, California

**Independent Auditor's Report**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Contra Costa Transportation Authority (Authority), as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2012, and the respective changes in financial position thereof, and the respective budgetary comparisons for the Measure J General Fund, the Measure J Local Streets and Roads Special Revenue Fund, and the Measure C Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2012 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. The introductory section, the combining financial statements and other supplementary information, and the statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining financial statements and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 16, 2012

Contra Costa Transportation Authority's (Authority) Management Discussion and Analysis (MD&A) provides to the Authority Board, Administration & Projects Committee (which serves as the Authority's Audit Committee), interested parties and the public in general a readable summary and analysis of the financial performance for the fiscal year ended June 30, 2012. The MD&A should be read in conjunction with the Basic Financial Statements.

## Summary of Financial Highlights for the Fiscal Year Ended June 30, 2012

- The Authority-wide Financial Statements, the Statement of Net Assets and the Statement of Activities, show that liabilities exceeded the assets of the Authority by ($1.710) million as of June 30, 2012. The decrease is due to the Authority spending bond proceeds for projects as authorized in the Measure J Expenditure Plan. A major factor to consider when reviewing the Statement of Net Assets is that the Authority does not hold or retain title for the projects it constructs. The Authority enters into debt financing, which is used to accelerate projects for the benefit of Contra Costa residents and taxpayers. The reporting of this debt, without having a corresponding asset, results in a negative net asset position.

- No corresponding asset exists on the Authority's ledger for long-term debt. Other agencies, such as Caltrans, BART, Contra Costa County, or the cities within Contra Costa, hold title to the transportation assets built or improved by Measure C and Measure J financing. As of June 30, 2012, Measure C and Measure J had spent $837.203 million on transportation infrastructure improvements within Contra Costa, on assets that are owned by and shown on the financial statements of other public agencies. An additional $383.489 million to date has been expended by the Authority for Measure C and J programs (i.e. Local Street Maintenance and Improvement, Commute Alternatives, Bus Transit, and Paratransit).

- Total assets amount to $236.947 million, consisting primarily of cash and investments amounting to $205.924 million, receivables due from others amounting to $28.569 million, net Other Post Employment Benefits (OPEB) amounting to $0.813 million (see Note 9), and capital assets (net of depreciation) amounting to $0.728 million. Total assets decreased by $16.187 million from the prior year, due to drawing down bond proceeds for Measure J project costs from $102.166 million to $77.045 million at June 30, 2012.

- Deferred outflows of resources amount to $58.828 million to reflect an effective hedge and offset the swap liability at the fair value of the swap at June 30, 2012.

- Liabilities totaled $297.485 million, consisting of accounts payable, accrued employee benefits, derivative instruments and long term debt. Liabilities increased $34.221 million due to the higher swap liability of $58.828 million, an increase of $32.729 million compared to the prior year.

- Sales tax revenues of $68.729 million were received for the fiscal year ended June 30, 2012, an increase of $3.668 million (5.6%) from the prior year as the economy continues to improve. New auto sales and construction and heavy equipment sectors saw improvement over the prior year as consumers are more comfortable about the economy. Sales tax revenues accounted for 76.2% of all revenues, $90.251 million, received by the Authority.

- Total expenses including interest on long-term debt were $107.930 million. In the fiscal year ended June 30, 2012, expenses on Programs and Projects amounted to $27.785 million and $65.403 million, respectively. This is an increase of $13.859 million from the prior year and is due mainly to higher transportation project costs related to eBART, Caldecott Tunnel and State Route 4 East Widening.

- The Authority's net assets decreased $17.679 million during the fiscal year ended June 30, 2012. The changes are due to increased project costs and the Authority not maintaining those assets as mentioned above.

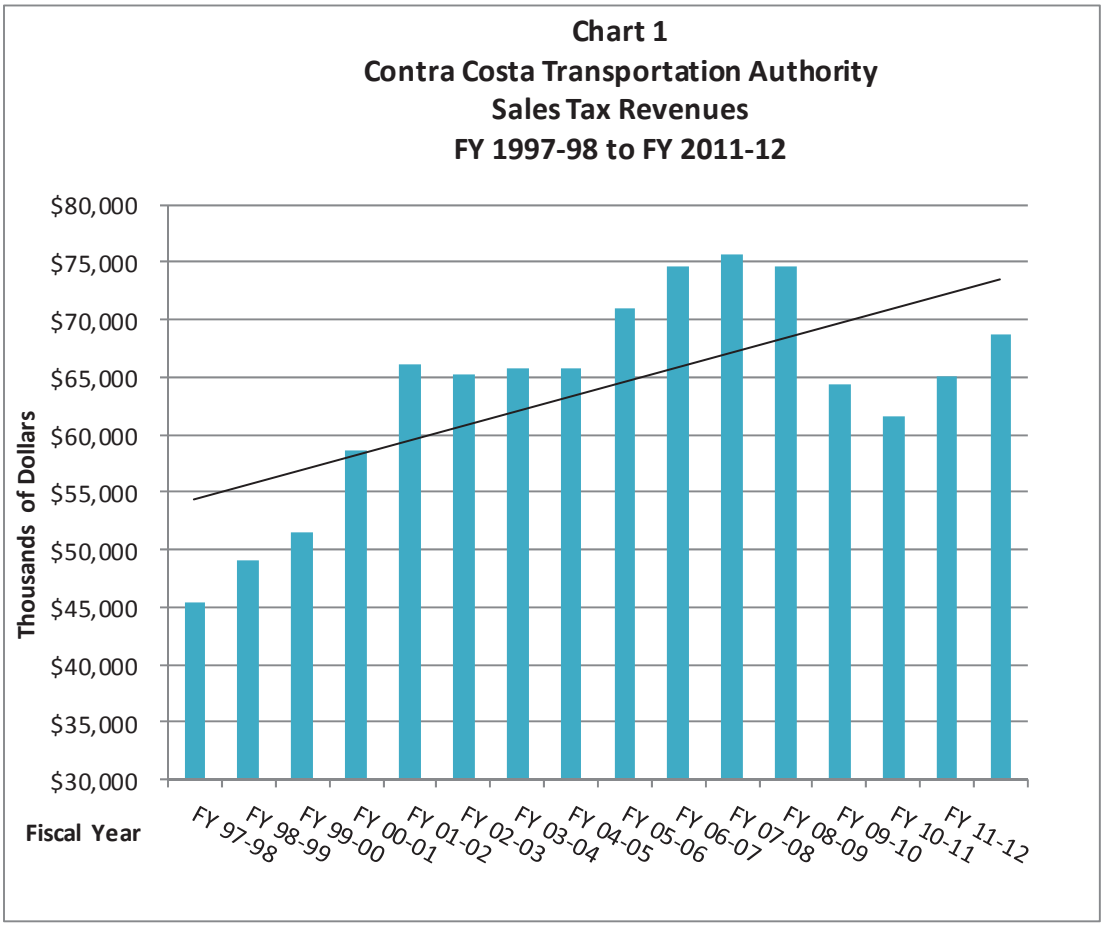
## Background and Supporting Information

**Organization.** The Contra Costa Transportation Authority ("Authority") is a government special district established under Division 19 of the California Public Utilities Code Section 180000 et seq., pursuant to Contra Costa Ordinance 88-01 (as amended by Ordinance 06-02). The Authority became effective in its current role following a ballot referendum approved by the voters of Contra Costa County on November 8, 1988. The referendum, Measure C, established a county-wide half-percent sales tax imposed effective April 1, 1989 remaining in effect through March 31, 2009. The Authority is responsible for carrying out the provisions of Measure C, the Expenditure Plan and the Growth Management Plan. On November 2, 2004, the voters in Contra Costa approved Measure J, extending the county-wide half-percent sales tax from April 1, 2009 (the end of the term of Measure C) through March 31, 2034. The Authority is also responsible for carrying out the provisions of Measure J, the Expenditure Plan and the Growth Management Plan.

The Authority is governed by a Board of 11 elected officials, two members appointed by the County Board of Supervisors, two members appointed by each of four subregional transportation areas, and one appointed by the Contra Costa County Conference of Mayors.

**Sales Tax Revenues.** The Authority relies primarily on the county-wide half-cent sales tax revenues for carrying out the provisions of Measure C and Measure J. Sales tax revenues in the fiscal year ended June 30, 2012 were $68.729 million, which represents 76.2% of all of the revenues received by the Authority. This is an increase of $3.668 million or 5.6% from the sales tax revenues received in Fiscal Year 2010-11. As the economy recovers, we saw improvement in two sectors: the first was construction and heavy equipment, which had not improved since the recession began; the other was new auto sales, which seems to represent an improvement in consumer confidence. Construction and heavy equipment and new auto sales received $9.785 million and $6.852 million, and increased $2.219 million (29.3%) and $1.016 million (17.4%), respectively.

Chart 1 shows the annual sales tax revenues received from Fiscal Year 1997-98 through Fiscal Year 2011-12.




Source: Authority audited financial statements

The county economy appears to be improving as revenues increased in all of the major sectors. The region saw increases in service station, retail, restaurant, grocery, and new auto sales. Also, Contra Costa saw an increase in the construction sector for the first time since the recession began. During the fiscal year ended June 30, 2012, sales tax receipts from retail and new auto sales increased $0.521 million (4.1%) and $1.016 million (17.4%), respectively, as consumers felt better about purchasing bigger ticket items. Service station revenues increased $0.604 million (8.2%) due to a combination of demand and price at the pump. Construction sectors increased $2.219 million (29.3%) from the prior year. The housing market appears to have found the bottom and is beginning to improve, however we are still 25% lower than in Fiscal Year 2007-08.

## Overview of the Financial Statements

The Authority's Financial Statements are organized in three parts:

1. The Management Discussion and Analysis,
2. The Basic Financial Statements, which include the Authority-wide and the Fund financial statements along with the Notes to these financial statements, and
3. Combining Statements for Non-major Governmental Funds

This report also contains other supplementary information in addition to the basic financial statements themselves.

*Authority-wide Financial Statements*

The Authority-wide financial statements are designed to provide a longer-term view of the Authority's financial position, using a full accrual accounting method similar to the model used in the private sector. A main difference for the Authority, as compared to other government entities, concerns the impacts of the volume of outstanding debt and the absence of Authority title to the transportation infrastructure assets constructed with that debt.

- The Statement of Net Assets provides a broader overview of the long-term assets and liabilities of the agency. The principal owed on the bonds issued by the Authority, over all of the years the principal is to be repaid, is reported in the current year statements as an unpaid liability.

- The Statement of Net Assets includes an element showing the value of depreciated capital equipment and infrastructure. For the Authority, this is a small number, since other agencies hold title to the transportation projects that the Authority funds.

- The resultant negative unrestricted net asset position is due to the Authority borrowing to construct projects on behalf of Contra Costa residents and taxpayers, transportation infrastructure assets that are owned by other public agencies.

Table 1 compares features of the government-wide financial statements and the traditional governmental fund accounting financial statements.

**Table 1**

Comparison of Qualities of the Government-Wide Financial Statements
Compared to Financial Statements Prepared Under Traditional Governmental Fund Accounting

| Quality | Government-Wide Financial Statements | Governmental Fund Accounting Financial Statements |
|---|---|---|
| Scope | Entire agency | Activities of the agency that are not proprietary or fiduciary |
| Required Statements | • Statement of Net Assets<br>• Statement of Activities<br><br>(government-wide) | • Balance Sheet<br>• Statement of Revenues, Expenditures, and Changes in Fund Balance<br>• Budgetary Comparison Statement<br><br>(for each individual fund) |
| Basis of Accounting, Measurement Focus | • Full accrual accounting,<br>• Economic resources focus | • Modified accrual accounting,<br>• Focus on current financial resources |

The **Statement of Net Assets** summarizes the Authority's assets and liabilities, with the difference reported as net assets. The Statement of Net Assets is designed to provide information about the financial position of the Authority as a whole, including all of its capital assets and long-term liabilities, on a full accrual basis of accounting similar to the accounting model used by private sector firms. Table 2 summarizes the net assets of governmental activities for the fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010.

**Table 2**
**Statement of Net Assets**
(In Thousands)
)vernmental Activities
the Fiscal Year Ended:

| | June 30, 2012 | June 30, 2011 | June 30, 2010 |
|---|---|---|---|
| ASSETS | | | |
| Cash and investments | $ 105,509 | $ 125,855 | $ 109,399 |
| Restricted cash and investments | 100,415 | 102,121 | 120,477 |
| Receivables | 28,569 | 22,407 | 15,658 |
| Net OPEB asset | 813 | 844 | 873 |
| Capital assets | 728 | 948 | 556 |
| Deferred charges | 913 | 959 | - |
| Total assets | 236,947 | 253,134 | 246,963 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Fair value of hedging derivatives | 58,828 | 26,099 | 33,612 |
| LIABILITIES | | | |
| Long-term debt | 200,990 | 200,990 | 200,000 |
| Other liabilities | 96,495 | 62,274 | 56,546 |
| Total liabilities | 297,485 | 263,264 | 256,546 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 728 | 948 | 556 |
| Total restricted net assets | 196,826 | 214,208 | 142,031 |
| Unrestricted net assets (deficit) | (199,264) | (199,187) | (118,558) |
| Total net assets (deficit) | $ (1,710) | $ 15,969 | $ 24,029 |

**Cash and Investments** at June 30, 2012 consists of investments in the State Local Agency Investment Fund of $106.786 million, U.S. Treasury Notes of $52.953 million, Federal Agency securities of $33.583 million, Corporate Notes of $6.956 million, California Asset Management Program of $1.501 million, Commercial Paper of $0.999 million, Money Market Mutual Funds of $0.475 million, and cash in the bank of $2.672 million. The Authority is required to put collateral funds in escrow when the fair market value of swap value exceeds $40.000 million. On June 30, 2012, the Authority had deposited $23.402 million in U.S. Treasury Notes but maintains the interest on those investments. (For additional details of the composition and categorization of cash and investments please see Note 3).

**Capital assets**. For the year ended June 30, 2012, the total capital asset value was $0.728 million. This includes $0.415 million in office leasehold improvements, $0.496 million in office equipment (including computers and furniture) and $0.416 million for the financial system, minus accumulated depreciation of $0.052 million for leasehold improvements, $0.262 million for office equipment and $0.285 million for financial system. Though working on a number of large transportation projects during the year, the Authority holds title to none of these capital assets. (For additional information please see Note 5).

**Deferred Outflows.** The hedging derivative amounted to $58.828 million to reflect an effective hedge and offsets the swap liability at the fair value of the swap at June 30, 2012 (For additional information please see Note 7).

**Long-term debt**. The Authority issued $200.990 million in 2010 Limited Tax Bonds to finance transportation projects and retire the 2009 Notes. (For additional information please see Note 7).

**Other liabilities** totaled $96.495 million, consisting of accounts payable, accrued employee benefits, deposits payable and derivative instrument liability. The Authority recorded the value of the interest rate swap at June 30, 2012 of $58.828 million, which increased from the prior year by $32.729 million. (For additional information please see Note 7).

The **Statement of Activities** presents information showing how the Authority's net assets have changed during the fiscal year. The Authority-wide financial statements give a report on the main functions of the Authority. The statement shows that these functions are principally supported by sales tax revenues, discussed in detail in a prior section of the MD&A.

Expenditures are categorized by the main Authority functions. These functions primarily include transportation projects, programs, and debt service. Revenues restricted to funding of specific Authority functions are considered program revenues. All other revenues are classified as general revenues, which may be used to finance all Authority functions. Sales tax revenues are included in the general revenues category, along with interest earnings on investments. Table 3 is the Statement of Activities, or the change in net assets of governmental activities, for the fiscal years ended June 30, 2012, June 30, 2011, and June 30, 2010.

**Table 3**
**Statement of Activities**
(In Thousands)
Governmental Activities
For the Fiscal Year Ended:

| | June 30, 2012 | June 30, 2011 | June 30, 2010 |
|---|---|---|---|
| Revenues | | | |
| General revenues | | | |
| Sales taxes | $ 68,729 | $ 65,061 | $ 61,527 |
| Other general revenues | 1,061 | 1,731 | 1,564 |
| Program revenues | | | |
| Operating grants and contributions | 2,819 | 3,298 | 4,315 |
| Capital grants | 17,642 | 15,921 | 10,051 |
| Total revenues | $ 90,251 | $ 86,011 | $ 77,457 |
| Expenses | | | |
| Administration | 1,768 | 1,533 | 1,560 |
| Project management | 718 | 659 | 697 |
| Programs | 27,785 | 26,437 | 25,975 |
| Transportation projects | 65,403 | 52,468 | 36,321 |
| Regional planning | 661 | 1,487 | 1,131 |
| Congestion management | 1,674 | 1,426 | 1,278 |
| Transportation demand management | 1,355 | 1,509 | 1,935 |
| Transportation planning land use solutions | 134 | 275 | 133 |
| Debt service interest and related fees | 8,432 | 8,277 | 19,682 |
| Total expenses | $ 107,930 | $ 94,071 | $ 88,712 |
| Change in Net Assets | (17,679) | (8,060) | (11,255) |
| Net Asset – Beginning | 15,969 | 24,029 | 35,284 |
| Net Asset - (Deficit) Ending | $ (1,710) | $ 15,969 | $ 24,029 |

The **Statement of Activities** provides information about the Authority's revenues and expenses on the full accrual basis, with an emphasis on measuring the net revenues or expenses for each of the Authority's main activities. The Statement explains the change in net assets for a given year. All of the Authority's activities are governmental type activities.

**Sales tax revenues** are the largest revenue source amounting to $65.729 million, up 5.6% from $65.061 million for the preceding year. Sales tax revenues are general revenues, available to all Authority purposes as defined in the Measure C and Measure J Expenditure Plans, and represent 76.2% of all Authority revenues for the year ended June 30, 2012. Investment earnings and other miscellaneous revenues are also general revenues.

**Investment income** was $1.050 million for the year ended June 30, 2012, which was a $0.624 million or 59.4% decrease from the year ended June 30, 2011. The Authority's cash and securities are invested in separate portfolios depending upon the objectives of the assets being managed. The $205.925 million of cash and securities included $77.012 million of bond proceeds from the 2010 Sales Tax Revenue Bonds for Measure J projects. The bond proceeds fund construction and construction related expenditures for project delivery. Another separate portfolio included $71.089 million of individual securities, such as U.S. Treasury Notes, Federal Agency Securities and other securities permitted by State law and the Authority's adopted Investment Policy. This portfolio is actively managed by PFM Asset Management, the Authority's independent investment advisor. The annualized total return for the 12 months ended June 30, 2012 was 1.15%. Total return is an industry standard method of measuring performance that includes income, realized and unrealized gains and losses. The total return of 1.15% was an increase 0.36% over the Authority's performance benchmark (Bank of America/Merrill Lynch 1 to 3 Year U.S. Treasury Index).

**Program revenues** represent $20.461 million or about 22.7% of total revenues, increased $1.242 million from last year. Capital grant revenues totaled $17.642 million, which included reimbursement from Regional Measure 2 (RM2) for $15.828 million for State Route 4 East project, and $0.924 million for the I-680 Carpool Lane Extension & Interchange Improvements. Over the last several fiscal years, the State Route 4 project received the majority of the grant reimbursements. The funding sources will vary as the Authority is reimbursed for different phases of the projects from design to construction, or draws on grants that have an earlier sunset date.

**Expenses**, including depreciation, are classified by function. A brief description of activity within each function is as follows:

- The **Administration** function includes tasks and costs related to the overall operation and management of the Authority. Office expenses including rents and leases, office supplies, and equipment, and general service contracts are also charged to the Administration category. Finally, capital assets acquisition and depreciation expense is adjusted to this category as assets consist mainly of the financial system and leasehold improvements. Administration expense was $1.768 million for fiscal year ended June 30, 2012, which is an increase of 15.5% from the prior year due mainly to the leasehold improvements and furniture being capitalized. Administrative salaries and benefits of $0.512 million are 0.75% of sales tax revenues in the year ended June 30, 2012, less than the 1% administrative limitation policy.

- **Project management** includes tasks and costs related to the oversight of Measure C and Measure J projects. Measure C projects include the widening of State Route 4 East, Rail Extension to Eastern Contra Costa, Regional Commuterway, and proposed improvements such as Norris Canyon along the I-680 corridor. Measure J projects include the State Route 4 East Widening, Capital Corridor Rail Station Improvements, East County Corridor and engineering work and bid support services on the Caldecott Tunnel Fourth Bore project. Project management for the fiscal year ended June 30, 2012 was $0.718 million, which is an increase of $0.059 million as staff costs were shifted back from congestion management as we were drawing down State Planning, Programming and Monitoring grant funds that were due to expire.

- **Programs** established in Measure C include expenses related to Local Street Maintenance and Improvement, Bus Transit, Paratransit, and Commute Alternatives. Measure J included these programs and created new ones to improve or expand needs in Contra Costa County. Express bus is a countywide program to transport commuters to and from residential areas to transit and employment centers. Measure J includes subregional programs to provide funds to certain regions of the county for Additional Local Street and Maintenance, Bus Transit Enhancements, Additional Paratransit, Safe Transportation for Children and Ferry Service.

  Overall program expenditures increased from the prior year from $26.437 million to $27.785 million. The increase is due to sales tax revenues improving over the prior year, which provides additional revenues to the various programs.

- **Transportation Projects** expenses include annual project expenses, right-of-way costs, construction contract costs, engineering design and management contract costs, and attorney's fees for Measure C and Measure J projects as authorized in the Strategic Plans. Transportation Project expenses are further categorized by Highways and Arterials, Transit, and Trail projects. Project costs totaled $65.403 million for the year ended June 30, 2012, which was $12.935 million more than the project costs for the year ended June 30, 2011. Project costs are discussed in detail at the fund level.

- The **Regional Planning** function includes tasks and costs related to implementation of the Growth Management Plan. This function also includes regional transportation planning activities, and the development and maintenance of the county-wide travel demand models. Regional Planning costs were $0.661 million for the year ended June 30, 2012, which decreased $0.826 million from the prior year due to costs associated with the vehicle registration fee ballot measure.

- **Congestion Managemen**t includes activities related to the mandated Congestion Management Plan (CMP), such as monitoring of compliance with established standards. The cost of assisting local jurisdictions with funding applications for state and federal funds is also charged to this organizational unit. Congestion Management costs were $1.674 million, an increase of $0.248 million from the prior year as we began to incur costs related to a new real time ride sharing program, and the first phase of the safe routes to school program which began at the end of the last fiscal year was nearly complete.

- **Transportation Demand Management** spent $1.355 million for ridesharing and the implementation of other trip reduction strategies such as the carpool and vanpool incentive programs and the guaranteed ride home program.

- **Transportation Planning Land Use Solutions** is a program that provides funding to assist local jurisdictions in developing long-range plans for Transportation Oriented Development projects. The program is funded by MTC through CMAQ/STP funds. Expenditures for this program were $0.134 million, primarily for ongoing work related to the Sustainable Communities Strategy.

- **Debt Service** is another category of expenses. Since the Statement of Activities is on a full accrual basis, only interest costs and related fees are shown in the statements. The principal repayment is not shown as an expenditure line item. On September 30, 2010, the Authority issued $200.990 million in 2010 Bonds to repay the 2009 Notes and project funding. As of June 30, 2012, the Authority incurred interest expense and bond amortization costs of $8.432 million.

The **Change in Net Assets** figure is the revenues minus the expenses. During the year ended June 30, 2012, the Authority realized a decrease in Net Assets of $17.679 million. The changes are due to increased project costs related to eBART, State Route 4 and Caldecott Tunnel.

*Fund Financial Statements*

**Governmental Funds.** The Authority's General Ledger is maintained on a standard government fund accounting, modified accrual basis. This basis is required to ensure compliance with finance-related legal standards. The perspective of fund-based financial statements is narrower than Authority-wide statements, with a focus on spendable assets and short-term liabilities rather than on cash flows in future years. The focus of these fund statements is now on major funds. Measure J is the operating fund for the Authority and is the General Fund. Measure C is a Special Revenue Fund to track remaining projects and planning activities. The General Fund is always a major fund. The Measure C Special Revenue Fund, Measure C and J Streets and Roads Special Revenue Funds and the 2010 Measure J Debt Service Fund are also Major Funds. Budget comparison statements are also presented for the General Fund and the major Special Revenue Funds. Discussion of the Major Fund Statements is as follows:

Measure J Fund General Fund

General Fund's ending **fund balance** was $55.501 million as of June 30, 2012, which represents an increase of $15.476 million for the year. The increase is due to transfers from the 2010 Measure J Debt Service Funds to reimburse project costs.

**Sales tax revenues** were $50.797 million in the fiscal year ended June 30, 2012 which was above budget by $0.538 million. Measure J saw an increase in sales tax receipts this fiscal year, which is discussed in detail at the beginning of this MD&A.

**Grant revenues** were $14.729 million in federal, state and local grant funds, which was above the prior year amount of $6.977 million. The Authority received $11.608 million in Regional Measure 2 (RM2) funds for State Route 4 East Widening right-of-way and utility relocation. Measure J was below budget by $17.471 million due to Regional Measure 2 (RM2) funds of $8.900 million for State Route 4 East Widening utility relocation and construction costs not yet incurred, and $5.947 million of RM2 funds due to construction costs that have not been spent yet on Caldecott Tunnel Fourth Bore. Expenditures need to be incurred prior to submittal for reimbursement.

**Transportation Project** expenditures at June 30, 2012 were $52.490 million, an increase from the prior year as State Route 4, eBART, and Caldecott Tunnel continue to progress. Projects are categorized under Capital Improvement Projects, Countywide Capital and Maintenance Projects and Subregional Projects. Following are the main project costs for the fiscal year:

i. The State Route 4 East Widening project spent $21.337 million on right-of-way, construction, construction management and utility relocation.
ii. eBART spent $10.837 million on construction costs.
iii. Caldecott Tunnel Fourth Bore spent $8.808 million on construction management, design and construction support services.
iv. I-680 Carpool Lane Gap Closure & Corridor Improvements spent $3.231 million on construction for the I-680 HOV Lane Gap Closure Restripe Project, environmental clearance for the I-680 SB HOV Gap Closure Project and the I-680/Norris Canyon Carpool/Bus Ramps Project.
v. I-80 Carpool Lane Extension spent $2.778 million on design.

Transportation Projects were $26.142 million under budget for the year ended June 30, 2012. Following are the larger variances for the fiscal year:

i. eBART was over budget by $3.777 million because construction of the platforms was more than anticipated at midyear.
ii. SR4 East Widening was under budget by $11.1 million for construction, utility relocation and right-of-way costs which have not yet occurred.
iii. Caldecott Tunnel Fourth Bore was under budget by $5.3 million for construction which has not yet occurred.
iv. East County Corridor was under budget by $3.3 million due to State Route 4 Bypass and State Route 239 Study projects which started later than anticipated.
v. Capital Corridor Improvements was under budget by $2.9 million due to the Hercules Rail Station work that was approved later than anticipated.

Measure J Streets and Roads Fund

Sales tax revenues allocable to local jurisdictions amounted to $13.808 million in the fiscal year ended June 30, 2012. This amount is held in cash and is expected to be distributed in the following fiscal year upon the anniversary date of the approval of the growth management checklist. Countywide disbursements of $12.371 million are based on 18% total sales tax. The other $1.437 million is allocated based on 2.09% of total sales tax for Southwest County, West County and Central County.

Measure C Special Revenue Fund

Measure C Special Revenue Fund ending fund balance was $61.266 million as of June 30, 2012, which represents an increase of $1.362 million for the year. Measure C concluded receiving sales tax revenues on March 31, 2009. There are still ongoing project and planning costs that will continue over the next several fiscal years. The fund balance will naturally decrease as Measure C projects and planning activities are completed.

**Grant revenues** were $14.770 million in federal, state and local grant funds, which is under budget by $2.613 million. The Authority received $14.268 million of Regional Measure 2 (RM2) funds for reimbursement related to State Route 4 construction and construction management. The grant revenues were below budget due to RM2 construction costs not yet incurred.

**Transportation Project** expenditures are categorized into a) highways and arterials; b) transit; and c) trails projects. Project expenditures in the year ended June 30, 2012 of $12.914 million represents an increase from the prior year as the Route 4 project continues. Following are the major project costs for the fiscal year ended June 30, 2012:

i. Route 4 East and Contra Costa Regional Commuterway spent $10.587 million on SR4 (e) Widening Project for the Loveridge to Somersville segment for construction management, and construction.
ii. I-680 Corridor spent $2.293 million on design for the I-680 Auxiliary Lanes, Segment 2.

Transportation Projects were $8.288 million under budget for the year ended June 30, 2012. Following are the reasons for the budget variance:

i. Contra Costa Regional Commuterway was under budget by $4.955 million for project costs related to mainline construction and right-of-way which will occur in the following year.

ii. BART Parking was under budget by $2.630 million for the Richmond Transit Village, which was rebudgeted for the following fiscal year.

Measure J Debt Service Funds

On September 30, 2010, the Authority issued $200.990 million in Sales Tax Revenue Bonds (2010 Limited Tax Bonds), Series 2010. The purpose of the 2010 Limited Tax Bonds was to retire the 2009 Notes and finance costs associated with Measure J transportation projects. The 2010 Limited Tax Bonds have a mandatory tender date of October 1, 2013, at which time they will be refunded or extended to no later than March 1, 2034.

*Notes to the Basic Financial Statements*

The notes provide additional information that is important to a full understanding of the data provided in the Authority-wide and the traditional fund-based, financial statements. These are contained in the attached reports.

*Authority's Outlook*

The result of the work done by the Authority and the regional transportation planning committees to prioritize projects and programs in the 2011 Measure J Strategic Plan to keep project moving forward is paying off. The tunneling work is complete on the Caldecott Tunnel Fourth Bore, which is expected to open to traffic late 2013. The State Route 4 widening construction continues on Somersville Road (Segment 1) and Contra Loma/G Street (Segment 2). On October 5, 2012, the Authority had a ground breaking ceremony for the beginning of construction on Lone Tree Way/A Street (Segment 3A) and eBART parking lot and maintenance facility. These projects will reduce congestion and commute time throughout the county and provide needed jobs. Measure J continues to fund programs such as Bus Transit, Paratransit, Express Bus, Safe Transportation for Children, and Commute Alternatives.

The Authority in preparation of the next Measure J Strategic Plan and bond issuance, reviewed its sales tax revenue forecast with an outside economic firm. The results for the county were positive and even under their conservative projection, sales tax revenues will be more than forecasted in the 2011 Measure J Strategic Plan. The economic data supports the growth as population and per capita income has increased since the bottom in 2009. The unemployment rate, while still high at 10.4% in December 2011, has decreased from 11.1% in December 2010. This information will assist the Authority as it plans to issue an estimated $200.000 million in bond proceeds in late 2012 to fund the projects promised in the Measure J Expenditure Plan.

*Requests for Information*

This financial report is designed to provide a general overview of the finances of the Authority. Questions concerning information provided in this report, or any requests for additional financial information, should be addressed to Randall Carlton, Chief Financial Officer of the Contra Costa Transportation Authority, 2999 Oak Road, Suite 100, Walnut Creek, CA 94597.

This Page Intentionally Left Blank

## STATEMENT OF NET ASSETS
## AND STATEMENT OF ACTIVITIES

The Statement of Net Assets reports the difference between the Authority's total assets and the Authority's total liabilities, including all the Authority's capital assets and all its long-term debt. The Statement of Net Assets presents information similar to the traditional balance sheet format, but presents it in a way that focuses the reader on the composition of the Authority's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the Authority's Governmental Activities in a single column. The Authority's Governmental Activities include the activities of its all of its governmental funds, capital assets and debt.

The Statement of Activities reports increases and decreases in the Authority's net assets. It is also prepared on the full accrual basis, which means it includes all the Authority's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund Financial Statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the Authority's expenses listed by program. Program revenues—that is, revenues that are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each program. The Authority's general revenues are then listed in the Governmental Activities column, and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

These financial statements along with the fund financial statements and footnotes are called *Basic Financial Statements.*

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**STATEMENT OF NET ASSETS**
**JUNE 30, 2012**
**(In thousands)**

| | Governmental Activities |
|---|---|
| **ASSETS** | |
| Cash and investments (Note 3) | $ 105,509 |
| Restricted cash and investments (Note 3) | 100,415 |
| Receivables: | |
| Sales tax | 11,182 |
| Interest | 247 |
| Intergovernmental | 17,140 |
| Net OPEB asset (Note 9) | 813 |
| Capital assets, net of accumulated depreciation (Note 5) | 728 |
| Deferred charges | 913 |
| TOTAL ASSETS | 236,947 |
| **DEFERRED OUTFLOWS OF RESOURCES** | |
| Accumulated decrease in fair value of hedging derivative (Note 7C) | 58,828 |
| **LIABILITIES** | |
| Accounts payable | 33,475 |
| Accrued employee benefits | 541 |
| Deposits payable (Note 6) | 3,651 |
| Interest rate swap agreement (Note 7C) | 58,828 |
| Long-term liabilities: | |
| Sales tax revenue bonds, due in more than one year (Note 7) | 200,990 |
| TOTAL LIABILITIES | 297,485 |
| **NET ASSETS (DEFICIT) (Note 12)** | |
| Invested in capital assets | 728 |
| Restricted for: | |
| Transportation projects and programs | 196,826 |
| Unrestricted deficit | (199,264) |
| TOTAL NET ASSETS (DEFICIT) | $ (1,710) |

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED JUNE 30, 2012**
**(In thousands)**

| | | Program Revenues | | |
|---|---|---|---|---|
| **Functions/Programs** | **Expenses** | **Operating Grants and Contributions** | **Capital Grants** | **Net (Expense) Revenue and Changes in Net Assets** |
| Governmental Activities: | | | | |
| Administration | $ 1,768 | $ - | $ - | $ (1,768) |
| Project management | 718 | - | - | (718) |
| Programs | 27,785 | 66 | - | (27,719) |
| Transportation projects | 65,403 | - | 17,642 | (47,761) |
| Regional planning | 661 | - | - | (661) |
| Congestion management | 1,674 | 1,322 | - | (352) |
| Transportation demand management | 1,355 | 1,332 | - | (23) |
| Transportation planning land use solutions | 134 | 99 | - | (35) |
| Interest and related fees | 8,432 | - | - | (8,432) |
| Total governmental activities | $ 107,930 | $ 2,819 | $ 17,642 | (87,469) |
| General Revenues: | | | | |
| Sales taxes | | | | 68,729 |
| Investment income | | | | 1,050 |
| Miscellaneous | | | | 11 |
| Total general revenues | | | | 69,790 |
| Change in net assets | | | | (17,679) |
| Net assets at beginning of year | | | | 15,969 |
| Net assets (deficit) at end of year | | | | $ (1,710) |

See accompanying notes to the financial statements.

This Page Intentionally Left Blank

## FUND FINANCIAL STATEMENTS

The Fund Financial Statements are presented by individual major funds, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

## MAJOR GOVERNMENTAL FUNDS

The funds described below were determined to be Major Funds by the Authority for fiscal year 2012. Individual non-major funds may be found in the Combining Financial Statements section.

### MEASURE J GENERAL FUND

The *General Fund* is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund. All intergovernmental revenue is recorded in the General Fund, except for those restricted funds required to be recorded in the major Measure C Special Revenue Funds and the non-major Special Revenue Funds. The Authority also transfers sales tax revenues to Debt Service Funds, on a monthly basis, to cover interest and principal coming due. General Fund expenditures include salaries and benefits of the Authority's staff. Salaries and benefits for administration are limited by Measure J (as defined) to one percent of the sales tax revenue on an annual basis.

### MEASURE J LOCAL STREETS AND ROADS SPECIAL REVENUE FUND

This Fund is used by the Authority to account for the accumulation of resources required to be allocated to local cities and the County for local transportation improvements, including streets and roads. Monies are disbursed to the local agencies upon compliance with certain provisions included in Measure J. Under the provisions of Measure J and policies adopted by the Authority, 18% of net sales tax revenues are to be used for local street maintenance and improvements. An additional 2.09% of net sales tax revenue is allocated to Central County, West County, and Southwest County.

### MEASURE C SPECIAL REVENUE FUND

Prior to April 1, 2009 when Measure J became effective, there was Measure C, a County-wide half-percent sales tax to fund transportation programs and projects. The Authority is responsible for carrying out the provisions of Measure C. The Measure C Fund was established to record financial activities associated with the projects and programs in the Measure C expenditure plan.

### 2010 MEASURE J DEBT SERVICE FUND

This fund accounts for resources used to service the Authority's 2010 Sales Tax Revenue Bonds.

