OHS Draft 5/01/19

PRELIMINARY OFFICIAL STATEMENT DATED __________, 2019

NEW ISSUE—BOOK-ENTRY ONLY

Ratings: [____]: "[___]"
[____]: "[___]"
(See "RATINGS" herein.)

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Bonds is excluded from the gross income of the owners thereof for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax. Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein.

$[_____________________]*

SAN DIEGO ASSOCIATION OF GOVERNMENTS CAPITAL GRANT RECEIPTS REVENUE BONDS (MID-COAST CORRIDOR TRANSIT PROJECT)

$[_______________]*		**$[_______________]***
Series 2019A (Green Bonds)		**Series 2019B (Green Bonds)**

Dated: Date of Delivery | **Due: November 15, as shown on the inside cover**

The San Diego Association of Governments Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project), Series 2019A (Green Bonds) (the "Series 2019A Bonds") and the San Diego Association of Governments Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project), Series 2019B (Green Bonds) (the "Series 2019B Bonds" and together with the Series 2019A Bonds, the "Bonds"), are being issued pursuant to a Trust Indenture, dated as of [______] 1, 2019 (the "Indenture"), between the San Diego Association of Governments (the "SANDAG") and [_____________], as trustee (the "Trustee").

The Bonds will be delivered as fixed rate bonds in denominations of $5,000 or any integral multiple thereof. Interest on the Bonds will be payable on May 15 and November 15 of each year, commencing November 15, 2019. The maturities, principal amounts, interest rates, yields, and CUSIP numbers of the Bonds of each series are set forth on the inside cover. The Bonds are subject to optional and mandatory redemption prior to maturity, without premium, as described herein.

The Bonds are limited obligations of SANDAG payable solely from and secured solely by Grant Receipts (as herein defined), amounts on deposit in the funds and accounts established under the Indenture (except the Rebate Fund), and investment earnings thereon. The Bonds are not a general obligation of SANDAG, and the revenues of SANDAG (other than as described above) are not pledged for the payment of the Bonds or the interest thereon. The Bonds are not an indebtedness or obligation of the State of California (the "State") or any political subdivision of the State (other than SANDAG) or of any municipality within the State.

[Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by [____________] simultaneously with the delivery of the Bonds.]

The Bonds are deliverable in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of Bonds will be made in book-entry form only through the facilities of DTC. Purchasers of Bonds will not receive physical certificates representing their beneficial ownership in the Bonds but will receive a credit balance on the books of their respective DTC Participants or DTC Indirect Participants. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein.

The Bonds are offered when, as and if issued by SANDAG and received by the Underwriters, subject to the approval of legality thereof by Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for SANDAG by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, as Disclosure Counsel to SANDAG and by the General Counsel to SANDAG; and for the Underwriters by Nixon Peabody LLP, Los Angeles, California, Underwriters' Counsel. It is anticipated that the Bonds, in definitive form, will be available for delivery through the facilities of DTC on or about [_________], 2019.

Wells Fargo Securities

Citigroup Global Markets Inc. | **Goldman Sachs & Co. LLC** | **J.P. Morgan Securities LLC**

Dated __________, 2019.

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* *Preliminary; subject to change.*

4154-0748-1627.6

MATURITY SCHEDULE[*]
BASE CUSIP[†]: ______

$[___________________][*]
SAN DIEGO ASSOCIATION OF GOVERNMENTS
CAPITAL GRANT RECEIPTS REVENUE BONDS
(MID-COAST CORRIDOR TRANSIT PROJECT)

$ [____________][*] Serial Series 2019A Bonds

Maturity (November 15)	Principal Amount	Interest Rate	Yield	Redeemable On or After[†]	CUSIP Number[††]

$_____ __% Series 2019B Bond due November 15, 20__ – Yield _____% - CUSIP Number[†] ___

[†] See "THE BONDS – Redemption Prior to Maturity."
[††] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. Copyright© 2019 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of SANDAG, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.
[*] *Preliminary; subject to change.*

4154-0748-1627.6

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Hasan Ikhrata

Chief Deputy Executive Director
Kim Kawada

General Counsel
John F. Kirk

Director of Finance
André Douzdjian

***TransNet* Director**
Jose Nuncio

Chief Economist and Director of Data, Analytics and Modeling
Ray Major

Director of Mobility Management and Project Implementation
Jim Linthicum

SPECIAL SERVICES

BOND COUNSEL

Norton Rose Fulbright US LLP
Los Angeles, California

DISCLOSURE COUNSEL

Orrick, Herrington & Sutcliffe LLP
San Francisco, California

MUNICIPAL ADVISOR

PFM Financial Advisors, LLC
San Francisco, California

TRUSTEE

[______________________________]
[____________], [_____________]

In connection with this offering, the Underwriters may overallot or effect transactions that stabilize or maintain the market prices of the Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices stated on the inside cover page of the Official Statement, and such public offering prices may be changed from time to time by the Underwriters.

This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized by SANDAG or the Underwriters to give any information or to make any representation other than that contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized. Neither the delivery of this Official Statement nor the sale of any of the Bonds implies that the information herein is correct as of any time subsequent to the date hereof. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof.

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. All summaries of statutes and documents are made subject to the provisions of such statutes and documents, respectively, and do not purport to be complete statements of any or all of such provisions.

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.

This Official Statement contains forecasts, projections and estimates that are based on current expectations or assumptions. In light of the important factors that may materially affect the amount of Grant Receipts received, the inclusion in this Official Statement of such forecasts, projections and estimates should not be regarded as a representation by SANDAG that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates," "assumes" and analogous expressions are intended to identify forward-looking statements, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. Such risks and uncertainties which could affect the amount of Grant Receipts received include, among others, receipt of the required local share under the Grant Agreement, changes in political, social and economic conditions, federal, state and local statutory and regulatory initiatives, litigation, seismic events, and various other events, conditions and circumstances, many of which are beyond the control of SANDAG. These forward-looking statements include, but are not limited to, certain statements contained in the information contained under the captions "THE GRANT AGREEMENT" and "FEDERAL TRANSIT PROGRAM" and such statements speak only as of the date of this Official Statement. SANDAG disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in SANDAG's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this offering document for purposes of, and as that term is defined in, United States Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule").

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OFFICIAL STATEMENT

$[____________________][*]
SAN DIEGO ASSOCIATION OF GOVERNMENTS
CAPITAL GRANT RECEIPTS REVENUE BONDS
(MID-COAST CORRIDOR TRANSIT PROJECT)

$[________________][*]	**$[________________][*]**
Series 2019A	**Series 2019B**
(Green Bonds)	**(Green Bonds)**

INTRODUCTION

General

The purpose of this Official Statement, which includes the cover page, inside cover page, and appendices hereto (the "Official Statement"), is to provide certain information concerning the issuance by the San Diego Association of Governments (the "SANDAG") of $[_______][*] aggregate principal amount of its Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project), Series 2019A (Green Bonds) (the "Series 2019A Bonds") and $[_______][*] aggregate principal amount of its Capital Grant Receipts Revenue Bonds (Mid-Coast Corridor Transit Project), Series 2019B (Green Bonds) (the "Series 2019B Bonds" and together with the Series 2019A Bonds, the "Bonds").

The Bonds are to be issued pursuant to the laws of the State of California (the "State"), including Section 132370.1 of the California Public Utilities Code. The Bonds are authorized by a resolution adopted by SANDAG Board on [_______], 2019, and are issued under and secured by a Trust Indenture, dated as of [______] 1, 2019 (the "Indenture"), between SANDAG and [___________], as trustee (the "Trustee").

The Bonds are being issued to provide funds to finance a portion of the costs of the design and construction of a 10.92 mile extension of the Metropolitan Transit System's San Diego Trolley Blue Line from the Santa Fe Depot in downtown San Diego to the University Town Center Transit Center in the University City community of San Diego, California, known as the Mid-Coast Corridor Transit Project (the "Project"). For more information, see "THE PROJECT" herein.

San Diego Association of Governments

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

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[*] *Preliminary; subject to change.*

Use of Bond Proceeds

The proceeds of the Bonds will be applied to finance a portion of the costs of the Project, to fund a Debt Service Reserve Fund under the Indenture, to fund capitalized interest on the Bonds, and to pay certain costs of issuance of the Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" and "THE PROJECT."

Security for the Bonds

The Bonds are limited obligations of SANDAG payable solely from and secured solely by Grant Receipts (as herein defined), amounts on deposit in the funds and accounts under the Indenture (except the Rebate Fund), and investment earnings thereon. See "SECURITY FOR THE BONDS," "THE GRANT AGREEMENT," "FEDERAL TRANSIT PROGRAM" and "APPENDIX A—THE GRANT AGREEMENT."

The Bonds are not a general obligation of SANDAG, and the revenues of SANDAG (other than as described herein) are not pledged for the payment of the Bonds or the interest thereon. The Bonds are not an indebtedness or obligation of the State or any political subdivision of the State (other than SANDAG) or of any municipality within the State.

Federal Transit Programs

Under the Capital Investment Grant and Loan Program, 49 U.S.C. 5309 ("Section 5309"), the Secretary of Transportation may make grants to assist state and local governmental authorities in financing capital projects for new fixed guideway systems and extensions to existing guideway systems, including light rail, rapid rail (heavy rail), commuter rail, automated fixed guideway systems, busway/high occupancy vehicle facilities, or extensions of such projects. Pursuant to Section 5309, SANDAG in September 2016 entered into a Full Funding Grant Agreement (the "Grant Agreement") with the U.S. Department of Transportation, Federal Transit Administration (the "FTA"), which provides for federal financial assistance in the form of grants to SANDAG (as more fully defined in the Indenture, the "Grant Receipts") to fund a portion of the costs of the Project. The Grant Agreement sets forth the requirements that must be satisfied by SANDAG to receive and retain the Grant Receipts and the conditional nature of the award of such funds. Pursuant to the Grant Agreement, FTA has committed a total of $1,043,380,000 of Grant Receipts to the Project, of which $330,024,740 has been received by SANDAG to date. SANDAG expects to receive the remaining balance of the Grant Receipts under the Grant Agreement (in the aggregate amount of $713,355,260) in installments over the next seven years from Federal Fiscal Year (October 1 through September 30) ("FFY") 2019 through FFY 2026. Pursuant to the Indenture, SANDAG will deposit Grant Receipts with the Trustee within one business day of receipt to pay debt service on the Bonds and replenish the Debt Service Reserve Fund, among other purposes. See "SECURITY FOR THE BONDS," "THE PROJECT," "THE GRANT AGREEMENT," "FEDERAL TRANSIT PROGRAM," "INVESTMENT CONSIDERATIONS" and "APPENDIX A—THE GRANT AGREEMENT."

Plan of Finance for the Project

SANDAG expects to fund less than half of the Project's estimated cost of $2,171,200,545 from moneys received pursuant to the Grant Agreement and Bond proceeds. SANDAG expects to fund the remaining portion of the Project from local funding sources, which include sales tax revenues of the San Diego County Regional Transportation Commission (the "Commission") and the proceeds of certain debt obligations issued by the Commission and secured by such sales tax revenues, as further described herein. See "THE PROJECT – Funding of Project Costs."

Bond Insurance

[To be determined.]

Certain References

The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in "APPENDIX B—SUMMARY OF THE INDENTURE—Definitions of Certain Terms" or, if not defined therein, in the Indenture.

THE BONDS

[All Bond provisions to be conformed to final Indenture.]

General Provisions of the Bonds

The Bonds will be dated the date of delivery thereof and will bear interest from their dated date at the rates per annum set forth on the inside front cover of this Official Statement (calculated on the basis of a 360-day year consisting of twelve 30-day months), payable on November 15, 2019 and semiannually thereafter on May 15 and November 15 (each an "Interest Payment Date") of each year to the registered owners thereof as of the close of business on the fifteenth day (whether or not a Business Day) of the calendar month next preceding each Interest Payment Date (the "Record Date"). The Series 2019A Bonds will mature on November 15 in the years and in the principal amounts set forth on the inside cover page of this Official Statement. The Series 2019B Bonds will mature on November 15 on the year and in the principal amount set forth on the inside cover page of this Official Statement. The Bonds will be issued as fully registered bonds in authorized denominations of $5,000 or in any integral multiple thereof ("Authorized Denominations").

Redemption Prior to Maturity

Optional Redemption of Series 2019A Bonds. The Series 2019A Bonds are subject, at the option of SANDAG, to redemption prior to their stated maturities on any Business Day on or after the dates set forth in the following table, as a whole or in part in Authorized Denominations, from any moneys that may be provided for such purpose and at the redemption price of 100% of the principal amount of the Series 2019A Bonds to be redeemed, plus accrued interest to the date fixed for redemption.

Maturity (November 15)	Interest Rate	Initial Call Date (November 15)

Optional Redemption of Series 2019B Bonds. The Series 2019B Bonds are subject, at the option of SANDAG, to redemption prior to their stated maturity on any Interest Payment Date as a whole or in part in Authorized Denominations, from any moneys that may be provided for such purpose and at the redemption price of 100% of the principal amount of the Series 2019B Bonds to the redeemed, plus accrued interest to the date fixed for redemption. **Notwithstanding the foregoing, no Series 2019B Bonds shall be optionally redeemed prior to the maturity or redemption in full of all Series 2019A Bonds.**

Redemption or Defeasance by Operation of the Redemption Account

Whenever the amount held in the Redemption Account exceeds $1,000,000, the Trustee shall notify SANDAG and apply the moneys held therein as follows:

> First: to the redemption of Outstanding Series 2019A Bonds then subject to optional redemption in the current or immediately succeeding Federal Fiscal Year (exclusive of any such Series 2019A Bonds maturing within 30 days or previously selected for redemption) on the first date such Series 2019A Bonds may be redeemed that is at least 60 days after such notification;
>
> Second: to the redemption of Outstanding Series 2019B Bonds (exclusive of Series 2019B Bonds previously selected for redemption) on the next Interest Payment Date that is at least 60 days after such notification; and
>
> Third: if all of the Series 2019B Bonds have been redeemed in full, to the redemption of any remaining Outstanding Series 2019A Bonds (exclusive of any such Series 2019A Bonds maturing within 30 days or previously selected for redemption), in order of maturity, on the first date such Series 2019A Bonds may be redeemed that is at least 60 days after such notification.

Current Refunding. In connection with any redemption of Bonds as described in first through third above in a current refunding, the Trustee shall apply the amounts held in the Redemption Account to pay the Redemption Price of such Bonds called for redemption. The accrued interest on such Bonds to the date fixed for their redemption shall be paid from the Interest Account; *provided, however,* that if the amount then held in the Interest Account is not sufficient to pay such accrued interest then, at the direction of SANDAG expressed in a certificate of an Authorized Officer filed with the Trustee, such accrued interest may be paid from moneys in the Capitalized Interest Account or from moneys in the Redemption Account. The Trustee shall redeem the principal amount of such Bonds that will reduce the balance in the Redemption Account to less than $5,000. If the amount then held in the Redemption Account is not sufficient to redeem all of the Bonds of any maturity then eligible for redemption by operation of the Redemption Account in a current refunding, then the Trustee shall proceed to select the Bonds to be redeemed by lot within such maturity. The Trustee shall file with SANDAG a notice specifying the Bonds called for redemption pursuant to this subsection and shall send notices of redemption to holders of the affected Bonds as described in " – *Notice of Redemption*" below.

Advance Refunding. In connection with any redemption of Bonds as described in first through third above in an advance refunding, the Trustee shall apply the amounts held in the Redemption Account to defease the principal amount of such Bonds that will reduce the balance in the Redemption Account to less than $5,000. If the amount then held in the Redemption Account is not sufficient to defease all of the Bonds then Outstanding, the Trustee shall proceed to select the Bonds to be defeased from moneys then held in the Redemption Account by designating for defeasance any Outstanding Series 2019B Bonds, and thereafter, the Outstanding Series 2019A Bonds in order of maturity, and if the amount then held in the Redemption Account is not sufficient to defease all of such Bonds of any maturity, by lot within such maturity. The Trustee shall file with SANDAG a notice specifying the Bonds defeased pursuant to this subsection. In order to effect such defeasance, either (a) moneys in an amount sufficient to effect payment of the principal and Redemption Price, if applicable, and interest due and to become due on the

Bonds to be refunded or advance refunded on and prior to the redemption date or maturity date thereof, as the case may be, which moneys shall be held by the Trustee in a separate account irrevocably in trust for and assigned to the respective Owners of the Bonds to be defeased, or (b) Defeasance Securities as directed by SANDAG in such principal amounts, of such maturities, and bearing interest at such rates as shall be necessary, together with the moneys, if any, deposited with the Trustee at the same time, to comply with the provisions of the Indenture. The Trustee shall send such notices and take such other actions in connection with the defeasance of such Bonds in accordance with the Indenture.

If Grant Receipts are received as anticipated, a substantial portion of the Series 2019A Bonds and the Series 2019B Bonds will be redeemed prior to maturity. There can be no assurance that Grant Receipts will be received in the amounts or at the times anticipated. See "SECURITY FOR THE BONDS – Projected Grant Receipts" and "– Flow of Funds" and "INVESTMENT CONSIDERATIONS – Uncertainties in Federal Funding."

Selection of Bonds to Be Redeemed

If less than all of the Bonds of like maturity and interest rate of any Series shall be called for prior redemption, the particular Bonds or portion of Bonds to be redeemed shall be selected at random by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided, however, that the portion of any Bond of a denomination of more than the minimum Authorized Denomination for the Bonds of such Series to be redeemed shall be in the principal amount of an Authorized Denomination for the Bonds of such Series and that, in selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of said minimum Authorized Denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by said minimum Authorized Denomination. If all Bonds of any Series are Book-Entry Bonds, the particular Bonds or portions thereof of such Series to be redeemed shall be selected by the Securities Depository for such Series of Bonds in such manner as such Securities Depository shall determine

Notice of Redemption

When the Trustee shall receive notice from SANDAG of its election or direction to redeem Bonds pursuant to the Indenture and when redemption of Bonds is authorized or required pursuant to the Indenture, the Trustee shall give notice, in the name of SANDAG, of the redemption of such Bonds, which notice shall specify the Series and maturities and interest rates of the Bonds to be redeemed, the date fixed for redemption and the place or places where amounts due upon such date fixed for redemption will be payable and, if less than all of the Bonds of any like Series and maturity and interest rate are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable the Redemption Price of each Bond to be redeemed, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the date fixed for redemption, and that from and after such date interest thereon shall cease to accrue and be payable. The Trustee shall mail copies of such notice by first-class mail, postage prepaid, not less than 20 days nor more than 60 days before the date fixed for redemption, to the Owners of the Bonds to be redeemed at their addresses as shown on the registration books of SANDAG maintained by the Trustee. If the Trustee mails notices of redemption as herein provided, notice shall be conclusively presumed to have been given to all Owners.

With respect to an optional redemption of any Bonds, unless moneys sufficient to pay the principal of, redemption premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice may, at the option of

SANDAG, state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, SANDAG shall not redeem such Bonds and the Trustee shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

Book-Entry-Only System

As noted above, DTC will act as securities depository for the Bonds. See "APPENDIX D—DTC AND THE BOOK-ENTRY-ONLY SYSTEM."

Payments of interest on and principal of the Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Each such payment to DTC or its nominee will be valid and effective to fully discharge all liability of SANDAG or the Trustee with respect to interest on and principal of the Bonds to the extent of the sum or sums so paid.

SANDAG and the Trustee cannot and do not give any assurances that DTC Participants or DTC Indirect Participants will distribute to the beneficial owners (i) payments of interest and principal with respect to the Bonds, (ii) confirmation of ownership interests in the Bonds, or (iii) redemption or other notices sent to DTC or Cede & Co., its nominee, as Owner of the Bonds, or that they will do so on a timely basis.

SECURITY FOR THE BONDS

The Bonds are limited obligations of SANDAG and are payable solely from and secured solely by Grant Receipts (as herein defined), amounts on deposit in the funds and accounts established under the Indenture (except the Rebate Fund), and investment earnings thereon. The Bonds are not a general obligation of SANDAG and the revenues of SANDAG (other than as described above) are not pledged for the payment of the Bonds or the interest thereon. The Bonds are not an indebtedness or obligation of the State or any political subdivision of the State (other than SANDAG) or of any municipality within the State.

Pledge of Grant Receipts

The Indenture pledges for the payment of the principal and Redemption Price of, and interest on, the Bonds and Refunding Bonds in accordance with their terms and the provisions of the Indenture, and a lien is thereby granted for such purpose, subject only to the provisions of the Indenture permitting or requiring the application thereof for the purposes and on the terms and conditions set forth in the Indenture, (i) the Grant Receipts (as described below), (ii) amounts on deposit in all funds, accounts and sub-accounts established under the Indenture (except the Rebate Fund), and (iii) the Additional Security, which is defined under the Indenture as any and all moneys and securities furnished from time to time to the Trustee by SANDAG or on behalf of SANDAG by any other persons, in each case at SANDAG's sole and absolute discretion, to be held by the Trustee under the terms of the Indenture.

The term "Grant Receipts" is defined in the Indenture to mean any amount received by SANDAG from Section 5309 New Starts funds pursuant to the Grant Agreement. See "THE GRANT AGREEMENT" and "APPENDIX A—THE GRANT AGREEMENT."

Flow of Funds

Grant Receipts. The Indenture requires all Grant Receipts received by SANDAG to be transferred promptly to the Trustee and deposited in the Grant Receipts Fund. The Trustee is then required, as soon as practicable, to deposit all amounts in the Grant Receipts Fund into the following funds, accounts and subaccounts established under the Indenture:

<u>First</u>: Into the Interest Account, to the extent, if any, necessary to increase the amount in the Interest Account so that it equals the Interest Requirement for all Outstanding Bonds for the current and succeeding Federal Fiscal Year.

<u>Second</u>: Into the Principal Account, to the extent, if any, needed to increase the amount in the Principal Account so that it equals the Principal Requirement for all Outstanding Bonds for the current and succeeding Federal Fiscal Year.

<u>Third</u>: Into the Debt Service Reserve Fund, to the extent, if any, needed to increase the amount in the Debt Service Reserve Fund so that it equals the Debt Service Reserve Requirement.