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**GOVERNMENTAL FUNDS**
**BALANCE SHEET**
**JUNE 30, 2012**
**(In thousands)**

| | Measure J General Fund | Measure J Local Streets and Roads Fund | Measure C Fund | 2010 Measure J Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Cash and investments (Note 3) | $ 28,639 | $ 16,990 | $ 55,703 | $ 32 | $ 4,145 | $ 105,509 |
| Restricted cash and investments (Note 3) | 23,402 | - | - | 77,013 | - | 100,415 |
| Receivables: | | | | | | |
| Sales tax | 8,265 | 2,246 | - | - | 671 | 11,182 |
| Interest | 40 | - | 140 | 67 | - | 247 |
| Intergovernmental | 9,998 | - | 7,076 | - | 66 | 17,140 |
| Total Assets | $ 70,344 | $ 19,236 | $ 62,919 | $ 77,112 | $ 4,882 | $ 234,493 |
| **LIABILITIES** | | | | | | |
| Accounts payable | $ 10,654 | $ 19,236 | $ 1,650 | $ 1,564 | $ 371 | $ 33,475 |
| Accrued employee benefits | 538 | - | 3 | - | - | 541 |
| Deposits payable (Note 6) | 3,651 | - | - | - | - | 3,651 |
| Total Liabilities | 14,843 | 19,236 | 1,653 | 1,564 | 371 | 37,667 |
| **FUND BALANCES (Note 12)** | | | | | | |
| Restricted: | | | | | | |
| Air quality | - | - | - | - | 798 | 798 |
| Commute alternatives | - | - | - | - | 524 | 524 |
| Transportation projects | 27,686 | - | 60,249 | 75,548 | - | 163,483 |
| Paratransit program | - | - | - | - | 3,189 | 3,189 |
| Additional paratransit program | 1,282 | - | - | - | - | 1,282 |
| Safe transportation for children | 2,039 | - | - | - | - | 2,039 |
| Ferry service | 4,712 | - | - | - | - | 4,712 |
| Bus transit and improvements | 392 | - | - | - | - | 392 |
| Express bus | 332 | - | - | - | - | 332 |
| Subregional bus transit | 246 | - | - | - | - | 246 |
| Transportation for livable communities projects (TLC) | 10,084 | - | - | - | - | 10,084 |
| Additional TLC | 838 | - | - | - | - | 838 |
| Pedestrian, bicycle and trail facilities | 3,125 | - | - | - | - | 3,125 |
| Additional pedestrian, bicycle and trail facilities | 84 | - | - | - | - | 84 |
| Subregional transportation needs | 3,043 | - | - | - | - | 3,043 |
| Planning and facilities | 1,228 | - | 1,017 | - | - | 2,245 |
| Administration | 410 | - | - | - | - | 410 |
| Total Fund Balances | 55,501 | - | 61,266 | 75,548 | 4,511 | 196,826 |
| Total Liabilities and Fund Balances | $ 70,344 | $ 19,236 | $ 62,919 | $ 77,112 | $ 4,882 | $ 234,493 |

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS**
**JUNE 30, 2012**
**(In thousands)**

| | | | |
|---|---|---|---|
| Fund balances - total governmental funds | | $ | 196,826 |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | |
| Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds (Note 5). | | | 728 |
| Bond issuance costs are expended in the governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for the purposes of the governmental activities on the statement of net assets. | | | 913 |
| Net OPEB asset is recognized in the statement of net assets as an asset; however, it is not considered a financial resource and, therefore, is not reported on the balance sheet of governmental funds (Note 9). | | | 813 |
| Long-term liabilities, including the sales tax bonds payable and its related hedging derivative, are not due and payable in the current period and, therefore, are not reported in the governmental funds (Note 7): | | | |
| Sales tax revenue bonds | $ (200,990) | | |
| Fair value of interest rate swap agreement | (58,828) | | |
| Accumulated decrease in fair value of hedging derivative | 58,828 | | |
| Subtotal | | | (200,990) |
| Net assets (deficit) of governmental activities | | $ | (1,710) |

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**GOVERNMENTAL FUNDS**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**
**FOR THE YEAR ENDED JUNE 30, 2012**
**(In thousands)**

| | Measure J General Fund | Measure J Local Streets and Roads Fund | Measure C Fund | 2010 Measure J Debt Service Fund | Other Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Sales tax | $ 50,797 | $ 13,808 | $ - | $ - | $ 4,124 | $ 68,729 |
| Investment income | 357 | - | 388 | 276 | 29 | 1,050 |
| Federal Surface Transportation Program (CMA) | 768 | - | 2 | - | - | 770 |
| Federal Surface Transportation Program (T-Plus) | 99 | - | - | - | - | 99 |
| Federal Demo (I-80 Carpool Lane Extension) | 114 | - | - | - | - | 114 |
| Federal Congestion Mitigation (CMAQ) | - | - | - | - | 66 | 66 |
| State Planning, Programming and Monitoring (PPM) | 492 | - | - | - | - | 492 |
| Regional Measure 2 (SR4 East Widening) | 11,608 | - | - | - | - | 11,608 |
| Regional Measure 2 (I680 Carpool Ln Ext & Int Imp) | 925 | - | - | - | - | 925 |
| Regional Measure 2 (Commuterway) | - | - | 7,071 | - | - | 7,071 |
| Regional Measure 2 (SR4 East) | - | - | 7,196 | - | - | 7,196 |
| State Motor Vehicle Registration Surcharge (TFCA) | - | - | - | - | 1,332 | 1,332 |
| Contributions from CMA member agencies | 54 | - | 6 | - | - | 60 |
| City of San Pablo (I-80 Carpool Ln Ext & Interchange Imp) | 669 | - | - | - | - | 669 |
| Rental Income & Escrow Earnings (SR4 East) | - | - | 107 | - | - | 107 |
| Miscellaneous revenue | 11 | - | - | - | - | 11 |
| Total Revenues | 65,894 | 13,808 | 14,770 | 276 | 5,551 | 100,299 |
| **Expenditures** | | | | | | |
| Current expenditures: | | | | | | |
| Administration: | | | | | | |
| Salaries and employee benefits | 512 | - | - | - | - | 512 |
| Services, supplies & capital outlay | 1,005 | - | - | - | - | 1,005 |
| Project Management: | | | | | | |
| Salaries and employee benefits | 712 | - | - | - | - | 712 |
| Services, supplies & capital outlay | 6 | - | - | - | - | 6 |
| Programs: | | | | | | |
| Commute alternatives | - | - | - | - | 671 | 671 |
| Additional paratransit | 416 | - | - | - | - | 416 |
| Bus transit enhancements | 2,159 | - | - | - | - | 2,159 |
| Paratransit | - | - | - | - | 2,403 | 2,403 |
| Express bus program | 2,747 | - | - | - | - | 2,747 |
| Bus transit and improvement program | 3,187 | - | - | - | - | 3,187 |
| Safe transportation for children | 2,394 | - | - | - | - | 2,394 |
| Local street and maintenance | - | 12,371 | - | - | - | 12,371 |
| Subregional local street and maintenance | - | 1,437 | - | - | - | 1,437 |
| Transportation Projects: | | | | | | |
| Highways and arterials | - | - | 2,669 | - | - | 2,669 |
| Transit | - | - | 10,245 | - | - | 10,245 |
| Capital improvement projects | 49,559 | - | - | - | - | 49,559 |
| Countywide capital and maintenance projects | 235 | - | - | - | - | 235 |
| Subregional projects | 2,696 | - | - | - | - | 2,696 |
| Regional Planning: | | | | | | |
| Salaries and employee benefits | - | - | 394 | - | - | 394 |
| Services, supplies & capital outlay | 187 | - | 81 | - | - | 268 |
| Congestion Management: | | | | | | |
| Salaries and employee benefits | 1,447 | - | - | - | - | 1,447 |
| Services, supplies & capital outlay | 207 | - | 19 | - | - | 226 |
| Transportation Demand Management: | | | | | | |
| Salaries and employee benefits | - | - | 67 | - | - | 67 |
| Contributions to other agencies | - | - | 1,288 | - | - | 1,288 |
| Transportation Planning Land Use Solutions: | | | | | | |
| Salaries and employee benefits | 65 | - | - | - | - | 65 |
| Services, supplies & capital outlay | 68 | - | - | - | - | 68 |
| Debt service: | | | | | | |
| Interest and related fees | - | - | - | 8,386 | - | 8,386 |
| Total Expenditures | 67,602 | 13,808 | 14,763 | 8,386 | 3,074 | 107,633 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,708) | - | 7 | (8,110) | 2,477 | (7,334) |
| **Other Financing Sources (Uses)** | | | | | | |
| Transfer in (Note 4) | 26,095 | - | 1,355 | 8,911 | - | 36,361 |
| Transfer out (Note 4) | (8,911) | - | - | (26,095) | (1,355) | (36,361) |
| Total Other Financing Sources (Uses) | 17,184 | - | 1,355 | (17,184) | (1,355) | - |
| Net Change in Fund Balances | 15,476 | - | 1,362 | (25,294) | 1,122 | (7,334) |
| Fund Balances - Beginning | 40,025 | - | 59,904 | 100,842 | 3,389 | 204,160 |
| Fund Balances - Ending | $ 55,501 | $ - | $ 61,266 | $ 75,548 | $ 4,511 | $ 196,826 |

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED JUNE 30, 2012**
**(In thousands)**

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds | | $ (7,334) |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital assets cost is allocated over their estimated useful lives and reported as depreciation expense in the current period. | | |
| Capital assets acquisition and other adjustments | $ 134 | |
| Depreciation and other adjustments | (354) | |
| Subtotal | | (220) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This represents the change in the deferred amounts during the current period. | | (10,048) |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of long-term debt consumes the current financial resources of governmental funds. These transactions, however, have no effect on net assets. The governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items. | | |
| Amortization of bond issuance costs | | (46) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | |
| Change in Net OPEB asset | | (31) |
| Change in net assets of governmental activities | | $ (17,679) |

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**MEASURE J GENERAL FUND**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**
**FOR THE YEAR ENDED JUNE 30, 2012**
**(In thousands)**

| | Budget | | | |
|---|---|---|---|---|
| | Original | Final | Actual | Variance with Budget - Positive (Negative) |
| **Revenues** | | | | |
| Sales tax | $ 64,000 | $ 50,259 | $ 50,797 | $ 538 |
| Investment income | 401 | 449 | 357 | (92) |
| Federal Surface Transportation Program (CMA) | 1,210 | 891 | 768 | (123) |
| Federal Surface Transportation Program (T-Plus) | 120 | - | 99 | 99 |
| Federal Surface Transportation Program (Climate Change) | 250 | 50 | - | (50) |
| Federal Demo (East County Corridors) | - | 837 | - | (837) |
| Federal Demo (I-80 Carpool Lane Extension) | 320 | 218 | 114 | (104) |
| State Planning, Programming and Monitoring (PPM) | 1,035 | 1,116 | 492 | (624) |
| Regional Measure 2 (SR4 East Widening) | 11,281 | 20,508 | 11,608 | (8,900) |
| Regional Measure 2 (Caldecott Tunnel Fourth Bore) | 27,349 | 5,947 | - | (5,947) |
| Regional Measure 2 (I680 Carpool Ln Ext & Interchange Imp) | 1,413 | 1,328 | 925 | (403) |
| Contributions from CMA member agencies | 192 | 60 | 54 | (6) |
| West Coast Home Builders (East County Corridors) | - | 1,015 | - | (1,015) |
| Contra Costa County (East County Corridors) | - | 209 | - | (209) |
| City of Antioch (SR4 East Widening) | 15 | 21 | - | (21) |
| City of San Pablo (I-80 Carpool Ln Ext & Interchange Imp) | - | - | 669 | 669 |
| Miscellaneous revenue | 1 | 1 | 11 | 10 |
| Total Revenues | 107,587 | 82,909 | 65,894 | (17,015) |
| **Expenditures** | | | | |
| Current expenditures: | | | | |
| Administration: | | | | |
| Salaries and employee benefits | 589 | 533 | 512 | 21 |
| Services, supplies & capital outlay | 1,226 | 1,209 | 1,005 | 204 |
| Contributions to other agencies | 2 | 2 | - | 2 |
| Project Management: | | | | |
| Salaries and employee benefits | 693 | 760 | 712 | 48 |
| Services, supplies & capital outlay | 10 | 210 | 6 | 204 |
| Programs: | | | | |
| Additional paratransit | 736 | 736 | 416 | 320 |
| Bus transit enhancements | 3,126 | 2,150 | 2,159 | (9) |
| Express bus program | 2,752 | 2,752 | 2,747 | 5 |
| Bus transit and improvement program | 3,200 | 3,200 | 3,187 | 13 |
| Ferry service | 1,440 | - | - | - |
| Safe transportation for children | 2,909 | 2,909 | 2,394 | 515 |
| Transportation Projects: | | | | |
| Capital improvement projects: | 84,915 | 71,383 | 49,559 | 21,824 |
| Countywide capital and maintenance projects | 6,425 | 2,957 | 235 | 2,722 |
| Subregional projects | 6,974 | 4,292 | 2,696 | 1,596 |
| Regional Planning: | | | | |
| Services, supplies & capital outlay | 581 | 381 | 187 | 194 |
| Congestion Management: | | | | |
| Salaries and employee benefits | 1,492 | 1,592 | 1,447 | 145 |
| Services, supplies & capital outlay | 741 | 266 | 207 | 59 |
| Transportation Planning Land Use Solutions: | | | | |
| Salaries and employee benefits | 154 | 89 | 65 | 24 |
| Services, supplies & capital outlay | 250 | 180 | 68 | 112 |
| Total Expenditures | 118,215 | 95,601 | 67,602 | 27,999 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (10,628) | (12,692) | (1,708) | (45,014) |
| **Other Financing Sources (Uses)** | | | | |
| Transfer in | 53,005 | 46,858 | 26,095 | (20,763) |
| Transfer out | (25,118) | (8,420) | (8,911) | 491 |
| Total Other Financing Sources (Uses) | 27,887 | 38,438 | 17,184 | (20,272) |
| Net Change in Fund Balance | $ 17,259 | $ 25,746 | 15,476 | $ (65,286) |
| Fund Balance - Beginning | | | 40,025 | |
| Fund Balance - Ending | | | $ 55,501 | |

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**MEASURE J LOCAL STREETS AND ROADS SPECIAL REVENUE FUND**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**
**FUND BALANCE - BUDGET AND ACTUAL**
**FOR THE YEAR ENDED JUNE 30, 2012**
**(In thousands)**

| | Budget | | | |
|---|---|---|---|---|
| | Original | Final | Actual | Variance with Budget - Positive (Negative) |
| **Revenues** | | | | |
| Sales tax | $ - | $ 13,661 | $ 13,808 | $ 147 |
| Total Revenues | - | 13,661 | 13,808 | 147 |
| **Expenditures** | | | | |
| Current expenditures: | | | | |
| Programs: | | | | |
| Local street and maintenance | 11,520 | 12,240 | 12,371 | (131) |
| Subregional local street and maintenance | 1,338 | 1,421 | 1,437 | (16) |
| Total Expenditures | 12,858 | 13,661 | 13,808 | (147) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (12,858) | - | - | - |
| **Other Financing Sources** | | | | |
| Transfer in | 12,858 | - | - | - |
| Total Other Financing Sources | 12,858 | - | - | - |
| Net Change in Fund Balance | $ - | $ - | - | $ - |
| Fund Balance - Beginning | | | - | |
| Fund Balance - Ending | | | $ - | |

See accompanying notes to the financial statements.

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**MEASURE C SPECIAL REVENUE FUND**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**
**FOR THE YEAR ENDED JUNE 30, 2012**
**(In thousands)**

| | Budget | | | |
|---|---|---|---|---|
| | Original | Final | Actual | Variance with Budget - Positive (Negative) |
| **Revenues** | | | | |
| Investment income | $ 300 | $ 386 | $ 388 | $ 2 |
| Federal Surface Transportation Program (CMA) | - | - | 2 | 2 |
| Regional Measure 2 (Commuterway) | - | 9,694 | 7,071 | (2,623) |
| Regional Measure 2 (SR4 East & Commuterway) | 11,330 | 7,216 | 7,196 | (20) |
| Contributions from CMA member agencies | - | - | 6 | 6 |
| Rental Income & Escrow Earnings (SR4 East) | 600 | 85 | 107 | 22 |
| Miscellaneous revenue | 1 | 1 | - | (1) |
| Total Revenues | 12,231 | 17,382 | 14,770 | (2,612) |
| **Expenditures** | | | | |
| Current expenditures: | | | | |
| Transportation Projects: | | | | |
| Highways and arterials | 16,889 | 3,370 | 2,669 | 701 |
| Transit | 15,683 | 17,832 | 10,245 | 7,587 |
| Regional Planning: | | | | |
| Salaries and employee benefits | 478 | 473 | 394 | 79 |
| Services, supplies & capital outlay | 278 | 278 | 81 | 197 |
| Congestion Management: | | | | |
| Services, supplies & capital outlay | 50 | 75 | 19 | 56 |
| Transportation Demand Management: | | | | |
| Salaries and employee benefits | 71 | 71 | 67 | 4 |
| Contributions to other agencies | 1,218 | 1,218 | 1,288 | (70) |
| Transportation Planning Land Use Solutions: | | | | |
| Contributions to other agencies | 120 | - | - | - |
| Total Expenditures | 34,787 | 23,317 | 14,763 | 8,554 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (22,556) | (5,935) | 7 | (11,166) |
| **Other Financing Sources (Uses)** | | | | |
| Transfer in | 1,291 | 1,291 | 1,355 | 64 |
| Total Other Financing Sources (Uses) | 1,291 | 1,291 | 1,355 | 64 |
| Net Change in Fund Balance | $ (21,265) | $ (4,644) | 1,362 | $ (11,102) |
| Fund Balance - Beginning | | | 59,904 | |
| Fund Balance - Ending | | | $ 61,266 | |

See accompanying notes to the financial statements.

## NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

### *A. Reporting Entity*

The Contra Costa Transportation Authority (the Authority) was established in 1988 when Contra Costa voters passed a 20-year, one-half of one percent (½%) sales tax for specified transportation purposes. In 2004, the voters of Contra Costa extended the one-half of one percent countywide transportation sales tax through 2034.

Measure C, passed in November 1988, officially authorized the imposition of the ½% countywide sales tax, the proceeds of which are principally reserved for highway improvements, local transportation improvements, transit funding, growth management, and regional planning purposes in the County. The Measure C ½% sales tax commenced April 1, 1989 and expired on March 31, 2009. The Measure J ½% sales tax began April 1, 2009 and will remain in effect until March 31, 2034.

The sales tax revenues received by the Authority under Measure C and Measure J, after deducting certain administrative costs, are to be spent for programs as set forth in the respective expenditure plans. All revenues, including interest and other revenues, not designated by Measure C or Measure J for a specific purpose (see Sales Taxes discussion below) are to be spent on capital projects set forth in the expenditure plans. The Authority may, under certain circumstances, amend the original expenditure plans.

The Authority has been designated by the cities in Contra Costa County and the County (collectively, the Members) as the Congestion Management Agency (CMA) for the County pursuant to provisions of Senate Constitutional Amendment 1, approved by the voters of the State in June 1990, thereby being charged with the statutory obligation to carry out congestion management responsibilities for Contra Costa County. In 1992, the Authority amended Measure C by ordinance to permit expenditures associated with the CMA to be eligible General Fund expenditures under Measure C, as defined in the expenditure plan. Measure J authorizes these expenditures in the original expenditure plan. The CMA Members are required to reimburse the Authority for expenditures as approved by the Board.

The Authority has also been designated by the CMA Members to be the recipient of funds generated from the motor vehicle registrations surcharge collected by the Bay Area Air Quality Management District (the Air Quality District) for programs to reduce air pollution from motor vehicles. The Authority anticipates that all expenditures incurred for the Air Quality District program will be reimbursed by the Air Quality District.

The basic financial statements of the Authority include all of its financial activities. The Authority is the sole independent entity responsible for receiving and allocating funds necessary to complete the programs and is governed by an eleven-member board comprised of representatives who are elected officials from the County and local cities.

The financial statements and accounting policies of the Authority conform with generally accepted accounting principles applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies are summarized below.

## NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *B. Sales Taxes*

The Authority recognizes taxpayer-assessed revenues such as Sales Taxes, net of estimated refunds, in the accounting period in which they become susceptible to accrual, which means when the revenues become both measurable and available to finance expenditures of the current fiscal period in the governmental fund financial statements. In the government-wide financial statements, Sales Taxes are recognized on the accrual basis in the period the underlying sales exchange transaction occurs.

Sales tax receivables represent sales tax receipts in the two months subsequent to the Authority's fiscal year-end relating to the prior year's sales activity. The Authority has contracted with the California State Board of Equalization for collection and distribution of the ½% sales tax. The Board of Equalization receives an administrative fee for providing this service. The Authority records sales tax revenues net of such fees in the General Fund, major fund Measure J Local Streets and Roads Fund, and non-major funds Measure J Paratransit and Measure J Commute Alternatives.

Under the provisions of Measure J and policies adopted by the Authority, portions of net sales taxes are required to be expended on certain programs and activities. Measure J includes programs that were successful under Measure C and added additional programs to improve or expand transit needs in Contra Costa County. Local Street and Maintenance, Bus Transit, Paratransit, and Commute Alternatives (formerly Carpool/Vanpool) continued on. Additional programs such as Express Bus, Safe Transportation for Children and Ferry Service were developed to address transportation needs countywide and specific regions within it.

Specifically, 20.09% of net sales tax revenues are to be used for local street maintenance and improvements, 1% is to be used for commute alternative programs, including carpools, vanpools and transit, and 5% for transportation services for seniors and people with disabilities. These programs are accounted for in the Streets and Roads Special Revenue Fund, Commute Alternatives Special Revenue Fund, and Paratransit Special Revenue Fund, respectively.

In addition, bus services (5%) provide bus transit operators funding and alleviate traffic congestion and improve regional or local mobility. Express bus (4.3%) is a countywide program to transport commuters to and from residential areas to transit and employment centers. Subregional programs were created to address the diverse transportation needs in each subregion of the County. The following programs are allocated to subregions based on the Measure J expenditure plan: Bus Transit Enhancements (3.16%), Additional Paratransit (1.2%), Safe Transportation for Children (4.545%) and Ferry Service (2.25%). These programs are accounted for in the General Fund and any fund balances remaining at year-end are reported in the General Fund as Restricted for Bus Transit and Improvements, Restricted for Express Bus, Restricted for Subregional Bus Transit, Restricted for Additional Paratransit, Restricted for Safe Transportation for Children, and Restricted for Ferry Service, respectively.

The Authority transfers sales tax revenues to the Debt Service Fund, on a monthly basis, to cover interest and principal expenditures.

## NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *C. Basis of Presentation*

The Authority's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

These standards require that the financial statements described below be presented.

***Government-wide Statements:*** The Statement of Net Assets and the Statement of Activities display information about the primary government (the Authority). Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) grants and contributions that are restricted to meeting the operational needs of a particular program and (b) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

***Fund Financial Statements:*** The fund financial statements provide information about the Authority's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining funds are aggregated and reported as non-major funds.

### *D. Major Funds*

The Authority's major governmental funds are required to be identified and presented separately in the fund financial statements.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to at least ten percent of the totals for all funds. The General Fund is always a major fund. The Authority is required to treat the Measure J Streets and Roads Special Revenue Fund, Measure C Special Revenue Fund, and the 2010 Measure J Debt Service Fund as major funds.

**MEASURE J GENERAL FUND -** The *General Fund* is the general operating fund of the Authority. It is used to account for all financial resources except those required to be accounted for in another fund. All intergovernmental revenue is recorded in the General Fund, except for those restricted funds required to be recorded in Special Revenue Funds. The Authority transfers sales tax revenues to the Debt Service Fund, on a monthly basis, to cover interest and principal coming due. General Fund expenditures include salaries and benefits of the Authority's staff.

## NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Salaries and benefits for administration are limited by Measure J (as defined) to one percent of the sales tax revenue on an annual basis.

**MEASURE J LOCAL STREETS AND ROADS SPECIAL REVENUE FUND** – This Fund is used by the Authority to account for the accumulation of resources required to be allocated to local cities and the County for local transportation improvements, including streets and roads. Monies are disbursed to the local agencies upon compliance with certain provisions included in Measure J. Under the provisions of Measure J and policies adopted by the Authority, 18% of net sales tax revenues are to be used for local street maintenance and improvements. An additional 2.09% of net sales tax revenues is allocated to Central County, West County, and Southwest County.

**MEASURE C SPECIAL REVENUE FUND** – Prior to April 1, 2009 when Measure J became effective, there was Measure C, a County-wide half-percent sales tax to fund transportation programs and projects. The Authority is responsible for carrying out the provisions of Measure C. The Measure C Fund was established to record financial activities associated with the projects and programs in the Measure C expenditure plan.

**2010 MEASURE J DEBT SERVICE FUND** – This fund accounts for resources used to service the Authority's Sales Tax Revenue Bonds, Series 2010.

### NON-MAJOR FUNDS

The Authority has other governmental funds discussed below, which were determined to be non-major funds and are presented in the supplementary information of this report. These non-major s*pecial revenue funds* are used by the Authority to account for the accumulation and expenditures of restricted resources. These Special Revenue Funds include:

- *Measure J Paratransit Special Revenue Fund* – accounts for the portion of sales tax to be used to transport seniors and people with disabilities.
- *Measure J Commute Alternatives Special Revenue Fund* – accounts for the portion of sales taxes to be used for commuter alternative programs, including carpools, vanpools and park and ride lots.
- *Air Quality Special Revenue Fund* - accounts for funds received from the Air Quality District to be used for programs to reduce air pollution from motor vehicles. Resources are transferred to the Measure C Special Revenue Fund as expended.

## NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *E. Basis of Accounting*

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred,* regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Authority considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, sales tax revenues are recognized in the period the underlying sales exchange transaction occurs. Revenue from grants, entitlements, and donations is recognized in the period in which all eligibility requirements have been satisfied.

The Authority may fund projects with a combination of cost-reimbursement grants, bond proceeds, advances, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance expenditures. The Authority's strategy is to first apply restricted resources to such activities, followed by general revenues if necessary.

### *F. Return of Funds from Local Agencies*

Return of funds from local agencies represents amounts determined to be owed to the Authority based on a final reconciliation of project costs, or as a result of Measure C or Measure J compliance audits commissioned by the Authority. There were no returns of funds from local agencies during the year ended June 30, 2012.

### *G. Compensated Absences*

Compensated absences comprise of unpaid vacation and sick leave, which is accrued as earned. The Authority's liability for compensated absences is recorded in the Authority's General Fund.

### *H. Fund Balance*

The Authority is required to report the fund balance for governmental funds in specific classifications (nonspendable, restricted, committed, assigned and unassigned), which creates a hierarchy primarily based on the extent to which the Authority is bound to honor the constraints on the specific purposes for which funds can be spent. The Authority can only spend sales tax revenues as approved by the voters in the Measure C and Measure J Expenditure Plans, grants in accordance with the terms of the grants, and bond proceeds in accordance with the terms of the bond agreement, therefore the Authority only has restricted fund balance at June 30, 2012.

## NOTE 1 – REPORTING ENTITY AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *I. Use of Management Estimates*

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

### *J. Rounding*

All amounts included on the basic financial statements, combining statements, footnotes and schedules are presented to the nearest thousands in accordance with the Authority's policy.

## NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements. The Measure J Local Streets and Roads Special Revenue Fund, however, may exceed the budgetary expenditures as long as the amounts owed to the Cities and the County are based on the expenditure plan:

1. The Executive Director or his or her designee submits a proposed operating budget to the Authority Board for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

2. Prior to adoption of the final budget, public hearings are conducted to obtain taxpayer comments.

3. The budget is legally enacted by the Authority Board.

4. All budget adjustments must be approved by the Authority Board. Expenditures may not legally exceed the levels as specified in the budget control resolution.

5. Formal budgetary integration is employed as a management control device during the year for all funds.

6. Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

## NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING (Continued)

Overages in any particular budget expenditures category (organizational unit) must receive an approved budget change adjustment by the Authority Board for the following conditions: for capital project expenditures, if expenditures are expected to exceed the budget by $10 thousand or five percent, whichever is greater; for all other expenditures, if expenditures are projected to exceed the budget for the budgetary category by $5 thousand or five percent, whichever is greater.

The Authority has also adopted a Strategic Plan, which determines availability of funds for projects and is used as a guide for project appropriations. The plan is normally updated every two to three years, and is used in the development of the annual budget. The Authority maintains a financial system for budgetary and financial control. The Authority issued the 2008 Measure C Strategic Plan and the 2011 Measure J Strategic Plan in October 2008 and July 2011, respectively.

### *Excess of Expenditures over Appropriation*

During fiscal year 2012**,** the following funds had expenditures in excess of budget**,** as follows (in thousands)**:**

| Fund | Excess of Expenditures Over Appropriations |
|---|---|
| **Measure J General Fund** | |
| Program: | |
| Bus transit enhancements | $ 9 |
| **Measure J Local Streets and Roads Special Revenue Fund** | |
| Programs: | |
| Local street and maintenance | 131 |
| Subregional local street and maintenance | 16 |
| **Measure C Special Revenue Fund** | |
| Transportation Demand Management: | |
| Contributions to other agencies | 70 |

These funds had sufficient resources to finance these expenditures.

## NOTE 3 – CASH AND INVESTMENTS

The Authority pools cash from all sources and funds except cash and investments held by fiscal agents so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time. Each fund's portion of the pool is displayed on the combined balance sheet as "Cash and investments;" however, all resources are restricted as to their use.

The Authority records investment transactions on the trade date. Investments are reported at fair value. Fair value is defined as the amount that the Authority could reasonably expect to receive for an investment in a current sale between a willing buyer and seller, and is generally measured by quoted market prices. The Authority adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year. Investment income is allocated among funds on the basis of year-end fund balances in these funds. Investment income from cash and investments with trustees is credited directly to the related fund.

### *A. Carrying Amount at Fair Value*

Cash and investments are carried at fair value and are categorized as follows at June 30, 2012 (in thousands):

| | Available for Operations | Held by Fiscal Agents | Total |
|---|---|---|---|
| U.S. Treasury Notes | $ 29,550 | $ 23,402 | $ 52,952 |
| Federal Agency Securities | 33,583 | - | 33,583 |
| Corporate Notes | 6,956 | - | 6,956 |
| Commercial Paper | 999 | - | 999 |
| Money Market Mutual Funds | 475 | - | 475 |
| Local Agency Investment Fund | 31,274 | 75,512 | 106,786 |
| California Asset Management Program | - | 1,501 | 1,501 |
| Total Investments | 102,837 | 100,415 | 203,252 |
| Cash in Bank | 2,672 | - | 2,672 |
| Total Cash and Investments | $ 105,509 | $ 100,415 | $ 205,924 |

## NOTE 3 – CASH AND INVESTMENTS (Continued)

### *B. Authorized Investments by the Authority*

The Authority has contracted with Public Financial Management to serve as the Authority's investment advisor. The Authority has adopted a written Investment Policy, which is more restrictive than State law as to terms of maturity, credit quality and type of investment. The Authority's Investment Policy and the California Government Code allows the Authority to invest in the following, provided the credit ratings of the issuers are acceptable to the Authority. The following also identifies certain provisions of the Authority's Investment Policy and California Government Code that address interest rate risk, credit risk, and concentration of credit risk.

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum Percentage of Portfolio | Maximum Investment In One Issuer |
|---|---|---|---|---|
| U.S. Treasury Obligations | 5 years | N/A | None | None |
| U.S. Agency Obligations (A) | 5 years | N/A | None | None |
| Repurchase Agreements | 90 days | N/A | None | None |
| Reverse Repurchase Agreements (requires Authority approval) | 92 days | N/A | 20 % of the base value | None |
| State of California Obligations | 5 years | Highest 2 rating categories | None | None |
| CA Local Agency Obligations | 5 years | Highest 2 rating categories | None | None |
| Bankers Acceptances | 180 days | Highest rating categories | 40% | Greater of 10% of portfolio or $1 million |
| Commercial Paper | 270 days | A1 | 20% | Greater of 10% of portfolio or $1 million |
| Medium Term Corporate Notes | 5 years | AA | 30% | Greater of 10% of portfolio or $1 million |
| Mortgage Pass-Through Securities | 5 years | AA | 10% | None |
| Insured or Collateralized Bank Deposits | N/A | N/A | None | None |
| Negotiable Certificates of Deposit | 5 years | AA | 30% | Greater of 10% of portfolio or $1 million |
| California Local Agency Investment Fund | Upon Demand | N/A | $50,000,000 per account | $50,000,000 per account |
| Contra Costa County Treasurer's Pool | Upon Demand | N/A | None | None |
| California Asset Management Program | N/A | N/A | None | None |
| Money Market Mutual Funds | N/A | Highest rating categories | 15% | 5% |
| Insured Savings Account or Money Market Account | N/A | N/A | None | None |

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC)

## NOTE 3 – CASH AND INVESTMENTS (Continued)

### *C. Investments Authorized by Debt Agreements*

The Authority must maintain required amounts of cash and investments with fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds. The California Government Code requires these funds to be invested in accordance with Authority ordinance, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum Percentage of Portfolio | Maximum Investment In One Issuer |
|---|---|---|---|---|
| U.S. Treasury Obligations | 5 years | N/A | None | None |
| U.S. Agency Obligations (A) | 5 years | N/A | None | None |
| Repurchase Agreements | 90 days | N/A | None | None |
| Reverse Repurchase Agreements (requires Authority approval) | 92 days | N/A | 20 % of the base value | None |
| State of California Obligations | 5 years | Highest 2 rating categories | None | None |
| CA Local Agency Obligations | 5 years | Highest 2 rating categories | None | None |
| Bankers Acceptances | 180 days | Highest rating categories | 40% | Greater of 10% of portfolio or $1 million |
| Commercial Paper | 270 days | A1 | 20% | Greater of 10% of portfolio or $1 million |
| Medium Term Corporate Notes | 5 years | AA | 30% | Greater of 10% of portfolio or $1 million |
| Mortgage Pass-Through Securities | 5 years | AA | 10% | None |
| Insured or Collateralized Bank Deposits | N/A | N/A | None | None |
| Negotiable Certificates of Deposit | 5 years | AA | 30% | Greater of 10% of portfolio or $1 million |
| California Local Agency Investment Fund | Upon Demand | N/A | $50,000,000 per account | $50,000,000 per account |
| Contra Costa County Treasurer's Pool | Upon Demand | N/A | None | None |
| California Asset Management Program | N/A | N/A | None | None |
| Money Market Mutual Funds | N/A | Highest rating categories | 15% | 5% |
| Insured Savings Account or Money Market Account | N/A | N/A | None | None |

(A) Securities issued by agencies of the federal government such as the Federal Farm Credit Bank (FFCB), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corporation (FHLMC)

## NOTE 3 – CASH AND INVESTMENTS (Continued)

### *D. Custodial Credit Risk*

**Deposits** – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk on deposits. As of June 30, 2012, the carrying amount of the Authority's deposits was $2.7 million and the bank balance was $3.7 million. The difference between the bank balance and the carrying amount represents outstanding checks and deposits in transit. Of the bank balance, $250 thousand was covered by federal depository insurance and $3.5 million was collateralized by the pledging financial institutions as required by Section 53652 of the California Governmental Code.

Under the California Government Code, Section 53652, the market value of the pledged securities must equal at least 110 percent of the Authority's deposits, with the exception of mortgage-backed securities, which must equal at least 150 percent.

**Investments –** For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy regarding custodial credit risk on investments. As of June 30, 2012, the Authority's investments are not exposed to custodial credit risk.

### *E. Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the Authority's investments to market interest rate fluctuations is provided by the following table that shows the distribution to the Authority's investments by maturity (in thousands):

| | Maturities | | |
|---|---|---|---|
| Investment Type | Less than One Year | One to Five Years | Total |
| U.S. Treasury Notes | $ 100 | $ 52,852 | $ 52,952 |
| Federal Agency Securities | 1,049 | 32,534 | 33,583 |
| Corporate Notes | - | 6,956 | 6,956 |
| Commercial Paper | 999 | - | 999 |
| Money Market Mutual Funds * | 475 | - | 475 |
| Local Agency Investment Fund * | 106,786 | - | 106,786 |
| California Asset Management Program * | 1,501 | - | 1,501 |
| Total Investments | $ 110,910 | $ 92,342 | 203,252 |
| Cash in Bank | | | 2,672 |
| Total Cash and Investments | | | $ 205,924 |

* - Maturity is based on weighted-average maturity of the investment.

## NOTE 3 – CASH AND INVESTMENTS (Continued)

### *F. Credit Risk*

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2012 for each investment type (in thousands) as provided by Standard and Poor's investment rating system:

| Investment Type | AAA | AA/AA+ | A-1+ | A+/ A | Total |
|---|---|---|---|---|---|
| Federal Agency Securities* | $ - | $ 33,583 | $ - | $ - | $ 33,583 |
| Corporate Notes | 3,335 | 1,058 | - | 2,564 | 6,956 |
| Commercial Paper | - | - | 999 | - | 999 |
| Money Market Mutual Funds | 475 | - | - | - | 475 |
| California Asset Management Program | 1,501 | - | - | - | 1,501 |
| Totals | $ 5,311 | $ 34,641 | $ 999 | $ 2,564 | 43,514 |
| *Not rated:* | | | | | |
| Local Agency Investment Fund | | | | | 106,786 |
| *Exempt from rating requirement:* | | | | | |
| U.S. Treasury Notes* | | | | | 52,952 |
| Total Investments | | | | | 203,252 |
| Cash in Bank | | | | | 2,672 |
| Total Cash and Investments | | | | | $ 205,924 |

*In August 2011, Standard & Poor's lowered its long-term credit rating from AAA to AA+ on debt of the U.S. government, U.S. government-sponsored enterprises, and public debt issues that have credit enhancement guarantees by U.S. government sponsored enterprises. These credit downgrades relate to the credit risk associated with the Authority's investments in the U.S. Treasury notes and federal agency securities, which amounts to $29.6 million and $33.6 million, respectively.

### *G. Concentration of Credit Risk*

Investments in any one issuer, other than U.S. Treasury securities, mutual funds, and external investment pools that represent 5% or more of total Authority-wide investments are as follows at June 30, 2012 (in thousands):

| | | |
|---|---|---|
| Federal Home Loan Mortgage Corporation | Federal Agency Securities | $ 14,869 |
| Federal National Mortgage Association | Federal Agency Securities | 13,027 |

## NOTE 3 – CASH AND INVESTMENTS (Continued)

### *H. Local Authority Investment Fund (LAIF) and California Asset Management Program (CAMP)*

The Authority is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Authority reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. The total amount invested by all public agencies in LAIF as of June 30, 2012 is approximately $21.88 billion. LAIF is part of the Pooled Money Investment Account (PMIA) with a total portfolio of approximately $60.5 billion as of June 30, 2012. Of that amount, 96.53% is invested in non-derivative financial products and 3.47% in structured notes and asset-backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members, as designated by State statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the Agency's position in the pool. At June 30, 2012, these investments have an average maturity of 268 days.

The Authority is a voluntary participant in the California Asset Management Program (CAMP). CAMP is an investment pool offered by the California Asset Management Trust (the Trust). The Trust is a joint powers authority and public agency created by the Declaration of Trust and established under the provisions of the California Joint Exercise of Powers Act (California Government Code Sections 6500 et seq., or the "Act") for the purpose of exercising the common power of its Participants to invest certain proceeds of debt issues and surplus funds. The Pool's investments are limited to investments permitted by subdivisions (a) to (n), inclusive, of Section 53601 of the California Government Code. The Authority reports its investments in CAMP at the fair value amounts provided by CAMP, which is the same as the value of the pool share. At June 30, 2012, the fair value approximated is the Authority's cost.

## NOTE 4 – INTERFUND TRANSACTIONS

### *Transfers Between Funds*

With Board approval, as required under Measure C and Measure J or under the terms of the Authority's debt issues, resources are transferred from one Authority fund to another. Interfund transfers for the year ended June 30, 2012 were as follows (in thousands):

| Fund Receiving Transfer | Fund Making Transfer | Purpose | Amount Transferred |
|---|---|---|---|
| Measure J General Fund | 2010 Measure J Debt Service Fund | (A) | $ 26,095 |
| Measure C Special Revenue Fund | Nonmajor Governmental Funds | (B) | 1,355 |
| 2010 Measure J Debt Service Fund | Measure J General Fund | (C) | 8,911 |
| | Total | | $ 36,361 |

Purposes of Transfers:
(A) Transfer bond proceeds to Measure J for reimbursement of bond funded project costs.
(B) Transfer Air Quality resources to fund programs that reduce air pollution from motor vehicles.
(C) Transfer sales tax revenues for debt service.

## NOTE 5 – CAPITAL ASSETS

### *A. Capital Assets Contributed to Other Entities*

The Authority is required to exclude from its financial statements assets contributed to and maintained by other governments or organizations. The Authority has constructed a variety of capital projects consisting of streets and road and other transportation infrastructure projects, which upon completion were "contributed" to its Members, the State, or other governments responsible for their maintenance and care. Since those other agencies maintain the contributed capital assets, the cost of those assets has been excluded from the accompanying financial statements. This concept is followed regardless of whether infrastructure is financed with revenues or long-term debt. As of June 30, 2012, through Measures C and J, the Authority has spent $837.2 million on infrastructure capital asset projects since the Authority's inception.

## NOTE 5 – CAPITAL ASSETS (Continued)

### *B. Authority Capital Assets*

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed. The Authority defines capital assets as equipment, financial systems and leasehold improvements with an individual cost of more than $5,000 and an estimated useful life in excess of one year.

Capital assets with limited useful lives are required to be depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Authority has assigned a useful life of three to five years for Office Equipment, seven years for Furniture, five years for the Financial System and sixteen years for Leasehold Improvements.

Some capital assets may be acquired using Federal and State grant funds, or they may be contributed by developers or other governments. Contributions are required to be accounted for as revenues at the time the capital assets are contributed.

The Authority's capital assets comprise the following at June 30, 2012 (in thousands):

| | Balance at June 30, 2011 | Additions/ Adjustments | Retirements | Balance at June 30, 2012 |
|---|---|---|---|---|
| Cost: | | | | |
| Office Equipment | $ 171 | $ 124 | $ (11) | $ 284 |
| Furniture | 203 | 9 | - | 212 |
| Financial System | 415 | 1 | - | 416 |
| Leasehold Improvements | 415 | - | - | 415 |
| Subtotal | 1,204 | 134 | (11) | 1,327 |
| Accumulated Depreciation: | | | | |
| Office Equipment | (45) | (169) | 11 | (203) |
| Furniture | (21) | (38) | - | (59) |
| Financial System | (142) | (143) | - | (285) |
| Leasehold Improvements | (48) | (4) | - | (52) |
| Subtotal | (256) | (354) | 11 | (599) |
| Capital Assets, net of accumulated depreciation | $ 948 | $ (220) | $ - | $ 728 |

## NOTE 6 - DEPOSITS PAYABLE

Deposits are from the City of Antioch for the Hillcrest Overcrossing (Segment 3B) project and the City of San Pablo for the I-80 San Pablo Dam Road Interchange project. At June 30, 2012 the deposit balance was $1.3 million and $2.4 million, respectively.

## NOTE 7 - LONG-TERM DEBT

### *A. Changes in Long-Term Obligations*

The Authority issued the debt summarized below to finance infrastructure capital assets contributed to other governments (See Note 5A) (in thousands).

| | Balance at June 30, 2011 | Additions | Retirements | Balance at June 30, 2012 | Current Portion |
|---|---|---|---|---|---|
| 2010 Sales Tax Revenue Bonds | $ 200,990 | $ - | $ - | $ 200,990 | $ - |

On September 30, 2010, the Authority issued $201 million in Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2010 (the "2010 Bonds"). Proceeds of the 2010 Bonds were used to currently refund the Sales Tax Revenue Notes (Limited Tax Notes), Series 2009 (the "2009 Notes") with an outstanding principal balance of $200 million, which were issued to finance the costs of certain transportation facility and service improvements within the County, including highway improvements, and public transit improvements. There was no gain or loss on the current refunding, as the reacquisition price of the 2010 Bonds was equal to the carrying value of the 2009 Notes.