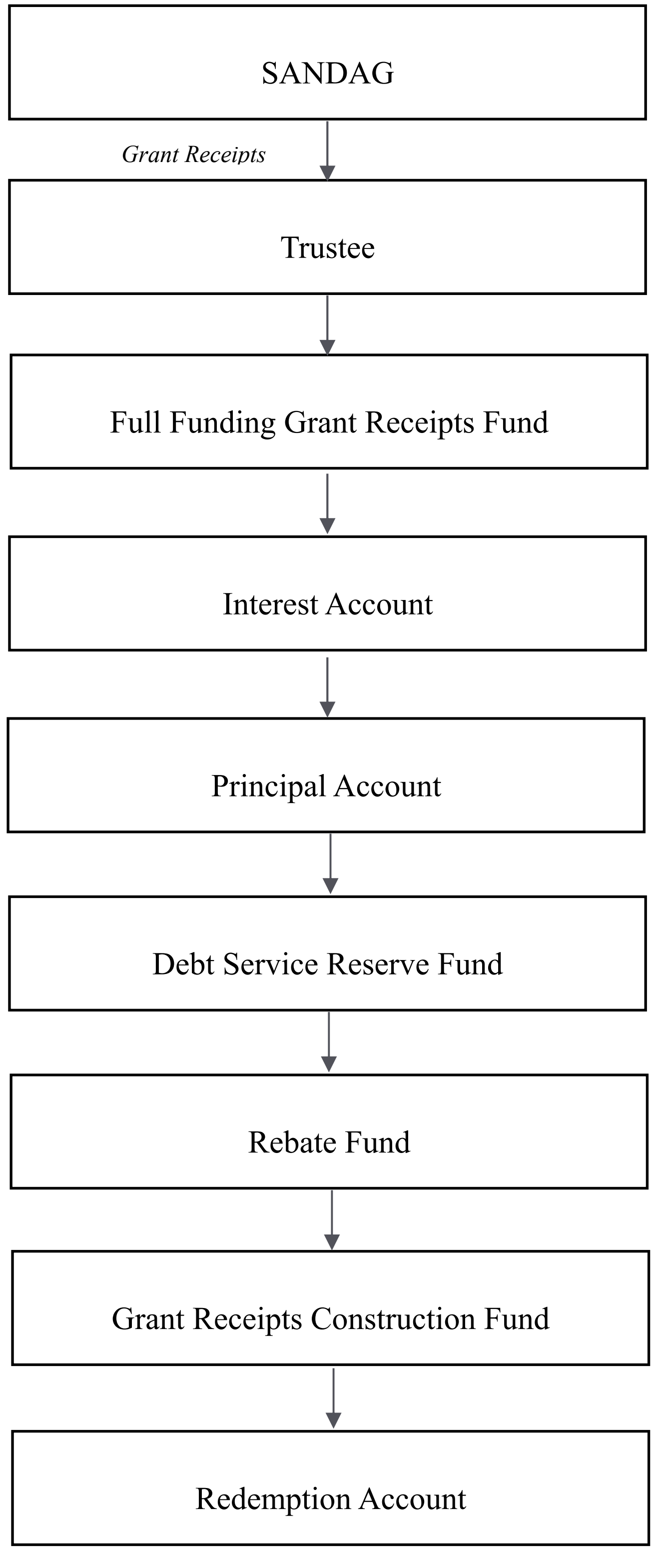
<u>Fourth</u>: To SANDAG, an amount specified by SANDAG in a certificate of an Authorized Officer filed by the Trustee as needed to reimburse a provider of a Debt Service Reserve Credit Facility for disbursements thereunder.

<u>Fifth</u>: Into the Rebate Fund, an amount specified by SANDAG in a certificate of an Authorized Officer filed with the Trustee directing the Trustee to withdraw such amount from the Construction Fund or to provide from such deposit from the application of Grant Receipts.

<u>Sixth</u>: Into the Grant Receipts Construction Fund, an amount specified by SANDAG in a certificate of an Authorized Officer filed with the Trustee certifying that the total amount deposited therein will not exceed [$___] in the aggregate or such greater amount if SANDAG certifies that the remaining amount that SANDAG expects to receive under the Grant Agreement after such deposit will be equal to at least 100% of the sum of (i) the principal amount of the Outstanding Bonds, plus (ii) the Interest Requirement on the Outstanding Bonds assuming such Bonds are paid on their stated maturity dates, minus (iii) moneys in the Debt Service Reserve Fund and investment earnings thereon, to the extent such earnings may be determined precisely, and moneys in the Debt Service Fund.

<u>Seventh</u>: Into the Redemption Account, any remaining amounts. See "THE BONDS–Redemption Prior to Maturity–*Mandatory Redemption from Amounts in Redemption Account*."

Grant Receipts Indenture Flow of Funds



See "APPENDIX B—SUMMARY OF THE INDENTURE."

Projected Grant Receipts

SANDAG receives Grant Receipts from FTA pursuant to the Grant Agreement to fund a portion of the costs of the Project. The Grant Agreement sets forth the requirements that must be satisfied by SANDAG in order to receive and retain the Grant Receipts. Pursuant to the Grant Agreement, FTA has committed a total of $1,043,380,000 of Grant Receipts to the Project, of which $330,024,740 has been received by SANDAG to date. The following table outlines SANDAG's projections for Grant Receipts from and after FFY 2019. From FFY 2019 through 2026, SANDAG projects receiving $793,280,000 in Grant Receipts (including the $80,024,740 SANDAG has already received in FFY 2019 that was attributable to the FFY 2018 apportionment). SANDAG's actual receipt of Grant Receipts is, however, subject to the conditions set forth in the Grant Agreement and annual appropriation by Congress. SANDAG cannot provide any assurance that Congress will appropriate the amounts anticipated in total or in any given year, or SANDAG will otherwise receive Grant Receipts as projected in Table 1. See "THE GRANT AGREEMENT," "FEDERAL TRANSIT PROGRAM" and "INVESTMENT CONSIDERATIONS."

TABLE 1
PROJECTED GRANT RECEIPTS

Federal Fiscal Year	Anticipated Grant Receipts(1)
2019	$ 100,000,000(2)
2020	100,000,000
2021	100,000,000
2022	100,000,000
2023	100,000,000
2024	100,000,000
2025	100,000,000
2026	13,355,260

(1) Projected Grant Receipts shown as scheduled in the Grant Agreement, except for FFY 2026. The Grant Agreement reflects $18,380,000 of grant funding in FFY 2026. However, through the final FFY 2018 appropriation, SANDAG received excess Grant Receipts in the amount of $5,024,740. As a result, projected Grant Receipts for FFY 2026 have been adjusted downward by an equal amount. [The actual amount of Grant Receipts SANDAG receives in each Federal Fiscal Year will be net of costs relating to the appointed Project Management Oversight Consultant and any rescission of grant funding enacted by Congress, all of which withheld and rescinded amounts will be paid to SANDAG following completion of the Project. See "THE GRANT AGREEMENT" and "TABLE 9—RECEIVED AND ANTICIPATED GRANT RECEIPTS."]

(2) To date in FFY 2019, SANDAG has received $80,024,740 in a FFY 2018 appropriation that was in addition to the initial FFY 2018 $100,000,000 appropriation. SANDAG anticipates receiving the full $100,000,000 FFY 2019 prior to the end of the FFY 2019.

Stated Debt Service Requirements

The following table sets forth the minimum stated debt service on the Bonds, assuming no prior redemption from excess Grant Receipts. SANDAG expects that a substantial portion of the Series 2019A and Series 2019B Bonds will be redeemed prior to their stated maturity.

TABLE 2
SEMI-ANNUAL STATED DEBT SERVICE SCHEDULE*

Date	Principal	Interest	Total Debt Service

Debt Service Based on Projected Grant Receipts and Early Redemption

Table 3 on the following page illustrates the expected debt service schedule for FFY 2019 through FFY 2028 assuming Grant Receipts are received on the schedule set forth in Table 1. However, SANDAG cannot provide any assurance that Congress will appropriate, or that SANDAG will otherwise receive, the full amount anticipated in total or in any given year. See "THE GRANT AGREEMENT," "FEDERAL TRANSIT PROGRAM" and "INVESTMENT CONSIDERATIONS—Uncertainties in Federal Funding."

[Reminder of page intentionally left blank.]

* *Preliminary; subject to change.*

TABLE 3
SEMI-ANNUAL EXPECTED DEBT SERVICE SCHEDULE*
FFY 2019 THROUGH FFY 2028

* *Preliminary; subject to change.*

Debt Service Reserve Fund

A Debt Service Reserve Fund is established under the Indenture and the balance therein is required to be maintained in an amount at least equal to the Debt Service Reserve Requirement. "Debt Service Reserve Requirement" means ***[Final Indenture Definition]***. As of the date of issuance of the Bonds, the Debt Service Reserve Requirement for the Bonds is expected to be $[_____________]. Although the Debt Service Reserve Fund is expected to be fully funded with cash on the date the Bonds are issued, SANDAG may satisfy the Debt Service Reserve Requirement by delivering to the Trustee in lieu of such deposit a Debt Service Reserve Credit Facility. Any deficiencies in the Debt Service Reserve Fund may be replenished only from Grant Receipts or by the deposit of a Debt Service Reserve Credit Facility. See "APPENDIX B—SUMMARY OF THE INDENTURE—Debt Service Reserve Fund."

Capitalized Interest Account

On the date of issuance of the Bonds, SANDAG will deposit into the Capitalized Interest Account an amount of Bond proceeds sufficient, together with anticipated interest earnings, to meet the Interest Requirement with respect to the Bonds through May [15], 2020. See "ESTIMATED SOURCES AND USES OF FUNDS."

Refunding Bonds

No additional bonds other than Refunding Bonds may be issued under the Indenture. One or more Series of Refunding Bonds may be issued on a parity with the Bonds, but only for refunding purposes and only upon compliance by SANDAG with certain provisions of the Indenture, which include, among other things, the requirement that SANDAG deliver to the Trustee a certificate evidencing that for each Bond Year ending on or prior to the latest maturity date of any then outstanding Bond or Additional Bond, the Annual Debt Service Requirements for any such Bond Year on account of all Bonds and Refunding Bonds, including the Refunding Bonds then being issued, after the redemption or provision for payment of the Bonds to be refunded, shall not exceed the Annual Debt Service Requirements for the corresponding Bond Years on account of all the Bonds and Refunding Bonds outstanding, including the Bonds to be refunded, immediately prior to the issuance of such Refunding Bonds. See "APPENDIX B—SUMMARY OF THE INDENTURE—Refunding Bonds."

[To be revised based on Indenture.] Nothing in the Indenture shall prohibit or prevent SANDAG from issuing bonds, certificates or other evidences of indebtedness payable as to principal and interest from Grant Receipts, but only if such indebtedness is junior and subordinate in all respects to any and all Bonds issued and outstanding under the Indenture.

Investments

All amounts held under the Indenture are invested at the direction of SANDAG in Permitted Investments, as defined in the Indenture, and are subject to certain limitations contained therein. See "APPENDIX B—SUMMARY OF THE INDENTURE—Investment of Certain Moneys."

BOND INSURANCE

[To be determined.]

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds relating to the Bonds is summarized in the following table.

	Series 2019A Bonds	Series 2019B Bonds
Sources of Funds:		
Aggregate Principal Amount of Bonds	$	
[Plus/Less] [Net] Original Issue [Premium/Discount]		
Total Sources of Funds	$	
Uses of Funds:		
Deposit to Construction Fund	$	
Debt Service Reserve Fund		
Capitalized Interest Account(1)		
Underwriters' Discount		
Costs of Issuance(2)		
Total Uses of Funds	$	

(1) The Interest Requirement with respect to the Bonds will be funded through May [15], 2020 with Bond proceeds deposited in the Capitalized Interest Account and interest earnings thereon.
(2) Includes bond counsel fees, disclosure counsel fees, municipal advisor fees, rating agency fees, [bond insurance premium], printing fees and other miscellaneous expenses.

THE PROJECT

General

The Project consists of the design and construction of a 10.92 mile dual-track LRT extension of the San Diego Metropolitan Transit System's ("MTS") existing San Diego Trolley Blue Line (the "Blue Line") from the Santa Fe Depot in downtown San Diego to the University Town Center Transit Center in the University City community of San Diego, California. The Project uses the existing Blue Line trolley tracks for approximately 3.5 miles from the Santa Fe Depot to a point just north of the Old Town Transit Center and south of the San Diego River. The Project includes nine stations (four at-grade and five elevated), three park-and-ride facilities, two shared use parking lots with a total of 1,170 spaces, two transfer centers, and 36 light rail vehicles. As described in more detail below, the Project will connect the County's universities, including University of California, San Diego, its biotech and innovation hub in University Town Center, and major hospitals and medical centers. See "'Green Bond' Designation of the Project – *Use of Proceeds*" below.

Construction of the Project began in fall 2016 and revenue service is anticipated to begin in November 2021. As of [February 28, 2019, 47%] of the work is complete on the Project. Once completed, the Project will provide an effective alternative to congested freeways and roadways for travelers, improve public transit services, and enhance travel options by connecting the corridor with areas served by the existing trolley system. MTS will be responsible for operating the Project upon completion.

"Green Bond" Designation of the Project

Use of Proceeds. The Project is an extension of the existing light rail system that would provide long-term congestion relief, more easily expandable transportation options for future growth and link major activity centers around the County. The Project will serve major activity and employment centers such as the University of California, San Diego ("UC San Diego"), University Town Center ("UTC"), a number of biotech, computer and financial companies in addition to major hospitals. The Project, once completed, would link four major universities from north to south: California State University, San Marcos, UC San Diego, University of San Diego, and San Diego State University, as well as several community colleges to the east. Additionally, due to its connectivity, the Project also would link lower income communities in the southern and eastern parts of the county to important research, employment, health care and activity centers in the University City community. The Project extends the current Blue Line services that would share the existing tracks with the San Diego Trolley Green Line trains which run to the eastern cities of the County.

Process for Project Evaluation and Selection. The Project is one of the major transportation projects identified by the SANDAG Board in its long-range plan to improve mobility and relieve congestion while promoting sustainability and enhancing the region's quality of life. The Project complements existing heavy rail (Coaster commuter rail, intercity AMTRAK service that operate along the LOSSAN corridor), light rail (Sprinter that runs east-west along the SR 78 corridor in north cities of the County and the San Diego Trolley that runs east and south from Downtown), bus service (both Bus Rapid Transit and local routes), local street and roads and the major interstate and state highways. The purpose of the Project is to provide long-term congestion relief, more easily expandable transportation options for future growth and link major activity centers around the County.

To meet the region's goals most effectively, the Project is designed to provide a frequency of service, speed and reliability that would better serve existing transit riders and attract new riders. In addition, one-seat rides (trips that do not require a transfer) would be available from the U.S.-Mexico international border to University City, and between communities in south San Diego County, Downtown San Diego, and University City, making transit an attractive alternative to travel by automobile. This new service will enhance direct public access to other regional activity centers and improve travel options to employment, education, medical, and retail centers for corridor residents, commuters, and visitors.

<u>Land Use Benefits</u>. The City of San Diego has developed the "City of Villages" strategy of integrating land use and transit to address potential growth. All nine of the proposed stations under the Refined Build Alternative are located in Smart Growth Opportunity Areas, as identified in the SANDAG Regional Comprehensive Plan.

<u>Transit Benefits</u>. Implementation of the Project would improve accessibility and connectivity as a result of the new transit service. Nine new stations would provide increased opportunities to access the transit system for the communities and neighborhoods within the study area. As a result, environmental justice populations (as such term is defined in [insert citation]) within the corridor would have the opportunity to access the transit system in the corridor as well as region-wide. Five of the nine identified environmental justice populations in the corridor are located within one-half mile of the Project alignment. The Project would be fully compliant with the Americans with Disabilities Act, thus ensuring equitable service to persons with disabilities. More than 60 percent of user benefits would accrue to low-income groups both inside and outside the corridor, thereby supporting equity goals. In addition, the VA Medical Center Station would provide convenient access for veterans—disabled and otherwise—seeking medical treatment.

- The faster transit travel times and increased transit speeds result in transportation system user benefits, measured in terms of equivalent hours of travel-time savings. There would be approximately 11,500 hours per day in travel time savings.

- Linked transit trips in 2030 are estimated to increase by 13,400 trips per day (four percent). These are trips that would not be made by automobile on congested roadways. The system-wide ridership on the Trolley would increase by 28,600 boardings per day from 152,420 to 180,710 (19 percent).

- The Project would provide a more reliable transit system within the Mid-Coast Corridor. By year 2030, a 54-percent increase in vehicle hours of delay is projected, representing increased congestion on corridor roadways. As highway congestion increases, the reliability of buses operating in mixed traffic is expected to decline. The 10.9-mile extension of the Blue Line would be operated in exclusive right-of-way completely separate from roadway congestion, thus offering much greater reliability for transit riders.

- Operations for expansion of the Trolley line would add 33 direct and 97 indirect jobs from ongoing operating and maintenance expenditures, as well as $7.2 million in earnings and $33.3 million in total output.

Regional Air Quality Benefits. The Project would help reduce vehicle miles traveled (VMT). Since emissions of air pollutants and greenhouse gases (GHG) decrease as VMT decreases, the Project would result in reductions in air pollutants, including sulfur dioxide, NOX, particulate matter, and GHG.

Energy Benefits. Transportation sources account for nearly 40 percent of California's energy consumption. The Project would reduce regional VMT by 137,977 miles daily and reduce daily regional roadway energy usage by 3,100 million British thermal units.

Economic Benefits. Economic benefits include:

- Approximately 10 percent of all jobs in San Diego County are located in the Mid-Coast Corridor, making the corridor a significant employment base for the county.

- There is the potential to increase property values and associated property tax revenues as a result of higher-density development around some of the proposed stations, as well as from the effects of improved mobility and accessibility on station-area properties.

- Construction would generate short-term employment and spending, which would have a substantial beneficial effect on the regional and local economy. Approximately 50,000 jobs would be created by the Project construction with an average annual wage for jobs higher than the San Diego County mean annual wage. The indirect fiscal impacts associated with the Project's wage generation during construction would include increases in sales tax revenues (approximately $150 million) and income (approximately $1.77 billion).

Management of Proceeds. SANDAG will deposit the net proceeds of the Bonds into the Grant Receipts Construction Fund. SANDAG will track the net proceeds as these funds are expended for the Project.

[Reporting. Annually, until the net proceeds of the Bonds are fully expended, SANDAG intends to provide disclosure regarding the amount of net proceeds expended on the Project. Disclosures will be made through the Electronic Municipal Market Access system of the Municipal Securities Rulemaking

Board, accessible at www.emma.msrb.org, and the annual disclosure will be made when SANDAG provides its Annual Report (defined herein). See "CONTINUING DISCLOSURE" herein. Once all net proceeds of the Bonds are expended and disclosure regarding such expenditure is made, no further such disclosures will be provided. SANDAG has committed to a number of design and operational characteristics of the Project in order to advance SANDAG's long-range plan to improve mobility and relieve congestion while promoting sustainability and enhancing the region's quality of life. SANDAG may provide reports and updates to this end; however, such reports and updates are provided on a voluntary basis and are not included as part of the Continuing Disclosure Agreement for the Bonds.]

Baseline Cost Estimate

In the Grant Agreement, SANDAG provided a total cost estimate for the Project (the "Baseline Cost Estimate"). The Baseline Cost Estimate for the various components of the Project totals $2,171,200,545, as summarized below in Table 5.

TABLE 5
BASELINE COST ESTIMATE OF PROJECT COMPONENTS

[To be updated.]

Project Component	Cost Estimate
Guideway and Track Elements	$ 326,818,825
Stations	82,838,589
Siteworks & Special Conditions	502,814,371
Systems	171,350,363
Right-of-Way	101,233,011
Vehicles	178,478,010
Professional Services	381,254,046
Unallocated Contingency	69,013,709
Finance Charges	357,399,622
Baseline Cost Estimate Total	**$ 2,171,200,545**

This Baseline Cost Estimate is used by FTA to monitor SANDAG's compliance with certain terms and conditions of the Grant Agreement. Although financing costs may be higher than initial projections, SANDAG currently expects the total cost of the Project will be within the Baseline Cost Estimate. Table 6 on the following page sets for the Baseline Cost Estimate by category and the known and projected variances and estimates of costs to complete the Project.

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TABLE 6
SUMMARY OF BASELINE COST ESTIMATE, EXPENDITURES PAID, AND ESTIMATES OF COSTS TO COMPLETION
(as of February 28, 2019)

[To be updated.]

DESCRIPTION	A	B	C = A + B	D	E = C + D	F	G	H = G – E	I	
	PROJECT BUDGET						ESTIMATE AT COMPLETION		CUMULATIVE EXPENDITURES	MONTHLY EXPENDITURES
TITLE	BASELINE - Base Estimate	BASELINE - Contingencies	TOTAL BASELINE	Transfers	CURRENT	AUTHORIZATION FOR EXPENDITURE (AFE)	Current Forecast	Variance from CURRENT BUDGET	Through 02/2019	02/2019
GUIDEWAY & TRACK ELEMENTS	311,221,738	15,597,087	326,818,825	0	326,818,825	323,581,753	326,818,825	0	190,804,710	5,635,356
STATIONS	78,863,894	3,974,695	82,838,589	0	82,838,589	78,233,894	82,838,589	0	7,033,158	1,085,626
SITEWORKS & SPECIAL CONDITIONS	475,544,503	27,269,868	502,814,371	0	502,814,371	478,373,795	502,814,371	0	324,899,897	6,014,566
SYSTEMS	161,817,012	9,533,351	171,350,363	0	171,350,363	147,569,395	171,350,363	0	50,836,494	2,932,627
CONSTRUCTION – Subtotal	**1,027,447,147**	**56,375,000**	**1,083,822,147**	**0**	**1,083,822,147**	**1,027,758,838**	**1,083,822,147**	**0**	**573,574,258**	**15,668,174**
RIGHT-OF-WAY	86,731,200	14,501,810	101,233,011	9,700,000	110,933,011	98,891,425	110,933,011	0	95,719,393	354,109
VEHICLES	169,979,057	8,498,952	178,478,010	(5,000,000)	173,478,010	163,680,691	173,478,010	0	45,853,187	2,919
PROFESSIONAL SERVICES	352,867,318	28,386,728	381,254,046	2,000,000	383,254,046	348,844,586	383,254,046	0	286,102,545	3,909,053
UNALLOCATED CONTINGENCY	----	69,013,709	69,013,709	(6,700,000)	62,313,709	----	62,313,709	0	---	---
SUBTOTAL - SCCs	1,637,024,723	176,776,200	1,813,800,923	0	1,813,800,923	1,639,175,539	1,813,800,923	0	1,001,249,383	19,934,255
FINANCE CHARGES			357,399,622	0	357,399,622	29,126,300	357,399,622	0	29,126,300	2,402
TOTAL PROJECT COST	**1,637,024,723**	**176,776,200**	**2,171,200,545**	**0**	**2,171,200,545**	**1,668,301,840**	**2,171,200,545**	**0**	**1,030,375,684**	**19,936,658**