The 2010 Bonds bear interest at an Indexed Floating Rate, as provided in the Indenture, unless and until the interest rate period for the 2010 Bonds is converted to a different interest rate period, as provided in the Indenture. During the Initial Indexed Floating Rate Period, the Indexed Floating Rate will be equal to the SIFMA Municipal Swap Index plus the Applicable Spread, which initially is set at 0.75%. The applicable spread could change if the Authority's bond rating were to change, which could rise to 3.0% if the rating falls to A- or if it falls to BBB+ or below, to the maximum rate as defined in the Indenture, which could be as high as 8% or the Indexed Floating Rate plus 7.0%, whichever is higher. At June 30, 2012, the SIFMA Municipal Swap Index Rate was 0.18%, which was used to calculate the future interest payments. Variable rate interest payments are made on a monthly basis commencing on November 1, 2010 from sales tax and swap revenue.

Although the 2010 Bonds mature on March 1, 2034, the Initial Indexed Floating Rate Period will end on October 1, 2013 (the "Special Mandatory Tender Date"), or upon earlier conversion to another Rate Period, as provided in the Indenture. If any portion of the 2010 Bonds is not paid or successfully remarketed on such Special Mandatory Tender Date, then the 2010 Bonds are subject to a mandatory redemption at a Redemption Price equal to the principal amount thereof, plus accrued interest. The principal would be due and payable quarterly in eleven (11) equal principal installments, payable commencing on the date that is 180 days following the Special Mandatory Tender Date so that the 2010 Bonds are repaid in full within three (3) years from such date unless extended with the consent of the Bondholder Representative. During this repayment period the applicable interest rate on the 2010 Bonds shall be the higher of 8% or the Indexed Floating Rate plus and not to exceed 7%. On or before the Special Mandatory Tender Date, the Authority intends to provide a Conversion Notice to the Bondholder Representative to exercise its option to remarket the 2010 Bonds or otherwise refinance with a subsequent bond transaction.

**NOTE 7 - LONG-TERM DEBT (Continued)**

The 2010 Bonds are limited obligations of the Authority payable solely from and secured solely by a pledge of Sales Tax Revenues collected from Measure J. The Measure J Sales Tax will expire on March 31, 2034. The 2010 Bonds are not secured by a debt service reserve fund, nor is there any liquidity facility providing liquidity for the 2010 Bonds. The total projected Measure J Sales Tax revenue, as reported in the 2011 Measure J Strategic Plan, is expected to approximate $2.45 billion, which is sufficient to repay the estimated debt service, including net interest rate swap settlements, of $333.4 million on the 2010 Bonds. The Measure J Sales Tax revenue recognized during the year was $68.7 million, whereas debt service, including net interest rate swap settlements, on the 2010 Bonds was $8.4 million.

***B. Annual Future Payments***

The following table presents the Authority's aggregate annual amount of principal and interest payments required to amortize the outstanding debt as of June 30, 2012 (in thousands):

| Year ending | Governmental Activities | |
|---|---|---|
| June 30: | Principal | Interest * |
| 2013 | $ - | $ 1,869 |
| 2014 | - | 1,869 |
| 2015 | - | 1,869 |
| 2016 | - | 1,869 |
| 2017 | - | 1,869 |
| 2018-2022 | - | 9,345 |
| 2023-2027 | 39,905 | 9,149 |
| 2028-2032 | 110,760 | 5,506 |
| 2033-2034 | 50,325 | 706 |
| | $ 200,990 | $ 34,051 |

* Interest payments in the table above are based on the indexed floating rate defined in the Indenture of the 2010 Bonds, which was 0.93% at June 30, 2012.

## NOTE 7 - LONG-TERM DEBT (Continued)

### *C. Swap Commitment*

In fiscal year 2005, in order to protect itself against rising interest costs on the expected issuance of bonds, the Authority entered into forward commitment interest rate swap agreements with Bank of America, N.A. and Merrill Lynch Capital Services, Inc. (Counterparties). An interest rate swap is a contractual agreement whereby the parties agree to exchange cash flows over a certain period of time. Beginning on September 23, 2009, the Authority was to pay a fixed rate of 3.653% to the Counterparties, and the Counterparties would pay a floating rate to the Authority. The floating rate is expected to approximately equal the floating rate which the Authority will pay to the holders of its floating rate bonds, issued in 2009. Including anticipated ongoing fees associated with the floating rate bonds, the synthetic fixed rate which the Authority will pay is considered a very favorable rate in comparison with long-term interest rates.

On September 18, 2009, the Authority partially terminated $100 million of an existing $150 million floating-to-fixed swap with Merrill Lynch Capital Services, Inc. (Merrill Lynch) and simultaneously novated the remaining $50 million notional amount to Bank of America, N.A. ("BofA"), who acquired Merrill Lynch. The partial termination resulted in an amended $200 million floating-to-fixed swap with BofA, which relates to the Series 2010 Sales Tax Revenue Bonds. A summary of the terms of the interest rate swap agreement is presented below:

| Term | Counterparty<br>Bank of America |
|---|---|
| Notional amount | $200 million |
| Effective date | September 23, 2009 |
| Interest rate swap: | |
| Basis of interest payments due from Authority: | |
| Fixed rate on notional amount | 3.6574% |
| Basis of interest receipts due from Counterparty: | |
| Floating rate on notional amount | |
| % of 1 month LIBOR (London Interbank Offered Rate) | 63.50% |
| Additional basis points | 29 (0.29%) |
| Termination date (maturity date) | March 1, 2034 |
| Fair value loss at June 30, 2012 | $58.8 million |
| Credit rating | Aa3/A+/A+ |

During 2004, Standard & Poor's introduced Debt Derivative Profile (DDP) scoring to provide a simple measure of the complexities of municipal debt-related derivatives by translating that exposure into an easily understandable measurement of risk and to enhance the transparency of municipal derivative structures. Scores range from a low risk score of 1 to a high risk score of 5. Although many factors are considered, scores primarily indicate an issuer's potential financial loss from debt derivatives, including swaps, due to early termination resulting from changes in credit worthiness or market conditions. During fiscal 2005-2006, Standard & Poor's rated the Authority's Swap agreements an overall score of 1, the lowest risk score possible.

## NOTE 7 - LONG-TERM DEBT (Continued)

Risks associated with the interest rate swap agreement and the 2010 Bonds as of June 30, 2012 are summarized and discussed below:

*Basis Risk* – The Authority is exposed to basis risk as the hedging derivative instrument uses LIBOR as the basis of interest rate receipts from the Counterparty, while the Authority uses the SIFMA Municipal Swap Index as the basis of interest payments on the 2010 Bonds. The risk is that the receipts from the Counterparty may not correspond to or may be insufficient to cover the floating rate payments due on the Bonds.

*Tax Risk* - Tax risk results from uncertainty in future income tax law leading to a mismatch between the interest rate paid on the Authority's underlying Bonds and the rate received on the Swap agreements that could be caused by a reduction in, or *elimination* of, the benefits of tax-exempt debt.

As of June 30, 2012, the fair value loss of the hedging derivative instrument, which is in favor of the Counterparty, was $58.8 million. The change in fair value represents an increase of $32.7 million from the fair value loss of $26.1 million reported in the prior fiscal year. The fair value loss represents the maximum loss that would be recognized at the reporting date if the counterparty failed to perform as contracted. The Authority has accounted for the change in fair value of the hedging derivative instrument as a decrease to the accumulated deferred outflows of resources on the statement of net assets.

*Credit (Counterparty) Risk* – This is the risk that Counterparties could fail to make payments as specified under the Swap agreements.

This fair value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the interest rate swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the interest rate swap.

Depending on the fair value, the Authority could be further exposed to interest rate risk if the Counterparty defaults or if the interest rate swap agreement is terminated. Under the terms of the Credit Support Annex (CSA), the posting of collateral by a counterparty is a function of the credit rating of the counterparty and threshold value if the fair market value exceeds $40 million. Collateral was required to be pledged by the Counterparty at June 30, 2012.

Conversely, as of June 30, 2012 the collateralization provisions for the 2010 Bonds are bilateral and require the Authority to pledge collateral for the fair value of the interest rate swap agreement should that fair value exceed $40 million and credit ratings of the Authority fall below applicable thresholds. Collateral was required to be pledged by the Authority at June 30, 2012 the balance was $23.4 million in U.S. Treasury Notes. The Authority maintains the interest earnings on the U.S. Treasury Notes.

## NOTE 7 - LONG TERM DEBT (Continued)

*Termination Risk* – The Authority or Counterparty may terminate the interest rate swap agreement if the other party fails to perform under the terms of the agreement. If the interest rate swap agreement is terminated, the associated portion of the 2010 Bonds would no longer be hedged to a fixed rate. If at the time of termination the interest rate swap agreement has a negative fair value, the Authority would be liable to the Counterparty for a termination payment equal to its fair value.

*Rollover Risk* – Rollover risk is the risk that the interest rate swap associated with 2010 Bonds matures or may be terminated prior to the maturity of the associated debt. If the interest rate swap terminates, the Authority will be re-exposed to the risks being hedged by the interest rate swap. The interest rate swap associated with the 2010 Bonds terminates on March 1, 2034, the same date of the final maturity on the 2010 Bonds.

*Swap payments and associated debt.* Using the rates as of June 30, 2012, debt service requirements for the Authority's outstanding 2010 Bonds and interest rate swap payments are as follows (in thousands):

| Year Ending June 30 | Principal | Interest | Interest Rate Swaps, Net | Total |
|---|---|---|---|---|
| 2013 | $ - | $ 1,869 | $ 6,386 | $ 8,255 |
| 2014 | - | 1,869 | 6,386 | 8,255 |
| 2015 | - | 1,869 | 6,386 | 8,255 |
| 2016 | - | 1,869 | 6,386 | 8,255 |
| 2017 | - | 1,869 | 6,386 | 8,255 |
| 2018-2022 | - | 9,345 | 31,931 | 41,276 |
| 2023-2027 | 39,905 | 9,149 | 25,592 | 74,646 |
| 2028-2032 | 110,760 | 5,506 | 7,995 | 124,261 |
| 2033-2034 | 50,325 | 706 | 911 | 51,942 |
| | $ 200,990 | $ 34,051 | $ 98,359 | $ 333,400 |

## NOTE 8 – PENSION PLAN

All Authority employees are eligible to participate in a pension plan offered by the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer defined-benefit pension plan, which acts as a common investment and administrative agent for its participating member employers. CalPERS provides retirement and disability retirement benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. The Authority's employees participate in the CalPERS Miscellaneous Employee "2% at 55" Plan. Benefit provisions under the Plan are established by State statute and Authority resolution. Benefits are based on years of credited service, equal to one year of full-time employment. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS; and the Authority must contribute the amounts specified by CalPERS. The Plan's provisions and benefits in effect at June 30, 2012 are summarized as follows:

| | Miscellaneous |
|---|---|
| Benefit vesting schedule | 5 years service |
| Benefit payments | Monthly for life |
| Retirement age | 50 |
| Monthly benefit factors, as a % of annual salary | 1.426 % - 2.418% |
| Required employee contribution rate | 7% |
| Required employer contribution rate | 12.667% |

Audited annual financial statements and six year trend information are available from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

### Funding Policy and Actuarial Assumptions

CalPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the Authority's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the Authority must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The Authority uses the actuarially determined percentages of payroll to calculate and pay contributions to CalPERS. This results in no net pension obligations or unpaid contributions.

CalPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.25% is assumed, including inflation at 3.25%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling fifteen-year period.

As required by State law, effective July 1, 2005, the Authority was required by CalPERS to join a new State-wide pool for smaller agencies. One of the conditions of entry to the pool was that the Authority true-up any unfunded liabilities in the former Plan, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CalPERS. The Authority satisfied its unfunded liability of $550 thousand by agreeing to contribute that amount to the Side Fund through an addition to its normal contribution rates over the next 8 years.

## NOTE 8 – PENSION PLAN (Continued)

Annual Pension Costs, representing the payment of all contributions required by CalPERS, for the last three fiscal years were as follows (in thousands):

| Year Ended June 30 | Annual Required Contribution (ARC) | Percentage of ARC Contributed | Net Pension Obligation |
|---|---|---|---|
| 2010 | $ 243 | 100% | $ - |
| 2011 | 240 | 100% | - |
| 2012 | 258 | 100% | - |

The Authority passed a resolution requiring it to pay employee contributions as well as its own. The contributions made on behalf of the employees were $168 thousand for the current year.

## NOTE 9 – OTHER POST EMPLOYMENT HEALTH CARE BENEFITS

By Board resolution, the Authority provides certain health care benefits for retired employees under third-party insurance plans. Employees become eligible to retire and receive healthcare benefits upon reaching the age of 50 and 5 years of service or being converted to disability, retiring directly from the Authority, and continue participating in Public Employees' Medical and Hospital Care Act (PEMHCA) after retirement. The Authority pays monthly health insurance premiums up to $540, $1,081, $1,405 for a retiree, couple, and family, respectively. As of June 30, 2012, five retirees receiving benefits and seven participants were eligible to receive benefits.

### Funding Policy and Actuarial Assumptions

The annual required contribution (ARC) was determined as part of a June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Authority and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least biannually as results are compared to past expectations and new estimates are made about the future. The Authority's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a fixed 20 year amortization period.

## NOTE 9 – OTHER POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

In accordance with the Authority's budget, the annual required contribution (ARC) is to be funded throughout the year as a percentage of payroll. The Authority participates in the California Employers' Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administrated by CalPERS, and is managed by an appointed board not under the control of Authority. This Trust is not considered a component unit by the Authority and has been excluded from these financial statements. CalPERS issues a publicly available financial report that includes financial statements of the CERBT and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

The actuarial assumptions used to calculate the ARC for the current fiscal year and used to calculate the funded status of the Plan at June 30, 2011 are as follows:

| Description | Method/Assumption |
|---|---|
| Valuation date | June 30, 2011 |
| Actuarial cost method | Entry age normal cost method |
| Amortization method for actuarial accrued liabilities | Level percentage of payroll |
| Average remaining period | 16 years as of valuation date |
| Actuarial asset valuation method | 15 Year Smoothed Market |
| Investment rate of return | 7.25% per annum, net of administrative expense |
| Inflation | 3.00% per year |
| Payroll Growth | 3.25% per year |
| Individual Salary Growth | A merit scale varying by duration of employment coupled with an assumed annual inflation groth of 3.00% and an annual production growth of 0.25% |
| Projected medical trend rate | As of FY 2013, rate starts at 9% - 9.4% annually and declines over the next 8 years to 5%. |

### Funding Progress and Funded Status

Generally accepted accounting principles permits contributions to be treated as OPEB assets when such contributions exceed the annual OPEB cost. During the fiscal year ended June 30, 2012, the Authority contributed the ARC amounting to $211 thousand to the Plan, which represented 10% of the $2.11 million of covered payroll. In Fiscal Year 2008, the Authority contributed an additional $1.1 million to CERBT.

## NOTE 9 – OTHER POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

As a result, the Authority has recorded the Net OPEB Asset, representing the difference between the ARC, the amortization of the Net OPEB Asset and actual contributions, as presented below (in thousands):

| | | |
|---|---|---|
| Annual required contribution (ARC) | $ | (208) |
| Interest on net OPEB Asset | | 61 |
| Adjustment to annual required contribution | | (95) |
| Annual OPEB cost | | (242) |
| Contributions made: | | |
| Contributions to CERBT | | 211 |
| Change in Net OPEB Asset | | (31) |
| Net OPEB Asset at June 30, 2011 | | 844 |
| **Net OPEB Asset at June 30, 2012** | $ | 813 |

The actuarial accrued liability (AAL) representing the present value of future benefits, included in the actuarial study dated June 30, 2011, amounted to $2.4 million, which was partially funded with assets held in the CERBT. The Authority's accumulation of contributions and investment earnings, net of distributions resulted in assets of $1.8 million held in the CERBT as of June 30, 2012, which will be used to pay future benefits.

The Plan's annual required contributions and actual contributions for fiscal years ended June 30 2010, 2011 and 2012 are set forth below (in thousands):

| Fiscal Year | Annual OPEB Cost | Actual Contribution | Pecentage of OPEB Costs Contributed | Net OPEB (Asset) |
|---|---|---|---|---|
| 6/30/2010 | $ 164 | $ 125 | 76% | $ (873) |
| 6/30/2011 | 162 | 133 | 82% | (844) |
| 6/30/2012 | 242 | 211 | 87% | (813) |

## NOTE 9 – OTHER POST EMPLOYMENT HEALTH CARE BENEFITS (Continued)

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies is presented below (in thousands):

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Entry Age Actuarial Accrued Liability (B) | Unfunded (Overfunded) Actuarial Accrued Liaility (B-A) | Funded Ratio (A/B) | Covered Payroll (C ) | Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(B-A)/C] |
|---|---|---|---|---|---|---|
| 1/1/2007 | $ - | $ 1,130 | $ 1,130 | 0.0% | $ 1,534 | 73.7% |
| 1/1/2009 | 984 | 1,500 | 516 | 65.6% | 2,042 | 25.3% |
| 6/30/2011 | 1,524 | 2,433 | 909 | 62.6% | 2,039 | 44.6% |

## NOTE 10 - DEFERRED COMPENSATION PLAN

Authority employees may voluntarily defer a portion of their compensation under Authority-sponsored Deferred Compensation Plans created in accordance with Internal Revenue Code Section 457. The Executive Director also currently receives a 457 Plan contribution as part of his compensation agreement. For staff, the Authority will contribute matching amounts for years of service. Under these 457 Plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at termination, retirement, death or in an emergency as defined by the Plans.

The Authority has no liability for any losses which may be incurred by the Plans and does not participate in any gains, but it does have the duty of due care that would be required of an ordinary prudent investor. The Authority has contracts with CalPERS and with Lincoln Financial Group to manage and invest the assets of the Plans. These administrators pool the assets of the Plans with those of other participants and do not make separate investments for the Authority. Plan assets are subject to agreements which incorporated changes in the laws governing deferred compensation plan assets and are held by a trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under this plan are not the Authority's property and are not subject to claims by general creditors of the Authority, they have been excluded from these financial statements.

## NOTE 11 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. The Authority manages and finances these risks by purchasing commercial insurance and has a $1 thousand deductible for general and special property liability with limits of $10 million and $350 million, respectively. For automobile, the Authority has a $1 thousand deductible with a limit of $10 million. The Authority's deductible for crime is $10 thousand, with a limit of $1 million. The Authority has no deductible for workers compensation with a $1 million limit. There have been no significant reductions in insurance coverage from the previous year, nor have settled claims exceeded the Authority's commercial insurance coverages in any of the past three years.

## NOTE 11 – RISK MANAGEMENT (Continued)

As of June 30, 2012, the Authority had no material claims outstanding for general liability or for workers' compensation cases.

## NOTE 12 – NET ASSETS AND FUND BALANCES

Net Assets is measured on the full accrual basis, while Fund Balance is measured on the modified accrual basis.

### *A. Net Assets*

Net Assets is the excess of all the Authority assets over all its liabilities. Net Assets are divided into three captions. These captions apply only to Net Assets, which is determined only at the Government-wide level, and are described below:

*Invested in Capital Assets,* describes the portion of Net Assets which is represented by the current net book value of the Authority's capital assets.

*Restricted,* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions, which the Authority cannot unilaterally alter. These principally include assets restricted to fund construction commitments and debt service requirements.

*Unrestricted,* describes the portion of Net Assets which is not restricted to use. As of June 30, 2012, the Authority had an unrestricted net assets deficit amounting to $199.3 million. This net assets deficit is a result of capital projects, which are contributed or transferred to other governments upon completion since those entities are responsible for maintaining them. Authority management has estimated that since Measure C's inception, and subsequently Measure J's, the Authority has constructed $837.2 million in capital assets. These assets are reflected on other governments' financial statements in accordance with generally accepted accounting principles.

### *B. Fund Balances*

The fund balance for governmental funds in the specific classifications (nonspendable, restricted, committed, assigned and unassigned), which create a hierarchy primarily based on the extent to which the Authority is bound to honor the constraints on the specific purposes for which funds can be spent. The Authority only has restricted fund balance at June 30, 2012 as it is bound by the Measure C and Measure J Expenditure Plans approved by voters.

Fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

## NOTE 13 – COMMITMENTS AND CONTINGENCIES

The Authority is subject to litigation arising in the normal course of business. In the opinion of the Authority's Attorney, there is no pending litigation which is likely to have a material adverse effect on the financial position of the Authority.

The Authority receives federal and State grant funds. The amounts, if any, of the Authority's grant expenditures which may be disallowed upon audit by the granting agencies cannot be determined at this time, although the Authority expects any such amounts to be immaterial.

The Authority has various contracts with private consulting companies and cooperative agreements with governmental entities. As of June 30, 2012, the Authority had outstanding commitments approximating $457 million. In addition to the above, the Authority has a remaining programming commitment of approximately $25.2 million to the San Francisco Bay Area Rapid Transit District (BART) system related to the State Highway Route 4 widening project.

In July 2009, the Authority agreed to a memorandum of understanding with Contra Costa County to loan up to $8 million for Vasco Road safety improvements to secure $10 million of American Recovery and Reinvestment Act funds. The funds would be repaid from the County's share of Measure J 18% local streets and roads funds or State of California Proposition 1B bonds. The Authority would charge interest based on the actual County Pooled Investment Earnings Account rate in effect for the period of the loan. The loan would be repaid for amounts owed plus interest by June 30, 2014. As of June 30, 2012, there has been no request by the County for these funds as the project appears fully funded without loans from the Authority.

The Authority leases its office facility and certain office equipment under operating lease agreements. During the year ended June 30, 2012, lease expenditures approximated $308 thousand. A schedule of future minimum lease payments on noncancelable operating leases follows (in thousands):

| Year Ending June 30: | | |
|---|---|---|
| 2013 | $ | 308 |
| 2014 | | 322 |
| 2015 | | 335 |
| 2016 | | 349 |
| 2017 | | 362 |
| Thereafter | | 3,523 |
| | $ | 5,199 |

This Page Intentionally Left Blank

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**MEASURE J DEBT SERVICE FUNDS**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**
**FUND BALANCE - BUDGET AND ACTUAL**
**FOR THE YEAR ENDED JUNE 30, 2012**
**(In thousands)**

| | 2010 Measure J Bonds | | | |
|---|---|---|---|---|
| | Budget | | | |
| | Original | Final | Actual | Variance with Final Budget - Positive (Negative) |
| **Revenues** | | | | |
| Investment income | $ 90 | $ 271 | $ 276 | $ 5 |
| Total Revenues | 90 | 271 | 276 | 5 |
| **Expenditures** | | | | |
| Debt service: | | | | |
| Interest and related fees | 8,420 | 8,420 | 8,386 | 34 |
| Total Expenditures | 8,420 | 8,420 | 8,386 | 34 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (8,330) | (8,149) | (8,110) | (29) |
| **Other Financing Sources (Uses)** | | | | |
| Transfer in | 8,420 | 8,420 | 8,911 | 491 |
| Transfer out | (53,005) | (46,859) | (26,095) | 20,764 |
| Total Other Financing Sources (Uses) | (44,585) | (38,439) | (17,184) | 21,255 |
| Net Change in Fund Balance | $ (52,915) | $ (46,588) | (25,294) | $ 21,226 |
| Fund Balance - Beginning | | | 100,842 | |
| Fund Balance - Ending | | | $ 75,548 | |

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**OTHER GOVERNMENTAL FUNDS**
**COMBINING BALANCE SHEET**
**JUNE 30, 2012**
**(In thousands)**

| | Measure J Paratransit | Measure J Commute Alternatives | Air Quality | Total Non-Major Special Revenue Funds |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and investments | $ 2,862 | $ 485 | $ 798 | $ 4,145 |
| Receivables: | | | | |
| Sales tax | 564 | 107 | - | 671 |
| Intergovernmental | - | 66 | - | 66 |
| Total Assets | $ 3,426 | $ 658 | $ 798 | $ 4,882 |
| **Liabilities and Fund Balances** | | | | |
| Liabilities | | | | |
| Accounts payable | $ 237 | $ 134 | $ - | $ 371 |
| Total Liabilities | 237 | 134 | - | 371 |
| Fund Balances | | | | |
| Restricted: | | | | |
| Air quality | - | - | 798 | 798 |
| Commute alternatives | - | 524 | - | 524 |
| Paratransit program | 3,189 | - | - | 3,189 |
| Total Fund Balances | 3,189 | 524 | 798 | 4,511 |
| Total Liabilities and Fund Balances | $ 3,426 | $ 658 | $ 798 | $ 4,882 |

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**OTHER GOVERNMENTAL FUNDS**
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**
**FOR THE YEAR ENDED JUNE 30, 2012**
**(In thousands)**

| | Measure J Paratransit | Measure J Commute Alternatives | Air Quality | Total Non-Major Special Revenue Funds |
|---|---|---|---|---|
| **Revenues** | | | | |
| Sales tax | $ 3,436 | $ 688 | $ - | $ 4,124 |
| Investment income | 20 | - | 9 | 29 |
| Federal Congestion Mitigation (CMAQ) | - | 66 | - | 66 |
| State Motor Vehicle Registration Surcharge (TFCA) | - | - | 1,332 | 1,332 |
| Total Revenues | 3,456 | 754 | 1,341 | 5,551 |
| **Expenditures** | | | | |
| Current expenditures: | | | | |
| Programs: | | | | |
| Commute alternatives | - | 671 | - | 671 |
| Paratransit | 2,403 | - | - | 2,403 |
| Total Expenditures | 2,403 | 671 | - | 3,074 |
| Excess of Revenues Over Expenditures | 1,053 | 83 | 1,341 | 2,477 |
| **Other Financing Sources (Uses)** | | | | |
| Transfer out | - | - | (1,355) | (1,355) |
| Total Other Financing Sources (Uses) | - | - | (1,355) | (1,355) |
| Net Change in Fund Balances | 1,053 | 83 | (14) | 1,122 |
| Fund Balances - Beginning | 2,136 | 441 | 812 | 3,389 |
| Fund Balances - Ending | $ 3,189 | $ 524 | $ 798 | $ 4,511 |

This Page Intentionally Left Blank

# *Statistical Section*

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**NET ASSETS BY COMPONENT**
**LAST TEN FISCAL YEARS**
**(Accrual basis of accounting)**
**(In Thousands)**

| | Fiscal Year Ending June 30: | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
| **Governmental Activities** | | | | | | | | | | |
| Invested in capital assets | $ 93 | $ 78 | $ 69 | $ 63 | $ 82 | $ 76 | $ 408 | $ 556 | $ 948 | $ 728 |
| Restricted for: | | | | | | | | | | |
| Transportation projects and programs | 60,190 | 68,529 | 71,905 | 76,620 | 85,374 | 84,679 | 81,586 | 142,031 | 214,208 | 196,826 |
| Unrestricted deficit | (170,332) | (149,554) | (122,756) | (96,648) | (81,932) | (67,142) | (46,710) | (118,558) | (199,187) | (199,264) |
| TOTAL NET ASSETS **(a)** | $ (110,049) | $ (80,947) | $ (50,782) | $ (19,965) | $ 3,524 | $ 17,613 | $ 35,284 | $ 24,029 | $ 15,969 | $ (1,710) |

**(a)** The Authority is required to exclude from its financial statements assets contributed to and maintained by other governments or organizations. The Authority has constructed a variety of capital projects consisting of streets and road and other transportation infrastructure projects, which upon completion were "contributed" to its Members, the State, or other governments responsible for their maintenance and care. Since those other agencies maintain the contributed capital assets, the cost of those assets has been excluded from the accompanying financial statements. This concept is followed regardless of whether infrastructure is financed with revenues or long-term debt. The reporting of Authority debt, without having a corresponding asset, results in a negative net asset position.

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**CHANGES IN NET ASSETS**
**LAST TEN FISCAL YEARS**
**(Accrual basis of accounting)**
**(In Thousands)**

| | Fiscal Year Ending June 30: | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Governmental Activities** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010 (a)** | **2011** | **2012** |
| Expenses | | | | | | | | | | |
| Administration | $ 1,608 | $ 1,388 | $ 2,289 | $ 1,792 | $ 1,954 | $ 1,720 | $ 1,597 | $ 1,560 | $ 1,533 | $ 1,768 |
| Project management | 451 | 545 | 676 | 730 | 818 | 795 | 859 | 697 | 659 | 718 |
| Programs | 18,264 | 18,770 | 18,923 | 19,997 | 20,954 | 21,229 | 18,579 | 25,975 | 26,437 | 27,785 |
| Transportation projects | 23,971 | 12,145 | 19,372 | 26,802 | 42,156 | 51,344 | 41,009 | 36,321 | 52,468 | 65,403 |
| Regional planning | 857 | 1,102 | 595 | 371 | 597 | 1,208 | 883 | 1,131 | 1,487 | 661 |
| Congestion management | 415 | 440 | 494 | 535 | 655 | 960 | 986 | 1,278 | 1,426 | 1,674 |
| Transportation demand management | 1,053 | 1,373 | 1,395 | 913 | 1,963 | 1,081 | 1,285 | 1,935 | 1,509 | 1,355 |
| Transportation planning land use solutions | - | - | - | - | 65 | 251 | 191 | 133 | 275 | 134 |
| Interest and related fees | 9,826 | 7,872 | 6,679 | 8,182 | 3,862 | 2,821 | 888 | 19,682 | 8,277 | 8,432 |
| Total expenses | 56,445 | 43,635 | 50,423 | 59,322 | 73,024 | 81,409 | 66,277 | 88,712 | 94,071 | 107,930 |
| Program Revenues | | | | | | | | | | |
| Operating and capital grants and contributions | 10,694 | 6,299 | 7,998 | 11,777 | 15,988 | 15,251 | 17,246 | 14,366 | 19,219 | 20,461 |
| Net (Expense) / Revenue | (45,751) | (37,336) | (42,425) | (47,545) | (57,036) | (66,158) | (49,031) | (74,346) | (74,852) | (87,469) |
| General Revenues: | | | | | | | | | | |
| Sales taxes | 65,782 | 65,684 | 71,014 | 74,676 | 75,738 | 74,680 | 64,322 | 61,527 | 65,061 | 68,729 |
| Investment income | 1,601 | 735 | 1,457 | 2,988 | 4,560 | 5,341 | 2,365 | 1,543 | 1,674 | 1,050 |
| Miscellaneous | 12 | 19 | 119 | 698 | 227 | 226 | 15 | 21 | 57 | 11 |
| Total general revenues | 67,395 | 66,438 | 72,590 | 78,362 | 80,525 | 80,247 | 66,702 | 63,091 | 66,792 | 69,790 |
| Change in net assets | $ 21,644 | $ 29,102 | $ 30,165 | $ 30,817 | $ 23,489 | $ 14,089 | $ 17,671 | $ (11,255) | $ (8,060) | $ (17,679) |

(a) The amount was restated in fiscal year ended June 30, 2011 to correct the accounting treatment of the interest rate swap hedging transactions. The Authority determined the swap was an effective hedge. An effective hedge should report the changes in fair value as deferred inflows or outflows on the statement of net assets, rather than flow the changes through the statement of activities.

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**CHANGES IN FUND BALANCES**
**LAST TEN FISCAL YEARS**
**(Accrual basis of accounting)**
**(In Thousands)**

| | Fiscal Year Ending June 30: | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
| **Revenues** | | | | | | | | | | |
| Sales tax | $ 65,782 | $ 65,684 | $ 71,014 | $ 74,676 | $ 75,738 | $ 74,680 | $ 64,322 | $ 61,527 | $ 65,061 | $ 68,729 |
| Investment income | 1,484 | 729 | 1,454 | 2,988 | 4,560 | 5,341 | 2,365 | 1,543 | 1,674 | 1,050 |
| Federal grants and contributions | 340 | 294 | 1,954 | 354 | 786 | 5,225 | 8,414 | 3,627 | 1,406 | 1,049 |
| State grants and contributions | 6,744 | 817 | 1,053 | 3,550 | 5,131 | 1,476 | - | 1,764 | 898 | 492 |
| Local grants and contributions | 3,738 | 5,296 | 4,994 | 7,873 | 10,071 | 8,550 | 8,832 | 8,975 | 6,866 | 28,968 |
| Miscellaneous revenue | 1 | 17 | 119 | 23 | 2 | 1 | 15 | 21 | 57 | 11 |
| Total Revenues | 78,089 | 72,837 | 80,588 | 89,464 | 96,288 | 95,273 | 83,948 | 77,457 | 75,962 | 100,299 |
| **Expenditures** | | | | | | | | | | |
| Current expenditures: | | | | | | | | | | |
| Administration: | | | | | | | | | | |
| Salaries and employee benefits | 519 | 601 | 555 | 552 | 616 | 569 | 486 | 567 | 484 | 512 |
| Services, supplies & capital outlay | 1,085 | 772 | 1,725 | 1,234 | 1,357 | 1,122 | 1,252 | 1,102 | 1,411 | 1,005 |
| Project Management: | | | | | | | | | | |
| Salaries and employee benefits | 433 | 527 | 659 | 706 | 806 | 790 | 853 | 692 | 650 | 712 |
| Services, supplies & capital outlay | 18 | 18 | 17 | 24 | 12 | 5 | 6 | 5 | 9 | 6 |
| Programs: | | | | | | | | | | |
| Carpool/Commute alternatives | 365 | 555 | 578 | 703 | 683 | 1,366 | 215 | 554 | 538 | 671 |
| Additional paratransit | - | - | - | - | - | - | - | 303 | 408 | 416 |
| Bus transit enhancements | - | - | - | - | - | - | 182 | 2,224 | 2,225 | 2,159 |
| Paratransit | 2,363 | 2,618 | 2,351 | 2,400 | 2,575 | 2,676 | 2,354 | 2,207 | 2,246 | 2,403 |
| Express bus program | - | - | - | - | - | - | 655 | 2,646 | 2,625 | 2,747 |
| Bus transit and improvement program | 3,695 | 3,774 | 3,211 | 3,452 | 4,063 | 3,745 | 3,100 | 3,075 | 3,047 | 3,187 |
| Safe transportation for children | - | - | - | - | - | - | 201 | 2,605 | 2,277 | 2,394 |
| Local street and maintenance | 11,841 | 11,823 | 12,783 | 13,442 | 13,633 | 13,442 | 11,578 | 11,075 | 11,711 | 12,371 |
| Subregional local street and maintenance | - | - | - | - | - | - | 294 | 1,286 | 1,360 | 1,437 |
| Transportation Projects: | | | | | | | | | | |
| Highways and arterials | 15,074 | 4,892 | 8,861 | 13,811 | 17,310 | 25,005 | 11,540 | 9,240 | 6,582 | 2,669 |
| Transit | 8,783 | 7,248 | 10,507 | 12,990 | 8,998 | 7,615 | 7,530 | 842 | 11,123 | 10,245 |
| Trails | 114 | 5 | 4 | 1 | 1 | 32 | 321 | - | - | - |
| Capital improvement projects | - | - | - | - | 15,847 | 18,692 | 21,618 | 23,887 | 34,037 | 49,559 |
| Countywide capital and maintenance projects | - | - | - | - | - | - | - | 140 | 69 | 235 |
| Subregional projects | - | - | - | - | - | - | - | 2,212 | 657 | 2,696 |
| Regional Planning: | | | | | | | | | | |
| Salaries and employee benefits | 221 | 278 | 282 | 267 | 316 | 448 | 529 | 458 | 394 | 394 |
| Services, supplies & capital outlay | 636 | 773 | 276 | 104 | 164 | 760 | 354 | 673 | 548 | 268 |
| Contributions to other agencies | - | 51 | 37 | - | 117 | - | - | - | 545 | - |
| Congestion Management: | | | | | | | | | | |
| Salaries and employee benefits | 245 | 312 | 366 | 418 | 589 | 753 | 866 | 1,155 | 1,302 | 1,447 |
| Services, supplies & capital outlay | 170 | 128 | 128 | 117 | 66 | 207 | 120 | 123 | 124 | 226 |
| Transportation Demand Management: | | | | | | | | | | |
| Salaries and employee benefits | 26 | 41 | 59 | 66 | 81 | 87 | 65 | 66 | 67 | 67 |
| Contributions to other agencies | 1,027 | 1,332 | 1,336 | 847 | 1,882 | 994 | 1,220 | 1,869 | 1,442 | 1,288 |
| Transportation Planning Land Use Solutions: | | | | | | | | | | |
| Salaries and employee benefits | - | - | - | - | 5 | 9 | 6 | 7 | 33 | 65 |
| Services, supplies & capital outlay | - | - | - | - | 60 | 242 | 185 | 126 | 242 | 68 |
| Debt service: | | | | | | | | | | |
| Bond principal | 19,325 | 20,380 | 26,225 | 27,985 | 29,450 | 30,950 | 32,480 | - | - | - |
| Note principal | - | - | - | - | - | - | - | - | 200,000 | - |
| Interest and related fees | 9,515 | 8,280 | 7,198 | 7,110 | 4,746 | 3,755 | 1,873 | 11,154 | 8,242 | 8,386 |
| Issuance costs | 637 | - | - | - | - | - | - | 1,183 | 994 | - |
| Total Expenditures | 76,092 | 64,408 | 77,158 | 86,229 | 103,377 | 113,264 | 99,883 | 81,476 | 295,392 | 107,633 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,997 | 8,429 | 3,430 | 3,235 | (7,089) | (17,991) | (15,935) | (4,019) | (219,430) | (7,334) |

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**CHANGES IN FUND BALANCES**
**LAST TEN FISCAL YEARS**
**(Accrual basis of accounting)**
**(In Thousands)**

| | Fiscal Year Ending June 30: | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** |
| **Other Financing Sources (Uses)** | | | | | | | | | | |
| Bond proceeds | 28,765 | - | - | - | - | - | - | 200,000 | 200,990 | - |
| Premium | 1,587 | - | - | - | - | - | - | 4,072 | - | - |
| Bond escrow agent | (29,765) | - | - | - | - | - | - | - | - | - |
| Swap termination | - | - | - | - | - | - | - | (11,417) | - | - |
| Transfer in | 48,340 | 46,311 | 48,340 | 48,702 | 49,882 | 48,787 | 35,360 | 98,660 | 113,259 | 36,361 |
| Transfer out | (48,340) | (46,311) | (48,340) | (48,702) | (49,882) | (48,787) | (35,360) | (98,660) | (113,259) | (36,361) |
| Total Other Financing Sources (Uses) | 587 | - | - | - | - | - | - | 192,655 | 200,990 | - |
| Net Change in Fund Balances | 2,584 | 8,429 | 3,430 | 3,235 | (7,089) | (17,991) | (15,935) | 188,636 | (18,440) | (7,334) |
| Fund Balances - Beginning | 57,302 | 59,886 | 68,315 | 71,745 | 74,980 | 67,891 | 49,900 | 33,964 | 222,600 | 204,160 |
| Fund Balances - Ending | $ 59,886 | $ 68,315 | $ 71,745 | $ 74,980 | $ 67,891 | $ 49,900 | $ 33,965 | $ 222,600 | $ 204,160 | $ 196,826 |

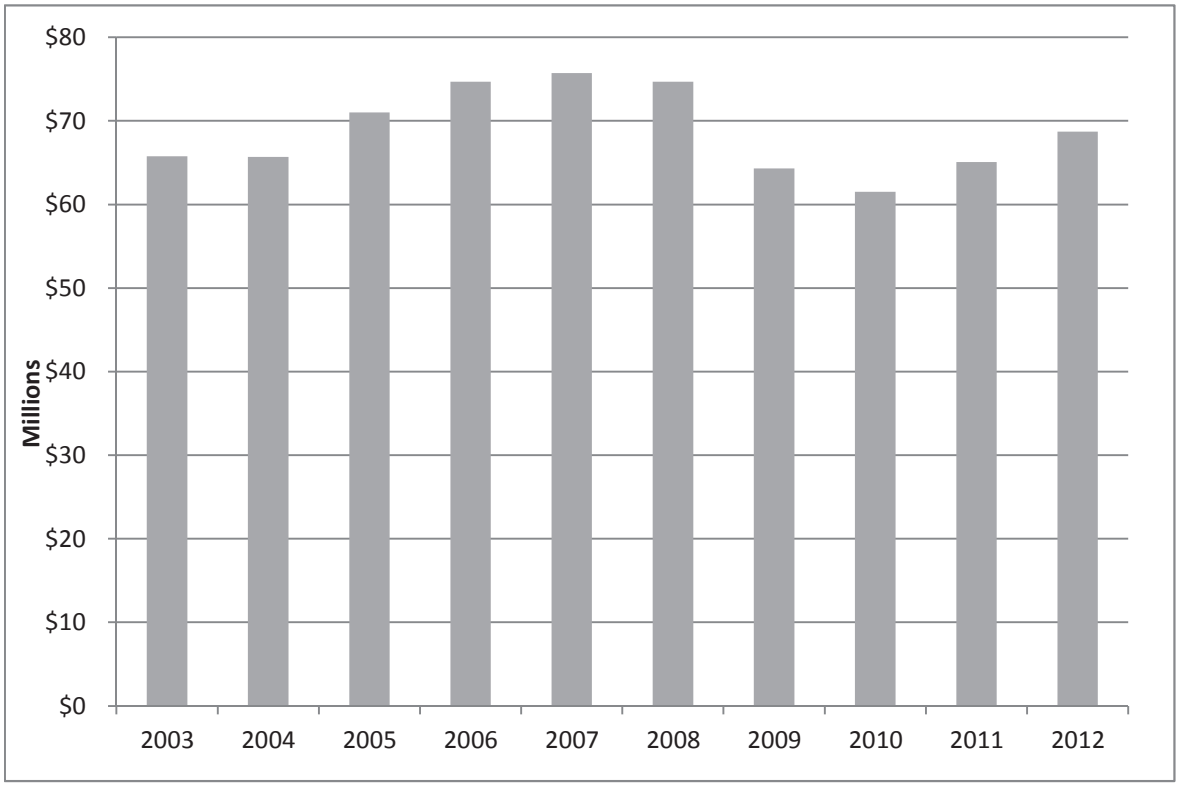
**CONTRA COSTA TRANSPORTATION AUTHORITY**
**FUND BALANCES OF GOVERNMENTAL FUNDS**
**(Modified accrual basis of accounting)**
**(In Thousands)**

| | Fiscal Year Ending June 30 (a): | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010 (b)** | **2011** | **2012** |
| **General Fund** | | | | | | | | | | |
| Restricted | $ 46,957 | $ 51,469 | $ 54,503 | $ 58,388 | $ 67,275 | $ 67,524 | $ 81,566 | $ 24,946 | $ 40,025 | $ 55,501 |
| **All Other Governemental Funds** | | | | | | | | | | |
| Restricted | 12,929 | 16,846 | 17,242 | 16,592 | 616 | (17,624) | (47,602) | 197,654 | 164,135 | 141,325 |
| **Total Governemental Funds** | | | | | | | | | | |
| Restricted | $ 59,886 | $ 68,315 | $ 71,745 | $ 74,980 | $ 67,891 | $ 49,900 | $ 33,964 | $ 222,600 | $ 204,160 | $ 196,826 |

(a) The Authority implemented GASB Statement No. 54 under which governmental fund balances are reported as nonspendable, restricted, committed and unassigned during fiscal year 2011. The information applies GASB Statement 54 for all fiscal years.