Construction Contracts

A Project Management Plan ("PMP") was developed by SANDAG for managing and controlling the Project as it progresses through environmental clearance, project development, engineering, construction, testing, start-up, and ultimately, revenue service. SANDAG is using a Construction Manager/General Contractor ("CM/GC") method of project delivery for construction of the Project related to the guideway, stations, trackwork and systems. The CM/GC delivery method provides SANDAG with the ability to select a contractor based on demonstrated experience with large, complex transit construction projects and takes advantage of that experience by engaging the contractor to complete important constructability analysis during the pre-construction services phase, while SANDAG maintains control of the design and design products. The CM/GC delivery method also has a schedule benefit to SANDAG. FTA required that the Grant Agreement be in place prior to awarding construction contracts for the Project. With the CM/GC delivery method, SANDAG had the flexibility to negotiate a guaranteed maximum price ("GMP") prior to the execution of the Grant Agreement and move forward with the construction phase of the contract immediately after execution of the Grant Agreement. Further, the CM/GC delivery method significantly improves the cost certainty for SANDAG and FTA by having the GMP negotiated prior to finalization of the Grant Agreement and prior to authorizing of the construction phase of the contract.

SANDAG completed negotiation of a GMP in April 2016 and provided a revised cost estimate for the Project, based on the GMP, to FTA at that time. The Grant Agreement was executed by FTA and SANDAG on September 14, 2016. Following approval of the Grant Agreement, on September 14, 2016, SANDAG executed Supplement 4 to the CM/GC contract authorizing construction of the Project.

The final design and conformed documents for construction are being prepared by SANDAG's Final Design Consultant. The purchase, delivery, testing, and acceptance of the new light rail vehicles ("LRVs") are being done the Project operator, MTS. Other owner-supplied materials, including for example, traction power substations and fare vending equipment, will be done by SANDAG in coordination with MTS. The PMP defines management responsibility and the roles of Project staff; identifies interactions among Project staff and between Project staff and other agencies and organizations; and specifies general procedures and management tools that are used to promote effective project control and successful project completion.

SANDAG also has developed a Risk Management Program that identifies the decision-making process for risk identification, risk assessment, risk analysis, risk management, risk mitigation and risk monitoring and reporting. It includes processes for documenting the Project's status, as well as changes and potential risks.

The Risk Manager and supporting staff are responsible for examining the Project's elements and requirements and for identifying each critical technical process for purposes of addressing associated risks. Each identified risk area is analyzed in more detail to isolate the causes and assess the impacts. This phase includes risk rating and prioritization in which risk events are defined in terms of their probability of occurrence, severity of consequences/impacts, and relationship to other risk areas or processes.

The SANDAG Risk Management Program also addresses coordination processes that provide for advanced notification of potential issues to all appropriate agencies and for timely resolution via regular progress reports that provide the current status of the Project. These reports, identify major issues that may potentially impact the progress of the Project, and propose mitigation plans needed to reduce the risk of not achieving the key milestone dates.

Funding of Project Costs

SANDAG expects to fund less than half of the Project's estimated cost of $2,171,200,545 from moneys received pursuant to the Grant Agreement and the Bond proceeds. As shown on Table 7 below, the remaining portion of the Project will be funded by local funds in the amount of $1,127,691,422, which include funds from the TIFIA Loan (as defined below) and the proceeds of bonds issued by San Diego County Regional Transportation Commission (the "Commission") and secured by sales tax revenues – derived from a one-half of one percent (0.5%) retail transactions and use tax (the "Sales Tax"). Such local funds are fully committed. Only moneys received pursuant to the Grant Agreement and the proceeds from the Bonds are needed to complete the Project under the current funding plan.

The Commission is responsible for providing improvements to the transportation system and other public infrastructure systems in the County funded with the Sales Tax. To carry out this responsibility, the Commission adopted in 1987 the initial San Diego County Transportation Improvement Program Ordinance (Commission Ordinance 87-1 – Proposition A, 1987) (referred to herein as the "1987 Ordinance"). In 2004, the Commission adopted the San Diego County Transportation Improvement Program *TransNet* Ordinance and Expenditure Plan (Commission Ordinance 04-01), referred to herein as the "2004 Sales Tax Extension Ordinance," which provides for an extension of the retail transactions and use tax implemented by the initial 1987 Ordinance for a 40-year period commencing on April 1, 2008 ("*TransNet*"). The Commission Board is composed of the SANDAG Board of Directors. However, the liabilities of SANDAG are not liabilities of the Commission. SANDAG employees carry out the work of the Commission. The Commission has no employees.

In order to provide local funds for the Project, on April 18, 2018, the Commission issued the San Diego County Regional Transportation Commission Subordinate Sales Tax Revenue Short-Term Notes (Limited Tax Bonds), 2018 Series A (the "Short Term Notes") in the aggregate principal amount of $537,480,000, maturing on April 1, 2021, which are secured by revenues from the Sales Tax.

On June 27, 2017, the Commission entered into a loan agreement in the aggregate principal amount of up to $537,484,439 with the United States Department of Transportation, acting by and through the Executive Director of the Build America Bureau (the "TIFIA Loan"). The TIFIA Loan is payable from and secured by a pledge of the Commission's sales tax revenues that is junior and subordinate to the pledge of sales tax revenues to repay the Short Term Notes. SANDAG expects to draw on the TIFIA Loan prior to completion of the Project and apply such funds to retire Although SANDAG expects the Short Term Notes to be paid at maturity by drawing on the TIFIA Loan, the Short Term Notes are limited obligations of the Commission payable from and secured by a pledge of sales tax revenues that is junior and subordinate to the pledge of the Commission's sales tax revenues to repay its senior sales tax revenue bonds.

TABLE 7
PROJECT FUNDING
($ in millions)

Funding Source	Total Funding Amount	Amount Expended	Percentage of Total Funding Amount
FTA Funds			
Grant Agreement (Section 5309 Grant Receipts)	$1,043,380,000	$330,024,740	48.06%
Other FTA Funds	129,123	129,123	-
Local Funds			
***TransNet* Sales Tax Revenues**	559,410,135	199,560,684	25.77
The Short Term Notes(1)	568,281,287	500,661,137	26.17
Local Funds Subtotal	$1,127,691,422	$700,221,821	51.94%
Project Total	**$2,171,200,545**	**$1,030,375,684**	**100.00%**

(1) SANDAG expects to draw on the TIFIA Loan on [________], 20[__], and apply the proceeds to the repayment in full of the Short Term Notes.
Source: SANDAG

Status of Project

In fall 2014, the SANDAG Board of Directors and FTA gave final environmental clearance to the Project. Pre-construction activities, consisting of the relocation of underground utilities, began in early 2016, and primary construction activities started in fall 2016. Construction is currently underway along the entire 11-mile segment. The [table][chart] that follows shows the baseline schedule and the elements that have been completed as of [_____], 2019.

As of [September 2016], SANDAG's original estimate for the date for the Project's commencement of revenue operation was September 27, 2021. Currently, SANDAG projects commencement of revenue operation on November 5, 2021, as shown in Table 8 below. As noted in Table 8, the Grant Agreement requires SANDAG to commence revenue operation at the Project no later than November 23, 2022 (the "Required Revenue Service Date"). See "THE GRANT AGREEMENT" and "INVESTMENT CONSIDERATIONS – Default Under Grant Agreement."

TABLE 8
PROJECT MILESTONES, BASELINE SCHEDULE AND CURRENT PROJECTION
(as of February 28, 2019)

Milestone	Baseline Schedule	Current Projection
Heavy Construction Duration	56 months	57.4 months
Reach 14 Track Construction Finish	August 6, 2020	November 19, 2020
MTS Integrated Testing Start	April 20, 2021	June 1, 2021
Final Completion by Construction Manager/General Contractor	July 16, 2021	August 26, 2021
Anticipated Date of Revenue Service	September 27, 2021	November 5, 2021
Required Revenue Service Date	November 23, 2022	November 23, 2022

SANDAG has completed right of way acquisitions for 30 of the total 42 properties, although SANDAG has permission to advance construction on 38 of the 42 properties. SANDAG is currently in negotiations with the remaining property owners. Right of way impacts for the four remaining properties needed for construction are minor and acquisition will not affect the anticipated Revenue Service Date or other construction milestones shown in Table 8 above.

SANDAG currently expects the Project to be completed within the Baseline Cost Estimate. Although costs associated with right-of-way acquisitions and construction are above the original budget, they have been offset by savings in financing costs such that the Project is expected to be completed within budget. The total project budget is currently $2.17 billion, of which $1.03 billion has been spent as of February 28, 2019. As of [February 28, 2019, 47%] of the work is complete on the Project. Change orders for the Project totaling $39.9 million have been approved or are pending as of February 28, 2019.

THE GRANT AGREEMENT

General

The primary program under which FTA provides funding for major transit capital investments, including heavy rail, commuter rail, light rail, streetcars, and bus rapid transit, is the Capital Investment Grant Program, as authorized under Section 5309. Pursuant to Section 5309, in September 2016, SANDAG entered into the Grant Agreement with FTA, which provides for federal financial assistance in the form of grants to SANDAG to fund a portion of the costs of the Project. The execution of the Grant Agreement was the result of a multi-year process undertaken by SANDAG, beginning with the adoption of the Project into the long-range transportation plan in October 2010. For more information on the Project's progression through the various phases of the grant approval process, see "FEDERAL TRANSIT PROGRAM – New Starts Projects – *Grant Approval Process*" herein.

In September 2016, FTA signed the Grant Agreement with SANDAG to provide the federal match needed to fund the project and allow construction to immediately start in 2016. The Grant Agreement contains FTA's contingent commitment to provide a grant under Section 5309 of the New Starts program to SANDAG to fund a portion of the costs of the Project. The Grant Agreement sets forth an annual schedule of the grant amounts that FTA expects to provide for the Project. The Grant Agreement also specifies the requirements that SANDAG must satisfy in order to receive and retain the Grant Receipts. Pursuant to the Grant Agreement, FTA has committed a total of $1,043,380,000 of Grant Receipts to the Project, of which $330,024,740 has been received by SANDAG to date. SANDAG expects to receive the remaining balance of the Grant Receipts under the Grant Agreement (in the aggregate amount of $713,355,260) in installments over the next seven years between FFY 2019 and 2026.

The Grant Agreement provides that the award of these funds is contingent upon the future availability of appropriated funds from future budget authority specified in law and the continued performance of SANDAG under the Grant Agreement. This contingent commitment of funds does not constitute an obligation of the United States. However, to date, Congress has fully funded all FFGA commitments, but such funding may not have been provided in accordance with the funding schedule set forth in each FFGA. When preparing funding recommendations for the upcoming fiscal year, FTA's priority is to honor the commitments made in existing FFGAs. See "FEDERAL TRANSIT PROGRAM" below for a discussion of the New Starts program.

SANDAG expects to obtain the Grant Receipts in single annual appropriations, which SANDAG may draw on throughout the FFY in one or more draws. SANDAG has received $330,024,740 to date under the New Starts program for the Project. The following table sets forth the grant commitment by FTA and the grant amounts received and anticipated under the Grant Agreement. SANDAG expects to receive additional grant amounts under the Grant Agreement resulting in total funding for the Project under the New Starts program of $1,043,380,000, assuming full appropriation by Congress and continued funding approval by FTA. See "INVESTMENT CONSIDERATIONS – Uncertainties in Federal Funding."

Receipt of federal funding under the Grant Agreement is subject to annual appropriation by Congress each FFY as part of the federal budget process. Each FFY, FTA prepares an "Annual Report on Funding Recommendations," which includes the appropriation recommendations for each Project and serves as a companion document to the President's budget for such FFY. In FFY 2017, Congress appropriated less than the full amount initially scheduled for the Project in the Grant Agreement, although in FFY 2018 Congress appropriated more than the scheduled amount as shown above to compensate for the shortfall in FFY 2017. As a result of the excess Grant Receipts received in FFY 2018, SANDAG's expectations for FFY 2026 have been adjusted downward, as shown in Table 9, to stay within the total amount of the Grant Agreement.

TABLE 9
RECEIVED AND ANTICIPATED GRANT RECEIPTS

Federal Fiscal Year	Original Grant Commitment(1)	Grant Receipts Received and/or Anticipated(2)	Cumulative Subtotal of Grant Receipts
2016	$ 100,000,000	$ 100,000,000(3)	$ 100,000,000
2017	125,000,000	50,000,000(4)	150,000,000
2018	100,000,000	180,000,000(5)	330,000,000
2019	100,000,000	100,000,000(6)	430,000,000
2020	100,000,000	100,000,000	530,000,000
2021	100,000,000	100,000,000	630,000,000
2022	100,000,000	100,000,000	730,000,000
2023	100,000,000	100,000,000	830,000,000
2024	100,000,000	100,000,000	930,000,000
2025	100,000,000	100,000,000	1,030,000,000
2026	18,380,000	13,355,260(7)	1,043,355,260
Total	$ 1,043,380,000	$ 1,043,355,260	

(1) Grant Receipts as scheduled in the Grant Agreement.
(2) Actual amounts received and/or anticipated [The actual amount of Grant Receipts SANDAG receives in each Federal Fiscal Year will be net of costs relating to the appointed Project Management Oversight Consultant and any rescission of grant funding enacted by Congress, all of which withheld and rescinded amounts will be paid to SANDAG following completion of the Project.]
(3) [Date(s) received FFY 2016 Grant Receipts.]
(4) [Date(s) received FFY 2017 Grant Receipts.]
(5) Date(s) received Grant Receipts.] In [____], 2019, SANDAG received $80,024,740 in a FFY 2018 appropriation that was in addition to the anticipated FFY 2018 $100,000,000 appropriation.
(6) [Date(s) received FFY 2019 Grant Receipts.] To date in FFY 2019, SANDAG has received $80,024,740 in a FFY 2018 appropriation that was in addition to the initial FFY 2018 $100,000,000 appropriation. SANDAG anticipates receiving the full $100,000,000 FFY 2019 prior to the end of the FFY 2019.
(7) Grant Agreement reflects $18,380,000 of grant funding in FFY 2026. However, through the final FFY 2018 appropriation, SANDAG received excess Grant Receipts in the amount of $5,024,740. As a result, Grant Receipts for FFY 2026 have been adjusted downward by an equal amount.
Source: SANDAG

In addition to the maximum federal New Starts financial contribution for the Project of $1,043,380,000 (the "Maximum Federal New Starts Financial Contribution"), the Grant Agreement also established a maximum percentage of New Starts participation of 48.06% of total Project costs (the "Maximum New Starts Participation Rate"). In the event that the total cost of the Project comes in less than anticipated such that the Maximum Federal New Starts Financial Contribution set forth in the Grant

Agreement exceeds the Maximum New Starts Participation Rate, then the grant amount would be reduced to a level equal to the Maximum New Starts Participation Rate and Grant Receipts would correspondingly be adjusted downward.

SANDAG currently expects to receive the full amount scheduled under the Grant Agreement. In the event that SANDAG's construction of the Project is more efficient than the original Baseline Cost Estimate for the Project, SANDAG plans to identify additional eligible expenditures in order to maximize its Grant Receipts under the Grant Agreement and achieve the Maximum Federal New Starts Financial Contribution.

SANDAG expects that sufficient funds will be available from the Bonds and other sources to meet cash flow needs for the Project. In order to receive the Grant Receipts, SANDAG agreed to complete the Project and to secure any additional funds in excess of the Maximum Federal New Starts Financial Contribution that are necessary to complete the Project. As a condition of FTA's execution of the Grant Agreement, SANDAG developed and adopted a financing plan (the "Financing Plan") that is incorporated as a part of the Grant Agreement for the financing of all costs necessary to complete the Project. The Financing Plan includes, in addition to the Maximum Federal New Starts Financial Contribution, a statement of the State and local sources of funding that will be committed to the Project. The Grant Agreement sets forth SANDAG's commitment to provide funds as set forth in the Financing Plan in an amount sufficient, together with the federal contribution, to assure timely and full payment of the costs necessary to complete the Project. The Financing Plan contemplates a number of funding sources and financing mechanisms to complete the Project, as summarized above in "TABLE 7—PROJECT FUNDING."

The Grant Agreement includes a Baseline Cost Estimate for the Project. The Baseline Cost Estimate of $2,171,200,545 is used by FTA to monitor SANDAG's compliance with certain terms and conditions of the Grant Agreement. SANDAG expects the total cost of the Project to remain within the Baseline Cost Estimate.

SANDAG also developed a funding plan for the future operation and maintenance of the Project (the "O&M Funding Plan") that is incorporated as a part of the Grant Agreement. The O&M Funding Plan has been developed to assure that SANDAG has stable and dependable funding sources, sufficient in amount and in degree of commitment, to provide the Metropolitan Transit System, as owner and operator of the project once completed, to operate and maintain the Project at an adequate and efficient level of service, including the future operation and maintenance of the Project. See "SANDAG – Transit Operators Within the County – *San Diego Metropolitan Transit System*."

Noncompliance

Certain failures to comply with the terms of the Grant Agreement will constitute a default under the Grant Agreement, including but not limited to, a failure by SANDAG to complete the Project in accordance with the Grant Agreement.

SANDAG agreed in the Grant Agreement to a Required Revenue Service Date of November 23, 2022. Failure to achieve the Required Revenue Service Date would constitute such a default under the Grant Agreement. The Grant Agreement provides, however, that upon SANDAG's request, FTA may determine at its sole discretion to waive a breach or an anticipatory breach of the Grant Agreement and to extend the Required Revenue Service Date (a) if there is an unavoidable delay in achieving the operational goals of the Project result from an event or circumstance beyond SANDAG's control, or (b) if FTA determines that allowing the delay is in the best interest of FTA and the success of the Project. Any such request to waive the breach and extend the Required Revenue Service Date must be submitted promptly to FTA, and FTA will take into consideration the actions and measures taken by SANDAG to ensure adherence to its promise to achieve the operational goals of the Project on or before the Required Revenue Service Date. See "EXHIBIT A – THE GRANT AGREEMENT" and "INVESTMENT CONSIDERATIONS—Construction Risk."

In the event of a breach of the Grant Agreement by SANDAG and prior to taking any action provided under the Grant Agreement, FTA will provide SANDAG with ninety (90) days written notice that FTA considers a breach to have occurred and will provide SANDAG a reasonable period of time to respond and take necessary corrective action. In the event of default, FTA will have all remedies at law and equity, including the right to specific performance without federal financial assistance, and the right to terminate or suspend all or a part of the federal financial assistance. FTA may also demand that all Grant Receipts provided to SANDAG for the Project be returned to FTA. See "APPENDIX A—THE GRANT AGREEMENT" for a copy of the Grant Agreement.

SANDAG works closely with FTA to prevent any breach or default from occurring. SANDAG provides monthly reports and participates in quarterly meetings with FTA to provide updates on Project status.

FEDERAL TRANSIT PROGRAM

The FAST Act

Congress has authorized funding for federal transportation programs for many years and through many different legislative acts, alternating between reauthorizations of various lengths as well as short-term extensions of those programs. The Section 5309 Capital Investment Grant Program (the "Section 5309 CIG Program") evolved from Section 3 of the Urban Mass Transportation Act of 1964 (P.L. 88-365). In 1994, Section 3 became Section 5309 in a revision without substantive change to Title 49 of the United States Code. Beginning in the 1970s, as the commitment of, and demand for, federal funding began to grow, the U.S. Department of Transportation issued a series of policy statements on the principles by which it would distribute discretionary money to so-called "new starts." These statements, issued in 1976, 1978, 1980, and 1984, introduced a series of principles that were later written into federal law, including long-range planning, alternatives analysis incorporating a baseline alternative, cost effectiveness, local financial commitment, multi-year contracts specifying the limits of federal participation, supportive local land use planning, and a ratings system.

Congress inserted many of these principles into law in the Surface Transportation and Uniform Relocation Assistance Act of 1987 ("STURAA"; P.L. 100-17). STURAA established the criteria by which capital improvement grant projects would be judged in order to be eligible for federal funding, and also required DOT's recommendations for funding in the subsequent fiscal year to be detailed in an annual report to Congress. The criteria enacted in STURAA required a capital investment grant project to be based on an alternatives analysis and preliminary engineering, to be cost-effective, and to be supported by an acceptable amount of local financial commitment that is stable and dependable.

The most recent congressional authorization for federal transportation programs is Public Law 114-94, the Fixing America's Surface Transportation Act (the "FAST Act"). The FAST Act became law on December 4, 2015, and authorizes funding for surface transportation programs, including mass transit programs, for FFY 2016 through FFY 2020.

Federal transportation program funding must be reauthorized periodically by Congress; historically, Congress has often authorized funding through multi-year reauthorization legislation. Prior to the enactment of the FAST Act, the last multi-year authorization of federal transportation funding was the "Moving Ahead for Progress in the 21st Century Act," ("MAP 21"), which provided funding for two FFYs, 2012-2014. In periods between multi-year authorizations, Congress consistently has used short-term extensions to fund federal transportation programs at the previously authorized funding levels. For example, between August 2014 and December 2015, Congress enacted five short-term extensions to provide continued funding for federal transportation programs, including the programs that fund the Grant Receipts.

Congressional authorization of federal funding for the Grant Receipts is not, by itself, sufficient to allow SANDAG to receive the Grant Receipts. Appropriations acts are necessary in order to create budget authority for federal expenditures such as the expenditure of the funds that comprise the Grant Receipts. Other federal actions must also take place to allow SANDAG to receive Grant Receipts.