(b) Prior to fiscal year 2010, Measure C was the General Fund since it provided the operating funds for the Authority which concluded receiving receipts on March 31, 2009. Afterwards Measure J provided the operating funds and was reclassified as the General Fund.

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**SALES TAX REVENUES**
**LAST TEN FISCAL YEARS**




| Fiscal Year Ended June 30: | Authority Sales Tax Rate | Sales Tax | Annual Growth | Taxable Sales (B) | |
|---|---|---|---|---|---|
| 2003 | 0.5% | $ 65,782,060 | 0.94% | $ 12,159,424,000 | |
| 2004 | 0.5% | 65,683,521 | -0.15% | 12,223,295,000 | |
| 2005 | 0.5% | 71,014,103 | 8.12% | 12,990,538,000 | |
| 2006 | 0.5% | 74,676,194 | 5.16% | 13,480,075,000 | |
| 2007 | 0.5% | 75,738,245 | 1.42% | 13,867,661,000 | |
| 2008 | 0.5% | 74,679,537 | -1.40% | 14,086,295,000 | |
| 2009 | 0.5% | 64,321,868 | -13.87% | 13,307,680,000 | (A) |
| 2010 | 0.5% | 61,527,225 | -4.34% | 11,883,049,000 | |
| 2011 | 0.5% | 65,060,205 | 5.74% | 11,953,846,000 | |
| 2012 | 0.5% | 68,728,259 | 5.64% | Not Available | |

**(A) Measure C concluded on March 31, 2009 and Measure J began on April 1, 2009. For Fiscal Year 2008-09 Measure C and Measure J received $50.2 million and $14.1 million, respectively.**

**(B) Source: California State Board of Equalization (BOE). The BOE data is based on calendar year through 2010.**

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**TAXABLE SALES BY TYPE OF BUSINESS**
**CONTRA COSTA COUNTY**
**CALENDAR YEAR 2010 & 2009**
**(In Thousands)**

| Type of Business (a) | 2010 | 2009 | $ Difference | % Difference |
|---|---|---|---|---|
| Motor Vehicle and Parts Dealers | $ 1,234,844 | $ 1,184,803 | $ 50,041 | 4.2% |
| Furniture and Home Furnishings Stores | 227,432 | 225,331 | 2,101 | 0.9% |
| Electronics and Appliance Stores | 356,124 | 385,742 | (29,618) | -7.7% |
| Bldg. Matrl. and Garden Equip. and Supplies | 718,405 | 711,475 | 6,930 | 1.0% |
| Food and Beverage Stores | 673,326 | 657,337 | 15,989 | 2.4% |
| Health and Personal Care Stores | 264,011 | 264,279 | (268) | -0.1% |
| Gasoline Stations | 1,312,703 | 1,151,058 | 161,645 | 14.0% |
| Clothing and Clothing Accessories Stores | 663,243 | 642,813 | 20,430 | 3.2% |
| Sporting Goods, Hobby, Book, and Music Stores | 304,491 | 314,924 | (10,433) | -3.3% |
| General Merchandise Stores | 1,406,756 | 1,380,111 | 26,645 | 1.9% |
| Miscellaneous Store Retailers | 382,048 | 397,297 | (15,249) | -3.8% |
| Nonstore Retailers | 46,613 | 47,224 | (611) | -1.3% |
| Food Services and Drinking Places | 1,126,398 | 1,111,182 | 15,216 | 1.4% |
| *Total Retail and Food Services* | 8,716,394 | 8,473,576 | 242,818 | 2.9% |
| *All Other Outlets* | 3,237,454 | 3,409,471 | (172,017) | -5.0% |
| **Total All Outlets** | **$ 11,953,848** | **$ 11,883,047** | **$ 70,801** | **0.6%** |

Source: State of California Board of Equalization
http://www.boe.ca.gov/news/tsalescont.htm

(a) In 2009 the Board of Equalization changed the data presentation to conform with North American Industry Classification System.

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**OUTSTANDING DEBT BY TYPE**
**LAST TEN FISCAL YEARS**
**(In Thousands)**

| | Outstanding Debt | | | | Debt Service | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year Ended June 30: | Sales Tax Bonds | Sales Tax Revenue Notes | Commercial Paper | Total Debt | Principal | Interest | Total |
| 2003 | $ 167,470 | $ - | $ - | $ 167,470 | $ 19,325 | $ 9,515 | $ 28,840 |
| 2004 | 147,090 | - | - | 147,090 | 20,380 | 8,280 | 28,660 |
| 2005 | 120,865 | - | - | 120,865 | 26,225 | 7,198 | 33,423 |
| 2006 | 92,880 | - | - | 92,880 | 27,985 | 7,110 | 35,095 |
| 2007 | 63,430 | - | - | 63,430 | 29,450 | 4,746 | 34,196 |
| 2008 | 32,480 | - | 43,900 | 76,380 | 30,950 | 3,755 | 34,705 |
| 2009 | - | - | 69,295 | 69,295 | 32,480 | 1,873 | 34,353 |
| 2010 | - | 200,000 | - | 200,000 | - | 11,154 | 11,154 |
| 2011 | 200,990 | - | - | 200,990 | 200,000 | 8,242 | 208,242 |
| 2012 | 200,990 | - | - | 200,990 | - | 8,386 | 8,386 |

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**DEMOGRAPHICS AND ECONOMIC STATISTICS**
**CONTRA COSTA COUNTY**
**CALENDAR YEAR 2003-2012**

| Year | Population (a) | Personal Income (b) | Per Capita Personal Income (b) | Labor Force (c) | Employment (c) | Unemployment (c) | Unemployment Rate (c) |
|---|---|---|---|---|---|---|---|
| 2003 | 987,531 | $ 45,775,727 | $ 46,354 | 512,200 | 480,900 | 31,300 | 6.1% |
| 2004 | 992,424 | 48,923,798 | 49,297 | 509,700 | 482,000 | 27,800 | 5.4% |
| 2005 | 999,013 | 51,534,263 | 51,585 | 510,800 | 486,000 | 24,900 | 4.9% |
| 2006 | 1,000,834 | 55,318,933 | 55,273 | 511,700 | 489,800 | 21,900 | 4.3% |
| 2007 | 1,009,152 | 58,043,926 | 57,518 | 515,100 | 490,900 | 24,100 | 4.7% |
| 2008 | 1,023,344 | 59,914,142 | 58,547 | 524,500 | 492,200 | 32,400 | 6.2% |
| 2009 | 1,037,890 | 56,221,077 | 54,169 | 524,800 | 471,500 | 53,400 | 10.2% |
| 2010 | 1,052,605 | 58,382,965 | 55,465 | 523,300 | 465,100 | 58,200 | 11.1% |
| 2011 | 1,056,306 * | N/A | N/A | 524,100 | 469,600 | 54,500 | 10.4% |
| 2012 | 1,065,117 * | N/A | N/A | N/A | N/A | N/A | N/A |

* Estimated by State of California Department of Finance

(a) Source: State of California Department of Finance
(b) Source: Bureau of Economic Analysis
(c) Source: State of California Employment Development Department

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**TOP 25 PRINCIPAL EMPLOYERS**
**CONTRA COSTA COUNTY**

| Employer Name | Location | Industry | Employer Size |
|---|---|---|---|
| BART | Richmond | Transit Lines | 1,000-4,999 |
| Bayer Health Care Phrmctcls | Richmond | Laboratories-Pharmaceutical (Mfrs) | 500-999 |
| Bio-Rad Laboratories Inc | Hercules | Biological Products (Mfrs) | 500-999 |
| California State Auto Assn | Walnut Creek | Automobile Clubs | 5,000-9,999 |
| Chevron Corp | San Ramon | Oil Refiners (Mfrs) | 5,000-9,999 |
| Chevron Global Downstream LLC | San Ramon | Marketing Programs & Services | 1,000-4,999 |
| Concord Naval Weapons Station | Concord | Federal Government-National Security | 500-999 |
| Contra-Costa Regional Med Ctr | Martinez | Hospitals | 1,000-4,999 |
| Department of Veterans Affairs | Martinez | Clinics | 500-999 |
| Doctor's Medical Ctr | San Pablo | Hospitals | 1,000-4,999 |
| John Muir Health Physical Rhb | Concord | Physical Therapists | 1,000-4,999 |
| John Muir Med Ctr | Concord | Hospitals | 1,000-4,999 |
| John Muir Medical Ctr-Walnut | Walnut Creek | Hospitals | 1,000-4,999 |
| Kaiser Permanente | Walnut Creek | Hospitals | 1,000-4,999 |
| Kaiser Permanente Martinez | Martinez | Clinics | 1,000-4,999 |
| La Raza Market | Richmond | Grocers-Retail | 1,000-4,999 |
| Muirlab | Walnut Creek | Laboratories-Medical | 500-999 |
| Richmond City Offices | Richmond | Government Offices-City, Village & Twp | 500-999 |
| Robert Half Intl | San Ramon | Employment Contractors-Temporary Help | 500-999 |
| San Ramon Regional Medical Ctr | San Ramon | Hospitals | 500-999 |
| Shell Oil Prod | Martinez | Oil Refiners (Mfrs) | 500-999 |
| St Mary's College of Ca | Moraga | Schools-Universities & Colleges Academic | 1,000-4,999 |
| Sutter Delta Medical Ctr | Antioch | Hospitals | 500-999 |
| Tesoro Golden Eagle Refinery | Pacheco | Oil Refiners (Mfrs) | 500-999 |
| Va Outpatient Clinic | Martinez | Surgical Centers | 500-999 |

Source: State of California Employment Development Department

**CONTRA COSTA TRANSPORTATION AUTHORITY**
**AUTHORITY EMPLOYEES BY FUNCTION**
**FISCAL YEARS ENDED 2008 - 2012**

| | Full-time Equivalent Employees (a) | | | | |
|---|---|---|---|---|---|
| **Functions/Programs** | **2008** | **2009** | **2010** | **2011** | **2012** |
| Governmental Activities: | | | | | |
| Administration | 4.20 | 3.87 | 3.76 | 3.28 | 3.35 |
| Project management | 6.35 | 5.76 | 4.88 | 4.69 | 4.95 |
| Programs | 0.53 | 0.38 | 0.53 | 0.50 | 0.38 |
| Regional planning | 2.51 | 2.26 | 2.90 | 2.70 | 2.35 |
| Congestion management | 4.71 | 6.10 | 6.32 | 7.09 | 7.13 |
| Transportation demand management | 0.68 | 0.62 | 0.58 | 0.57 | 0.49 |
| Transportation planning land use solutions | 0.02 | 0.01 | 0.03 | 0.17 | 0.35 |
| Total | 19.00 | 19.00 | 19.00 | 19.00 | 19.00 |

(a) The Authority has data from ADP from 2008 through 2012.

(THIS PAGE INTENTIONALLY LEFT BLANK)

## APPENDIX B

## GENERAL COUNTY OF CONTRA COSTA
## DEMOGRAPHIC AND ECONOMIC INFORMATION

***NOTE: The information and data within this Appendix B is the latest data available; however, the current economy at County, State and national levels may not be reflected in the data discussed below because more up-to-date publicly available information is not available to the Authority. See "Risk Factors— Economic Conditions in the County and the State" in the front part of this Official Statement. This information is provided as general background. As explained under "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2012 Bonds" in the front part of this Official Statement, the Series 2012 Bonds are payable solely from the pledge of Sales Tax Revenues and certain other money held under the Indenture.***

### ECONOMIC AND DEMOGRAPHIC INFORMATION

**General**

The County of Contra Costa, California (the "County") was incorporated in 1850 as one of the original 27 counties of the State of California (the "State"), with the City of Martinez as the County Seat. It is one of the nine counties in the San Francisco-Oakland Bay Area. The County covers approximately 773 square miles and extends from the northeastern shore of the San Francisco Bay easterly about 50 miles to San Joaquin County. The County is bordered on the south and west by Alameda County and on the north by the Suisun and San Pablo Bays. The western and northern shorelines are highly industrialized, while the interior sections are suburban/residential, commercial and light industrial. The County contains 19 incorporated cities and towns, including Richmond in the west, Antioch in the northeast, and Concord in the central portion of the County. A large part of the County is served by the San Francisco Bay Area Rapid Transit District ("BART"), which historically enabled expansion of both residential and commercial development throughout much of the County.

**County Government**

The County has a general law form of government. A five-member Board of Supervisors, each member of which is elected to a four-year term, serves as the County's legislative body. Also elected are the County Assessor, Auditor-Controller, Clerk-Recorder, District Attorney-Public Administrator, Sheriff-Coroner and Treasurer-Tax Collector. A County Administrator appointed by the Board of Supervisors runs the day-to-day business of the County. The current County Administrator is David Twa.

## Population

The County is the ninth most populous county in California, with its population reaching approximately 1,065,117 as of January 1, 2012. The following Table B-1 sets forth the County's population levels for 1990, 2000 and 2006 through 2012.

**TABLE B-1**
**COUNTY OF CONTRA COSTA**
**POPULATION[1]**

| | 1990 | 2000 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|---|
| Antioch | 62,195 | 90,532 | 98,995 | 99,098 | 99,854 | 100,956 | 102,277 | 103,055 | 103,833 |
| Brentwood | 7,563 | 23,302 | 44,992 | 47,846 | 49,710 | 50,997 | 51,453 | 52,030 | 52,575 |
| Clayton | 7,317 | 10,762 | 10,714 | 10,661 | 10,717 | 10,813 | 10,899 | 10,942 | 10,996 |
| Concord | 111,308 | 121,780 | 120,732 | 120,049 | 120,592 | 121,285 | 122,109 | 122,599 | 123,206 |
| Danville | 31,306 | 41,715 | 41,479 | 41,311 | 41,364 | 41,712 | 42,067 | 42,217 | 42,450 |
| El Cerrito | 22,869 | 23,171 | 23,030 | 22,952 | 23,193 | 23,350 | 23,552 | 23,649 | 23,774 |
| Hercules | 16,829 | 19,488 | 23,090 | 23,380 | 23,795 | 23,938 | 24,079 | 24,153 | 24,272 |
| Lafayette | 23,366 | 23,908 | 23,539 | 23,472 | 23,567 | 23,696 | 23,895 | 24,024 | 24,159 |
| Martinez | 31,810 | 35,866 | 35,529 | 35,363 | 35,437 | 35,630 | 35,846 | 36,055 | 36,225 |
| Moraga | 15,987 | 16,290 | 15,911 | 15,842 | 15,863 | 15,929 | 16,019 | 16,076 | 16,152 |
| Oakley | N/A | 25,619 | 29,081 | 31,484 | 32,930 | 34,226 | 35,351 | 35,998 | 36,532 |
| Orinda | 16,642 | 17,599 | 17,283 | 17,240 | 17,341 | 17,484 | 17,647 | 17,714 | 17,819 |
| Pinole | 17,460 | 19,039 | 18,460 | 18,291 | 18,304 | 18,335 | 18,376 | 18,461 | 18,560 |
| Pittsburg | 47,607 | 56,769 | 60,926 | 61,324 | 61,873 | 62,201 | 63,181 | 63,735 | 64,706 |
| Pleasant Hill | 31,583 | 32,837 | 32,536 | 32,421 | 32,793 | 32,963 | 33,175 | 33,280 | 33,440 |
| Richmond | 86,019 | 99,216 | 100,732 | 101,805 | 102,313 | 102,887 | 103,764 | 104,382 | 104,887 |
| San Pablo | 25,158 | 30,215 | 29,024 | 28,752 | 28,848 | 29,232 | 29,245 | 28,931 | 29,105 |
| San Ramon | 35,303 | 44,722 | 60,134 | 64,173 | 66,642 | 69,428 | 71,788 | 73,111 | 74,378 |
| Walnut Creek | 60,569 | 64,296 | 63,681 | 63,302 | 63,339 | 63,786 | 64,240 | 64,710 | 65,233 |
| Unincorporated | 152,841 | 151,690 | 157,301 | 156,906 | 158,789 | 159,542 | 158,985 | 161,184 | 162,815 |
| Total | 803,732 | 948,816 | 1,007,169 | 1,015,672 | 1,027,264 | 1,038,390 | 1,047,948 | 1,056,306 | 1,065,117 |
| California | 29,758,213 | 33,871,648 | 36,116,202 | 36,399,676 | 36,704,375 | 36,966,713 | 37,223,900 | 37,427,946 | 37,378,563 |

[1] Totals may not equal sums due to independent rounding.
Source: United States Census for years 1990-2000; State Department of Finance for 2006 through 2012.

## Industry and Employment

As shown in Table B-2 below, as of September 1, 2012, the County's civilian labor force was 530,600, the County's unemployment rate was 8.4% and the State's unemployment rate was 9.7%. The County has achieved a lower unemployment rate than the State in each of the years 2006 through 2008 and as of July 1, 2012.

**TABLE B-2**
**COUNTY OF CONTRA COSTA**
**EMPLOYMENT AND UNEMPLOYMENT OF**
**RESIDENT LABOR FORCE**
**WAGE AND SALARY EMPLOYMENT BY INDUSTRY**
**ANNUAL AVERAGES**

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012[1] |
|---|---|---|---|---|---|---|---|
| Civilian Labor Force | 511,700 | 515,100 | 524,500 | 524,800 | 523,300 | 524,100 | 530,600 |
| Employment | 489,800 | 490,900 | 492,200 | 471,500 | 465,100 | 469,600 | 486,000 |
| County Unemployment | 21,900 | 24,100 | 32,400 | 53,400 | 58,200 | 54,500 | 44,600 |
| Unemployment Rate: | | | | | | | |
| County | 4.6% | 4.7% | 5.3% | 8.7% | 11.7% | 11.2% | 8.4% |
| State of California | 5.0% | 4.9% | 5.9% | 9.7% | 12.3% | 12.1% | 9.7% |
| Wage and Salary Employment[2] | | | | | | | |
| Total Farm | 700 | 700 | 700 | 800 | 700 | 900 | |
| Durable Goods | 8,700 | 8,400 | 8,300 | 6,700 | 6,700 | 6,500 | |
| Nondurable Goods | 11,600 | 12,200 | 12,400 | 12,000 | 11,600 | 10,900 | |
| Wholesale Trade | 9,100 | 9,100 | 8,700 | 7,700 | 7,600 | 7,900 | |
| Retail Trade | 44,000 | 44,400 | 43,600 | 41,200 | 40,400 | 40,300 | |
| Transportation, Warehousing and Utilities | 8,400 | 8,800 | 8,900 | 8,300 | 8,000 | 8,000 | |
| Information | 13,400 | 13,000 | 11,800 | 10,400 | 9,600 | 9,000 | |
| Financial Activities | 32,100 | 29,100 | 26,600 | 25,700 | 25,300 | 24,500 | |
| Professional and Business Services | 50,600 | 49,400 | 49,300 | 45,900 | 43,800 | 45,500 | |
| Educational and Health Services | 42,700 | 44,600 | 45,600 | 47,700 | 48,400 | 49,200 | |
| Leisure and Hospitality | 32,400 | 33,200 | 32,800 | 31,200 | 31,300 | 32,200 | |
| Other Services | 12,200 | 12,500 | 12,400 | 11,700 | 11,800 | 12,500 | |
| Government | 48,900 | 52,200 | 52,600 | 51,300 | 49,200 | 47,800 | |
| Total | 314,800 | 317,600 | 313,700 | 300,600 | 294,400 | 295,200 | |

(1) As of September 1, 2012.
(2) Data for 2011 is most recent available.
Source: State of California, Employment Development Department.

## Major Employers

The following Table B-3 provides a listing of major employers headquartered or located in the County's East Bay cities within the San Francisco-Oakland Bay Area, and their employment levels.

**TABLE B-3**
**MAJOR EMPLOYERS IN THE EAST BAY**
**WITH EMPLOYEES IN THE COUNTY**

| Employer Name | Location | Industry | Employer # |
|---|---|---|---|
| BART | Richmond | Transit Lines | 1,000-4,999 |
| Bayer Health Care Phrmctcls | Richmond | Laboratories | 500-999 |
| Bio-Rad Laboratories Inc | Hercules | Biological Products | 500-999 |
| California State Auto Assn | Walnut Creek | Automobile Clubs | 5,000-9,999 |
| Chevron Corp | San Ramon | Oil Refiners | 5,000-9,999 |
| Chevron Global Downstream LLC | San Ramon | Marketing Prg & Services | 1,000-4,999 |
| Concord Naval Weapons Station | Concord | Federal Government | 500-999 |
| Contra-Costa Regional Med Ctr | Martinez | Hospitals | 1,000-4,999 |
| Department of Veterans Affairs | Martinez | Clinics | 500-999 |
| Doctor's Medical Ctr | San Pablo | Hospitals | 1,000-4,999 |
| John Muir Health Physical Rhb | Concord | Physical Therapists | 1,000-4,999 |
| John Muir Med Ctr | Concord | Hospitals | 1,000-4,999 |
| John Muir Medical Ctr-Walnut | Walnut Creek | Hospitals | 1,000-4,999 |
| Kaiser Permanente | Walnut Creek | Hospitals | 1,000-4,999 |
| Kaiser Permanente Martinez | Martinez | Clinics | 1,000-4,999 |
| La Raza Market | Richmond | Grocers-Retail | 1,000-4,999 |
| Muirlab | Walnut Creek | Laboratories-Medical | 500-999 |
| Richmond City Offices | Richmond | Government Offices | 500-999 |
| Robert Half Intl | San Ramon | Employment Contractors | 500-999 |
| San Ramon Regional Medical Ctr | San Ramon | Hospitals | 500-999 |
| Shell Oil Prod | Martinez | Oil Refiners | 500-999 |
| St Mary's College of Ca | Moraga | Schools-Universities | 1,000-4,999 |
| Sutter Delta Medical Ctr | Antioch | Hospitals | 500-999 |
| Tesoro Golden Eagle Refinery | Pacheco | Oil Refiners | 500-999 |

Source: America's Labor Market Information System Employer Database, 2013, 1st Edition.

## Personal Income

The United States Department of Commerce, Bureau of Economic Analysis (the "BEA") produces economic accounts statistics that enable government and business decision-makers, researchers, and the public to follow and understand the performance of the national economy.

The BEA defines "personal income" as income received by persons from all sources, including income received from participation in production as well as from government and business transfer payments. Personal income represents the sum of compensation of employees (received), supplements to wages and salaries, proprietors' income with inventory valuation adjustment and capital consumption adjustment (CCAdj), rental income of persons with CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance. Per capita personal income is calculated as the personal income divided by the resident population based upon the Census Bureau's annual midyear population estimates.

Table B-4 below presents the latest available personal income data for the County, the State and the United States for the calendar years 2006 through 2011.

**TABLE B-4**
**COUNTY OF CONTRA COSTA**
**PERSONAL INCOME**
**CALENDAR YEARS 2006 THROUGH 2011**

| Year and Area | Personal Income (millions of dollars) | Per Capita Personal Income (dollars) |
|---|---|---|
| **2006** | | |
| County | $ 55,319 | $ 55,273 |
| State | 1,566,400 | 43,211 |
| United States | 11,256,516 | 37,725 |
| **2007** | | |
| County | $ 58,044 | $ 57,518 |
| State | 1,566,400 | 43,211 |
| United States | 11,900,562 | 39,506 |
| **2008** | | |
| County | $ 59,914 | $ 58,547 |
| State | 1,610,698 | 44,003 |
| United States | 12,451,660 | 40,947 |
| **2009** | | |
| County | $ 56,221 | $ 54,169 |
| State | 1,516,677 | 41,034 |
| United States | 11,852,715 | 38,637 |
| **2010** | | |
| County | $ 58,383 | $ 55,465 |
| State | 1,564,209 | 41,893 |
| United States | 12,308,496 | 39,791 |
| **2011** | | |
| County(1) | N/A | N/A |
| State | $ 1,654,138 | $ 43,647 |
| United States | 12,949,905 | 41,560 |

(1) County data for 2011 not available.
Source: U.S. Department of Commerce, Bureau of Economic Analysis

## Commercial Activity

Commercial activity in the County contributed toward taxable transactions totaling approximately $11.88 billion in 2009 and $11.95 billion in 2010. Presented in Table B-5 below is a summary of taxable transactions in the County for the calendar years 2006 through 2010.

**TABLE B-5**
**COUNTY OF CONTRA COSTA**
**TAXABLE TRANSACTIONS**
**CALENDAR YEARS 2006 TO 2010[1]**
**($ IN 000'S)**

| | 2006 | 2007 | 2008 | 2009[1] | 2010[2] |
|---|---|---|---|---|---|
| Apparel | $ 462,451 | $ 470,507 | $ 528,456 | $ 642,813 | $ 663,243 |
| General Merchandise | 1,882,310 | 1,878,711 | 1,753,124 | 1,380,111 | 1,406,756 |
| Sporting Goods, Hobby, and Music | - | - | - | 314,924 | 304,491 |
| Food Stores | 607,062 | 616,296 | 594,275 | 657,337 | 673,326 |
| Eating and Drinking | 1,098,793 | 1,125,644 | 1,134,412 | 1,111,182 | 1,126,398 |
| Home Furnishings | 336,304 | 427,995 | 471,620 | 225,331 | 227,432 |
| Health and Personal Cares Stores | - | - | - | 264,279 | 264,011 |
| Electronics and Appliance Stores | - | - | - | 385,742 | 356,124 |
| Building materials | 1,027,731 | 944,683 | 747,773 | 711,475 | 718,405 |
| Automotive | 3,061,806 | 1,812,785 | 1,406,932 | 1,184,803 | 1,234,845 |
| Service Stations | 1,190,703 | 1,351,405 | 1,514,897 | 1,151,058 | 1,312,703 |
| Other Retail | 3,024,379 | 1,481,678 | 1,332,819 | 444,521 | 428,661 |
| Total Retail Outlets | 13,867,661 | 10,109,704 | 9,484,307 | 8,473,578 | 8,716,393 |
| Business and Personal Services | 567,375 | 555,973 | 533,701 | - | - |
| All Other Outlets | 3,024,379 | 3,420,618 | 3,289,673 | 3,409,471 | 3,237,454 |
| TOTAL ALL OUTLETS | $13,867,661 | $14,086,295 | $13,307,681 | $11,883,049 | $ 11,953,847 |

(1) In 2009, the California State Board of Equalization converted to the North American Industry Classification System (NAICS) codes. As a result of the coding change, industry level data for 2009 are not comparable to prior years.
(2) Data for 2010 is most recent available.
Source: California State Board of Equalization.

Much of the County's commercial activity is concentrated in central business districts of the cities and unincorporated towns. Regional shopping centers, numerous smaller centers and several "big box" warehouse stores serve County residents. The County is served by major banks including Bank of America and Wells Fargo Bank. In addition there are numerous local banks and branches of smaller California and foreign banks.

## Population, Income, and Owner-Occupied Housing Unit Value

The following Table B-6 summarizes the population, per capita income, median household income and median owner-occupied housing unit for the nine counties comprising the San Francisco – Oakland Bay Area. The County ranks third in population, fifth in per capita income, fourth in median household income and seventh in median owner-occupied housing unit value.

**TABLE B-6**
**COUNTY OF CONTRA COSTA**
**POPULATION, PER CAPITA INCOME,**
**MEDIAN HOUSEHOLD INCOME AND**
**MEDIAN OWNER-OCCUPIED HOUSING VALUE RANKINGS**

| Bay Area Counties | Population[1] | Per Capita Income[2] | Median Household Income[2] | Median owner-occupied housing unit value[2] |
|---|---|---|---|---|
| Alameda County | 1,529,875 | 33,961 | 69,384 | 590,900 |
| Contra Costa County | 1,066,096 | 37,818 | 78,385 | 548,200 |
| Marin County | 255,031 | 53,940 | 89,268 | 868,000 |
| Napa County | 138,088 | 34,310 | 67,389 | 571,500 |
| San Francisco County | 812,826 | 45,478 | 71,304 | 785,200 |
| San Mateo County | 727,209 | 43,958 | 85,648 | 784,800 |
| Santa Clara County | 1,809,378 | 39,804 | 86,850 | 701,000 |
| Solano County | 416,471 | 28,649 | 68,409 | 389,800 |
| Sonoma County | 488,116 | 32,597 | 71,304 | 524,400 |
| **Contra Costa Rank** | **3** | **5** | **4** | **7** |

(1) 2011 Estimate
(2) 2006 – 2010 Average
Source: United States Census.

## Transportation

Availability of a broad transportation network has been one of the major factors in the County's economic and population growth. Interstate 80 connects the western portion of the County to San Francisco, Sacramento and points north to Interstate 5, the major north-south highway from Mexico to Canada. Interstate 680 connects the central County communities to the rest of the Bay Area via State Routes 4 and 24, the County's major east-west arteries.

Ground transportation is available to County residents from the following service providers:

- Central Contra Costa Transit Authority provides local bus service to the central area of the County including Walnut Creek, Pleasant Hill and Concord.

- BART connects the County to Alameda County, San Francisco and Daly City and Colma in San Mateo County with two main lines, one from the San Francisco area to Richmond and the other to the Concord/Walnut Creek/Pittsburg/Bay Point area. BART now has 43 stations and 103.7 miles of roadway in its system.

- AC Transit provides local bus service and connects Contra Costa communities to San Francisco and Oakland.

- Other bus service is provided by Greyhound.

- Commuter rail service is provided by the Capital Corridor, with daily runs between the Bay Area and Sacramento that stops at the intermodal terminal in Martinez, the County seat.

- The Santa Fe and Union Pacific Railroads' main lines serve the County, both in the industrial coastal areas and the inland farm section.

Commercial water transportation and docking facilities are available through a number of port and marina locations in the County. The Port of Richmond on San Francisco Bay and several privately owned industrial docks on both San Pablo and Suisun Bays serve the heavy industry located in the area. The Port of Richmond, owned and operated by the City of Richmond, covers approximately 200 acres and handles approximately 19 million metric tons annually. The majority of the shipments are bulk liquids with the remainder consisting of scrap metal, autos, and gypsum rock.

Major scheduled airline passenger and freight transportation for County residents is available at either Oakland or San Francisco International Airports, located about 20 and 30 miles, respectively, from the County. In addition there are two general aviation fields, one at Byron and the other at Concord.

## Agriculture

The County is comprised of 482,000 acres, with 146,993 of these acres allocated to farmlands and harvested cropland. In 2011, the total gross value of agricultural products and crops was $92,919,600, an increase of $13,295,800 compared to 2010. The increase was due to severe drought and heat throughout the central states during 2010 and 2011 boosted the price of many California farm commodities. The value of agricultural production from 2008 to 2011 is set forth in Table B-7 and reflects the latest data available.

**Table B-7**
**COUNTY OF CONTRA COSTA**
**AGRICULTURAL PRODUCTION, 2008 TO 2011**

| | 2008 | 2009 | 2010 | 2011[1] |
|---|---|---|---|---|
| Nursery Products | $3,479,000 | $2,461,000 | $2,626,500 | $2,493,000 |
| Livestock and Poultry | 12,728,720 | 6,758,080 | 19,248,000 | 18,731,000 |
| Field crops | 15,507,000 | 10,645,700 | 12,947,000 | 17,771,000 |
| Vegetable and Seed Crops | 23,153,900 | 29,234,500 | 31,560,300 | 36,274,600 |
| Fruit and Nut Crops | 16,365,000 | 15,324,000 | 13,242,000 | 17,650,000 |
| TOTAL | $71,233,620 | $64,423,280 | $79,623,800 | $92,919,600 |

[1] Latest data available.
Source: Contra Costa County Department of Agriculture Crop Reports 2008-2011

## Utilities

***Water***. The East Bay Municipal Utilities District ("EBMUD") and the Contra Costa Water District ("CCWD") supply water to the County. EBMUD supplies water to the western part of the County, including Alamo, Crockett, Danville, Diablo, Hercules, Lafayette, Moraga, Orinda, Pinole, portions of Pleasant Hill, Richmond, Rodeo, San Pablo, San Ramon, Selby and portions of Walnut Creek.

Approximately 90% of its supply is from the Mokelumne River stored at the Pardee Dam in Ione, California. EBMUD is entitled to 325 million gallons per day under a contract with the State Water Resources Control Board.

CCWD obtains its water from the Sacramento-San Joaquin Delta and serves treated and untreated water to approximately 500,000 customers in Central and Eastern Contra Costa County. CCWD provides treated water to Clayton, Clyde, Concord, Pacheco, Port Costa and parts of Martinez, Pleasant Hill and Walnut Creek. CCWD sells wholesale treated water to Antioch, the Golden State Water Company in Bay Point, the Diablo Water District in Oakley and Brentwood. Untreated water is sold to the cities of Antioch, Martinez and Pittsburg as well as major industries, including refineries and steel mills. CCWD is entitled under a contract with the U.S. Bureau of Reclamation to receive up to 195,000 acre-feet per year. Water purchased by CCWD has ranged between 105,000 and 125,000 acre-feet annually. In addition, a number of industrial users and several municipalities draw water directly from the San Joaquin River under their own riparian rights or use recycled water, so that actual water usage in the service area averages about 145,000 acre-feet annually. The Los Vaqueros Reservoir, which has been operational for the past 14 years, is being expanded by 60 percent to a capacity of 160,000 acre-feet. The expansion is expected to be complete in the winter of 2012-2013.

***Sewer***. Sewer services for the County are provided by approximately 20 sanitation districts and municipalities. Federal and State environmental requirements, plus grant money available from these two sources, resulted in upgrading, expanding and/or building new facilities by approximately 14 agencies.

***Flood Control***. The Contra Costa County Flood Control and Water Conservation District (the "District") has been in operation since 1951 to plan, build, and operate major storm drainage facilities in Flood Control Zones throughout the County.

**Education**

Public school education in the County is available through seven unified school districts, nine elementary school districts, two high school districts, and one community college. These districts provide nine charter schools, 150 elementary schools, 43 middle schools, 31 high schools, 31 necessary small and continuation high schools, and a number of adult schools, and special education facilities. Public school K-12 enrollment for Fiscal Year 2011-2012 numbered approximately 169,394 students. Private school enrollment in the County for Fiscal Year 2008-2009 numbered approximately 16,274 students, which was approximately 8.88% of students in the County.

Higher education is available in the County through a combination of two-year community colleges and four-year colleges. The Contra Costa County Community College District is comprised of Contra Costa College, Diablo Valley College, Los Medanos College, San Ramon Campus, and the Walnut Creek and Brentwood Centers. California State University East Bay (formerly California State University Hayward) operates a branch campus in Concord. St. Mary's College of California is a four-year private institution and is located in Moraga. Also located within the County are the John F. Kennedy University campuses in Concord and Pleasant Hill. In addition, County residents are within commuting distance to the University of California, Berkeley.

**Health Services**

There are 12 privately operated hospitals and one public hospital in the County, with a combined total of approximately 1,900 beds. Four of the private hospitals are run by Kaiser, the largest health maintenance organization in the United States. Kaiser has opened a new hospital in Richmond with new critical care beds, surgical suites and a full service emergency department. The Walnut Creek-based John

Muir/Mt. Diablo Health System operates hospitals at its Walnut Creek and Concord campuses and outpatient services at its Brentwood campus and in Rossmoor.

Under State law, the County is required to administer State and federal health programs, provide for community mental health and treatment programs, and provide for a portion of the costs of such services with local revenues, such as sales and property taxes. The County Health Services Department (the "Health Services Department") provides these services to all County residents regardless of their ability to pay.

The Health Services Department is responsible for providing a comprehensive health system to residents of the County including the following: clinical and laboratory services; maternal, child and adolescent health services; public health clinics services; mental health services; alcohol and drug treatment services; programs related to the prevention of disease and injury (e.g., tobacco education, senior health education); community nutrition projects; and obesity and asthma prevention.

There are ten Medical Health Centers throughout County Costa County, including the West County Health Center in San Pablo which opened in the Fall of 2012. The West County Health Center replaced many of the operations of the Richmond Health Center. The other Medical Health Centers are in Antioch, Bay Point, Brentwood, Concord, Pittsburg, North Richmond, and Martinez.

[*REMAINDER OF PAGE INTENTIONALLY LEFT BLANK*]

## APPENDIX C

## SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a brief summary of certain provisions of the Indenture, dated as of September 1, 2009 (the "Master Indenture"), as supplemented by the First Supplemental Indenture, dated as of September 1, 2009 (the "First Supplemental Indenture"), as supplemented by the Second Supplemental Indenture, dated as of October 1, 2010 (the "Second Supplemental Indenture") and as Supplemented by the Third Supplemental Indenture, dated as of December 1, 2012 (the "Third Supplemental Indenture," and, together with the Master Indenture, the First Supplemental Indenture, and the Third Supplemental Indenture, hereinafter collectively referred to as the "Indenture"), between the Contra Costa Transportation Authority (the "Authority") and Deutsche Bank National Trust Company, as trustee (the "Trustee"). Such summary is intended to summarize provisions applicable to the Contra Costa Transportation Authority Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2012 (the "Series 2012 Bonds") during the hereinafter defined Index Rate Period. Such summary is not intended to be complete or definitive, is supplemental to the summary of other provisions of the Indenture contained elsewhere in this Official Statement, and is qualified in its entirety by reference to the full terms of the Indenture. All capitalized terms used and not otherwise defined in this Official Statement shall have the meanings assigned to such terms in the Indenture.

### Definitions

**Accreted Value** means, with respect to any Capital Appreciation Bond, the principal amount thereof plus the interest accrued thereon, compounded at the approximate interest rate thereon on each date specified therein. The Accreted Value at any date shall be the amounts set forth in the Accreted Value Table as of such date, if such date is a compounding date, and if not, as of the immediately preceding compounding date. In the event that Capital Appreciation Bonds are issued, as and to the extent applicable, references to "principal of set forth in the Indenture shall be read as references to "Accreted Value of."

**Accreted Value Table** means the table denominated as such which appears as an exhibit to, and to which reference is made in, a Supplemental Indenture providing for a Series of Capital Appreciation Bonds issued pursuant to such Supplemental Indenture.