No assurance can be given that Congress will continue to appropriate the funding authorized by the FAST Act or subsequent authorizing legislation, that Congress will authorize funding after FFY 2020, that Congress will not change the current authorization for the federal transportation programs, or that Congress and the federal government will take all actions necessary for SANDAG to receive Grant Receipts in amounts sufficient to pay the Bonds. See "INVESTMENT CONSIDERATIONS—Uncertainties in Federal Funding."

Section 5309 Capital Investment Grant Program

General. Under the Section 5309 CIG Program, the Secretary of Transportation may make discretionary capital investment grants to assist public bodies in financing capital projects for the construction of new fixed-guideway public transportation systems and the expansion of existing systems ("New Starts"). Eligible projects include transit rail, such as subway/elevated rail, light rail, and commuter rail, as well as bus rapid transit and ferries. The discretionary nature of the Section 5309 Program makes it unique from other federal transit funding programs that apportion funds by formula. Unlike other federal funding, the funding for the Section 5309 CIG Program comes from the general fund of the U.S. Treasury—not the mass transit account of the Highway Trust Fund. Therefore, funding for the Section 5309 CIG Program is subject to appropriation each year.

There are four types of Section 5309 CIG Programs:

- **New Starts**: an operable segment of a new fixed-guideway system or an extension of an existing system that costs $300 million or more and receives $100 million or more in Section 5309 CIG Program funding.

- **Small Starts**: a new fixed-guideway project or a corridor-based bus rapid transit that costs less than $300 million and receives less than $100 million of Section 5309 CIG Program funding.

- **Core Capacity**: expansion of an existing fixed-guideway corridor to increase capacity by 10% or more.

- **Program of Interrelated Projects**: the simultaneous development of two or more New Starts, Small Starts, or Core Capacity projects, or a combination thereof.

Federal Funding of Section 5309 CIG Program. Under Section 5309, FTA is permitted to make commitments for all of the authorized funding during the period provided by the FAST Act (FFY 2016 to FFY 2020), which is approximately $2.3 billion per year – about 19% of the overall federal public transportation program budget. This is an increase from the funding under MAP 21, as shown in the table below.

TABLE 10
SECTION 5309 GRANTS
(in millions)

FY15 (MAP 21)	FFY16	FFY17	FFY18	FFY 19	FFY 20
$2,120.0	$2,301.8	$2,301.8	$2,301.8	$2,301.8	$2,301.8

Source: U.S. Department of Transportation, Federal Transit Administration.

The congressional authorization of federal funding under the FAST Act is not, by itself, sufficient to allow grant recipients to receive funds under an FFGA. Appropriations acts are necessary in order to create budget authority for federal expenditures such as the expenditure of the funds that comprise the grant payments by FTA under an FFGA. The follow table sets forth the total congressional appropriations for the Section 5309 CIG Program for FFY 2010 through 2019.

TABLE 11
SECTION 5309 CIG PROGRAM APPROPRIATIONS

Federal Fiscal Year	Total Congressional Appropriation for Section 5309 CIG Program
2010	$ 1,720,000,000
2011	1,600,000,000
2012	1,955,000,000
2013	1,955,000,000
2014	1,942,938,000
2015	2,120,000,000
2016	2,177,000,000
2017	2,412,631,000
2018	2,644,960,000
2019	2,552,687,000

Source: U.S. Congressional Appropriation Acts for FFY 2010 through 2019.

FTA's commitment to provide grant funding equal to the authorized funding levels for a New Starts project results in FTA's reservation of available commitment authority from authorized funds for the New Starts project over the specified funding term. In any Federal Fiscal Year, however, available New Starts funds may be less than the funds requested by grant applicants. FTA assigns first priority for available funds to New Starts projects for which FTA has awarded an FFGA. In other words, when preparing funding recommendations for the upcoming fiscal year, FTA's priority is to honor the commitments made in existing FFGAs. Next, FTA performs an evaluation and ranking of authorized projects submitted by new grant applicants to determine New Starts recommendations. FTA recommends new projects not yet under FFGAs for funding only if the proposed Section 5309 CIG Program funding levels are sufficient. Congress considers the funding allocations proposed by FTA and in most cases provides the annual amounts scheduled in the FFGA. However, Congress has the ultimate authority to adjust these annual amounts and, in some cases, has done so in the past. FTA's existing commitments for New Starts projects are detailed in the annual report to Congress each February through the inclusion of the grant funding schedule contained in each FFGA for the coming year. The Secretary of Transportation also must submit a supplemental report to Congress on each August 31 as an update on projects that have completed planning or preliminary engineering.

To date, Congress has fully funded all FFGA commitments (except for those relating to projects subsequently cancelled), but such funding may not have been provided in accordance with the funding schedule set forth in each FFGA. Fully funding an FFGA commitment can mean either funding to the "not to exceed" amount of New Start funding or to the "New Start participation rate." Each FFGA includes a "not to exceed" amount of New Start funding as well as a "New Start participation rate," both of which are set at the time the FFGA is entered into by FTA and the recipient. If the total project cost came in at less than anticipated by the FFGA, then the participation rate would control, and the final amount of the FFGA that was paid would be adjusted downward, to stay within the New Start participation rate. See "THE GRANT AGREEMENT – General" and "INVESTMENT CONSIDERATIONS—Uncertainties in Federal Funding."

New Starts Projects

New Starts Projects. Eligible New Starts projects involve the design and construction of new fixed-guideways or extensions to fixed guideways (projects that operate on a separate right-of-way exclusively for public transportation, or that include a rail or catenary system) and are defined under the FAST Act as projects with a total estimated capital cost of $300 million or more, or that are seeking $100 million or more in Section 5309 capital investment grant program funds. Under the FAST Act, New Starts projects are limited to a maximum Section 5309 CIG Program share of 60 percent. The maximum federal contribution from all federal sources to a New Starts project is 80 percent.

Grant Approval Process. Federal funding for New Starts is typically committed in a Full Funding Grant Agreement ("FFGA"), which is a multi-year agreement between FTA and a transit agency. See " – Full Funding Grant Agreement" below. Under the Section 5309 CIG Program, the process of obtaining an FFGA and carrying out the project involves three main phases: development, engineering, and construction, which are described more fully below. In order to advance from one phase to the next, the project must achieve an overall rating of at least "medium" on a five-point scale (low, medium-low, medium, medium-high, high) on each of the project justification and local financial commitment summary ratings.

Development Phase. To enter the project development phase, a transit agency or other applicant must apply to FTA and initiate the review process required by the National Environmental Policy Act of 1969 ("NEPA"). In addition to the NEPA work, the grant applicant must develop the information needed by FTA to review the project's justification and local financial commitment. The project development process is designed to identify regional transportation needs and to develop strategies to meet these needs; to provide local decision makers a logical structure for the development of regional transportation plans from conception through design and construction; to provide to local decision makers technical information on costs, benefits and impacts; and to provide a forum for collaborative decision making by local transportation, land use, and resource agencies, with appropriate involvement by the public. Generally, the applicant has two years to complete project development, although an extension may be granted in certain situations.

The Project was initially approved by FTA under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users in August 2011. At the time Congress adopted MAP 21, the Project was in the development phase since environmental review associated with the Project was not yet complete. The draft supplemental environmental impact study ("EIS") was issued in May 2013, followed by the final supplemental EIS in October 2014. FTA approved the Project into the engineering phase (as described below) in April 2015.

Engineering Phase. A project can enter the engineering phase once the NEPA process is concluded, the project is selected as the locally preferred alternative, the project is adopted into the metropolitan plan, and the project is justified on its merits, including an acceptable degree of local financial commitment. The amount of New Start funding requested by the grant applicant is fixed when the project is approved for entry into engineering. This means that if a project's cost increases after entry into engineering, the extra cost must be borne by the grant applicant from funding sources outside of the Section 5309 CIG Program.

Construction Phase. After engineering work is completed, FTA determines whether to sign an FFGA allowing the project to enter construction. FTA retains some oversight of a project as it is constructed to ensure compliance with the terms of the FFGA. Moreover, FTA must request the funding that is to be provided under the terms of the FFGA for each approved project from Congress each fiscal year. In some cases, FTA may assure a grant applicant of its intention to obligate funds for a project through what is known as a Letter of Intent. FTA may also obligate some of the funding expected to be provided in an FFGA through an Early Systems Work Agreement. Although not a guarantee of full funding, an Early Systems Work Agreement provides funding so that work can begin before an FFGA is awarded.

Project Rating Criteria. In order to progress through each phase of the process, FTA computes an overall project rating based on project justification criteria and the evaluation of local financial commitment for the project. The project justification criteria include:

- **Mobility improvements** - measured by the number of trips on the project, with trips by the transit-dependent population counting double. A high rating for New Starts projects is awarded to those that generate 30 million linked trips or more annually.

- **Environmental benefits** - measured by the monetized value of benefits in air quality, greenhouse gas emissions, energy use, and safety in relation to the cost of the project. Benefits are calculated based on the estimated reduction in vehicle miles traveled resulting from the project.

- **Congestion relief** - measured by the number of new weekday linked transit trips resulting from implementation of the new project. This is calculated by comparing total weekday linked transit trips for the no-build alternative with total weekday linked transit trips with the new project in place. A high rating is awarded to New Starts projects that generate 18,000 new weekday trips.

- **Economic development effects** - measured by the likely effects of the project on development in the nearby area. The rating is based on FTA's qualitative analysis of supportive plans and policies.

- **Land use** - based on station area population density, employment served, affordable housing in the corridor, and the amount and cost of downtown parking. The extent and quality of pedestrian infrastructure near stations also is used in the evaluation.

- **Cost effectiveness** - measured by the annual capital amortized over asset lifetimes and operating cost per trip. A high rating is awarded for projects where the cost per trip is less than $4 for a New Starts project.

The criteria for evaluating the local financial commitment include:

- **Reliability/financial capacity** - measured by the reasonableness of the capital and operating cost estimates and planning assumptions; and capital funding capacity to cover cost increases or funding shortfalls through debt issuance, cash reserves, or other committed funds.

- **Current capital and operating condition** - measured by the average age of the vehicle fleet, bond rating issued within the previous two years, current ratio of assets to liabilities, and recent service history.

- **Commitment of funds** - measured by the share of funds committed or budgeted versus planned. Significant private contributions may increase the commitment-of-funds rating by one level.

Once a project achieves at least a medium rating at the end of the engineering phase and has complied with other federal requirements, it is typically recommended for funding. However, in any given year, FTA first funds commitments made in existing FFGAs. After that, within the context of the available funds, FTA considers project readiness in signing new agreements and allocating funds.

The Secretary of Transportation is required under Section 5309 to make several specific findings concerning a grant applicant's planning for a project and a grant applicant's capability to carry out the project. The Secretary of Transportation has delegated authority to make these findings to FTA.

FTA will not make any grants under Section 5309 unless it finds that:

1. the project proposed is a product of the project development process,

2. the grant applicant has or will have the legal, financial, and technical capacity to carry out the project,

3. the grant applicant has or will have satisfactory continuing control over the use of the equipment or facilities, and

4. the grant applicant has or will have the capability to maintain the equipment or facilities, and will maintain the equipment or facilities.