**Act** means the Local Transportation Authority and Improvement Act, Division 19 (Section 180000 et seq.) of the Public Utilities Code of the State of California, as now in effect and as it may from time to time be amended or supplemented.

**Alternate Credit Enhancement** means, with respect to a Series of Bonds, any Insurance, letter of credit, line of credit, surety bond or other instrument, if any, which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by a Credit Enhancement Provider, and delivered or made available to the Trustee, as a replacement or substitution for any Credit Enhancement then in effect.

**Alternate Index** means on any date of determination, the One Month USD LIBOR Rate, adjusted as follows: (i) if the One Month USD LIBOR Rate is less than 100%, the Alternate Index shall be 100% of the One Month USD LIBOR Rate; and (ii) if the One Month USD LIBOR Rate is equal to or greater than 100%, the Alternate Index shall be 72% of the One Month USD LIBOR Rate.

**Alternate Liquidity Facility** means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility, issued by a Liquidity Facility Provider,

and delivered or made available to the Trustee, as a replacement or substitute for any Liquidity Facility then in effect.

**Alternate Rate** means, as of any date of determination, including, without limitation any Indexed Floating Rate Determination Date, 100% of the SIFMA Municipal Swap Index or if the SIFMA Municipal Swap Index is no longer published during the Initial Indexed Floating Rate Period an index or a rate selected or determined by the Authority and consented to by the Bondholder Representative.

**Annual Debt Service** means, for any Fiscal Year, the aggregate amount (without duplication) of principal and interest on all Bonds and Parity Obligations becoming due and payable during such Fiscal Year calculated using the principles and assumptions set forth under the definition of Debt Service.

**Alternate Rate** means, (i) with respect to Series 2012A Bonds in the Daily Rate Mode, the Weekly Rate Mode or the Commercial Paper Mode, a rate per annum equal to the SIFMA Index as of the Reset Date, (ii) with respect to Series 2012A Bonds in the SIFMA Mode, an interest rate per annum equal to the SIFMA Index as of the Reset Date, plus the Applicable Spread then in effect for the SIFMA Mode, and (iii) with respect to Series 2012A Bonds in the Index Mode, a rate per annum equal to the product of LIBOR and the Applicable Factor, plus the Applicable Spread then in effect for the Index Mode.

**Applicable Factor** means (i) 67% of LIBOR or (ii) such other percentage or factor determined by the Remarketing Agent in connection with a change in Mode for the Series 2012A Bonds to an Index Mode (which may include a percentage or factor to be applied to LIBOR other than the percentage set forth in clause (i)), provided that the Authority delivers a Favorable Opinion of Bond Counsel addressing the selection of such other percentage or factor.

**Applicable Spread** means, (i) with respect to the Series 2012A Bonds during the initial Index Mode commencing on the Issue Date, 0.37%, and (ii) with respect to a change in Mode for the Series 2012A Bonds to an Index Mode after the Date of Issuance (including a change in Mode from one Index Mode to another Index Mode), the margin or spread, which may be positive or negative, determined by the Remarketing Agent on or prior to the Mode Change Date, that is added to the Index to determine the Index Rate. The Applicable Spread shall be set so as to enable the Remarketing Agent to sell the Series 2012A Bonds on the Mode Change Date at a price (without regarding accrued interest) equal to the principal amount thereof. The Applicable Spread shall remain constant for the duration of such Mode.

**Assumed Debt Service** means for any Fiscal Year the aggregate amount of principal and interest which would be payable on all Bonds if each Excluded Principal Payment were amortized on a substantially level debt service basis or other amortization basis provided by the Authority for a period commencing on the date of calculation of such Assumed Debt Service and ending on the earlier of (i) the date specified by the Authority not exceeding thirty (30) years from the date of calculation, or (ii) the Tax Expiration Date, such Assumed Debt Service to be calculated on a level debt service basis or other amortization basis provided by the Authority based on a fixed interest rate equal to the rate at which the Authority could borrow for such period, as set forth in a certificate of a financial advisor or investment banker, delivered to the Trustee, who may rely conclusively on such certificate, such certificate to be delivered within thirty (30) days of the date of calculation.

**Authority** means the Contra Costa Transportation Authority, a local transportation authority of the State, duly established and existing under the laws of the State of California, and any successor.

**Authorized Denominations** means with respect to the Series 2012A Bonds (i) during the Daily Rate Mode, the Weekly Rate Mode, or the Commercial Paper Mode, $100,000 and any integral multiple of $5,000 in excess thereof and (ii) during the Long-Term Mode, the SIFMA Mode or the Index Mode,

$5,000 and any integral multiple thereof; provided, however, that if as a result of a Conversion of the Series 2012A Bonds from a Long-Term Rate Period to another Interest Rate Determination Method, it is not possible to deliver all the Series 2012A Bonds required or permitted to be Outstanding in a denomination permitted above, Series 2012A Bonds may be delivered, to the extent necessary, in different denominations which denominations shall not be less than $5,000.

With respect to the Series 2012B Bonds, Authorized Denominations shall be $5,000 or any integral multiple thereof.

**Authorized Representative** means the Executive Director of the Authority, the Chief Deputy Executive Director of the Authority, the Chief Financial Officer of the Authority, or such other person as may be designated to act on behalf of the Authority by a written certificate, delivered to the Trustee, containing the specimen signature of such person and signed on behalf of the Authority by an Authorized Representative.

**Beneficial Owner** means any Person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bond, including, without limitation, any Person holding Bonds through nominees or depositories, including the Securities Depository.

**Board** means the governing body of the Authority.

**Bond Obligation** means, as of any given date of calculation, (1) with respect to any Outstanding Current Interest Bond, the principal amount of such Bond, and (2) with respect to any Outstanding Capital Appreciation Bond, the Accreted Value thereof.

**Bond Reserve Fund** means any fund by that name established with respect to one or more Series of Bonds pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

**Bond Reserve Requirement** with respect to a Series of Bonds for which the Authority shall have established a Bond Reserve Fund shall have the meaning specified in the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

**Bondholder** or **Holder**, whenever used in the Indenture or in this Private Placement Memorandum with respect to a Bond, means the person in whose name such Bond is registered.

**Bondholder Representative** shall have the meaning set forth in the Bond Purchase Agreement.

**Bonds** means Contra Costa Transportation Authority Sales Tax Revenue Bonds (Limited Tax Bonds) and Contra Costa Transportation Authority Sales Tax Revenue Notes (Limited Tax Bonds) authorized by, and at any time Outstanding pursuant to, the Indenture.

**Build America Bonds** means Bonds accorded Build America Bonds status under the provisions of the American Recovery and Reinvestment Act of 2009 or any successor thereto or replacement thereof.

**Business Day** means, except as is otherwise provided in the Supplemental Indenture pursuant to which a Series of Bonds are issued, any day other than (1) a Saturday, Sunday, or a day on which banking institutions in the State, the State of New York or the jurisdiction in which the Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed, (2) for purposes of payments and other actions relating to Bonds secured by a Credit Enhancement or supported by a Liquidity Facility, a day upon which commercial banks in the city in which is located the office of the

issuing bank at which demands for payment under the Credit Enhancement or Liquidity Facility, as applicable, are to be presented are authorized or obligated by law or executive order to be closed, (3) a day on which the New York Stock Exchange is closed, or (4) a day on which the payment system of the Federal Reserve System is not operational.

**Calculation Agent** means Deutsche Bank National Trust Company.

**Capital Appreciation Bonds** means the Bonds of any Series designated as Capital Appreciation Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and on which interest is compounded and paid at maturity or on prior redemption.

**Certificate, Statement, Request, Requisition** and **Order** of the Authority mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Authority by an Authorized Representative.

**Code** means the Internal Revenue Code of 1986, and the regulations applicable thereto or issued thereunder, or any successor to the Internal Revenue Code of 1986. Reference to any particular Code section shall, in the event of such a successor Code, be deemed to be reference to the successor to such Code section.

**Calculation Agent** means Deutsche Bank National Trust Company during an Index Mode or a SIFMA Mode, or until a successor Calculation Agent is appointed pursuant to the Indenture.

**Continuing Disclosure Undertaking** means, with respect to each Series of Bonds requiring an undertaking regarding disclosure under Rule 15c2-12, the continuing disclosure agreement or continuing disclosure certificate, as applicable, dated the date of issuance of such Series of Bonds, executed by the Authority and, as and to the extent applicable, a dissemination agent, as the same may be supplemented, modified or amended in accordance with its terms.

**Conversion** means any conversion of the Series 2012A Bonds from one Interest Rate Determination Method to another, which may be made from time to time in accordance with the terms of the Indenture.

**Conversion Date** means the date any Conversion of Series 2012A Bonds becomes effective in accordance with the Indenture (or, with respect to notices, time periods and requirements in connection with the proceedings for such Conversion, the day on which it is proposed that such Conversion occur), including a Long-Term Rate Conversion Date.

**Conversion Notice** shall have the meaning set forth in the Indenture.

**Corporate Trust Office** or corporate trust office means the corporate trust office of the Trustee at 101 California Street, 46th Floor, San Francisco, California, 94111, Attention: Corporate Trust, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted, or such other or additional offices as may be designated by the Trustee from time to time.

**Costs of Issuance** means all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the authorization, issuance, sale and delivery of a Series of Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, travel expenses and costs relating to rating agency meetings and other meetings,

initial fees, expenses and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, financial advisor fees and expenses, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, credit enhancement, insurance, liquidity and surety costs, fees payable in connection with the execution or termination of an Interest Rate Swap Agreement in connection with the issuance of a Series of Bonds, and any other cost, charge or fee incurred in connection with the issuance of a Series of Bonds or any Parity Obligations delivered in connection with a Series of Bonds.

**Counterparty** means an entity which has entered into an Interest Rate Swap Agreement with the Authority.

**County** means the County of Contra Costa, California.

**Credit Enhancement** means, with respect to a Series of Bonds, any Insurance, letter of credit, line of credit, surety bond or other instrument, if any, which secures or guarantees the payment of principal of and interest on a Series of Bonds, issued by a Credit Enhancement Provider, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Credit Enhancement, such Alternate Credit Enhancement.

**Credit Enhancement Provider** means, with respect to a Series of Bonds, the Insurer, commercial bank, pension fund or other institution issuing (or having primary obligation, or acting as agent for the institutions obligated, under) a Credit Enhancement then in effect with respect to such Series of Bonds.

**Current Interest Bonds** means the Bonds of any Series designated as Current Interest Bonds in the Supplemental Indenture providing for the issuance of such Series of Bonds and that pay interest to the Holders thereof on a periodic basis prior to maturity.

**Current Mode** has the meaning assigned in the Indenture.

**Daily Rate** means the interest rate established from time to time pursuant to the Indenture.

**Daily Rate Index** means, on any Business Day, the SIFMA Municipal Swap Index or, if the SIFMA Municipal Swap Index is no longer published, an index or rate agreed upon by the Authority and the Remarketing Agent; provided, however, that if the Remarketing Agent advises the Trustee and the Authority that the use of such index would not result or no longer results in a market rate of interest on the Series 2012A Bonds, Daily Rate Index shall mean, subject to a Favorable Opinion of Bond Counsel, an index agreed to by the Authority and the Remarketing Agent that would result in a market rate of interest on the Series 2012A Bonds, which Daily Rate shall in no event exceed the Maximum Rate.

**Daily Rate Mode** means the Mode during which the Series 2012A Bonds bear interest at the Daily Rate.

**Daily Rate Period** means any, period during which the Series 2012A Bonds bear interest at the Daily Rate.

**Debt Service**, when used with respect to any Bonds or Parity Obligations (for purposes of this definition of Debt Service, herein collectively referred to as "Obligations"), means, as of any date of calculation and with respect to any Fiscal Year, the sum of (1) the interest falling due on such Obligations during such Fiscal Year and (2) the principal or Mandatory Sinking Account Payments required with

respect to such Obligations during such Fiscal Year; computed on the assumption that no portion of such Obligations shall cease to be Outstanding during such Fiscal Year except by reason of the application of such scheduled payments; provided, however, that for purposes of such computation:

(A) Excluded Principal Payments (and the interest related thereto provided such interest is being paid from the same source as the Excluded Principal Payments) shall be excluded from such calculation and Assumed Debt Service shall be included in such calculation;

(B) in determining the principal amount due in each Fiscal Year, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such Obligations, including any Mandatory Sinking Account Payments or any scheduled redemption or payment of Obligations on the basis of Accreted Value, and for such purpose, the redemption payment or payment of Accreted Value shall be deemed a principal payment and interest that is compounded and paid as Accreted Value shall be deemed due on the scheduled redemption or payment date of such Capital Appreciation Bond;

(C) if any Obligations bear, or if any Obligations proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is excluded or expected to be excluded from gross income for federal income tax purposes, the interest rate on such Obligations for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the average of the SIFMA Municipal Swap Index for the five (5) years preceding such date of calculation (provided, however, that if such index is no longer published, the interest rate on such Obligations shall be calculated based upon such similar index as the Authority shall designate in writing to the Trustee);

(D) if any Obligations bear, or if any Obligations proposed to be issued will bear, interest at a variable interest rate for which an Interest Rate Swap Agreement is not in place and the interest on which is included or expected to be included in gross income for federal income tax purposes, the interest rate on such Obligations shall be calculated at an interest rate equal to 100% of the average One Month USD LIBOR Rate during the five (5) years preceding such date of calculation or such higher rate as shall be specified in a Certificate of the Authority delivered to the Trustee (provided, however, that if such index is no longer published, the interest rate on such Obligations shall be calculated based upon such similar index as the Authority shall designate in writing to the Trustee);

(E) with respect to any Obligations bearing interest, or expected to bear interest, at a variable interest rate for which an Interest Rate Swap Agreement is in place providing for a fixed rate of interest to maturity or for a specific term with respect to such Obligations, the interest rate on such Obligations shall be assumed to be the synthetic fixed interest rate specified in such Interest Rate Swap Agreement for such term;

(F) with respect to any Obligations bearing interest, or expected to bear interest, at a fixed interest rate for which an Interest Rate Swap Agreement is in place providing for a net variable interest rate with respect to such Obligations for a specific term, the interest rate on such Obligations shall be assumed to be equal for such term to the sum of (i) the fixed interest rate or rates to be paid on the Obligations, minus (ii) the fixed interest rate receivable by the Authority under such Interest Rate Swap Agreement, plus (iii) the average interest rate of the index on which the Interest Rate Swap Agreement is based, as identified in a Certificate of the Authority filed with the Trustee, or, if not based on an identifiable index, then the SIFMA Municipal Swap Index, in each case, over the five (5) years preceding the date of calculation or such higher rate as shall be specified in a Certificate of the Authority filed with the Trustee;

(G) if any Obligations feature an option, on the part of the owners or an obligation under the terms of such Obligations, to tender all or a portion of such Obligations to the Authority, the Trustee or other fiduciary or agent, and requires that such Obligations or portion thereof be purchased if properly presented, then for purposes of determining the amounts of principal and interest due in any Fiscal Year on such Obligations, the options or obligations of the owners of such Obligations to tender the same for purchase or payment prior to the stated maturity or maturities shall be ignored and not treated as a principal maturity; and

(H) principal and interest payments on Obligations shall be excluded to the extent such payments are to be paid from amounts on deposit with the Trustee or other fiduciary in escrow specifically therefor and interest payments shall be excluded to the extent that such interest payments are to be paid from the proceeds of Obligations held by the Trustee or other fiduciary as capitalized interest specifically to pay such interest or from Subsidy Payments.

**Defeasance Securities** means: (i) direct, non-callable obligations of the United States Treasury, (ii) direct non-callable and non-prepayable obligations which are unconditionally guaranteed by the United States of America as to full and timely payment of principal and interest, (iii) non-callable, non-prepayable coupons from the above securities which are stripped pursuant to United States Treasury programs, (iv) non-callable and non-prepayable refunded bonds that are obligations of the United States of America; (v) Resolution Funding Corporation (REFCORP) bonds and strips; (vi) non-callable, and non-prepayable fixed rate Israel Notes guaranteed as to principal and interest by the United States of America through the United Agency for International Development (provided that, such notes are "Aaa" rated and mature at least four business days before funds are needed for refunded bond debt service payments); (vii) United States State and Local Government Securities (SLGS); (viii) the following non-callable, non-prepayable obligations of federal government-sponsored agencies that are not backed by the full faith and credit of the U.S. Government: Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Tennessee Valley Authority, Farm Credit System, Washington Metropolitan Area Transit Authority, United States Import-Export Bank, United States Department of Housing and Urban Development, Farmers Home Administration, General Services Administration and United States Maritime Administration (provided such entities maintain a rating of "Aaa"); and (ix) any pre-refunded municipal security that is non-callable or has been irrevocably called for redemption and is rated "Aaa" at the time of deposit, which carries a fixed interest rate and matures or is to be redeemed on a date certain and is secured by an escrow containing securities listed in (i) through (viii) above.

**Electronic Means** means email transmission or other similar Electronic Means of communication providing evidence of transmission, or facsimile transmission, including a telephone communication confirmed by any other method set forth in this definition.

**Eligible Account** means an account that is either:. (a) maintained with a federal or state-chartered depository institution or trust company that has a Standard & Poor's short-term debt rating of at least 'A-2' (or, if no short-term debt rating, a long-term debt rating of 'BBB+'); or (b) maintained with the corporate trust department of a federal depository institution or state- chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulation Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

**Eligible Bonds** means any Series 2012A Bonds other than Bank Bonds or Obligor Bonds.

**Electronic Means** means email transmission or other similar electronic means of communication providing evidence of transmission, or facsimile transmission, including a telephone communication confirmed by any other method set forth in this definition.

**Event of Default** means any of the events of default specified in the Indenture.

**Excluded Principal Payment** means each payment of principal of Bonds or Parity Obligations that the Authority determines (in a Certificate of the Authority filed with the Trustee) that the Authority intends to pay with moneys which are not Sales Tax Revenues (such as commercial paper, balloon indebtedness or bond anticipation notes) but from future debt obligations of the Authority, grants from the State or federal government, or any agency or instrumentality thereof, or any other source of funds of the Authority, upon which determination of the Authority the Trustee may conclusively rely. No such determination shall affect the security for such Bonds or the obligation of the Authority to pay such payments from Sales Tax Revenues or amounts on deposit in a Bond Reserve Fund, if any, securing such Bonds. No payment of principal of Bonds may be determined to be an Excluded Principal Payment unless it is due on or prior to the Tax Expiration Date.

**Existing Swap Agreement** means the International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement, dated as of November 22, 2005, as amended and restated as of September 18, 2009 (the "Master Agreement"), the U.S. Municipal Counterparty Schedule to the Master Agreement, dated as of November 22, 2005, as amended and restated as of September 18, 2009 (the "Schedule"), the ISDA Credit Support Annex to the Schedule to the Master Agreement, dated as of November 22, 2005, as amended and restated as of September 18, 2009 (the "Credit Support Annex"), and a Confirmation of Transaction thereunder, dated September 18, 2009, amending and restating a Transaction (Reference No. 4374408), dated as of November 22, 2005, and a Transaction (Reference No. 54007612), dated as of November 22, 2005, each between the Authority and Bank of America, N.A., as counterparty.

**Expenditure Plan** means the expenditure plan set forth as Exhibit A to Ordinance 04-02, as in effect on the date of execution and delivery of the Indenture, and as such expenditure plan may be amended from time to time pursuant to its terms.

**Favorable Opinion of Bond Counsel** means, with respect to any action requiring such an opinion, an Opinion of Bond Counsel delivered to the Trustee to the effect that such action will not, in and of itself, result in the inclusion of interest on the Series 2012 Bonds in gross income for federal income purposes.

**Fee and Expense Obligations** means any obligations of the Authority which constitute fees, expenses and similar charges in connection with any Bonds, Parity Obligations or Subordinate Obligations (including fees and expenses and termination payments on Interest Rate Swap Agreements), which obligations are secured under the Indenture by a lien and charge upon the Sales Tax Revenues on a basis directly subordinate to the Bonds, Parity Obligations and Subordinate Obligations.

**Fees and Expenses Fund** means the fund by that name established pursuant to the Indenture.

**First Supplemental Indenture** means the First Supplemental Indenture, dated as of September 1, 2009, between the Authority and the Trustee, as supplemented and amended from time to time pursuant to its terms.

**Fiscal Year** means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other 12-month period hereafter selected and designated as the official fiscal year period of the Authority, which designation shall be provided to the Trustee in a Certificate delivered by the Authority.

**Fitch** means Fitch Inc., a corporation duly organized and existing under and by virtue of the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved

or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

**Fixed Rate** means the fixed rate or fixed rates borne by the Series 2012A Bonds from the Fixed Rate Conversion Date, which rate or rates shall be established in accordance with the Indenture.

**Fixed Rate Conversion Date** means the Conversion Date on which the interest rate on the Series 2010A Bonds shall be converted to a Fixed Rate.

**Fixed Rate Period** means the period from and including the Fixed Rate Conversion Date to and including the final maturity date or earlier date of redemption of a Series 2012A Bond.

**Holder** or **Bondholder**, whenever used in the Indenture or in this Private Placement Memorandum with respect to a Bond, means the person in whose name such Bond is registered.

**Indenture** means the Indenture, dated as of September 1, 2009, between the Trustee and the Authority, as originally executed or as it may be supplemented or amended by any Supplemental Indenture delivered pursuant to the provisions of the Indenture.

**Index** means LIBOR, or such other index selected by the Authority that will become effective upon a change in Mode of the Series 2012A Bonds, provided that the Authority delivers a Favorable Opinion of Bond Counsel addressing the selection of such other index.

**Index Delayed Remarketing Period** means the period beginning on the date that all then Outstanding Series 2012A Bonds in the Index Mode are not remarketed on the Mandatory Tender Date and ending on the date that such Series 2012A Bonds are remarketed or redeemed.

**Index Delayed Remarketing Period Rate** means the per annum interests rate on the Series 2012A Bonds, in the Index Mode during a Delayed Remarketing Period, which rate shall be TBD.

**Index Mode** means the Mode during which the Series 2012A Bonds bear interest at the Index Rate.

**Index Rate** means, as determined pursuant to the Indenture for each applicable Reset Date, a per annum rate of interest equal to the sum of (i) the Applicable Spread plus (ii) the product of the Index as of the day of determination multiplied by the Applicable Factor.

**Index Tender Date** means, (i) with respect to the Series 2012A Bonds during the initial Index Mode commencing on the Issue Date, December 15, 2015, and (ii) with respect to a change in Mode for the Series 2012A Bonds to a New Mode after the Date of Issuance (including a change in Mode from one Index Mode to another Index Mode), the date so specified by the Authority pursuant to the Indenture. The Index Tender Date shall always be a Business Day, unless such date is the Stated Maturity Date. If a date (other than the Stated Maturity Date) that is not a Business Day is specified as an Index Tender Date, then the Index Tender Date shall be the Business Day following such specified date.

**Initial Interest Period** means the period from and including the Issue Date to and including the following first Business Day of the month during an Index Mode.

**Issue Date** means December 18, 2012.

**Insurance** means any financial guaranty insurance policy or municipal bond insurance policy issued by an Insurer insuring the payment when due of principal of and interest on a Series of Bonds as provided in such financial guaranty insurance policy or municipal bond insurance policy.

**Insurer** means any provider of Insurance with respect to a Series of Bonds.

**Interest Fund** means the fund by that name established pursuant to the Indenture.

**Interest Payment Date** means, without duplication:

(A) (1) for each Series 2012A Bond during a Commercial Paper Mode, each Mandatory Tender Date with respect to such Series 2012A Bond; (2) during a Daily Rate Mode, a Weekly Rate Mode, an Index Mode or a SIFMA Mode, the first Business Day of each month; and (3) during a Long-Term Mode, each September 1 and March 1;

(B) with respect to Series 2012A Bonds in an Index Mode or a SIFMA Mode, the Index Tender Date or the SIFMA Tender Date, as applicable.

(C) any Mode Change Date and each maturity date of the Series 2012A Bonds;

(D) with respect to Bank Bonds, each Bank Bonds Interest Payment Date; and

(E) With respect to any Series 2012B Bonds each March 1 and September 1.

**Interest Rate Determination Method** means any of the methods of determining the interest rate on the Series 2012A Bonds from time to time as described in the Indenture.

**Interest Rate Swap Agreement** means an interest rate swap, basis swap, cap, collar, option, floor, forward, derivative or other hedging agreement, arrangement or security, however denominated, entered into between the Authority and a Counterparty, in connection with, or incidental to, the issuance or carrying of Bonds including, without limitation, any other interest rate swap, basis swap, cap, collar, option, floor, forward, derivative or other hedging agreement, arrangement or security entered into in advance of the issuance of Bonds.

**Investment Securities** means any of the following:

(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 of the federal agencies and federally sponsored entities set forth in clause (3) below to the extent unconditionally guaranteed by the United States of America and including interest strips of bonds issued by the Resolution Funding Corporation and held in book-entry form by the Federal Reserve Bank of New York;

(2) any certificates, receipts, securities or other obligations evidencing ownership of, or the right to receive, a specified portion of one or more interest payments or principal payments, or any combination thereof, to be made on any bond, note, or other obligation described above in clause (1);

(3) obligations of the Federal National Mortgage Association, the Government National Mortgage Association, Federal Home Loan Banks, Farmers Home Administration and Federal Home Loan Mortgage Corporation;

(4) housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(5) obligations of any state, territory or commonwealth of the United States of America or any political subdivision thereof or any agency or department of the foregoing; provided that, except with respect to direct obligations of the State, at the time of their purchase such obligations are rated in either of the two highest long-term or highest short-term Rating Categories by both Moody's and Standard & Poor's;

(6) any bonds or other obligations of any state of the United States of America or any political subdivision thereof (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described above in clause (1) or (2) which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the interest payment dates and the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described above in clause (1) or (2) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay the principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (6) on the interest payment dates and the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (6), as appropriate, and (d) which have been rated in one of the two highest long-term Rating Categories by Moody's and Standard & Poor's;

(7) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by both Moody's and Standard & Poor's in their respective highest short-term Rating Categories, or, if the term of such indebtedness is longer than three (3) years, rated by both Moody's and Standard & Poor's in one of their respective two highest long-term Rating Categories, for comparable types of debt obligations;

(8) demand or time deposits or certificates of deposit, whether negotiable or nonnegotiable, issued by any bank or trust company organized under the laws of any state of the United States of America or any national banking association (including the Trustee and its affiliates), provided that such certificates of deposit shall be purchased directly from such a bank, trust company or national banking association and shall be either (a) continuously and fully insured by the Federal Deposit Insurance Corporation, (b) continuously and fully secured by such securities and obligations as are described above in clauses (1) through (5), inclusive, which shall have a market value (exclusive of accrued interest) at all times at least equal to the principal amount of such certificates of deposit and shall be lodged with the Trustee, as custodian, by the bank, trust company or national banking association issuing such certificates of deposit, and the bank, trust company or national banking association issuing each such certificate of deposit required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such certificate of deposit will at all times be an amount equal to the principal amount of each such certificate of deposit and the Trustee shall be entitled to rely on each such undertaking, or (c) be issued by an institution the senior debt obligations of which are rated "AA" or higher by Standard & Poor's;

(9) taxable commercial paper, other than that issued by bank holding companies, or tax-exempt commercial paper rated in the highest Rating Category by both Moody's and Standard & Poor's;

(10) variable rate obligations required to be redeemed or purchased by the obligor or its agent or designee upon demand of the holder thereof secured as to such redemption or purchase requirement by a liquidity agreement with a corporation and as to the payment of interest and principal either upon maturity or redemption (other than upon demand by the holder thereof) thereof by an unconditional credit facility of a corporation, provided (a) that the variable rate obligations themselves are rated in the highest Rating Category for its short-term rating, if any, and in either of the two highest Rating Categories for its long-term rating, if any, by both Moody's and Standard & Poor's, and (b) that the corporations providing the liquidity agreement and credit facility have, at the date of acquisition of the variable rate obligation by the Trustee, an outstanding issue of unsecured, uninsured and unguaranteed debt obligations rated in either of the two highest long-term Rating Categories by both Moody's and Standard & Poor's;

(11) any repurchase agreement with any bank or trust company organized under the laws of any state of the United States or any national banking association (including the Trustee) having a minimum permanent capital of one hundred million dollars ($100,000,000) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, which agreement is secured by any one or more of the securities and obligations described in clauses (1), (2), (3) or (4) above, which shall have a market value (exclusive of accrued interest and valued at least monthly) at least equal to 103% of the principal amount of such investment and shall be lodged with the Trustee or other fiduciary, as custodian for the Trustee, by the bank, trust company, national banking association or bond dealer executing such repurchase agreement, and the entity executing each such repurchase agreement required to be so secured shall furnish the Trustee with an undertaking satisfactory to it that the aggregate market value of all such obligations securing each such repurchase agreement (as valued at least monthly) will be an amount equal to 103% of the principal amount of each such repurchase agreement and the Trustee shall be entitled to rely on each such undertaking;

(12) any cash sweep or similar account arrangement of or available to the Trustee, and which may include funds for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services, the investments of which are limited to investments described in clauses (1), (2), (3), (4), (5) and (11) of this definition of Investment Securities and any money market fund, the entire investments of which are limited to investments described in clauses (1), (2), (3), (4), (5) and (11) of this definition of Investment Securities; provided that as used in this clause (12) investments will be deemed to satisfy the requirements of clause (11) if they meet the requirements set forth in clause (11) ending with the words "clauses (1), (2), (3) or (4) above" and without regard to the remainder of such clause (11);

(13) any investment agreement with a financial institution or insurance company or whose obligations are guaranteed by a financial institution or insurance company which: (a) has at the date of execution thereof an outstanding issue of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated in either of the two highest long-term Rating Categories by both Moody's and Standard & Poor's, or (b) is fully secured by obligations described in items (1), (2), (3) or (4) of the definition of Investment Securities which are (A) valued not less frequently than monthly and have a fair market value, exclusive of accrued interest, at all times at least equal to the principal amount of the investment, (B) held by the Trustee or other custodian acceptable to the Trustee, (C) subject to a perfected first lien in the Trustee, and (D) free and clear from all third party liens;

(14) shares of beneficial interest in diversified management companies investing exclusively in securities and obligations described in clauses (1) through (13) of this definition of Investment Securities and which companies have either the highest rating by both Moody's and Standard & Poor's or

have an investment advisor registered with the Securities and Exchange Commission with not less than five (5) years experience investing in such securities and obligations and with assets under management in excess of $500,000,000;

(15) shares in a common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended from time to time;

(16) bankers' acceptances issued by domestic or foreign banks, which may include the Trustee and its affiliates, that are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by both Moody's and Standard & Poor's, which purchases may not exceed two hundred seventy (270) days maturity;

(17) the Local Agency Investment Fund or similar pooled fund operated by or on behalf of the State of California and which is authorized to accept investments of moneys held in any of the funds or accounts established pursuant to the Indenture;

(18) general obligation bonds of the State;

(19) financial futures or financial option contracts with an entity the debt securities of which are rated in the highest short-term or one of the two highest long-term rating categories by Moody's and Standard & Poor's; and

(20) Defeasance Securities.

**Letter of Credit Fund** means a fund by that name established to hold funds that are drawn on Credit Enhancement provided in the form of a letter of credit and that are to be applied to pay the principal of or interest on a Series of Bonds, which fund shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

**LIBOR** means, for each Reset Date, the London interbank offered rate for U.S. dollar deposits for a one-month period, as reported on the Reuters Screen LIBOR01 Page (or any successor) as of 11:00 a.m., London time, on the second Business Day preceding such Reset Date. If such rate is not then reported by Reuters, then "LIBOR" shall mean the rate then reported by any successor to or substitute for such service designated by the Calculation Agent and the Authority in writing that provides rate quotations comparable to those provided on such Reuters screen page.

**Liquidity Facility** means, with respect to a Series of Bonds, a line of credit, letter of credit, standby purchase agreement or similar liquidity facility, which secures or guarantees the payment of purchase price of such Series of Bonds under certain conditions specified therein, issued by a Liquidity Facility Provider, and delivered or made available to the Trustee, as from time to time supplemented or amended pursuant to its terms, or, in the event of the delivery or availability of an Alternate Liquidity Facility, such Alternate Liquidity Facility.

**Liquidity Facility Bonds** means any Bonds purchased with moneys drawn under (or otherwise obtained pursuant to the terms of) a Liquidity Facility, but excluding any Bonds no longer considered to be Liquidity Facility Bonds in accordance with the terms of the applicable Liquidity Facility.

**Liquidity Facility Provider** means, with respect to a Series of Bonds, the commercial bank, insurance company, pension fund or other institution issuing (or having primary obligation, or acting as

agent for the institutions obligated, under) a Liquidity Facility then in effect with respect to such Series of Bonds.

**Liquidity Facility Rate** means, with respect to a Series of Bonds, the interest rate per annum, if any, specified as applicable to Liquidity Facility Bonds in the Liquidity Facility delivered in connection with such Series of Bonds.

**Mandatory Sinking Account Payment** means, with respect to Bonds of any Series and maturity, the amount required by the Supplemental Indenture establishing the terms and provisions of such Series of Bonds to be deposited by the Authority in a Sinking Account for the payment of Term Bonds of such Series and maturity.

**Maximum Annual Debt Service** means the maximum amount of Annual Debt Service becoming due and payable on all Bonds Outstanding and all Parity Obligations (and all Subordinate Obligations, if applicable) outstanding during the period from the date of such calculation through the final maturity date of the Bonds and Parity Obligations (and Subordinate Obligations, if applicable), calculated utilizing the assumptions set forth under the definition of Debt Service.

**Mandatory Tender Date** means an Index Tender Date, a SIFMA Tender Date, a Long-Term Tender Date, or any date in which the Series 2012A Bonds are subject to a Mandatory Tender for purchase pursuant to the Indenture.

**Maximum Rate** means the least of (i) the rate specified therefor in the related Certificate of an Authorized Representative, (ii) the maximum rate of interest specified in any 2012 Liquidity Facility for computing coverage of the interest component of the Purchase Price or (iii) the maximum interest rate permitted by applicable law (12%).

**Mode** means, as the context may require, the Daily Rate Mode, the Weekly Rate Mode, the Index Mode, the SIFMA Mode, the Commercial Paper Mode or the Long-Term Mode. With respect to the Long-Term Mode, the Index Mode and the SIFMA Mode, each period from, initially, the Date of Issuance or, thereafter, from the date the Series 2012A Bonds are remarketed bearing interest in any one of these Modes, to the date the Series 2012A Bonds are purchased or deemed purchased on a Mandatory Tender Date, shall be a distinct and separate Mode, even if the Series 2012A Bonds are remarketed on such Mandatory Tender Date bearing interest in another Long-Term Mode, Index Mode or SIFMA Mode, respectively.

**Mode Change Date** means the day following the last day of one Mode on which another Mode begins.

**Mode Conversion** means the change of the Mode of the Series 2012A Bonds to another mode.

**MSRB EMMA System** means the Electronic Municipal Market Access (EMMA) website provided by the Municipal Securities Rulemaking Board or any substitution or replacement therefor.

**Moody's** means, Moody's Investors Service, a corporation duly organized and existing under the laws of the State of Delaware, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

**New Mode** any interest rate Mode selected pursuant to the Indenture.

**Notice Parties** means, as and to the extent applicable, the Authority, the Trustee, the Credit Enhancement Provider, if any, for the Series of Bonds to which the notice being given relates, the Liquidity Facility Provider, if any, for the Series of Bonds to which the notice being given relates, and the remarketing agent, if any, for the Series of Bonds to which the notice being given relates.

**One Month USD LIBOR Rate** means the rate for deposits in U.S. dollars for a one-month maturity that appears on Reuters Screen LIBOR01 Page (or such other page as may replace that page on that service, or such other service as may be nominated by the British Bankers Association, for the purpose of displaying London interbank offered rates for U.S. dollar deposits) as of 11:00 a.m., London time, on the date of determination of such rate, except that, if such rate does not appear on such page on such date, the One Month USD LIBOR Rate means a rate determined on the basis of the rates at which deposits in U.S. dollars for a one-month maturity and in a principal amount of at least U.S. $1,000,000 are offered at approximately 11:00 a.m., London time, on such date, to prime banks in the London interbank market by three major banks in the London interbank market (herein referred to as the "Reference Banks") selected by the Trustee (provided, however, that the Trustee may appoint an agent to identify such Reference Banks). The Trustee or its agent is to request the principal London office of each of such Reference Banks to provide a quotation of its rate. If at least two such quotations are provided, the One Month LIBOR Rate will be the arithmetic mean of such quotations. If fewer than two quotations are provided, the One Month LIBOR Rate will be the arithmetic mean of the rates quoted by three (if three quotations are not provided, two or one, as applicable) major banks in New York City, selected by the Trustee or its agent, at approximately 11:00 a.m., New York City time, on such date for loans in U.S. dollars to leading European banks in a principal amount of at least U.S. $1,000,000 having a one-month maturity. If none of the banks in New York City selected by the Trustee or its agent is then quoting rates for such loans, then the One Month LIBOR Rate for the ensuing interest period will mean the One Month LIBOR Rate most recently in effect.

**Opinion of Bond Counsel** means a written opinion of a law firm of national standing in the field of public finance selected by the Authority.

**Optional Purchase Date** means during a Daily Rate Mode or a Weekly Rate Mode, a Business Day as determined pursuant to the Indenture.

**Ordinance** means Ordinance No. 06-01, adopted by the Authority on June 21, 2006, which amended and restated Ordinance 88-01, as previously amended, including as amended by Ordinance 04-02, as in effect on the date of execution and delivery of the Indenture and as such Ordinance may hereafter be further amended pursuant to its terms.

**Ordinance 04-02** means Ordinance 04-02 adopted by the Authority on May 26, 2004.

**Ordinance 88-01** means Ordinance 88-01 adopted by the Contra Costa Transportation Partnership Commission, predecessor to the Authority, on August 3, 1988.

**Outstanding**, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except: (1) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the provisions of the Indenture described below under the caption "Discharge of Liability on Bonds," and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture; provided, however, that in the event the principal of or interest due on any Bonds shall be paid by the Credit Enhancement Provider pursuant to the Credit Enhancement issued in connection with

such Bonds, such Bonds shall remain Outstanding for all purposes and shall not be considered defeased or otherwise satisfied or paid by the Authority and the pledge of Revenues and all covenants, agreements and other obligations of the Authority to the Holders shall continue to exist and shall run to the benefit of such Credit Enhancement Provider and such Credit Enhancement Provider shall be subrogated to the rights of such Holders.

**Parity Obligations** means (i) any indebtedness, installment sale obligation, lease obligation or other obligation of the Authority for borrowed money, (ii) any obligation to pay the Rebate Requirement, or (iii) the Existing Swap Agreement and regularly scheduled payments or any other Interest Rate Swap Agreement entered into in connection with a Series of Bonds and identified by the Authority as a Parity Obligation in accordance with the provisions of the Indenture described below under the caption "Designation of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations," in each case incurred in accordance with the provisions of the Indenture described in paragraph (C) below under the caption "Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations," which obligations are secured under the Indenture by a lien and charge upon the Sales Tax Revenues on a parity with the Bonds (whether or not any Bonds are Outstanding). Parity Obligations do not include termination payments or payments for fees and expenses incurred in connection with any Interest Rate Swap Agreement which payments shall be secured as Fee and Expense Obligations.

**Participant** means, with respect to a Securities Depository, each participant listed in such Securities Depository's book-entry system as having an interest in the Series 2012A Bonds.

**Participating Underwriter** means any of the original underwriters of a Series of Bonds required to comply with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**Person** means an association, corporation, firm, partnership, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

**Prevailing Market Conditions** means, without limitation, the following factors: existing short-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indexes of such short-term rates; the existing market supply and demand and the existing yield curves for short-term and long-term securities for obligations of credit quality comparable to the Series 2012A Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions and financial conditions that may affect or be relevant to the Series 2012A Bonds; and such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, shall determine to be relevant to the remarketing of the Series 2012A Bonds at the

**Principal Fund** means the fund by that name established pursuant to the Indenture.

**Project** means capital outlay expenditures for transportation facility and service improvements within the County, including highway improvements, public transit improvements, local street maintenance and improvements and related transportation programs and purposes as permitted by the Act, the Ordinance and the Expenditure Plan.

**Project Fund** means, with respect to any Series of Bonds, a fund by that name established pursuant to the provisions of a Supplemental Indenture to hold the proceeds of a Series of Bonds or a portion thereof prior to expenditure on the portion of the Project being financed with the proceeds of such Series of Bonds.

**Proportionate Basis**, when used with respect to the redemption of Bonds, means that the amount of Bonds of each maturity to be redeemed shall be determined as nearly as practicable by multiplying the total amount of funds available for redemption by the ratio which the amount of Bond Obligation of Bonds of such maturity bears to the amount of all Bond Obligation of Bonds to be redeemed, provided, however that, any Bond may only be redeemed in an authorized denomination. For purposes of the foregoing, Term Bonds shall be deemed to mature in the years and in the amounts of the Mandatory Sinking Account Payments, and Capital Appreciation Bonds and Current Interest Bonds maturing or subject to Mandatory Sinking Account Payments in the same year shall be treated as separate maturities. When used with respect to the payment or purchase of a portion of Bonds, "Proportionate Basis" shall have the same meaning set forth above except that "pay" or purchase" shall be substituted for "redeem" or "redemption" and "paid" or "purchased" shall be substituted for "redeemed."

**Prevailing Market Conditions** means, without limitation, the following factors: existing short-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indexes of such short-term rates; the existing market supply and demand and the existing yield curves for short-term and long-term securities for obligations of credit quality comparable to the Series 2012A Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions and financial conditions that may affect or be relevant to the Series 2012A Bonds; and such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, shall determine to be relevant to the remarketing of the Series 2012A Bonds at the Purchase Price thereof.

**Purchase Date** means an Optional Purchase Date or a Mandatory Tender Date, as the case may be.

**Purchase Fund** means a fund by that name established to hold funds to be applied to pay the purchase price of a Series of Bonds, which fund shall be established pursuant to the Supplemental Indenture establishing the terms and provisions of such Series of Bonds.

**Purchase Price**, when used with respect to a Tendered Bond to be purchased on any Purchase Date, means 100% of the principal amount of such Series 2012A Bond, plus accrued interest thereon to such Purchase Date. If the Purchase Date for a Tendered Bond is also an Interest Payment Date for such Bond, the interest due on such date shall not be considered part of the Purchase Price; rather such interest shall be paid in accordance with the provisions of this Supplemental Indenture governing regular interest payments on the Series 2012A Bonds.

**Rate** means, with respect to any Series 2012 Bond, the interest rate applicable to such Series 2012 Bond as provided in this Supplemental Indenture.

**Rate Period** means any Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period, Index Rate Period, Long-Term Rate Period, SIFMA Rate Period or Fixed Rate Period.

**Rating Agencies** means with respect to the 2012 Bonds means Fitch Rating Services and Standard & Poor's.

**Rating Category** means with respect to any short-term or long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier.

**Rating Confirmation** means written evidence from each rating agency then rating the Series 2012 Bonds to the effect that, following the event which requires the Rating Confirmation, the then

current rating for the Series 2012 Bonds will not be lowered or withdrawn solely as a result of the occurrence of such event.

**Rebate Fund** means that fund by that name established pursuant to the Indenture.

**Rebate Instructions** means, with respect to any Series of Bonds, those calculations and directions required to be delivered to the Trustee by the Authority pursuant to the Tax Certificate delivered in connection with such Series of Bonds.

**Rebate Requirement** means, with respect to any Series of Bonds, the Rebate Requirement determined in accordance with the Tax Certificate delivered in connection with such Series of Bonds.

**Record Date** means: (a) for any Interest Payment Date in respect of any Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period, Index Rate Period or SIFMA Rate Period, the opening of business on the Business Day next preceding such Interest Payment Date; (b) for any Interest Payment Date in respect of any Long-Term Rate Period or Fixed Rate Period, the fifteenth (15th) day (whether or not a Business Day) of the month preceding the month in which such Interest Payment Date occurs; and (c) for any Series 2012B Bond the fifteenth (15th) day (whether or not a Business Day) of the month preceding an Interest Payment Date.

**Redemption Date** means the date fixed for redemption of Series 2012 Bonds subject to redemption in any notice of redemption given in accordance with the terms of the Indenture.

**Redemption Fund** means the fund by that name established pursuant to the Indenture.

**Redemption Price** means, with respect to any Series 2012 Bond or a portion thereof, 100% of the principal amount thereof to be redeemed, plus the applicable premium, if any, payable upon redemption thereof pursuant to this Supplemental Indenture.

**Refunding Bonds** means a Series of Bonds or a portion of a Series of Bonds issued pursuant to the provisions of the Indenture described below under the caption "Issuance of Additional Bonds and Other Obligations — Issuance of Refunding Bonds."

**Remarketing Agent** means the one or more banks, trust companies or members of the National Association of Securities Dealers, Inc. meeting the qualifications set forth in Section 29.15 and appointed by an Authorized Representative to serve as a Remarketing Agent for the Series 2012A Bonds.

**Repository** means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission or any successor agency thereto to receive reports and notices pursuant to Rule 15c2-12.

**Reserve Facility** means any insurance policy, letter of credit or surety bond issued by a Reserve Facility Provider, meeting the requirements set forth in the Indenture described below under the caption "Funding and Application of Bond Reserve Funds," and delivered to the Trustee in satisfaction of all or a portion of the Bond Reserve Requirement applicable to one or more Series of Bonds.

**Reserve Facility Provider** means any issuer of a Reserve Facility.

**Reset Date** means each date on which the interest rate with respect to the Series 2012A Bonds changes and the Series 2012A Bonds begin to bear interest at a new rate, which shall be (i) in the case of each Series 2012A Bond in the Commercial Paper Mode, the first day of each Commercial Paper Rate

Period for such Series 2012A Bond, (ii) in the case of the Daily Rate Mode, each Business Day commencing with the first day the Series 2012A Bonds bear interest in the Daily Rate Mode, (iii) in the case of the Weekly Rate Mode, the first day of such Mode and thereafter each Thursday, (iv) in the case of the Index Mode, the first day of such Mode and thereafter the first Business Day of each month, (v) in the case of the SIFMA Mode, the first day of such Mode and thereafter each Thursday, and (v) in the case of the Long-Term Mode, a date determined by the Authority which date shall be the Mode Change Date on which the Series 2012A Bonds begin to bear interest in the Long-Term Mode; provided, however, in connection with a change in Mode to a Weekly Rate Mode, an Index Mode or a SIFMA Mode, the Remarketing Agent may designate, upon the direction of the Authority, on or prior to the Mode Change Date, any other day as the Reset Date for Series 2012A Bonds. If any Reset Date stated above shall fall on a day which is not a Business Day, then such Reset Date shall be the next succeeding Business Day.

**Revenue Fund** means the fund by that name established pursuant to the Indenture.

**Revenues** means: (i) all Sales Tax Revenues; and (ii) all Swap Revenues. In accordance with the provisions of the Indenture described below under the caption "Issuance of Additional Bonds and Other Obligations — Issuance of Additional Bonds," the Authority by Supplemental Indenture may provide for additional revenues or assets of the Authority to be included in the definition of Revenues.

**Rule 15c2-12** means Securities and Exchange Commission Rule 15c2-12, as supplemented and amended from time to time.

**Sales Tax** means the retail transactions and use tax applicable in the incorporated and unincorporated territory of the County levied at the rate of one-half of one percent (1/2%) and imposed pursuant to the provisions of the Ordinance in accordance with the provisions of Part 1.6 of Division 2 of the Revenue and Taxation Code commencing April 1, 2009.

**Sales Tax Revenues** means all amounts available for distribution to the Authority on and after April 1, 2009 on account of the Sales Tax, after deducting amounts payable by the Authority to the State Board of Equalization for costs and expenses for its services in connection with the Sales Tax levied pursuant to the Ordinance and collected pursuant to the Act.

**Second Supplemental Indenture** means the Second Supplemental Indenture, dated as of October 1, 2010, between the Authority and the Trustee, as supplemented and amended from time to time pursuant to its terms.

**Securities Depository** means The Depository Trust Company, or such other securities depository as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

**Self-Liquidity Agreement** means an agreement of the Authority entered into with the Trustee pursuant to which the Authority agrees to provide funds for the payment of the Purchase Price of Tendered Bonds pursuant to the Indenture.

**Semi-Annual Interest Payment Date** means September 1 and March 1.

**Serial Bonds** means Bonds, maturing in specified years, for which no Mandatory Sinking Account Payments are provided.

**Series**, whenever used in the Indenture with respect to Bonds, means all of the Bonds designated as being of the same series, authenticated and delivered in a simultaneous transaction regardless of variations in maturity, interest rate, redemption and other provisions, and any Bonds thereafter

authenticated and delivered upon transfer or exchange or in lieu of or in substitution for (but not to refund) such Bonds as in the Indenture provided.

**Series 2010 Bonds** shall mean the Contra Costa Transportation Authority Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2010, authorized by the Indenture.

**Series 2012 Bonds** shall mean the Contra Costa Transportation Authority Sales Tax Revenue Bonds (Limited Tax Bonds), Series 2012, authorized by the Indenture.

**Series 2012 Costs of Issuance Fund** means the Series 2012 Costs of Issuance Fund established pursuant to the Indenture.

**Series 2012 Project Fund** means the Series 2012 Project Fund established pursuant to the Indenture.

**Series 2012A Bond Purchase Agreement** means that certain Bond Purchase Agreement, dated December 4, 2012, between the Authority and RBC Capital Markets, LLC, as 2012A Underwriter.

**Series 2012B Bond Purchase Agreement** means that certain Bond Purchase Agreement, dated December 4, 2012, between the Authority and Citigroup Global Markets, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as 2012B Underwriter.

**Series 2012A Bond Purchase Fund** means the Series 2012A Bond Purchase Fund, established pursuant to the Indenture.

**Series 2012A Bonds** means the $201,450,000 aggregate principal amount of Sales Tax revenue Bonds (Limited Tax Refunding Bonds), Series 2012A.

**Series 2012 B Bonds** means the $188,770,000 aggregate principal amount of Sales Tax Revenue Bonds (Fixed Rate Limited Tax Bonds), Series 2012B.

**SIFMA** means the Securities Industry and Financial Markets Association, and any successor thereto.

**SIFMA Delayed Remarketing Period** means the period beginning on the date that all then Outstanding Bonds in the SIFMA Mode are not remarketed on the SIFMA Tender Date and ending on the date that such Series 2012A Bonds are remarketed or redeemed.

**SIFMA Delayed Remarketing Period Rate** means the per annum interest rate on the Series 2012A Bonds, in the SIFMA Mode during a Delayed Remarketing Period, which rate shall be as determined.

**SIFMA Index** means, the SIFMA Municipal Swap Index and the rate for a Reset Date will be the level of the index which is issued weekly and which is compiled from the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established from time to time by the Securities Industry and Financial Markets Association and issued on Wednesday of each week, or if any Wednesday is not a Business Day, the next succeeding Business Day. If the SIFMA Index is not available, the rate for the Reset Date will be determined as if the parties had specified the "S&P Index-High Grade," and if neither the SIFMA Index nor the S&P Index-High Grade is available, the rate for the Reset Date will be determined as if the parties had specified the Substitute Index.

**SIFMA Mode** means the Mode during which the Series 2012A Bonds bear interest at the SIFMA Rate.

**SIFMA Rate** means, as determined pursuant to the Indenture, for each applicable Reset Date, a per annum rate of interest equal to the sum of the SIFMA Index as of the day of determination and the Applicable Spread.

**SIFMA Rate Period** means each period during which the Series 2012A Bonds bear interest at the SIFMA Rate.

**SIFMA Tender Date** means with respect to a change in Mode for the Series 2012A Bonds to a SIFMA Mode after the Issue Date (including a change in Mode from one SIFMA Mode to another SIFMA Mode), the date so specified by the Authority pursuant to the Indenture. The SIFMA Tender Date shall always be a Business Day, unless such date is the Stated Maturity Date. If a date (other than the Stated Maturity Date) that is not a Business Day is specified as a SIFMA Tender Date, then the SIFMA Tender Date shall be the Business Day following such specified date.

**Sinking Account** means an account by that name established in the Principal Fund for the payment of Term Bonds.

**Standard & Poor's** or **S&P** means Standard & Poor's, a division of The McGraw-Hill Companies, Inc., a corporation duly organized and existing under and by virtue of the laws of the State of New York, and its successors and assigns, except that if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, then the term "Standard & Poor's" shall be deemed to refer to any other nationally recognized securities rating agency selected by the Authority.

**State** means the State of California.

**State Board of Equalization** means the California State Board of Equalization.

**Subordinate Obligations** means any obligations of the Authority issued or incurred in accordance with the provisions of the Indenture described in paragraph (D) below under the caption "Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations," the principal of and interest on which obligations are secured by a lien and charge upon the Sales Tax Revenues on a basis subordinate to Bonds and Parity Obligations. Subordinate Obligations do not include termination payments or payments for fees and expenses incurred in connection with any Interest Rate Swap Agreement which payments shall be secured as Fee and Expense Obligations.

**Subordinate Obligations Fund** means the fund by that name established pursuant to the Indenture.

**Subsidy Payments** means payments with respect to the interest due on a Series of Bonds made by the United States Treasury to the Trustee pursuant to Section 54AA of the Code or Section 6431 of the Code or any successor to either of such provisions of the Code.

**Supplemental Indenture** means any indenture hereafter duly executed and delivered, supplementing, modifying or amending the Indenture, but only if and to the extent that such supplemental indenture is authorized specifically under the Indenture.

**Swap Revenues** means the amount of all regularly-scheduled payments owed or paid to the Authority by any Counterparty under any Interest Rate Swap Agreement after offset for the amount of all regularly-scheduled payments owed or paid by the Authority to such Counterparty under such Interest Rate Swap Agreement. Swap Revenues do not include termination payments or payments for fees and expenses incurred in connection with any Interest Rate Swap Agreement.

**Tax Certificate** means each Tax Certificate delivered by the Authority at the time of issuance and delivery of a Series of Bonds, as the same may be amended or supplemented in accordance with its terms.

**Tax-Exempt** with respect to interest on any obligations of a state or local government, means that such interest is excluded from the gross income of the holders thereof (other than any holder who is a substantial user of facilities financed with such obligations or a related person within the meaning of Section 147(a) of the Code) for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax or environmental tax under the Code.

**Tendered Bonds** means a Series 2012A Bonds tendered (or deemed tendered) pursuant to the Indenture.

**Term Bonds** means Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

**Trustee** means Deutsche Bank National Trust Company, a national banking association duly organized and existing under and by virtue of the laws of the United States of America, or its successor, as Trustee as provided in the Indenture.

**2012 Authority Account** means the 2012 Authority Account within the Series 2012A Bond Purchase Fund established pursuant to Section 30.01(b).

**2012 Remarketing Account** means the Series 2012 Remarketing Account within the Series 2012A Bond Purchase Fund established pursuant to Section 30.01(b).

**2012A Underwriter** means RBC Capital Markets, LLC.

**2012B Underwriter** means Citigroup Global Markets, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated.

**Variable Rate** means any of the Daily Rate, the Weekly Rate, the Commercial Paper Rate the Index Rate, the SIFMA Rate, or the Long-Term Rate, as applicable.

**Variable Rate Demand Bonds** means the Series 2012A Bonds bearing interest at a Daily Rate or a Weekly Rate.

**Variable Rate Indebtedness** means any indebtedness the interest rate on which is not fixed at the time of incurrence of such indebtedness, and has not at some subsequent date been fixed, at a numerical rate or rates for the entire term of such indebtedness.

**Revenue Fund; Pledge of Revenues**

The Authority shall cause Sales Tax Revenues to be transmitted by the State Board of Equalization directly to the Trustee. The Trustee shall forthwith deposit in a trust fund, designated as the "Revenue Fund," which fund the Trustee shall establish and maintain, all Sales Tax Revenues, when and as received by the Trustee.

(A) As security for the payment of all amounts owing on the Bonds, Parity Obligations, Subordinate Obligations and Fee and Expense Obligations, in accordance with the provisions of the Indenture, there are irrevocably pledged to the Trustee: (i) all Revenues; and (ii) all amounts, including proceeds of the Bonds, held on deposit in the funds and accounts established under the Indenture (except for amounts held in the Rebate Fund, any Letter of Credit Fund and any Purchase Fund), subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. This pledge shall constitute a first lien on and security interest in such collateral which shall immediately attach to the collateral and be effective, binding and enforceable against the Authority and all others asserting the rights therein, to the extent set forth, and in accordance with, the Indenture irrespective of whether those parties have notice of such pledge and without the need for any physical delivery, recordation, filing or further act.

All Bonds and Parity Obligations shall be of equal rank without preference, priority or distinction of any Bonds and Parity Obligations over any other Bonds and Parity Obligations. All Subordinate Obligations shall be of equal rank without preference, priority or distinction of any Subordinate Obligations over any other Subordinate Obligations. All Fee and Expense Obligations shall be of equal rank without preference, priority or distinction of any Fee and Expense Obligations over any other Fee and Expense Obligations.

The Sales Tax Revenues and all other amounts held on deposit in the Revenue Fund and the other funds and accounts established under the Indenture (except for amounts held in the Rebate Fund, any Letter of Credit Fund and any Purchase Fund) shall be received and held in trust by the Trustee for the benefit of the Holders of the Bonds, the Parity Obligations, the Subordinate Obligations and the Fee and Expense Obligations as their interests may appear under the Indenture and shall be disbursed, allocated and applied solely for the uses and purposes set forth in, and in accordance with the provisions of, the Indenture.

(B) The Bonds are limited obligations of the Authority and are payable as to both principal and interest, and any premium upon redemption thereof, exclusively from the Revenues and other funds pledged under the Indenture.

**Allocation of Sales Tax Revenues**

So long as any Bonds are Outstanding or any Parity Obligations, Subordinate Obligations, Fee and Expense Obligations or other amounts payable under the Indenture remain unpaid, the Trustee will set aside in each month following receipt of the Sales Tax Revenues the moneys in the Revenue Fund in the following respective funds (each of which the Trustee will establish, maintain and hold in trust for the benefit of the Holders of the Bonds and, as and to the extent applicable, the holders of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations) in the following amounts, in the following order of priority, the requirements of each such fund (including the making up of any deficiencies in any such fund resulting from lack of Revenues sufficient to

make any earlier required deposit) at the time of deposit to be satisfied before any deposit is made to any fund subsequent in priority; provided that (i) on a parity with such deposits the Trustee may set aside or transfer amounts with respect to any outstanding Parity Obligations as provided in the proceedings for such Parity Obligations delivered to the Trustee (which will be proportionate in the event such amounts are insufficient to provide for all deposits required as of any date to be made with respect to the Bonds and such Parity Obligations); (ii) regularly scheduled payments on Interest Rate Swap Agreements which constitute Parity Obligations shall be payable from the Interest Fund and the required deposits described below shall be adjusted to include payments on such Interest Rate Swap Agreements in accordance with the Indenture; and (iii) in the event any of the deposits or transfers requires more than one such deposit or payment and there is not then on deposit in the Revenue Fund sufficient funds to make all such deposits and payments, then such deposits and payments shall be made pro rata (based on the total amount of such deposits and payments then due) to the extent of available funds:

**Interest Fund**. Following receipt of the Sales Tax Revenues in each month, the Trustee will set aside in the Interest Fund as soon as practicable in such month an amount equal to (a) one-sixth of the aggregate half-yearly amount of interest becoming due and payable on the Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which will be governed by subparagraph (b) below) during the next ensuing six (6) months (excluding any interest for which there are moneys deposited in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay such interest during said next ensuing six (6) months), until the requisite half-yearly amount of interest on all such Outstanding Current Interest Bonds (except for Bonds constituting Variable Rate Indebtedness which will be governed by subparagraph (b) below) is on deposit in such fund; provided that from the date of delivery of a Series of Current Interest Bonds until the first Interest Payment Date with respect to such Series of Bonds the amounts set aside in such fund with respect to such Series of Bonds will be sufficient on a monthly pro rata basis to pay the aggregate amount of interest becoming due and payable on said Interest Payment Date with respect to such Series of Bonds, plus (b) the aggregate amount of interest to accrue during that month on Outstanding Variable Rate Indebtedness, calculated, if the actual rate of interest is not known, at the interest rate specified in writing by the Authority, or if the Authority will not have specified an interest rate in writing, calculated at the maximum interest rate borne by such Variable Rate Indebtedness during the month prior to the month of deposit plus one hundred (100) basis points (provided, however, that the amount of such deposit into the Interest Fund for any month may be reduced by the amount by which the deposit in the prior month exceeded the actual amount of interest accrued and paid during that month on said Outstanding Variable Rate Indebtedness and provided further that the amount of such deposit into the Interest Fund for any month will be increased by the amount by which the deposit in the prior month was less than the actual amount of interest accruing during that month on said Outstanding Variable Rate Indebtedness). No deposit need be made into the Interest Fund if the amount contained therein is at least equal to the interest to become due and payable on the Interest Payment Dates falling within the next six (6) months upon all of the Bonds issued under the Indenture and then Outstanding and on March 1 and September 1 of each year any excess amounts in the Interest Fund not needed to pay interest on such date (and not held to pay interest on Bonds having Interest Payment Dates other than March 1 and September 1) will be transferred to the Authority (but excluding, in each case, any moneys on deposit in the Interest Fund from the proceeds of any Series of Bonds or other source and reserved as capitalized interest to pay interest on any future interest payment dates following such interest payment dates).

When there are Liquidity Facility Bonds outstanding, such deposits shall take into account and include the Liquidity Facility Rate on Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds.

**Principal Fund; Sinking Accounts**. Following receipt of the Sales Tax Revenues in each month, the Trustee will deposit in the Principal Fund as soon as practicable in such month an amount equal to at least (a) one-sixth of the aggregate semiannual amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having semiannual maturity dates within the next six (6) months, plus (b) one-twelfth of the aggregate yearly amount of Bond Obligation becoming due and payable on the Outstanding Serial Bonds of all Series having annual maturity dates within the next twelve (12) months, plus (c) one-sixth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next six-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts have been created and for which semiannual mandatory redemption is required from said Sinking Accounts, plus (d) one-twelfth of the aggregate of the Mandatory Sinking Account Payments to be paid during the next 12-month period into the respective Sinking Accounts for the Term Bonds of all Series for which Sinking Accounts will have been created and for which annual mandatory redemption is required from such Sinking Accounts; provided that if the Authority certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be set aside towards such principal to be so refunded or paid. All of the aforesaid deposits made in connection with future Mandatory Sinking Account Payments will be made without priority of any payment over any other such payment.

In the event that the Sales Tax Revenues will not be sufficient to make the required deposits so that moneys in the Principal Fund on any principal or mandatory redemption date are equal to the amount of Bond Obligation to become due and payable on the Outstanding Serial Bonds of all Series plus the Bond Obligation amount of and redemption premium on the Outstanding Term Bonds required to be redeemed or paid at maturity on such date, then such moneys will be applied on a Proportionate Basis and in such proportion as said Serial Bonds and said Term Bonds will bear to each other, after first deducting for such purposes from said Term Bonds any of said Term Bonds required to be redeemed annually as will have been redeemed or purchased during the preceding 12-month period and any of said Term Bonds required to be redeemed semiannually as will have been redeemed or purchased during the six-month period ending on such date or the immediately preceding six month period. In the event that the Sales Tax Revenues will not be sufficient to pay in full all Mandatory Sinking Account Payments required to be paid at any one time into all such Sinking Accounts, then payments into all such Sinking Accounts will be made on a Proportionate Basis, in proportion that the respective Mandatory Sinking Account Payments required to be made into each Sinking Account during the then current 12-month period bear to the aggregate of all of the Mandatory Sinking Account Payments required to be made into all such Sinking Accounts during such 12-month period.

No deposit need be made into the Principal Fund so long as there will be in such fund (i) moneys sufficient to pay the Bond Obligations of all Serial Bonds issued under the Indenture and then Outstanding and maturing by their terms within the next twelve (12) months plus (ii) the aggregate of all Mandatory Sinking Account Payments required to be made in such 12-month period, but less any amounts deposited into the Principal Fund during such 12-month period and theretofore paid from the Principal Fund to redeem or purchase Term Bonds during such 12-month period; provided that if the Authority certifies to the Trustee that any principal payments are expected to be refunded on or prior to their respective due dates or paid from amounts on deposit in a Bond Reserve Fund that would be in excess of the Bond Reserve Requirement applicable to such Bond Reserve Fund upon such payment, no amounts need be on deposit with respect to such principal payments. At the beginning of each Fiscal Year and in any event not later than March 1 of each year, the Trustee will request from the Authority a Certificate of the Authority setting forth the principal

payments for which deposits will not be necessary pursuant to the preceding sentence and the reason therefor. On March 1 of each year any excess amounts in the Principal Fund not needed to pay principal on such date (and not held to pay principal on Bonds having principal payment dates other than March 1) will be transferred to the Authority.

When there are any Liquidity Facility Bonds outstanding, such deposits shall take into account and include any amortizations or redemptions of any Liquidity Facility Bonds required by the Liquidity Facility then in effect with respect to such Bonds. For purposes of the provisions of the Indenture described above relating to the Principal Fund, Liquidity Facility Bonds shall be treated as Serial Bonds with maturity dates on the payment dates specified for any amortizations or redemptions.

**Bond Reserve Fund**. Upon the occurrence of any deficiency in any Bond Reserve Fund, the Trustee will make such deposit to such Bond Reserve Fund as is required pursuant to the provisions of the Indenture described in paragraph (D) under the caption "Establishment and Application of Funds and Accounts — Funding and Application of Bond Reserve Funds," each such deposit to be made as soon as possible in each month, until the balance therein is at least equal to the applicable Bond Reserve Requirement.

**Subordinate Obligations Fund**. The Trustee will establish, maintain and hold in trust a separate fund designated as the "Subordinate Obligations Fund." After the transfers to the Interest Fund, the Principal Fund and the Bond Reserve Funds described above have been made, the Trustee shall deposit in the Subordinate Obligations Fund in each month such amount as the Authority shall specify in writing is necessary to make payments due and payable during the following month with respect to Subordinate Obligations then outstanding.

**Fees and Expenses Fund**. The Trustee will establish, maintain and hold in trust a separate fund designated as the "Fees and Expenses Fund." After the transfers to the Interest Fund, the Principal Fund, the Bond Reserve Funds and the Subordinate Obligations Fund described above have been made, the Trustee will deposit in the Fees and Expenses Fund in each month the amounts necessary for payment of Fee and Expense Obligations owing in such month or owing in the following month by the Authority. The Authority will inform the Trustee of such amounts, in writing, such notification to be provided no later than the tenth calendar day of each month.

Any Revenues remaining in the Revenue Fund after the foregoing transfers in the funds and accounts described above, except as the Authority will otherwise direct in writing or as is otherwise provided in a Supplemental Indenture, will be transferred to the Authority on the same Business Day or as soon as is practicable thereafter. The Authority may use and apply the Revenues when received by it for any lawful purpose of the Authority, including the redemption of Bonds upon the terms and conditions set forth in the Supplemental Indenture relating to such Bonds, the purchase of Bonds as and when and at such prices as it may determine and the posting of collateral in accordance with the provisions of an Interest Rate Swap Agreement.

If five (5) days prior to any principal payment date, Interest Payment Date or mandatory redemption date the amounts on deposit in the Revenue Fund, Interest Fund, the Principal Fund, including the Sinking Accounts therein, and, as and to the extent applicable, any Bond Reserve Fund established in connection with a Series of Bonds, with respect to the payments to be made on such upcoming date are insufficient to make such payments, the Trustee will immediately notify the Authority, in writing, of such deficiency and direct that the Authority transfer the amount of such deficiency to the Trustee on or prior to such payment date. The Authority covenants and agrees to transfer to the Trustee from any Revenues then in its possession which Revenues shall not include

any Sales Tax Revenues posted by the Authority as collateral pursuant to an Interest Rate Swap Agreement, which Sales Tax Revenues the Authority and the Trustee acknowledge are no longer in possession of the Authority for purposes of the provisions of the Indenture described under this caption or any other provision of the Indenture, including, without limitation, the provisions of the Indenture described above under the caption "Revenue Fund; Pledge of Revenues," the amount of such deficiency on or prior to the principal, interest or mandatory redemption date referenced in such notice.

**Establishment and Application of Funds and Accounts**

Each of the funds and accounts described below is established pursuant to the Indenture.

**Interest Fund**. All amounts in the Interest Fund will be used and withdrawn by the Trustee solely for the purposes of (a) paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture), or for reimbursing the Credit Enhancement Provider for a drawing for such purposes made on Credit Enhancement provided in the form of an irrevocable, direct-pay letter of credit, and (b) making regularly scheduled payments on Interest Rate Swap Agreements, as provided in the Indenture.

**Principal Fund**. All amounts in the Principal Fund will be used and withdrawn by the Trustee solely for the purposes of paying the Bond Obligation of the Bonds when due and payable, except that all amounts in the Sinking Accounts will be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds, as provided in the Indenture, or for reimbursing the Credit Enhancement Provider for a drawing for such purposes made on Credit Enhancement provided in the form of an irrevocable, direct-pay letter of credit.

The Trustee will establish and maintain within the Principal Fund a separate account for the Term Bonds of each Series and maturity, designated as the "Sinking Account," inserting therein the Series and maturity designation of such Bonds. On or before the Business Day prior to any date upon which a Mandatory Sinking Account Payment is due, the Trustee will transfer the amount of such Mandatory Sinking Account Payment (being the principal thereof, in the case of Current Interest Bonds, and the Accreted Value, in the case of Capital Appreciation Bonds) from the Principal Fund to the applicable Sinking Account. With respect to each Sinking Account, on each Mandatory Sinking Account Payment date established for such Sinking Account, the Trustee will apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity, as the case may be) of Term Bonds of such Series and maturity for which such Sinking Account was established, in the manner provided in the Indenture or the Supplemental Indenture pursuant to which such Series of Bonds was created; provided that, at any time prior to giving such notice of such redemption, the Trustee will, upon receipt of a Request of the Authority, apply moneys in such Sinking Account to the purchase of Term Bonds of such Series and maturity at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Fund) as is directed by the Authority, except that the purchase price (excluding accrued interest, in the case of Current Interest Bonds) will not exceed the principal amount or Accreted Value thereof If, during the 12-month period (or six-month period with respect to Bonds having semi-annual Mandatory Sinking Account Payments) immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds of such Series and maturity with moneys in such Sinking Account, or, during said period and prior to giving said notice of redemption, the Authority has deposited Term Bonds of such Series and maturity with the Trustee, or Term Bonds of such Series and maturity were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said

Mandatory Sinking Account Payment, such Term Bonds so purchased or deposited or redeemed will be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment. All Term Bonds purchased or deposited pursuant to the provisions of the Indenture described herein will be cancelled by the Trustee and destroyed by the Trustee and a certificate of destruction will be delivered to the Authority by the Trustee. Any amounts remaining in a Sinking Account on March 1 of each year following the redemption as of such date of the Term Bonds for which such account was established will be withdrawn by the Trustee and transferred as soon as is practicable to the Authority to be used by the Authority for any lawful purpose of the Authority. All Term Bonds purchased from a Sinking Account or deposited by the Authority with the Trustee in a twelve month period ending March 31 (or in a six-month period ending March 31 or September 30 with respect to Bonds having semi-annual Mandatory Sinking Account Payments) and prior to the giving of notice by the Trustee for redemption from Mandatory Sinking Account Payments for such period will be allocated first to the next succeeding Mandatory Sinking Account Payment for such Series and maturity of Term Bonds, if any, occurring on the next March 1 or September 1, then as a credit against such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Authority. All Term Bonds redeemed by the Trustee from the Redemption Fund will be credited to such future Mandatory Sinking Account Payments for such Series and maturity of Term Bonds as may be specified in a Request of the Authority.

**Funding and Application of Bond Reserve Funds**. The Authority may at its sole discretion at the time of issuance of any Series of Bonds or at any time thereafter by Supplemental Indenture provide for the establishment of a Bond Reserve Fund as additional security for a Series of Bonds. Any Bond Reserve Fund so established by the Authority will be available to secure one or more Series of Bonds as the Authority will determine and will specify in the Supplemental Indenture establishing such Bond Reserve Fund. Any Bond Reserve Fund established by the Authority will be held by the Trustee and will comply with the requirements of the Indenture described under this caption.

In lieu of making the Bond Reserve Requirement deposit applicable to one or more Series of Bonds in cash or in replacement of moneys then on deposit in any Bond Reserve Fund (which will be transferred by the Trustee to the Authority), or in substitution of any Reserve Facility comprising part of the Bond Reserve Requirement relating to one or more Series of Bonds, the Authority may, at any time and from time to time, deliver to the Trustee an irrevocable letter of credit issued by a financial institution having unsecured debt obligations rated at the time of delivery of such letter of credit in one of the two highest Rating Categories of Moody's and Standard & Poor's, in an amount, which, together with cash, Investment Securities or other Reserve Facilities, as described in the paragraph below, then on deposit in such Bond Reserve Fund, will equal the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such letter of credit will have a term no less than three (3) years or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained and will provide by its terms that it may be drawn upon as described under this caption. At least one (1) year prior to the stated expiration of such letter of credit, the Authority will either (i) deliver a replacement letter of credit, (ii) deliver an extension of the letter of credit for at least one (1) additional year or, if less, the final maturity of the Bonds in connection with which such letter of credit was obtained, or (iii) deliver to the Trustee a Reserve Facility satisfying the requirements of the Indenture described in the paragraph below. Upon delivery of such replacement Reserve Facility, the Trustee will deliver the then-effective letter of credit to or upon the order of the Authority. If the Authority will fail to deposit a replacement Reserve Facility with the Trustee, the Authority will immediately commence to make monthly deposits with the Trustee so that an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates will be on deposit in such Bond Reserve Fund no

later than the stated expiration date of the letter of credit. If an amount equal to the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates as of the date following the expiration of the letter of credit is not on deposit in such Bond Reserve Fund one (1) week prior to the expiration date of the letter of credit (excluding from such determination the letter of credit), the Trustee will draw on the letter of credit to fund the deficiency resulting therefrom in such Bond Reserve Fund.

In lieu of making a Bond Reserve Requirement deposit in cash or in replacement of moneys then on deposit in a Bond Reserve Fund (which will be transferred by the Trustee to the Authority) or in substitution of any Reserve Facility comprising part of a Bond Reserve Requirement for any Bonds, the Authority may, at any time and from time to time, deliver to the Trustee a surety bond or an insurance policy in an amount which, together with moneys, Investment Securities, or other Reserve Facilities then on deposit in a Bond Reserve Fund, is no less than the Bond Reserve Requirement relating to the Bonds to which such Bond Reserve Fund relates. Such surety bond or insurance policy will be issued by an insurance company whose unsecured debt obligations (or for which obligations secured by such insurance company's insurance policies) are rated at the time of delivery in one of the two highest Rating Categories of both Moody's and Standard & Poor's. Such surety bond or insurance policy will have a term of no less than the final maturity of the Bonds in connection with which such surety bond or insurance policy is obtained. In the event that such surety bond or insurance policy for any reason lapses or expires, the Authority will immediately implement (i) or (iii) of the preceding paragraph or make the twelve equal monthly deposits to such Bond Reserve Fund so that the Bond Reserve Fund is replenished to the required level after a year.

Subject to the provisions of the Indenture described in the final paragraph under this caption, all amounts in any Bond Reserve Fund (including all amounts which may be obtained from a Reserve Facility on deposit in such Bond Reserve Fund) will be used and withdrawn by the Trustee, as hereinafter described; (i) for the purpose of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which such Bond Reserve Fund relates; or (ii) together with any other moneys available therefor, (x) for the payment or redemption of all Bonds then Outstanding of the Series to which such Bond Reserve Fund relates, (y) for the defeasance or redemption of all or a portion of the Bonds then Outstanding of the Series to which such Bond Reserve Fund relates, provided, however, that if funds on deposit in any Bond Reserve Fund are applied to the defeasance or redemption of a portion of the Series of Bonds to which such Bond Reserve Fund relates, the amount on deposit in the Bond Reserve Fund immediately subsequent to such partial defeasance or redemption shall equal the Bond Reserve Requirement applicable to all Bonds of such Series Outstanding immediately subsequent to such partial defeasance or redemption, or (z) for the payment of the final principal and interest payment of the Bonds of such Series. Unless otherwise directed in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds, the Trustee will apply amounts held in cash or Investment Securities in any Bond Reserve Fund prior to applying amounts held in the form of Reserve Facilities in any Bond Reserve Fund, and if there is more than one Reserve Facility being held on deposit in any Bond Reserve Fund, will on a pro rata basis with respect to the portion of a Bond Reserve Fund held in the form of a Reserve Facility (calculated by reference to the maximum amount of such Reserve Facility), draw under each Reserve Facility issued with respect to such Bond Reserve Fund, in a timely manner and pursuant to the terms of such Reserve Facility to the extent necessary in order to obtain sufficient funds on or prior to the date such funds are needed to pay the Bond Obligation of, Mandatory Sinking Account Payments with respect to, and interest on the Bonds of the Series to which such Bond Reserve Fund relates when due. In the event that the Trustee has notice that any payment of principal of or interest on a Bond has been recovered from a Holder 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, pursuant to the terms of, and if so, provided by, the terms of the Reserve

Facility, if any, securing the Bonds of Such Series, will so notify the issuer thereof and draw on such Reserve Facility to the lesser of the extent required or the maximum amount of such Reserve Facility in order to pay to such Holders the principal of and interest so recovered.

The Trustee will notify the Authority of any deficiency in any Bond Reserve Fund (i) due to a withdrawal from such Bond Reserve Fund for purposes of making up any deficiency in the Interest Fund or the Principal Fund relating to the Bonds of the Series to which such Bond Reserve Fund relates or (ii) resulting from a valuation of Investment Securities held on deposit in such Bond Reserve Fund pursuant to the provisions of the Indenture described below under the caption "Investment in Funds and Accounts" and will request that the Authority replenish such deficiency or repay any and all obligations due and payable under the terms of any Reserve Facility comprising part of any Bond Reserve Requirement. Upon receipt of such notification from the Trustee, the Authority will instruct the Trustee to commence setting aside in each month following receipt of Sales Tax Revenues for deposit in the applicable Bond Reserve Fund an amount equal to one-twelfth (1/12th) of the aggregate amount of each unreplenished prior withdrawal from such Bond Reserve Fund or decrease resulting from a valuation of Investment Securities and will further instruct the Trustee to transfer to each Reserve Facility Provider providing a Reserve Facility satisfying a portion of the Bond Reserve Requirement relating to the Bonds of the Series to which such Bond Reserve Fund relates, an amount equal to one-twelfth (1/12th) of the aggregate amount of any unreplenished prior withdrawal on such Reserve Facility, such amount to be transferred by the Trustee as promptly as possible after receipt of the Sales Tax Revenues each month, commencing with the month following the Authority's receipt of notification from the Trustee of withdrawal or decrease resulting from a valuation, as applicable, until the balance on deposit in such Bond Reserve Fund is at least equal to the Bond Reserve Requirement relating to the Bonds of the Series to which such Bond Reserve Fund relates.

Unless the Authority otherwise directs in writing, amounts in any Bond Reserve Fund in excess of the Bond Reserve Requirement relating to the Bonds of the Series to which such Bond Reserve Fund relates will be transferred by the Trustee to the Authority on the Business Day following March 1 of each year; provided that such amounts will be transferred only from the portion of such Bond Reserve Fund held in the form of cash or Investment Securities. In addition, amounts on deposit in any Bond Reserve Fund will be transferred by the Trustee to the Authority (i) upon the defeasance, retirement or refunding of all or a portion of the Bonds of the Series to which such Bond Reserve Fund relates provided that such transfer shall not be made unless (a) immediately thereafter all of the Bonds to which the Bond Reserve Fund relates shall be deemed to have been paid pursuant to the provisions of the Indenture described below under the caption "Defeasance," or (b) the amount remaining in such Bond Reserve Fund after such transfer shall not be less than the Bond Reserve Requirement applicable to Bonds of the Series to which such Bond Reserve Fund relates or (ii) upon the replacement of cash on deposit in any Bond Reserve Fund with one or more Reserve Facilities in accordance with the provisions of the Indenture described above, subject in the case of a transfer pursuant to either clause (i) or clause (ii) to the requirements of the applicable Tax Certificate.

**Subordinate Obligations Fund**. All moneys in the Subordinate Obligations Fund will be used and withdrawn by the Trustee to pay Subordinate Obligations as such amounts become due and payable.

**Fees and Expenses Fund**. All amounts in the Fees and Expenses Fund will be used and withdrawn by the Trustee solely for the purpose of paying Fee and Expense Obligations as such amounts will become due and payable.

**Redemption Fund**. The Trustee will establish, maintain and hold in trust a special fund designated as the "Redemption Fund." All moneys deposited by the Authority with the Trustee for the purpose of optionally redeeming Bonds of any Series will, unless otherwise directed by the Authority, be deposited in the Redemption Fund. All amounts deposited in the Redemption Fund will be used and withdrawn by the Trustee solely for the purpose of redeeming Bonds of such Series and maturity as will be specified by the Authority in a Request to the Trustee, in the manner, at the times and upon the terms and conditions specified in the Supplemental Indenture pursuant to which the Series of Bonds was created; provided that, at any time prior to giving such notice of redemption, the Trustee will, upon receipt of a Request of the Authority, apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding, in the case of Current Interest Bonds, accrued interest, which is payable from the Interest Fund) as is directed by the Authority, except that the purchase price (exclusive of any accrued interest) may not exceed the Redemption Price or Accreted Value then applicable to such Bonds. All Term Bonds purchased or redeemed from the Redemption Fund will be allocated to Mandatory Sinking Account Payments applicable to such Series and maturity of Term Bonds as may be specified in a Request of the Authority.

**Rebate Fund**. Upon receipt of funds to be applied to the Rebate Requirement, the Trustee will establish and maintain a fund separate from any other fund established and maintained under the Indenture designated as the Rebate Fund. Within the Rebate Fund, the Trustee will maintain such accounts as will be necessary in order to comply with the terms and requirements of each Tax Certificate as directed in writing by the Authority. Subject to the transfer provisions provided in the Indenture, all money at any time deposited in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the federal government of the United States of America, and neither the Trustee nor any Holder nor any other Person will have any rights in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund will be governed by the Indenture and by the applicable Tax Certificate or Tax Certificates. The Authority covenants to comply with the directions contained in each Tax Certificate and the Trustee covenants to comply with all written instructions of the Authority delivered to the Trustee pursuant to each Tax Certificate (which instructions will state the actual amounts to be deposited in or withdrawn from the Rebate Fund and will not require the Trustee to make any calculations with respect thereto). The Trustee will be deemed conclusively to have complied with the provisions of the Indenture described in this paragraph if it follows such instructions of the Authority, and the Trustee will have no liability or responsibility to enforce compliance by the Authority with the terms of any Tax Certificate nor to make computations in connection therewith.

**Payment Provisions Applicable to Interest Rate Swap Agreements**

(A) The Authority shall, promptly after Swap Revenues are paid by the Counterparty under an Interest Rate Swap Agreement, transfer or cause to be transferred to the Trustee for deposit in the Revenue Fund, the Swap Revenues.

(B) The Authority and the Trustee acknowledge pursuant to the provisions of the Indenture: (i) that the Existing Swap Agreement has been entered into by the Authority; (2) that the obligation of the Authority to make regularly scheduled payments required under the Existing Swap Agreement constitutes a Parity Obligation under the Indenture; and (3) that the obligation of the Authority to pay fees and expenses and termination payments under the Existing Swap Agreement constitutes a Fee and Expense Obligation under the Indenture.

(C) Payments on Interest Rate Swap Agreements that are payable as Parity Obligations (including the payments under the Existing Swap Agreement that constitute Parity Obligations) shall be

payable by the Trustee to the Counterparty from the Interest Fund. If such payments on any Interest Rate Swap Agreements are payable to the Counterparty on a semi-annual basis, the Trustee shall set aside in the Interest Fund as soon as practicable in each month an amount equal to one-sixth of the amount due to the Counterparty on the next payment date, until the requisite half-yearly amount of payments due on such Interest Rate Swap Agreement is on deposit in such fund.

(D) Regularly scheduled payments on any Interest Rate Swap Agreement that the Authority has designated as a Subordinate Obligation shall be payable by the Trustee to the Counterparty from the Subordinate Obligations Fund.

(E) Payments on Interest Rate Swap Agreements that are payable as Fee and Expense Obligations shall be payable by the Trustee to the Counterparty from the Fee and Expense Fund.

(F) Notwithstanding any provision of the Indenture to the contrary, the Authority may apply termination payments received in connection with the termination of an Interest Rate Swap Agreement to the defeasance, purchase or redemption of all or a portion of any Bonds then Outstanding.

**Investment in Funds and Accounts**

All moneys in any of the funds and accounts held by the Trustee and established pursuant to the Indenture will be invested, as directed by the Authority, solely in Investment Securities, subject to the limitations set forth in the Indenture. If and to the extent the Trustee does not receive investment instructions from the Authority with respect to the moneys in the funds and accounts held by the Trustee pursuant to the Indenture, such moneys will be invested in Investment Securities described in clause (12) of the definition thereof and the Trustee will thereupon request investment instructions from the Authority for such moneys.

Moneys in any Bond Reserve Fund will be invested in Investment Securities maturing in not more than 5 years, or having a put option or demand option providing funds upon request for the purpose of payment of the Bonds to which such Bond Reserve Fund relates as provided in the Indenture. Moneys in the remaining funds and accounts will be invested in Investment Securities maturing or available on demand not later than the date on which it is estimated that such moneys will be required by the Trustee.

Unless otherwise provided in a Supplemental Indenture establishing the terms and provisions of a Series of Bonds or a Request of the Authority delivered to the Trustee: (i) all interest, profits and other income received from the investment of moneys in the Interest Fund representing accrued interest or capitalized interest will be retained in the Interest Fund; (ii) all interest, profits and other income received from the investment of moneys in a Bond Reserve Fund will be retained in such Bond Reserve Fund to the extent of any deficiency therein, and otherwise will be transferred to the Project Fund established in connection with the Series of Bonds to which such Bond Reserve Fund relates, if any, until such time as such Project Fund shall be closed, and then shall be transferred to the Revenue Fund; (iii) all interest, profits and other income received from investment of moneys in a Costs of Issuance Fund shall be retained in such Costs of Issuance Fund until such time as such Costs of Issuance Fund is closed, and any earnings received on a Costs of Issuance Fund subsequent to the closure of such Costs of Issuance Fund shall be transferred to the Revenue Fund; (iv) all interest, profits and other income received from the investment of moneys in a Project Fund will be retained in such Project Fund, unless the Authority directs that such earnings be transferred to the Rebate Fund; (v) all interest, profits and other income received from the investment of moneys in the Rebate Fund will be retained in the Rebate Fund, except as otherwise provided in the Indenture; (vi) all interest, profits and other income received from investment of moneys in any Letter of Credit

Fund or Purchase Fund shall be retained in such Letter of Credit Fund or Purchase Fund, as applicable; and (vii) all interest, profits and other income received from the investment of moneys in any other fund or account will be transferred to the Revenue Fund.

All Investment Securities credited to any Bond Reserve Fund will be valued (at market value) as of March 1 and September 1 of each year (or the next succeeding Business Day if such day is not a Business Day), such market value to be determined by the Trustee in the manner then currently employed by the Trustee or in any other manner consistent with corporate trust industry standards. Notwithstanding anything to the contrary in the Indenture, in making any valuations of investments under the Indenture, the Trustee may utilize and rely on computerized securities pricing services that may be available to it, including those available through its regular accounting system.

The Trustee may commingle any of the funds or accounts established pursuant to the Indenture (except the Rebate Fund, any Letter of Credit Fund and any Purchase Fund) into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Trustee under the Indenture will be accounted for separately as required by the Indenture. The Trustee may act as principal or agent in the making or disposing of any investment and, with the prior written consent of the Authority may impose its customary charge therefor. The Trustee may sell at the best price obtainable consistent with the Trustee's customary trading practices, or present for redemption, any Investment Securities so purchased whenever it will be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited. The Trustee will not be liable or responsible for any loss resulting from any investment made in accordance with the provisions of the Indenture.

**Issuance of Additional Bonds and Other Obligations**

**Issuance of Additional Bonds**. The Authority may by Supplemental Indenture establish one or more additional Series of Bonds, payable from Sales Tax Revenues and secured by the pledge made under the Indenture equally and ratably with the Series 2012 Bonds, and the Authority may issue, and the Trustee may authenticate and deliver to the purchasers thereof, Bonds of any Series so established, in such principal amount as will be determined by the Authority, but only, with respect to each additional Series of Bonds issued subsequent to the Series 2012 Bonds issued under the Indenture, upon compliance by the Authority with the provisions of the Indenture described under this caption and below under the caption "Proceedings for Issuance of Additional Bonds" and any additional requirements set forth in said Supplemental Indenture and subject to the specific conditions set forth below, each of which is made a condition precedent to the issuance of any such additional Series of Bonds:

(A) No Event of Default will have occurred and then be continuing.

(B) Subject to the provisions of the Indenture described above under the caption "Establishment and Application of Funds and Accounts — Funding and Application of Bond Reserve Funds," in the event a Supplemental Indenture providing for the issuance of such Series of Bonds will require either (i) the establishment of a Bond Reserve Fund to provide additional security for such Series of Bonds or (ii) that the balance on deposit in an existing Bond Reserve Fund be increased, forthwith upon the receipt of the proceeds of the sale of such Series, to an amount at least equal to the Bond Reserve Requirement with respect to such Series of Bonds and all other Bonds secured by such Bond Reserve Fund to be considered Outstanding upon the issuance of such additional Series of Bonds, the Supplemental Indenture providing for the issuance of such additional Series of Bonds will require deposit of the amount necessary. Said deposit will be made as provided in the Supplemental Indenture providing for the issuance of such additional Series of

Bonds and may be made from the proceeds of the sale of such Series of Bonds or from other funds of the Authority or from both such sources or may be made in the form of a Reserve Facility.

(C) The aggregate principal amount of Bonds issued under the Indenture will not exceed any limitation imposed by the Act or any other law or by any Supplemental Indenture.

(D) The Authority shall place on file with the Trustee a Certificate of the Authority certifying: (i) that the amount of Sales Tax Revenues collected during any twelve (12) consecutive calendar months specified by the Authority within the most recent eighteen (18) calendar months immediately preceding the date on which such additional Series of Bonds will become Outstanding shall have been at least equal to 1.75 times Maximum Annual Debt Service on all Series of Bonds and Parity Obligations then Outstanding and the additional Series of Bonds then proposed to be issued and (ii) that the amount of Sales Tax Revenues collected during any twelve (12) consecutive calendar months specified by the Authority within the most recent eighteen (18) calendar months immediately preceding the date on which such additional Series of Bonds will become Outstanding shall have been at least equal to 1.15 times Maximum Annual Debt Service on all Series of Bonds, Parity Obligations and Subordinate Obligations then Outstanding and the additional Series of Bonds then proposed to be issued, which Certificate shall also set forth the computations upon which such Certificate is based.

(E) Principal payments of each additional Series of Bonds will be due on March 1 or September 1 in each year in which principal is to be paid if and to the extent deemed practical in the reasonable judgment of the Authority with regard to the type of Bond to be issued, and, if the interest on such Series of Bonds is to be paid semiannually, such interest payments will be due on March 1 and September 1 in each year to the extent deemed practical in the reasonable judgment of the Authority with regard to the type of Bond to be issued.

Nothing in the Indenture will prevent or be construed to prevent the Supplemental Indenture providing for the issuance of an additional Series of Bonds from pledging or otherwise providing, in addition to the security given or intended to be given by the Indenture, additional security for the benefit of such additional Series of Bonds or any portion thereof.

In the event additional assets or revenues are included within the definition of "Revenues" by a Supplemental Indenture, such additional assets or revenues will be included in the calculations to be provided pursuant to the provisions of the Indenture described in paragraph **(D)** above as if such additional assets or revenues had always been included in "Revenues."

**Proceedings for Issuance of Additional Bonds**. Before any additional Series of Bonds will be issued and delivered, the Authority will file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied).

(A) A Supplemental Indenture authorizing such Series executed by the Authority.

(B) A Certificate of the Authority certifying: (i) that no Event of Default has occurred and is then continuing (or that the issuance of such Series of Bonds will cure any such Event of Default); and (ii) that the requirements of the Indenture described in paragraphs (B) and (C) above under the caption "Issuance of Additional Bonds" have been satisfied by the Authority.

(C) A Certificate of the Authority certifying that the requirement of the Indenture described in paragraph (D) above under the caption "Issuance of Additional Bonds" is satisfied.

(D) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Bonds, when duly executed by the Authority and authenticated and delivered by the Trustee, will be valid and binding obligations of the Authority.

**Issuance of Refunding Bonds**. Refunding Bonds may be authorized and issued by the Authority without compliance with the provisions of the Indenture described above under the captions "Issuance of Additional Bonds" and "Proceedings for Issuance of Additional Bonds;" provided that the Trustee shall have been provided with a Certificate of the Authority to the effect that the Authority has determined that Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding following the issuance of such Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and all Parity Obligations outstanding prior to the issuance of such Refunding Bonds. Such Refunding Bonds may be issued in an aggregate principal amount sufficient (together with any additional funds available or to become available) to provide funds for the payment of all or a portion of the following:

(1) the principal or Redemption Price of the Outstanding Bonds or outstanding Parity Obligations to be refunded;

(2) all expenses incident to the calling, retiring or paying of such Outstanding Bonds or outstanding Parity Obligations and the Costs of Issuance of such Refunding Bonds;

(3) any termination payment owed by the Authority to a Counterparty after offset for any payments made to the Authority from such Counterparty under any Interest Rate Swap Agreement which was entered into in connection with the Bonds or Parity Obligations to be refunded and all fees and expensed incidental to the payment of such termination payment;

(4) interest on all Outstanding Bonds or outstanding Parity Obligations to be refunded to the date such Bonds or Parity Obligations will be called for redemption or paid at maturity;

(5) interest on the Refunding Bonds from the date thereof to the date of payment or redemption of the Bonds or Parity Obligations to be refunded; and

(6) funding a Bond Reserve Fund for the Refunding Bonds, if required.

Before such Series of Refunding Bonds will be issued and delivered pursuant to the provisions of the Indenture described under this caption, the Authority will file each of the documents identified below with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Refunding Bonds have been satisfied).

(1) A Supplemental Indenture authorizing such Series of Refunding Bonds executed by the Authority.

(2) A Certificate of the Authority certifying: (i) that Maximum Annual Debt Service on all Bonds and Parity Obligations which will be outstanding following the issuance of such Series of Refunding Bonds is less than or equal to Maximum Annual Debt Service on all Bonds Outstanding and Parity Obligations outstanding prior to the issuance of such Refunding Bonds; and (ii) that the requirements of the Indenture described in paragraphs (A), (B), and (C) under the caption "Issuance of Additional Bonds" are satisfied.

(3) If any of the Bonds to be refunded are to be redeemed prior to their stated maturity dates, irrevocable instructions to the Trustee to give the applicable notice of redemption or a waiver of the notice of redemption signed by the Holders of all or the portion of the Bonds or Parity Obligations to be redeemed, or proof that such notice has been given by the Authority; provided, however, that in lieu of such instructions or waiver or proof of notice of redemption, the Authority may cause to be deposited with the Trustee all of the Bonds and Parity Obligations proposed to be redeemed (whether canceled or uncanceled) with irrevocable instructions to the Trustee to cancel said Bonds or Parity Obligations so to be redeemed upon the exchange and delivery of said Refunding Bonds; and provided further that no provision of the Indenture will be construed to require the redemption of Bonds prior to their respective maturity dates in connection with the refunding thereof

(4) An Opinion of Bond Counsel to the effect that the Supplemental Indenture is being entered into in accordance with the Indenture and that such Series of Refunding Bonds, when duly executed by the Authority and authenticated and delivered by the Trustee, will be valid and binding obligations of the Authority.

**Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations**. The Authority will not, so long as any of the Bonds are Outstanding, issue any obligations or securities, howsoever denominated, payable in whole or in part from Sales Tax Revenues except the following:

(A) Bonds authorized pursuant to provisions of the Indenture described above under the caption "Issuance of Additional Bonds;"

(B) Refunding Bonds authorized pursuant to the provisions of the Indenture described above under the caption "Issuance of Refunding Bonds;"

(C) Parity Obligations, provided that the following conditions to the issuance or incurrence of such Parity Obligations are satisfied:

(1) Such Parity Obligations have been duly and legally authorized by the Authority for any lawful purpose;

(2) No Event of Default will have occurred and then be continuing (or the issuance of such Bonds will cure any such Event of Default), as evidenced by the delivery of a Certificate of the Authority to that effect, which Certificate of the Authority shall be filed with the Trustee;

(3) Such Parity Obligations (i) are being issued or incurred either (x) for purposes of refunding in compliance with the requirements for the issuance of Refunding Bonds set forth in the Indenture and described above under the caption "Issuance of Refunding Bonds" or (y) the Authority will have placed on file with the Trustee a Certificate of the Authority, upon which the Trustee may conclusively rely certifying that the requirements of the Indenture described in paragraph (D) under the caption "Issuance of Additional Bonds" relating to the issuance of an additional Series of Bonds have been satisfied with respect to such Parity Obligations, which Certificate will also set forth the computations upon which such Certificate is based, or (ii) constitute an Interest Rate Swap Agreement designated as a Parity Obligation by the Authority in accordance with the provisions of the Indenture described below under the caption "Designation of Parity Obligations, Subordinate Obligations and

Fee and Expense Fund Obligations," which Interest Rate Swap Agreement is being entered into in advance of the issuance of Bonds to which such Interest Rate Swap Agreement relates and the Authority shall have placed on file with the Trustee a Certificate of the Authority, upon which the Trustee may conclusively rely, which Certificate shall set forth the computations upon which such Certificate is based, to the effect that issuance of the Bonds to which such Interest Rate Swap Agreement relates is expected to satisfy the requirements of the provisions of the Indenture described in paragraph (D) above under the caption "Issuance of Additional Bonds," after taking into account adjustment of Debt Service on the Bonds to reflect the impact of the Interest Rate Swap Agreement;

(4) As and to the extent applicable, the Trustee will be designated as paying agent or trustee for such Parity Obligations and the Authority will deliver to the Trustee a transcript of the proceedings providing for the issuance of such Parity Obligations (but the Trustee will not be responsible for the validity or sufficiency of such proceedings or such Parity Obligations).

(D) Subordinate Obligations, provided that the following conditions to issuance or incurrence of such Subordinate Obligations are satisfied:

(1) Such Subordinate Obligations have been duly and legally authorized by the Authority for any lawful purpose;

(2) No Event of Default will have occurred and then be continuing (or the issuance of such Bonds will cure any such Event of Default), as evidenced by the delivery to the Trustee of a Certificate of the Authority to that effect;

(3) Such Subordinate Obligations (i) are being issued or incurred either (x) for purposes of refunding in compliance with the requirements for the issuance of Refunding Bonds in accordance with the provisions of the Indenture described above under the caption "Issuance of Refunding Bonds," or (y) the Authority shall have placed on file with the Trustee a Certificate of the Authority certifying (aa) that the amount of Sales Tax Revenues collected during any twelve (12) consecutive calendar months specified by the Authority within the most recent eighteen (18) calendar months immediately preceding the date on which such Subordinate Obligations will be incurred shall have been at least equal to 1.3 times Maximum Annual Debt Service on all Series of Bonds and Parity Obligations then Outstanding and (bb) that the amount of Sales Tax Revenues collected during any twelve (12) consecutive calendar months specified by the Authority within the most recent eighteen (18) calendar months immediately preceding the date on which such Subordinate Obligations will be incurred shall have been at least equal to 1.15 times Maximum Annual Debt Service on all Series of Bonds, Parity Obligations and Subordinate Obligations then Outstanding and the additional Subordinate Obligations then proposed to be incurred, which Certificate shall also set forth the computations upon which such Certificate is based, or (ii) constitute an Interest Rate Swap Agreement designated as a Subordinate Obligation by the Authority in accordance with the provisions of the Indenture described below under the caption "Designation of Parity Obligations, Subordinate Obligations and Fee and Expense Fund Obligations," which Interest Rate Swap Agreement is being entered into in advance of the issuance of Bonds to which such Interest Rate Swap Agreement relates or the issuance or incurrence of the Subordinate Obligation to which such Interest Rate Swap

Agreement relates, and the Authority shall have placed on file with the Trustee a Certificate of the Authority, upon which the Trustee may conclusively rely, which Certificate shall set forth the computations upon which such Certificate is based, to the effect that issuance of the Bonds to which such Interest Rate Swap Agreement relates or the issuance or incurrence of the Subordinate Obligation to which such Interest Rate Swap Agreement relates is expected to satisfy the requirements hereinabove set forth in clause (i)(y) as described under this caption, after taking into account adjustment of Debt Service on the Bonds or Subordinate Obligations, as applicable, to reflect the impact of the Interest Rate Swap Agreement; and

(4) As and to the extent applicable, the Trustee will be designated as paying agent or trustee for such Subordinate Obligations and the Authority will deliver to the Trustee a transcript of the proceedings providing for the issuance of such Subordinate Obligations (but the Trustee will not be responsible for the validity or sufficiency of such proceedings or such Subordinate Obligations).

**Calculation of Maximum Annual Debt Service**. For purposes of issuance of Bonds under the Indenture, Maximum Annual Debt Service with respect to Bonds shall be determined no later than the date of delivery of such Bonds, and no earlier than the sixtieth (60th) day preceding the date of pricing or sale of such Bonds, utilizing the assumptions set forth in the definition of Debt Service. Maximum Annual Debt Service with respect to Parity Obligations shall be determined no later than the date of incurrence of such Parity Obligations utilizing the assumptions set forth in the definition of Debt Service; provided, however, that if a Parity Obligation is contingent upon funds being provided pursuant to such Parity Obligation to pay principal, or purchase price of, or interest on a Bond, such Parity Obligation shall not be considered outstanding until such payment is made thereunder. Maximum Annual Debt Service with respect to Subordinate Obligations shall be determined no later than the date of incurrence of such Subordinate Obligations utilizing the assumptions set forth in the definition of Debt Service; provided, however, that if a Subordinate Obligation is contingent (such Subordinate Obligation being referred to under this caption as a "Contingent Subordinate Obligation") upon funds being provided pursuant to such Contingent Subordinate Obligation to pay principal, or purchase price of, or interest on another Subordinate Obligation, such Contingent Subordinate Obligation shall not be considered outstanding until such payment is made under such Contingent Subordinate Obligation.

**Designation of Parity Obligations, Subordinate Obligations and Fee and Expense Obligations**. The obligation of the Authority to make regularly scheduled payments required under the Existing Swap Agreement constitutes a Parity Obligation under the Indenture and the obligation of the Authority to pays fees and expenses and termination payments under the Existing Swap Agreement constitutes a Fee and Expense Obligation under the Indenture.

Upon the issuance or incurrence of any other obligations which constitute Parity Obligations, Subordinate Obligations or Fee and Expense Obligations, the Authority shall file a Certificate of the Authority with the Trustee identifying such obligations as Parity Obligations, Subordinate Obligations or Fee and Expense Obligations, as applicable, such Certificate of the Authority to be filed with the Trustee concurrently with the issuance or incurrence of such obligations.

**Certain Covenants of the Authority**

**Punctual Payments**. The Authority will punctually pay or cause to be paid the principal or Redemption Price of and interest on all the Bonds, in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, and will punctually pay or

cause to be paid all Mandatory Sinking Account Payments and will punctually pay or cause to be paid all Parity Obligations, Subordinate Obligations and Fee and Expense Obligations, but in each case only out of Revenues as provided in the Indenture.

**Against Encumbrances**. The Authority will not create any pledge, lien or charge upon any of the Sales Tax Revenues having priority over or having parity with the lien of the Bonds, the Parity Obligations, the Subordinate Obligations and the Fee and Expense Obligations, except as permitted under the Indenture.

**Accounting Records and Financial Statements**. The Authority will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries will be made of all transactions relating to the Revenues. Such books of record and account will be available for inspection by the Trustee at reasonable hours and under reasonable circumstances.

The Authority will furnish the Trustee, with copies to each Credit Enhancement Provider and each Liquidity Facility Provider, within two hundred ten (210) days after the end of each Fiscal Year, or as soon thereafter as they can practically be furnished, the financial statements of the Authority for such Fiscal Year, together with the report of an independent certified public accountant stating that the financial statements have been prepared in accordance with generally accepted accounting principles and that such accountant's examination of the financial statements was performed in accordance with generally accepted auditing standards and a Certificate of an Authorized Representative stating that no event which constitutes an Event of Default or which with the giving of notice or the passage of time or both would constitute an Event of Default has occurred and is continuing as of the end of such Fiscal Year, or specifying the nature of such event and the actions taken and proposed to be taken by the Authority to cure such default. Thereafter, a copy of such financial statements will be furnished to any Holder upon written request to the Authority, which copy of the financial statements may, at the sole discretion of the Authority, be provided by means of posting such financial statements on an internet site that provides access to the Holders.

**Collection of Sales Tax Revenues**. The Authority covenants and agrees that it has duly levied the Sales Tax in accordance with the Act, pursuant to and in accordance with the Ordinance, duly passed and adopted by the Authority and the electorate of the County. Said Ordinance will not be amended, modified or altered so long as any Bonds are Outstanding or any Parity Obligations, Subordinate Obligations or Fee and Expense Obligations remain unpaid in any manner which would reduce the amount of or timing of receipt of Sales Tax Revenues, and the Authority will continue to levy and collect the Sales Tax to the full amount permitted by law. The Authority has entered into an agreement with the State Board of Equalization under and pursuant to which the State Board of Equalization processes and supervises collection of the Sales Tax and covenants that the Authority will amend such Agreement to provide that the Sales Tax Revenues will be transmitted directly to the Trustee. Said agreement will be continued in effect so long as any Bonds are Outstanding or any Parity Obligations, Subordinate Obligations or Fee and Expense Obligations remain unpaid and will not be further amended, modified or altered without the written consent of the Trustee so long as any of the Bonds are Outstanding or any Parity Obligations, Subordinate Obligations or Fee and Expense Obligations remain unpaid. The Authority will receive and hold in trust for (and remit immediately to) the Trustee any Sales Tax Revenues paid to the Authority by the State Board of Equalization.

Sales Tax Revenues received by the Trustee will be transmitted to the Authority pursuant to the provisions of the Indenture described under the caption "Allocation of Sales Tax Revenues" above; provided that, during the continuance of an Event of Default, any Sales Tax Revenues

received by the Trustee will be applied as more fully set forth in the Indenture and described under the caption "Application of Revenues and Other Funds After Default" below.

The Authority covenants and agrees to separately account for all Revenues and to provide to the Trustee access to such accounting records at reasonable hours and under reasonable circumstances.

The Authority covenants that so long as the Bonds are Outstanding, it will not, to the best of its ability, suffer or permit any change, modification or alteration to be made to the Act which would materially and adversely affect the rights of Bondholders.

**Tax Covenants**. The Authority covenants that it will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of the interest on the Bonds under Section 103 of the Code; provided that, prior to the issuance of any Series of Bonds, the Authority may exclude the application of the covenants contained in the Indenture and described under this caption and the caption "Establishment and Application of Funds and Accounts — Rebate Fund" above to such Series of Bonds. Without limiting generality of the foregoing, pursuant to the provisions of the Indenture, the Authority agrees to comply with the Tax Certificate relating to each Series of Bonds. In the event that at any time the Authority is of the opinion that for purposes of the provisions of the Indenture described under this caption it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Authority will so instruct the Trustee in writing, and the Trustee will take such action as may be necessary in accordance with such instructions.

**Continuing Disclosure**. Upon the issuance of any Series of Bonds requiring an undertaking regarding continuing disclosure under Rule 15c2-12, the Authority covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Undertaking executed and delivered in connection with such Series of Bonds. Notwithstanding any other provision of the Indenture, failure of the Authority to comply with the provisions of any Continuing Disclosure Undertaking will not be considered an Event of Default; however, the Trustee will, at the written request of any Participating Underwriter or of the Holders of at least twenty-five (25%) aggregate principal amount of any Series of Bonds then Outstanding (but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, reasonable fees and expenses of its attorneys), or any Holder or beneficial owner may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under the provisions of the Indenture described under this caption.

**Events of Default and Remedies**

**Events of Default**. The following are Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same will become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise, or default in the redemption from any Sinking Account of any Bonds in the amounts and at the times provided therefor;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment will become due and payable;

(C) if the Authority will fail to observe or perform any covenant, condition, agreement or provision in the Indenture on its part to be observed or performed, other than as referred to in subsection (A) or (B) above, for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, has been given to the Authority by the Trustee or by any Credit Enhancement Provider; except that, if such failure can be remedied but not within such sixty (60) day period and if the Authority has taken all action reasonably possible to remedy such failure within such sixty (60) day period, such failure will not become an Event of Default for so long as the Authority will diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time established by the Trustee;

(D) if any payment default will exist under any agreement governing any Parity Obligations and such default will continue beyond the grace period, if any, provided for with respect to such default;

(E) if the Authority files a petition in voluntary bankruptcy or commences any similar proceeding under any state or federal bankruptcy or insolvency law, or makes an assignment for the benefit of creditors, or admits in writing to its insolvency or inability to pay debts as they mature, or consents in writing to the appointment of a trustee or receiver for itself;

(F) if a court of competent jurisdiction will enter an order, judgment or decree declaring the Authority insolvent, or adjudging it bankrupt, or ordering relief under any applicable bankruptcy or insolvency law, or appointing a trustee or receiver of the Authority, or approving a bankruptcy petition filed against the Authority under any applicable law or statute of the United States of America or any state thereof, and such order, judgment or decree will not be vacated or set aside or stayed within sixty (60) days from the date of the entry thereof;

(G) if, under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction will assume custody or control of the Authority or of the Revenues, and such custody or control will not be terminated within sixty (60) days from the date of assumption of such custody or control; or

(H) if the Legislature of the State will repeal or amend all or any portion of the provisions of the Act relating to the retail transactions and use tax, being Sections 180200 to 180207, inclusive, of the Public Utilities Code of the State unless the Authority has reasonably determined that said repeal or amendment does not materially and adversely affect the rights of Bondholders.

**Application of the Revenues and Other Funds After Default; No Acceleration**. If an Event of Default will occur and be continuing, the Authority will immediately transfer to the Trustee all Revenues held by it (which Revenues shall not include any Sales Tax Revenues posted by the Authority as collateral pursuant to an Interest Rate Swap Agreement, which Sales Tax Revenues the Authority and the Trustee acknowledge are no longer in possession of the Authority for purposes of any provision of the Indenture, including, without limitation, the provisions of the Indenture described above under the caption "Revenue Fund; Pledge of Revenues") and the Trustee will apply all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture (excluding the Rebate Fund, any Letter of Credit and any Purchase Fund and except as otherwise provided in the Indenture) as follows and in the following order:

(1) to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Holders of the Bonds and Parity Obligations, including the costs and expenses of

the Trustee and the Bondholders in declaring such Event of Default, and payment of reasonable fees and expenses of the Trustee (including reasonable fees and disbursements of its counsel and other agents) incurred in and about the performance of its powers and duties under the Indenture;

(2) to the payment of the whole amount of Bond Obligation then due on the Bonds and amounts then due on Parity Obligations (upon presentation of the Bonds and Parity Obligations to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Indenture, with interest on such Bond Obligation, at the rate or rates of interest borne by the respective Bonds and on Parity Obligations, to the payment to the persons entitled thereto of all installments of interest then due and the unpaid principal or Redemption Price of any Bonds and Parity Obligations which will have become due, whether at maturity, by call for redemption or otherwise, in the order of their due dates, with interest on the overdue Bond Obligation and Parity Obligations at the rate borne by the respective Bonds and Parity Obligations, and, if the amount available will not be sufficient to pay in full all the Bonds and Parity Obligations due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Accreted Value (plus accrued interest) or other amounts due on such date to the persons entitled thereto, without any discrimination or preference;

(3) to the payment of Subordinate Obligations, provided that if the amount available shall not be sufficient to pay in full all Subordinate Obligations, then to the payment thereof ratably;

(4) to the payment of Fee and Expense Obligations, provided that, if the amount available shall not be sufficient to pay in full all Fee and Expense Obligations, then to the payment thereof ratably; and

(5) to the payment of all other obligations payable under the Indenture.

Notwithstanding anything in the Indenture to the contrary, in no event are the Bonds (excluding Liquidity Facility Bonds which may be subject to acceleration as set forth in the applicable Liquidity Facility) subject to acceleration if an Event of Default occurs and is continuing.

**Trustee to Represent Bondholders**. The Trustee is irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, will be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds, the Indenture, the Act and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and, with respect to any Series of Bonds for which a Credit Enhancement has been provided, upon the written request of the Credit Enhancement Provider providing such Credit Enhancement, or if such Credit Enhancement Provider is then failing to make a payment required pursuant to such Credit Enhancement, upon the written request of the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding, and upon being indemnified to its satisfaction therefor, will proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it will deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Indenture, or in aid of the execution of any power in the Indenture granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee or in such Holders under the Indenture, the Act or any other law; and upon instituting such proceeding, the Trustee will be entitled, as a matter of right, to the appointment of a receiver of the Sales Tax Revenues and other assets pledged under the

Indenture, pending such proceedings; provided, however, that, with respect to any Series of Bonds for which a Credit Enhancement has been provided, the Trustee may only act with the consent of the Credit Enhancement Provider providing such Credit Enhancement. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee will be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of the Indenture.

**Bondholders' Direction of Proceedings**. Anything in the Indenture to the contrary (except provisions relating to the rights of a Credit Enhancement Provider to direct proceedings as set forth in the Indenture and described in the caption "Credit Enhancement Provider Directs Remedies Upon Event of Default" below) notwithstanding, the Holders of a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding will have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee and upon furnishing the Trustee with indemnification satisfactory to it, to direct the method of conducting all remedial proceedings taken by the Trustee under the Indenture, provided that such direction will not be otherwise than in accordance with law and the provisions of the Indenture, that the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and that the Trustee will have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders or holders of Parity Obligations not parties to such direction.

**Limitation on Bondholders' Right to Sue**. No Holder of any Bond will have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Act or any other applicable law with respect to such Bond, unless: (1) such Holder will have given to the Trustee written notice of the occurrence of an Event of Default; (2) the Holders of not less than a majority in aggregate amount of Bond Obligation of the Bonds then Outstanding will have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders will have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (4) the Trustee will have refused or omitted to comply with such request for a period of sixty (60) days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee; provided, however, that the written consent of a Credit Enhancement Provider providing a Credit Enhancement with respect to a Series of Bonds will be required if the Credit Enhancement with respect to such Series of Bonds is in full force and effect and if the Credit Enhancement Provider providing such Credit Enhancement is not then failing to make a payment as required in connection therewith.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Holders of Bonds will have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Holders of Bonds, or to enforce any right under the Indenture, the Act or other applicable law with respect to the Bonds, except in the manner in the Indenture provided, and that all proceedings at law or in equity to enforce any such right will be instituted, had and maintained in the manner in the Indenture provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of the Indenture.

**Credit Enhancement Provider Directs Remedies Upon Event of Default**. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Credit Enhancement Provider then providing Credit Enhancement for any Series of

Bonds will be entitled to control and direct the enforcement of all rights and remedies granted to the Holders of the Bonds secured by such Credit Enhancement or granted to the Trustee for the benefit of the Holders of the Bonds secured by such Credit Enhancement, provided that the Credit Enhancement Provider's consent will not be required as otherwise provided in the Indenture if such Credit Enhancement Provider is in default of any of its payment obligations as set forth in the Credit Enhancement provided by such Credit Enhancement Provider.

**Modification or Amendment of the Indenture**

**Amendments Permitted**. The Indenture and the rights and obligations of the Authority, the Holders of the Bonds and the Trustee may be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into when the written consent of the Holders of a majority in aggregate amount of Bond Obligation of the Bonds (or, if such Supplemental Indenture is only applicable to a Series of Bonds, such Series of Bonds) then Outstanding will have been filed with the Trustee; provided that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any particular maturity remain Outstanding, the consent of the Holders of such Bonds will not be required and such Bonds will not be deemed to be Outstanding for the purpose of any calculation of Bonds Outstanding under the Indenture. The Credit Enhancement Provider for a Series of Bonds shall be deemed to be the Holder of such Series of Bonds for purposes of consenting to modifications or amendments pursuant to the Indenture.

No such modification or amendment will (a) extend the maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment provided for the payment of any Bond, or reduce the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (b) reduce the aforesaid percentage of Bond Obligation the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture, or deprive the Holders of the Bonds of the lien created by the Indenture on such Revenues and other assets (in each case, except as expressly provided in the Indenture), without the consent of the Holders of all of the Bonds then Outstanding. It will not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Indenture, but it will be sufficient if such consent approves the substance thereof.

The Indenture and the rights and obligations of the Authority, of the Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bondholders, but only to the extent permitted by the Act and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Authority in the Indenture contained other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power in the Indenture reserved to or conferred upon the Authority;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary

or desirable, and which will not materially and adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially and adversely affect the interests of the Holders of the Bonds;

(4) to provide for the issuance of additional Series of Bonds pursuant to the provisions of the Indenture;

(5) to make modifications or adjustments necessary, appropriate or desirable to provide for the issuance or incurrence, as applicable, of Build America Bonds, Capital Appreciation Bonds, Parity Obligations, Subordinate Obligations, Fee and Expense Obligations or Variable Rate Indebtedness, with such interest rate, payment, maturity and other terms as the Authority may deem desirable; subject to the provisions of the Indenture described above under the captions "Issuance of Additional Bonds," "Proceedings for Issuance of Additional Bonds," and "Limitations on the Issuance of Obligations Payable from Sales Tax Revenues; Parity Obligations; Subordinate Obligations; Fee and Expense Obligations;"

(6) to make modifications or adjustments necessary, appropriate or desirable to provide for change from one interest rate mode to another in connection with any Series of Bonds;

(7) to make modifications or adjustments necessary, appropriate or desirable to accommodate Credit Enhancements, Liquidity Facilities and Reserve Facilities;

(8) to make modifications or adjustments necessary, appropriate or desirable to provide for the appointment of a remarketing agent in connection with any Series of Bonds;

(9) to provide for any additional covenants or agreements necessary to maintain the tax-exempt status of interest on any Series of Bonds;

(10) if the Authority agrees in a Supplemental Indenture to maintain the exclusion of interest on a Series of Bonds from gross income for purposes of federal income taxation, to make such provisions as are necessary or appropriate to ensure such exclusion;

(11) to provide for the issuance of Bonds in book-entry form or bearer form and/or to modify or eliminate the book-entry registration system for any Series of Bonds;

(12) to modify, alter, amend or supplement the Indenture in any other respect, including amendments that would otherwise be described in the first two paragraphs under this caption, if the effective date of such amendments is a date on which all Bonds affected thereby are subject to mandatory tender for purchase pursuant to the provisions of the Indenture; or if notice of the proposed amendments is given to Holders of the affected Bonds at least thirty (30) days before the proposed effective date of such amendments and, on or before such effective date, such Holders have the right to demand purchase of their Bonds pursuant to the provisions of the Indenture; and

(13) for any other purpose that does not materially and adversely affect the interests of the Holders of the Bonds.

Any Supplemental Indenture entered into pursuant to the provisions of the Indenture described under this caption will be deemed not to materially adversely affect the interest of the Holders so long as (i) all Bonds are secured by a Credit Enhancement and (ii) each Credit Enhancement Provider will have given its written consent to such Supplemental Indenture in accordance with the provisions of the Indenture.

**Effect of Supplemental Indenture**. From and after the time any Supplemental Indenture becomes effective, the Indenture will be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all Holders of Bonds Outstanding will thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Indenture will be deemed to be part of the terms and conditions of the Indenture for any and all purposes.

**Defeasance**

**Discharge of Indenture**. Bonds of any Series or a portion thereof may be paid by the Authority in any of the following ways:

(A) by paying or causing to be paid the Bond Obligations of and interest on such Outstanding Bonds, as and when they become due and payable;

(B) by depositing with the Trustee, an escrow agent or other fiduciary, in trust, at or before maturity, money or securities in the necessary amount (as provided pursuant to the provisions of the Indenture described below under the caption "Deposit of Money or Securities") to pay or redeem such Outstanding Bonds; or

(C) by delivering to the Trustee, for cancellation by it, such Outstanding Bonds.

If the Authority will pay all Series for which any Bonds are Outstanding and also pay or cause to be paid all other sums payable and to become payable under the Indenture by the Authority, including any amounts payable under any Parity Obligations, Subordinate Obligations or Fee and Expense Fund Obligations, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds will not have been surrendered for payment, the Indenture and the pledge of Sales Tax Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture will cease, terminate, become void and be completely discharged and satisfied. In such event, upon Request of the Authority, the Trustee will cause an accounting for such period or periods as may be requested by the Authority to be prepared and filed with the Authority and will execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee will pay over, transfer, assign or deliver to the Authority all moneys or securities or other property held by it pursuant to the Indenture which, as evidenced by a verification report, upon which the Trustee may conclusively rely, from a firm of certified public accountants or other independent consulting firm, are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

**Discharge of Liability on Bonds**. Upon the deposit with the Trustee, escrow agent or other fiduciary, in trust, at or before maturity, of money or securities in the necessary amount (as provided pursuant to the provisions of the Indenture described below under the caption "Deposit of Money or

Securities") to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption will have been given as provided in the Indenture or provision satisfactory to the Trustee will have been made for the giving of such notice, then all liability of the Authority in respect of such Bond will cease, terminate and be completely discharged, provided that the Holder thereof will thereafter be entitled to the payment of the principal of and premium, if any, and interest on the Bonds, and the Authority will remain liable for such payment, but only out of such money or securities deposited with the Trustee as aforesaid for their payment.

If the Bonds being discharged are Variable Rate Indebtedness, (i) the Bonds shall be redeemed at the first possible redemption date or purchase date applicable to such Bonds after any required notice is provided and to the extent the rate of interest payable on such Bonds prior to such redemption or purchase date is not known, such rate of interest shall be assumed to be the maximum rate payable thereon or (ii) the Trustee shall receive a confirmation from the Rating Agency then rating the Bonds that the defeasance will not result in the reduction or withdrawal of the then-current ratings on the Bonds.

The Authority may at any time surrender to the Trustee for cancellation by it any Bonds previously issued and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

**Deposit of Money or Securities**. Whenever in the Indenture it is provided or permitted that there be deposited with or held in trust money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held may include money or securities held by the Trustee in the funds and accounts established pursuant to the Indenture and will be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption will have been given as in the Indenture provided or provision satisfactory to the Trustee will have been made for the giving of such notice, the amount to be deposited or held will be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) Defeasance Securities the principal of and interest on which when due will, in the opinion of an independent certified public accountant, a firm of independent certified public accountants or other independent consulting firm delivered to the Trustee (as confirmed by a verification report upon which verification report the Trustee may conclusively rely), provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due, provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption will have been given as in the Indenture provided or provision satisfactory to the Trustee will have been made for the giving of such notice; provided, in each case, that the Trustee will have been irrevocably instructed (by the terms of the Indenture or by Request of the Authority) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

**Payment of Bonds After Discharge of Indenture**. Any moneys held by the Trustee in trust for the payment of the principal, Redemption Price, or interest on any Bond and remaining unclaimed for one (1) year after such principal, Redemption Price, or interest has become due and payable (whether at maturity or upon call for redemption as provided in the Indenture), if such

moneys were so held at such date, or one (1) year after the date of deposit of such principal, Redemption Price or interest on any Bond if such moneys were deposited after the date when such Bond became due and payable, will, to the extent permitted by law, be repaid to the Authority free from the trusts created by the Indenture, and all liability of the Trustee with respect to such moneys will thereupon cease; provided, however, that before the repayment of such moneys to the Authority as aforesaid, the Trustee may (at the cost of the Authority) first mail to the Holders of any Bonds remaining unpaid at the addresses shown on the registration books maintained by the Trustee a notice, in such form as may be deemed appropriate by the Trustee, with respect to the Bonds so payable and not presented and with respect to the provisions relating to the repayment to the Authority of the moneys held for the payment thereof. All moneys held by or on behalf of the Trustee for the payment of principal or Accreted Value of or interest or premium on Bonds, whether at redemption or maturity, will be held in trust for the account of the Holders thereof and the Trustee will not be required to pay Holders any interest on, or be liable to the Holders or any other person (other than the Authority) for interest earned on, moneys so held. Any interest earned thereon will belong to the Authority and will be deposited upon receipt by the Trustee into the Revenue Fund.

**Third Supplemental Indenture**

**General**. Under the Third Supplemental Indenture, the Authority has authorized the Series 2012 Bonds in the form of the Series 2012A Bonds and the Series 2012B Bonds for the purpose of providing funds to refinance costs of the Project previously financed or refinanced from the proceeds of the Series 2010 Bonds, finance additional costs of the Project and to pay Costs of Issuance of the Series 2012 Bonds.

**Establishment, Funding, Application and Investment of Series 2012 Costs of Issuance Fund**. To ensure proper application of such portion of proceeds from the sale of the Series 2012 Bonds to be applied to pay Costs of Issuance, there is established under the Second Supplemental Indenture the Series 2012 Costs of Issuance Fund.

The monies set aside and placed in the Series 2012 Costs of Issuance Fund shall remain therein until from time to time disbursed by the Trustee to pay for Costs of Issuance incurred in connection with issuance of the Series 2012 Bonds upon Requisition of the Authority. Each Requisition shall be numbered sequentially and shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Any amounts remaining in the Series 2012 Costs of Issuance Fund one hundred eighty (180) days after the date of issuance of the Series 2012 Bonds shall be transferred to the Revenue Fund. The Trustee shall invest funds on deposit in the Series 2012 Costs of Issuance Fund in accordance with the provisions of the Indenture described above under the caption "Investment in Funds and Accounts."

**Establishment, Funding, Application and Investment of Series 2012 Project Fund**. The Trustee hereby agrees to establish and maintain the Series 2012 Project Fund until the completion of the Project. All money in the accounts of the Series 2012 Project Fund shall be held by the Trustee in trust and shall be applied by the Trustee for the payment of costs relating to the Project and the expenses incidental thereto.

The Authority shall file with the Trustee a Certificate of the Authority. Each such Certificate of the Authority shall be sufficient evidence to the Trustee of the facts stated therein and the Trustee shall have no duty to confirm the accuracy of such facts. Upon receipt of each such Certificate of the Authority, the Trustee shall, so long as the Trustee does not have actual knowledge of or has not received written notice that the Authority is then in default hereunder, pay the amount set forth therein as directed by the terms thereof from moneys on deposit in the accounts of the Series 2012 Project Fund, except that

the Trustee shall not make any such payment if it has received a stop notice or any other notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the money to be so paid which has not been released or will not be released simultaneously with such payment, other than materialmen's or mechanics' liens accruing by mere operation of law.

When the Project has been completed to the satisfaction of the Authority, the Authority shall deliver a Certificate of the Authority to the Trustee stating the fact and date of the completion of such improvements, and stating that all the costs of the Project and the expenses incidental thereto have been determined and paid (or that such claims and expenses have been paid less specified claims which are subject to dispute and for which a retention in the Series 2012 Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon receipt of such certificate, the Trustee shall transfer (but less the amount of such retention) to the Revenue Fund all remaining moneys in the Series 2012 Project Fund, to be credited to the payment of the Series 2012B Bonds as provided herein. In the event the Series 2012 Project Fund has not been depleted by the date which is three years after the Closing Date, the Authority shall give written instructions to the Trustee as to the investment of any moneys remaining therein fifteen (15) days prior to such date and shall provide an Opinion of Bond Counsel to the effect that such investment shall not adversely affect the tax-exempt status of the Series 2012B Bonds.

**Establishment, Funding, Application and Investment of Series 2012 Bond Purchase Fund.** The Trustee shall establish and maintain the 2012A Bond Purchase Fund in which there shall be established the 2012 Remarketing Account, the 2012 Liquidity Purchase Account and the 2012 Authority Account. Moneys in the Series 2012A Bond Purchase Fund shall be applied as provided in the Indenture.

(a) *Remarketing Account*. All moneys received by the Trustee on behalf of purchasers of Series 2012A Bonds, other than the Authority, shall be (i) deposited in the 2012 Remarketing Account within the Series 2012A Bond Purchase Fund, (ii) held in trust in accordance with the provisions hereof and (iii) paid out in accordance with the Indenture.

(b) *Liquidity Facility Purchase Account*. All moneys received by the Trustee as payments under the 2012 Liquidity Facility for the purchase of Series 2012A Bonds pursuant to the Indenture shall be (i) deposited in the 2012 Liquidity Facility Purchase Account within the Series 2012A Bond Purchase Fund, (ii) held in trust in accordance with the provisions hereof and (iii) paid out in accordance with the Indenture. Such account is not applicable while the Series 2012A Bonds are in the Index Mode or the SIFMA Mode.

(c) *Authority Account*. All moneys received by the Trustee from the Authority for the purchase of Series 2012A Bonds pursuant to the Indenture shall be (i) deposited in the 2012 Authority Account within the Series 2012A Bond Purchase Fund, (ii) held in trust in accordance with the provisions hereof and (iii) paid out in accordance with the Indenture.

The moneys in the Series 2012A Bond Purchase Fund shall be used solely to pay the Purchase Price of Series 2012A Bonds as provided herein and may not be used for any other purposes. All amounts held in the Series 2012A Bond Purchase Fund, including the 2012 Remarketing Account, the 2012 Liquidity Facility Purchase Account and 2012 Authority Account therein, shall be held in trust by the Trustee for the benefit of the Holders or Beneficial Owners of Series 2012A Bonds to which such account relates tendered or deemed tendered for purchase pursuant to the Indenture.

Moneys in the Series 2012A Bond Purchase Fund shall be held, in Eligible Accounts, uninvested pending application thereof as provided in the Indenture. In the event that an account required to be an "Eligible Account" no longer complies with the requirement, the Trustee shall promptly (and, in any case,

within not more than thirty (30) calendar days) move such account to another financial institution such that the Eligible Account requirement will again be satisfied.

**Interest Rates on Series 2012A Bonds in the Index Period**

The Series 2012A Bonds shall be Current Interest Bonds and, until converted to a Fixed Rate, the Series 2012A Bonds shall constitute Variable Rate Indebtedness and shall bear interest at a Variable Rate determined as provided in the Third Supplemental Indenture.

Index Mode. (A) Determination of Index Rates. During the Index Mode, the Series 2012A Bonds shall bear interest at the Index Rate. The Index Rate shall be determined by the Calculation Agent at or before Noon on each Reset Date. The Calculation Agent shall furnish each Index Rate so determined to the other Notice Parties by Electronic Means not later than such Reset Date. Upon the request of any Bondholder, the Trustee shall confirm the Index Rate then in effect.

All percentages resulting from any step in the calculation of interest on the Series 2012A Bonds while in an Index Mode will be rounded, if necessary, to the nearest ten-thousandth of a percentage point (i.e., to five decimal places) with five hundred thousandths of a percentage point rounded upward, and all dollar amounts used in or resulting from such calculation of interest on the Series 2012A Bonds while in an Index Mode will be rounded to the nearest cent (with one-half cent being rounded upward).

(B) Conversion from Index Mode prior to the Index Tender Date. During any Index Mode, the Authority may elect to change the Mode of the Series 2012A Bonds to a New Mode on any date on which the Series 2012A Bonds are subject to optional redemption or mandatory tender pursuant to the Indenture. If the Series 2012A Bonds are not successfully remarketed on the date the New Mode was to have become effective, then the Series 2012A Bonds shall not be subject to mandatory tender for purchase pursuant to the Indenture, the Series 2012A Bonds shall continue to bear interest at the Index Rate in the Current Mode, and such Series 2012A Bonds shall remain subject to mandatory tender for purchase on the Index Tender Date for such Current Mode.

(C) Failure to Remarket on the Index Tender Date. During any Index Mode, if all of the then outstanding Series 2012A Bonds are not purchased, remarketed, converted to another Mode, or redeemed on the Index Tender Date, none of the Series 2012A Bonds will be purchased; thereafter, the Series 2012A Bonds will enter an Index Delayed Remarketing Period and will accrue interest at the Index Delayed Remarketing Period Rate.

**Conversion of Interest Rate Determination Method**

Right of Conversion. The Interest Rate Determination Method for the Series 2012A Bonds is subject to Conversion from time to time by the Authority, with such right to be exercised by delivery of a written notice of an Authorized Representative containing the contents specified below (each such notice being a "Conversion Notice") to the Notice Parties as follows:

(A) at least one (1) Business Days prior to the fifteenth (15th) day preceding the proposed Conversion Date stated in the Conversion Notice, in the event of a Conversion to a Daily Rate Period, Weekly Rate Period, Commercial Paper Rate Period, Index Rate Period or SIFMA Rate Period; and

(B) at least two (2) Business Days prior to the fifteenth (15th) day preceding the proposed Conversion Date stated in the Conversion Notice, in the event of a Conversion to a Long-Term Rate or a Fixed Rate.

Each Authorized Representative is hereby authorized to execute and deliver a Conversion Notice to change the Interest Rate Determination Method at such times or times as the officer executing the Conversion Notice determines to be in the best interests of the Authority, such determination to be conclusively evidenced by such execution. The Conversion Notice must be accompanied by a letter of Bond Counsel to the effect that Bond Counsel expects to be able to deliver a Favorable Opinion of Bond Counsel on the applicable Conversion Date.

Conversion Provisions. Any Conversion must be accompanied by a certificate of the Authority to the Trustee stating that the Authority has complied with the following:

(A) the Conversion Date must be a date on which the Series 2012A Bonds are subject to mandatory tender pursuant to the applicable provisions of the Indenture;

(B) the Conversion Date must be a Business Day and, if the Conversion is from the Commercial Paper Rate, shall be a date determined in accordance with the Indenture;

(C) the 2012 Liquidity Facility after a Conversion to a Variable Rate must cover (except for conversion to a Long-Term Rate Period an Index Rate Period, or a SIFMA Rate Period for which no 2012 Liquidity Facility shall be required) principal plus accrued interest (computed at the Maximum Rate then in effect on the basis of a 365-day year and actual days elapsed or a 360 day year of twelve 30-day months, as applicable) for the maximum number of days between Interest Payment Dates permitted under that Interest Rate Determination Method, plus such additional number of days, if any, as shall be required by each Rating Agency then rating the Series 2012A Bonds; provided that if the number of days of interest coverage provided by the 2012 Liquidity Facility is being changed from the number of days previously in place, the Trustee shall have also received a Rating Confirmation from each of the Rating Agencies then rating the Series 2012A Bonds;

(D) no Conversion shall become effective unless the Favorable Opinion of Bond Counsel referred to in the Indenture is delivered on (and as of) the Conversion Date and all Outstanding Series 2012A Bonds are successfully purchased or deemed purchased and remarketed in the new Interest Rate Determination Method on the Conversion Date; and

(E) unless a Remarketing Agreement is already in effect which provides for remarketing of the Series 2012A Bonds in connection with a proposed Conversion, the Authority shall appoint a Remarketing Agent and shall enter into a Remarketing Agreement with such Remarketing Agent.

Contents of Conversion Notice. The Conversion Notice must specify: (A) the proposed Conversion Date; (B) the new Interest Rate Determination Method to take effect; (C) that the Authority has received a letter of Bond Counsel to the effect that Bond Counsel expects to be able to deliver a Favorable Opinion of Bond Counsel on or prior to the proposed Conversion Date; and (D) that the Authority has satisfied all of the conditions of the Indenture.

Notice to Holders. Upon receipt of a Conversion Notice from an Authorized Representative, as soon as possible, but in any event not less than fifteen (15) days prior to the proposed Conversion Date during any Rate Period, the Trustee shall give notice by first-class mail or by Electronic Means via the MSRB EMMA system to the Holders of Series 2012A Bonds, which notice shall state in substance:

(A) that the Interest Rate Determination Method for the Series 2012A Bonds shall be converted to the specified Variable Rate or the Fixed Rate, as the case may be, on the applicable Conversion Date if the conditions specified in this Supplemental Indenture are satisfied on or before such date;

(B) the applicable Conversion Date;

(C) that the Authority has received a letter of Bond Counsel to the effect that Bond Counsel expects to be able to deliver a Favorable Opinion of Bond Counsel relating to the Conversion on the Conversion Date;

(D) that the Interest Rate Determination Method for the Series 2012A Bonds shall not be converted unless the Favorable Opinion of Bond Counsel referred to above is delivered to the Trustee on (and as of) the Conversion Date and all the Series 2012A Bonds are successfully purchased and remarketed in the new Interest Rate Determination Method on the Conversion Date;

(E) the CUSIP numbers or other identification information of the Series 2012A Bonds;

(F) that all the Series 2012A Bonds are subject to mandatory tender for purchase on the Conversion Date at the applicable Purchase Price, which Purchase Price shall be specified in the notice; and

(G) that, to the extent that there shall be on deposit with the Trustee on the applicable Conversion Date an amount of money sufficient to pay the Purchase Price thereof, all Series 2012A Bonds to be converted on the Conversion Date not delivered to the Trustee on or prior to the Conversion Date shall be deemed to have been properly tendered for purchase and shall cease to constitute or represent a right on behalf of the Holder thereof to the payment of principal thereof or interest thereon and shall represent and constitute only the right to payment of the Purchase Price on deposit with the Trustee, without interest accruing thereon after the Conversion Date; and

(H) to the extent applicable, such additional matters as are required by the Indenture.

Failure of Conditions to be Met. If the Authority fails to meet any of the requirements specified in the Indenture, including, without limitation, a failure to deliver the Favorable Opinion of Bond Counsel required by the indenture to the Trustee on or before the Conversion Date, or if the Trustee receives written notice to the effect that the Remarketing Agent has not successfully remarketed all of the Outstanding Series 2012A Bonds to be converted to the new Interest Rate Determination Method on the Conversion Date, the Series 2012A Bonds shall continue to bear interest at the Interest Rate Determination Method in effect prior to the proposed Conversion Date specified in the Conversion Notice and such failure shall not constitute an Event of Default under the Indenture. The Trustee shall immediately notify by Electronic Means the Notice Parties of each such failed Conversion.

Inadequate Funds for Purchase of Series 2012A Bonds Upon Change in Mode. No change from one Mode to another Mode shall take effect under this Supplemental Indenture, and the Series 2012A Bonds shall not be subject to mandatory tender for purchase pursuant to the Indenture, in the case of a change in Mode with respect to which there shall be no 2012 Liquidity Facility in effect to provide funds for the purchase of Bonds on the Mode Change Date, unless the remarketing proceeds available on the Mode Change Date shall be not less than the amount required to pay the Purchase Price of all Tendered Bonds on such Mode Change Date (unless the Authority, in its sole discretion, elects to transfer to the Trustee the amount of such deficiency on or before such Mode Change Date).

Notice Failure No Bar. Failure of a Holder of a Series 2012A Bond to receive the notice described in the Indenture, or any defect therein, shall not affect the validity of any Rate or any continuation of or change in the Interest Rate Determination Method for any of the Series 2012A Bonds or extend the period for tendering any of the Series 2012A Bonds for purchase, and the Trustee shall not

be liable to any Holder of a Series 2012A Bond by reason of the failure of such Holder to receive such notice or any defect therein.

Rescission of Election Regarding Conversion. Notwithstanding anything herein to the contrary, the Authority may rescind any Conversion Notice given pursuant to the Indenture prior to the proposed Conversion Date set forth in the Conversion Notice by giving written notice thereof to the Notice Parties at least two (2) Business Days prior to such proposed Conversion Date. If the Trustee receives notice of such rescission prior to the time the Trustee has given notice to the Holders of the Series 2012A Bonds pursuant to the Indenture, then the Conversion Notice previously delivered by the Authority shall be of no force and effect. Except with respect to Series 2012A Bonds in an Index Rate Period, a SIFMA Rate Period, or a Long-Term Rate Period for which there is no 2012 Liquidating Facility, the Trustee receives notice from the Authority of rescission of the Conversion Notice after the Trustee has given notice to the Holders of the Series 2012A Bonds pursuant to the Indenture, then the Series 2012A Bonds shall continue to be subject to mandatory tender for purchase on the Conversion Date specified in the Conversion Notice and the Rate Period for such Series 2012A Bonds shall automatically adjust to, or, as applicable, continue as, a Weekly Rate Period on the Conversion Date specified in the Conversion Notice. No Opinion of Bond Counsel shall be required in connection with any automatic adjustment to a Weekly Rate Period.

**Delivery of Tendered Series 2012A Bonds**

With respect to any Series 2012A Bond that is registered in book-entry form with a Securities Depository, delivery of such Series 2012A Bond to the Trustee in connection with any optional or mandatory tender for purchase shall be effected by the making of, or the irrevocable authorization to make, appropriate entries on the books of the Securities Depository for such Series 2012A Bond or any Participant of such Securities Depository to reflect the transfer of the beneficial ownership interest in such Series 2012A Bond to the account of the Trustee, or to the account of a Participant of such Securities Depository acting on behalf of the Trustee.

**Series 2012A Bonds Deemed Purchased**

If moneys sufficient to pay the Purchase Price of Series 2012A Bonds to be purchased shall be held by the Trustee on the applicable Purchase Date, the Series 2012A Bonds shall be deemed to have been purchased for all purposes of the Indenture, irrespective of whether or not the Series 2012A Bonds shall have been transferred on the books of a Securities Depository for the Series 2012A Bonds, and neither the former Holder or Beneficial Owner of the Series 2012A Bonds nor any other person shall have any claim thereon, under the Indenture or otherwise, for any amount other than the Purchase Price thereof.

[*REMAINDER OF PAGE INTENTIONALLY LEFT BLANK*]

(THIS PAGE INTENTIONALLY LEFT BLANK)

## APPENDIX D

## BOOK-ENTRY ONLY SYSTEM

**The following information concerning the Depository Trust Company ("DTC") and DTC's book-entry system has been obtained from DTC, but neither the Authority nor the Underwriters take responsibility for the accuracy thereof. Capitalized terms used herein and not otherwise defined herein shall have the meanings set forth in the Official Statement and in APPENDIX C – "Summary of Certain Provisions of the Indenture."**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2012 Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds with the same interest rate and will be deposited with DTC.

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

**Notice and Other Communications**. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may- wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

**Voting Rights**. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by the Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

**Redemption**. Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payment to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

**Tender of Bonds for Purchase**. A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants in DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

**Discontinuation of DTC's Book-Entry System**. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered, in authorized denominations, as described in the Indenture.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC, in authorized denominations, as described in the Indenture.

In such event, transfer and exchange of Series 2012A bonds will be governed by the provisions of the Indenture.

**Current Risks Regarding the Book-Entry Only System**

NONE OF THE AUTHORITY, THE TRUSTEE OR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION WITH RESPECT TO: THE PAYMENTS BY DTC TO THE DIRECT PARTICIPANTS, ANY INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS; THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO OWNERS OF THE SERIES 2012 BONDS UNDER THE INDENTURE; THE SELECTION BY DTC OR ANY DIRECT OR INDIRECT PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE SERIES 2012 BONDS; ANY CONSENT OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SERIES 2012 BONDS; OR ANY OTHER PROCEDURES OR OBLIGATIONS OF DTC UNDER THE BOOK-ENTRY SYSTEM.

NO ASSURANCE CAN BE GIVEN BY THE AUTHORITY, THE TRUSTEE OR THE UNDERWRITERS THAT DTC, DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS OR OTHER NOMINEES OF THE BENEFICIAL OWNERS: WILL MAKE PROMPT TRANSFER OF PAYMENTS TO THE BENEFICIAL OWNERS; WILL DISTRIBUTE NOTICES, INCLUDING REDEMPTION NOTICES (REFERRED TO ABOVE), RECEIVED AS THE REGISTERED OWNER OF THE SERIES 2012A BONDS TO THE BENEFICIAL OWNERS OR THAT THEY WILL DO SO ON A TIMELY BASIS; OR WILL ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT OR APPENDIX D.

(THIS PAGE INTENTIONALLY LEFT BLANK)

## APPENDIX E

## PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

[Closing Date]

Contra Costa Transportation Authority
Walnut Creek, California

Re: $201,450,000 Contra Costa Transportation Authority Sales Tax Revenue Bonds Limited Tax Refunding Bonds, Series 2012A

Ladies and Gentlemen:

We have acted as bond counsel to the Contra Costa Transportation Authority (the "Issuer") in connection with issuance of $201,450,000 aggregate principal amount of Contra Costa Transportation Authority Sales Tax Revenue Bonds (Limited Tax Refunding Bonds) Series 2012A (the "Bonds"), issued pursuant to an Indenture, dated as of September 1, 2009, as previously supplemented, and as supplemented by a Third Supplemental Indenture, dated as of December 1, 2012 (herein collectively referred to as the "Indenture"), between the Issuer and Deutsche Bank National Trust Company, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the Issuer, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Issuer and the Trustee, certificates of the Issuer, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against county

transportation commissions in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest will be included as an adjustment in the calculation of alternative minimum taxable income. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

We are admitted to the practice of law only in the State of California and our opinions are limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel with respect to the Bonds terminates upon the issuance of the Bonds and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken (or not taken) or do occur (or do not occur).

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover matters not directly addressed by such authorities.

Respectfully submitted,

BEST BEST & KRIEGER LLP

[Closing Date]

Contra Costa Transportation Authority
Walnut Creek, California

Re: $188,770,000 Contra Costa Transportation Authority Sales Tax Revenue Bonds Fixed Rate Limited Tax Bonds, Series 2012B

Ladies and Gentlemen:

We have acted as bond counsel to the Contra Costa Transportation Authority (the "Issuer") in connection with issuance of $188,770,000 aggregate principal amount of Contra Costa Transportation Authority Sales Tax Revenue Bonds (Fixed Rate Limited Tax Bonds) Series 2012B (the "Bonds"), issued pursuant to an Indenture, dated as of September 1, 2009, as previously supplemented, and as supplemented by a Third Supplemental Indenture, dated as of December 1, 2012 (herein collectively referred to as the "Indenture"), between the Issuer and Deutsche Bank National Trust Company, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Tax Certificate of the Issuer, dated the date hereof (the "Tax Certificate"), opinions of counsel to the Issuer and the Trustee, certificates of the Issuer, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against county transportation commissions in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as subject to the lien of the

Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute the valid and binding limited obligations of the Issuer.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer.

3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that, with respect to corporations, such interest will be included as an adjustment in the calculation of alternative minimum taxable income. Interest on the Bonds is exempt from State of California personal income taxes. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

We are admitted to the practice of law only in the State of California and our opinions are limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Our engagement as Bond Counsel with respect to the Bonds terminates upon the issuance of the Bonds and we have not undertaken to determine, or to inform any person, whether any such actions or events are taken (or not taken) or do occur (or do not occur).

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover matters not directly addressed by such authorities.

Respectfully submitted,

BEST BEST & KRIEGER LLP

## APPENDIX F

## PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement, dated as of December 1, 2012 (this "Disclosure Agreement"), is executed and delivered by Contra Costa Transportation Authority (the "Authority") and Deutsche Bank National Trust Company, a national banking association duly organized and existing under and by virtue of the laws of the United States of America ("Deutsche Bank"), in connection with the Authority's issuance of its $201,450,000 aggregate principal amount of Contra Costa Transportation Authority Sales Tax Revenue Bonds (Limited Tax Refunding Bonds), Series 2012A (the "Series 2012A Bonds") and $188,770,000 aggregate principal amount of Contra Costa Transportation Authority Sales Tax Revenue Bonds (Fixed Rate Limited Tax Bonds), Series 2012B (the "Series 2012B Bonds," collectively referred to as the "Series 2012 Bonds"). The Series 2012 Bonds are being issued pursuant to the Indenture, dated as of September 1, 2009 (the "Master Indenture"), between the Authority and Deutsche Bank as trustee (the "Trustee"), as previously supplemented by the First Supplemental Indenture, dated as of September 1, 2009 (the "First Supplemental Indenture"), as further supplemented by the Second Supplemental Indenture, dated as of October 1, 2010 (the "Second Supplemental Indenture") and as further supplemented by a Third Supplemental Indenture, dated as of December 1, 2012 (the "Third Supplemental Indenture"), each between the Authority and the Trustee. The Master Indenture, as so supplemented and as further supplemented from time to time pursuant to its terms, is hereinafter referred to as the "Indenture."

Pursuant to Section 6.09 of the Indenture, the Authority, the Trustee, and the Trustee as dissemination agent (in such capacity, the "Dissemination Agent"), covenant and agree as follows:

SECTION 1. Purpose of this Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Authority, the Trustee and the Dissemination Agent for the benefit of the Holders and Beneficial Owners (as hereinafter defined) of the Series 2012 Bonds and in order to assist the Participating Underwriters (as hereinafter defined) in complying with the Rule (as hereinafter defined).

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

"Annual Filing" means, the Annual Filing provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"Beneficial Owner" shall mean any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2012 Bonds (including persons holding Series 2012 Bonds through nominees, depositories or other intermediaries) including the Securities Depositary (as defined in the Indenture).

"Disclosure Representative" shall mean the Authorized Representative of the Authority or his or her designee, or such other person and the Authorized Representative of the Authority shall designate in writing to the Trustee and the Dissemination Agent from time to time.

"EMMA" means the Electronic Municipal Market Access system of the MSRB. Information regarding submissions to EMMA is available at http://emma.msrb.org.

"Filing Date" means the first day of the eighth month following the end of each Fiscal Year of the Authority (or the next succeeding business day if that day is not a business day), commencing with the Fiscal Year ended June 30, 2012.

"MSRB" means the Municipal Securities Rulemaking Board.

"Obligated Person" means, any person, including the issuer of municipal securities (such as the Series 2012 Bonds), who is generally committed by contract or other arrangement to support payment of all or part of the obligations on the municipal securities being sold in an offering document (such as the Official Statement). The Authority is the only Obligated Person for the Series 2012 Bonds.

"Official Statement" means the final Official Statement, dated December 4, 2012, relating to the Series 2012 Bonds.

"Participating Underwriters" shall mean any of the original underwriters of the Series 2012 Bonds required to comply with the Rule in connection with offering of the Series 2012 Bonds.

"Repository" shall mean the MSRB or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the EMMA website of the MSRB.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time and including any official interpretations thereof issued either before or after the effective date of this Disclosure Agreement which are applicable to this Disclosure Agreement.

"SEC" shall mean the Securities and Exchange Commission and any successor agency thereto.

"Specified Events" shall mean any of the events listed in Section 5(a) or 5(b) of this Disclosure Agreement and any other event legally required to be reported pursuant to the Rule.

"State" means the State of California.

SECTION 3. Provision of Annual Filing.

The Authority shall, or shall upon written direction cause the Dissemination Agent to, not later than the Filing Date for each fiscal year of the Authority, commencing with the Annual Filing for the fiscal year of the Authority ended June 30, 2012, provide to the Repository an Annual Filing which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Filing may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements referred to in Section 4(A) may be submitted separately from the balance of the Annual Filing and later than the date required above for the filing of the Annual Filing if such audited financial statements are not available by that date. If the fiscal year of the Authority changes, the Authority shall give notice of such change in the same manner as for a Specified Event under Section 5(h). Currently, the MSRB requires filing such information electronically through EMMA. Audited financial statements are expected to be available with the Annual Filing. The Authority is required to deliver, or cause to be delivered, such information in such manner and by such time so that the MSRB receives the information on or before the date specified.

If the Authority fails to provide to the MSRB an Annual Filing by the Filing Date, the Authority shall promptly send a notice to the MSRB of such failure in an electronic format, and accompanied by such identifying information as is prescribed by the MSRB.

Not later than 15 Business Days prior to the Filing Date, the Authority shall provide the Annual Filing to the Dissemination Agent (if one has been appointed). The Dissemination Agent (if one has been appointed) shall file a report with the Authority certifying that the Annual Filing has been provided pursuant to this Disclosure Agreement and stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Filings. The Authority's Annual Filing shall contain or include by reference the following:

(a) The audited financial statements of the Authority for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board and reporting standards as set forth by the State Controller in "State of California Accounting Standards and Procedures for Counties," except as may be modified from time to time and described in such financial statements. If the Authority's audited financial statements are not available by the Filing Date, the Annual Filing shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Filing when they become available.

(b) An update (as of the most recently ended Fiscal Year of the Authority) for the table entitled "HISTORICAL SALES TAX REVENUES" set forth in the Official Statement under the caption "THE SALES TAX – Historical Sales Tax Revenues."

(c) In the event of a change (as of the most recently ended Fiscal Year of the Authority) to debt service shown in the table entitled "DEBT SERVICE SCHEDULE" set forth in the Official Statement, an updated table reflecting such changed debt service.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Authority is an Obligated Person, and which have been filed with the MSRB. If the document included by reference is a final official statement, it must be available from the MSRB. The Authority shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Filings may be modified from time to time as determined in the judgment of the Authority to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the Authority or to reflect changes in the business, structure, operations, legal form of the Authority or any mergers, consolidations, acquisitions or dispositions made by or affecting the Authority; provided that any such modifications shall comply with the requirements of the Rule.

SECTION 5. Reporting of Specified Events.

(a) The Authority shall provide (or cause to be provided) notice to the MSRB of the occurrence of any of the following events numbered 1-9 with respect to the Series 2012 Bonds, in a timely manner but not later than ten business days after the occurrence of the event. The notice shall be in an electric format and be accompanied by such identifying information as is prescribed by the MSRB.

1. Principal and interest payment delinquencies;

2. Unscheduled draws on debt service reserves reflecting financial difficulties[1];

3. Unscheduled draws on credit enhancements reflecting financial difficulties[2];

4. Substitution of credit or liquidity providers, or their failure to perform (a)[3];

5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB) or issuance of adverse tax opinion;

6. Tender offers;

7. Defeasances;

8. Rating changes; or

9. Bankruptcy, insolvency, receivership or similar event of the Obligated Person.

Note: for the purposes of the event identified in subsection (9) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

(b) The Authority shall provide (or cause to be provided) to the MSRB notice of the occurrence of any of following events numbered 10-17 with respect to the Series 2012 Bonds, if material, in a timely manner but not later than ten business days after the occurrence of the event. Such notice shall be in an electric format, and be accompanied by such identifying information as is prescribed by the MSRB.

10. Unless described in paragraph 5(a)(5), other notices or determinations by the Internal Revenue Service with respect to the tax status of Series 2012 Bonds or other events affecting the tax status of Series 2012 Bonds;

11. Modifications to rights of Holders;

12. Bond calls4;

13. Release, substitution, or sale of property securing repayment of the Series 2012 Bonds;

[1] The Series 2012 Bonds are not secured by a debt service reserve as of the date of issue.
[2] No credit enhancement has been obtained for the Series 2012 Bonds as of the date of issue.
[3] No credit or liquidity providers have been obtained for the Series 2012 Bonds as of the date of issue.
[4] Any scheduled redemption of the Series 2012 Bonds pursuant to mandatory sinking fund redemption requirements does not constitute a Specified Event within the meaning of the Rule.

14. Issuance of additional bonds payable from Sales Tax Revenues, including Parity Obligations (as defined in the Indenture);

15. Non-payment related defaults;

16. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or

17. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) The Authority acknowledges that it must make a determination whether a Specified Event listed in subsection (b) is material under applicable federal securities laws in order to determine whether a filing is required under subsection (b). If it makes such a determination, the Authority shall within ten Business Days of occurrence file a notice of such occurrence, or cause a notice of such occurrence to be filed, with the Repository. Notwithstanding the foregoing, notice of the Specified Event described in Section 5(a)(7) or Section 5(b)(12) need not be given under this Section 5(c) any earlier than the notice (if any) of the underlying event is given to the Holders of affected Series 2012 Bonds pursuant to the Indenture.

(d) The Trustee shall, within one Business Day, or as soon thereafter as practicable, of obtaining actual knowledge of the occurrence of any of the Specified Events described in Section 5(b), contact the Disclosure Representative, inform such person of the event, and request that the Authority promptly direct the Dissemination Agent in writing whether or not to report such event pursuant to Section 5(h). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Specified Events shall mean actual knowledge by the officer at the Principal Office of the Trustee with regular responsibility for the administration of matters related to the Indenture. The Trustee shall not have any duty to determine if any Specified Event is material.

(e) Whenever the Authority obtains knowledge of the occurrence of a Specified Event described in Section 5(b), whether because of a notice from the Trustee pursuant to Section 5(d) or otherwise, the Authority shall as soon as possible determine if such event would be material under applicable federal securities laws.

(f) If the Authority has determined that knowledge of the occurrence of a Specified Event described in Section 5(b) would be material under applicable federal securities laws, the Authority shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to Section 5(h).

(g) If in response to a request under Section 5(d), the Authority determines that the Specified Event described in Section 5(b) would not be material under applicable federal securities laws, the Authority shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to Section 5(h).

(h) If the Dissemination Agent has been instructed by the Authority to report the occurrence of a Specified Event described in Section 5(b), the Dissemination Agent shall file a notice of such occurrence with the Repository, which requires filing of notice of Specified Events electronically through EMMA.

SECTION 6. Termination of Reporting Obligation. The obligations of the Authority, the Trustee and the Dissemination Agent under this Disclosure Agreement shall terminate upon the legal defeasance, or payment in full, of all of the Series 2012 Bonds. If such termination occurs prior to the final maturity of the Series 2012 Bonds, the Authority shall give notice of such termination in the same manner as for a Specified Event under Section 5(a) hereof.

SECTION 7. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. In the event that the Authority discharges the Dissemination Agent and does not appoint a successor Dissemination Agent, the Authority shall perform the obligations of the Dissemination Agent under this Disclosure Agreement. The Dissemination Agent may resign at any time by providing at least 30 days' notice in writing to the Authority and the Trustee. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent.

Neither the Trustee nor the Dissemination Agent, if other than the Authority, shall be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Agreement.

SECTION 8. Amendment; Waiver. The Authority reserves the right to amend this Disclosure Agreement, and noncompliance with any provision of this Disclosure Agreement may be waived, as may be necessary or appropriate to (a) achieve its compliance with the Rule or any other applicable federal securities law or rule, (b) cure any ambiguity, inconsistency or formal defect or omission and (c) address any changes in circumstances arising from a change in legal requirements, change in law or change in the identity, nature or status of the Authority. Any such amendment or waiver shall not be effective unless the Disclosure Agreement (as amended or taking into account such waiver) would have materially complied with the requirements of the Rule at the time of the primary offering of the Series 2012 Bonds, after taking into account any applicable amendments to or official interpretations of the Rule, as well as any change in circumstances, and until the Authority shall have received either (i) a written opinion of bond counsel or other qualified independent special counsel selected by Authority that the amendment or waiver would not materially impair the interests of Holders or Beneficial Owners or (ii) the written consent to the amendment or waiver of the Holders of at least a majority of the principal amount of the Series 2012 Bonds then outstanding.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Authority shall describe such amendment in the Annual Information or audited financial statements, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Authority. In addition, if the amendment relates to the accounting principles to be following in preparing audited financial statements, (1) notice of such change shall be given in the same manner as Section 3, and (ii) the Annual Information or the audited financial statement for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the audited financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Filing or notice of occurrence of a Specified Event, in addition to that which is required by this Disclosure Agreement. If the Authority chooses to include any information in any

Annual Filing or notice of occurrence of a Specified Event, in addition to that which is specifically required by this Disclosure Agreement, the Authority shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Filing or notice of occurrence of a Specified Event.

SECTION 10. Remedy for Breach. This Disclosure Agreement shall be solely for the benefit of the Holders and Beneficial Owners from time to time of the Series 2012 Bonds. The exclusive remedy for any breach of the Disclosure Agreement by the Authority shall be limited, to the extent permitted by law, to a right of Holders and Beneficial Owners to institute and maintain, or to cause to be instituted and maintained, such proceedings as may be authorized at law or in equity to obtain the specific performance by the Authority of its obligations under this Disclosure Agreement in a court of competent jurisdiction in Stockton, California; provided that any Holder or Beneficial Owner seeking to require the Authority to comply with this Disclosure Agreement shall first provide at least 30 days' prior written notice to the Authority of the Authority's failure, giving reasonable detail of such failure, following which notice the Authority shall have 30 days to comply. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture with respect to the Series 2012 Bonds, and the sole remedy under this Disclosure Agreement in the event or any failure of the Authority to comply with this Disclosure Agreement shall be an action to compel performance. No person or entity shall be entitled to recover monetary damages under this Disclosure Agreement.

SECTION 11. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriters, Holders and Beneficial Owners from time to time of the Series 2012 Bonds, and shall create no rights in any other person or entity.

SECTION 12. Record Keeping. The Authority shall maintain records of all Annual Filings and notices of Specified Events, including the content of such disclosure, the names of the entities with which the such disclosure was filed and the date of filing such disclosure.

SECTION 13. Governing Law. This Disclosure Agreement shall be governed by the laws of the State of California.

[*REMAINDER OF PAGE INTENTIONALLY LEFT BLANK*]

Date: December 18, 2012

CONTRA COSTA
TRANSPORTATION AUTHORITY

By: _____
Its: _____

DEUTSCHE BANK NATIONAL TRUST COMPANY,
as Trustee and Dissemination Agent

By: _____
Its: _____