Full Funding Grant Agreement

FTA provides funding for a project approved under the Section 5309 New Starts program pursuant to a full funding grant agreement (an "FFGA"). The FFGA defines the scope of the project, including cost and schedule; commits FTA to a maximum level of federal financial assistance under the New Starts program; establishes the terms and conditions of federal financial participation; specifies the date for completion of the project; and establishes the local funding commitment. The FFGA also contains an acknowledgment that FTA's commitment of financial assistance is contingent upon the appropriation of funds and that the commitment of funds does not constitute an obligation of the United States. At least 60 days before entering into an FFGA, the Secretary of Transportation must notify the Committee on Transportation and Infrastructure of the House of Representatives (the "Transportation Committee"), the Committee on Banking, Housing and Urban Affairs of the Senate (the "Banking Committee") and the House and Senate Committees on Appropriations of the proposed FFGA. The Secretary must include with the notification a copy of the proposed FFGA as well as the evaluations and ratings for the project.

SANDAG completed the development and engineering phases for the Project under Section 5309 and in September 2016, prior to entering the construction phase, executed the Grant Agreement, which sets forth the terms and conditions for the award of Grant Receipts for the Project. See "SECURITY FOR THE BONDS," "THE GRANT AGREEMENT" and "APPENDIX A—THE GRANT AGREEMENT."

SANDAG

General

SANDAG is a consolidated regional transportation agency organized and existing pursuant to the Act. SANDAG consists of 19 local government members, and is governed by a Board of Directors composed of mayors, councilmembers, and county supervisors from the County of San Diego (the "County") and each city in the County. With the passage of SB 1703 in 2002, SANDAG became the consolidated regional transportation agency effective January 1, 2003. Transit planning, programming, project development, and construction were consolidated into SANDAG, with responsibility for operation of regional transit systems left with local operators MTS (formerly known as the Metropolitan Transit Development Board) and North County Transit District ("NCTD") (formerly known as the North County Transit Development Board). See "—Toll and Transit Operations; Toll Revenue Debt—San Diego Metropolitan Transit System," and "—North County Transit District." SANDAG serves as a regional decision-making forum for the San Diego area for issues including transportation, environmental management, housing, open space, air quality, energy, fiscal management, economic development, and public safety.

SANDAG and the San Diego County Regional Transportation Commission (the "Commission") share the same Board of Directors. The Commission imposes a half-cent sales tax within the County and has issued several series of sales tax revenues bonds. The Bonds do not constitute a debt or liability of the Commission and are not secured by sales tax revenues of the Commission.

Executive Staff

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

Hasan Ikhrata, Chief Executive Director. Hasan Ikhrata is the Executive Director of the San Diego Association of Governments (SANDAG). Mr. Ikhrata has more than 30 years of experience in the arena of Transportation Planning in the Southern California Region, in both the private and public sector. As Executive Director of SANDAG, Mr. Ikhrata directs day-to-day operations of the agency and implements policies set by its governing board. In addition, he is the Chief Executive Officer of the SANDAG Service Bureau, the nonprofit public benefit corporation chartered by SANDAG. Mr. Ikhrata holds a Bachelor's and a Master's Degree in Civil and Industrial Engineering from Zaporozhye University in the former Soviet Union, a Master's Degree in Civil Engineering from UCLA, and a PhD Candidacy in Urban Planning and transportation from the University of Southern California in Los Angeles. Mr. Ikhrata is an adjunct professor in the business school at California State University, Northridge. Prior to joining SANDAG in 2018, Mr. Ikhrata worked for Southern California Association of Governments (SCAG), Los Angeles County Metropolitan Transportation Authority (MTA) and South Coast Air Quality Management District (SCAQMD).

Kim Kawada, Chief Deputy Executive Director. Ms. Kawada's major responsibilities include managing the ongoing operations of SANDAG. She is responsible for overseeing the day-to-day activities of an agency with more than a $1 billion budget and nearly 400 employees, including the Administration, Finance, Land Use and Transportation Planning, Mobility Management and Project Implementation, Operations, Data, Analytics and Modeling, and *TransNet* Departments. She joined SANDAG in 1995, serving in a variety of leadership roles at the agency for more than 24 years. Ms. Kawada works with other local, regional, state, and federal agencies on regional infrastructure planning, programming and implementation issues. She has extensive experience working with elected leaders throughout the region to build consensus to achieve wide-ranging regional goals. Prior to her current role, Ms. Kawada served as *TransNet* and Legislative Affairs Program Director managing and directing the operations of the SANDAG *TransNet* program and federal and state legislative affairs. Ms. Kawada has played an instrumental role in many of the agency's programs and projects, ranging from long-term transportation planning to budgeting to setting public policy priorities. Her leadership on legislative efforts enabled SANDAG to operate new toll and managed lanes to expand travel choices, and to use innovative project delivery methods to save money and accelerate completion. She is a graduate of Brown University with a Bachelor of Arts in American History.

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

André Douzdjian, Director of Finance. Mr. Douzdjian serves as SANDAG's Chief Financial Officer and directs all financial and budgeting functions for SANDAG. Mr. Douzdjian returned to SANDAG in June of 2012. During the previous 12 years, Mr. Douzdjian worked in the capacity of Chief Financial Officer for two privately-held staffing companies, where he was a co-founder and shareholder of those businesses. Prior to that, Mr. Douzdjian was the Financial Services Manager at SANDAG, a position that he held for almost 10 years, from 1991 to 2000. Prior to his employment at SANDAG, Mr. Douzdjian was a Senior Accountant for KPMG, LLP, a certified accounting firm. Mr. Douzdjian received a Bachelor of Business Administration (B.A.) degree in Accounting in 1988 from the University of San Diego and a Master’s degree in Business Administration (M.B.A.) with an emphasis in Finance in 1996 from San Diego State University and is a Certified Public Accountant. Mr. Douzdjian is a member of the Government Finance Officers Association.

José A. Nuncio, TransNet Director. Mr. Nuncio manages and directs the operations of the SANDAG TransNet Department and is responsible for the programming of federal, state, local and TransNet funds, revenue forecasts for the agency’s long-range transportation plans, internal and external accountability and communication through the TransNet Dashboard and staffing for the Independent Taxpayer Oversight Committee. Mr. Nuncio joined SANDAG in April 2002 after spending more than 10 years with the California Department of Transportation at its San Diego Office where he gained experience in the areas of programming, project management and development, and international border affairs. Mr. Nuncio received a Bachelor of Science (B.S.) in Aerospace Engineering from the University of Michigan in 1989 and a Master of Science (M.S.) in Structural Engineering in 1991 from the University of California at San Diego. Mr. Nuncio has been a Registered Civil Engineer in the State of California since 1995.

Ray Major, Chief Economist and Director of Data, Analytics and Modeling. Mr. Major originally joined SANDAG in 1987 as a Research Analyst and economist responsible for SANDAG's econometric and economic impact models, custom analytic research projects, and for developing the San Diego region's comprehensive Economic Prosperity Strategy. He left SANDAG in 1994 and joined the Nielsen companies where he served as a senior executive holding numerous positions including Chief Marketing Officer, Chief Customer Officer, and product strategist. Mr. Major oversaw the product development of Claritas, a major provider of demographic and segmentation data. As General Manager of Integras, he ran the division of Claritas specializing in Business Intelligence (BI) and predictive analytics, geo-spatial and economic modeling services. In 2010, Mr. Major moved to Halo BI, a state-of-the-art business intelligence and predictive modeling software and service provider where he served as CMO, COO, and CEO. Mr. Major rejoined SANDAG in 2015 where he now serves as the Director of Technical Services. Mr. Major holds both graduate and undergraduate degrees in economics from San Diego State University, with an emphasis in developmental economics and econometrics.

Jim Linthicum, Director of Mobility Management and Project Implementation. Mr. Linthicum is directly responsible for the implementation of all capital improvement projects, including TransNet funded projects, under the control of the Commission. He is accountable for the scope, schedule, and cost of regional transportation projects and coordinates these efforts with federal, State, and local transportation agencies. Mr. Linthicum transferred to SANDAG from MTS in 2003 as a result of the consolidation of project development and construction functions into SANDAG. Prior to his employment at MTS, Mr. Linthicum worked for the California Department of Transportation for 24 years. Mr. Linthicum holds a B.S. degree in Civil Engineering from Pennsylvania State University.

Toll Operations; Toll Revenue Debt

SANDAG operates the South Bay Expressway, an approximately 10-mile contiguous tolled segment of State Route 125 from Otay Mesa Road/State Route 905/State Route 11 in the south to State Route 54 in the north. The South Bay Expressway is owned by the California Department of Transportation ("Caltrans") and was originally developed and constructed by South Bay Expressway, LLC (together with its predecessor entities, "SBX"), a private entity that filed for bankruptcy in April 2010. SANDAG acquired the franchise rights to and lease of the South Bay Expressway from the SBX bankruptcy estate in December 2011.

SANDAG operates, maintains and tolls the South Bay Expressway pursuant to an Amended and Restated Development Franchise Agreement between Caltrans and SANDAG dated February 1, 2013. In 2017, SANDAG issued its South Bay Expressway Toll Revenue First Senior Lien Bonds, 2017 Series A (the "Toll Revenue Bonds") in the aggregate principal amount of $194,140,000, secured by a trust estate (collectively, the "Toll Revenue Bond Trust Estate") established under that certain Master Indenture, dated as of November 1, 2017 (as amended and supplemented, the "Toll Indenture"), by and between SANDAG and U.S. Bank National Association, as trustee. The Toll Revenue Bond Trust Estate consists of, among other things, toll revenues and similar charges payable for use of the South Bay Expressway (collectively, "Toll Revenues"). SANDAG applied proceeds of the Toll Revenue Bonds, together with other available funds, to, among other purposes, refinance certain indebtedness it had incurred in connection with SANDAG's prior acquisition of the franchise relating to the South Bay Expressway.

Toll Revenues and the Toll Revenue Bond Trust Estate do not secure repayment of the Bonds. Grant Receipts are not available to fund the operations of the South Bay Expressway or to pay debt service on the Toll Revenue Bonds. See "INVESTMENT CONSIDERATIONS— Financial and Operating Risks of the South Bay Expressway."

Transit Operators Within the County

San Diego Metropolitan Transit System. SANDAG and MTS are independent legal entities established by statute. What is now known as MTS started as the Metropolitan Transit Development Board ("MTDB"), which was created in 1975 by the passage of California Senate Bill 101 and came into existence on January 1, 1976. In 1984, the Governor signed Senate Bill 1736, which expanded the MTDB Board of Directors from 8 to 15 members. In 2002, Senate Bill 1703 merged MTDB's long-range planning, financial programming, project development and construction functions into SANDAG. In 2005, MTDB changed its name to the Metropolitan Transit System.

MTS operates light rail, bus, and freight services over roughly 570 square miles of the urbanized areas of San Diego County as well as the rural parts of East County, totaling 3,240 square miles and serving approximately 3 million people in the County. MTS owns assets of: San Diego Trolley, Inc. ("SDTI"), San Diego Transit Corporation, and the San Diego & Arizona Eastern Railway Company ("SD&AE"), which owns 108 miles of track and right-of-way.

MTS provides bus and rail services directly or by contract with private operators. MTS coordinates all its services and determines the routing, stops, frequencies and hours of operation. Light rail service is operated by SDTI on four lines (the UC San Diego Blue, Orange, Sycuan Green and San Diego Gas & Electric Silver Lines) with a total of 53 stations and 54.3 miles of rail. MTS also operates almost 100 fixed bus routes and Americans with Disabilities Act (ADA) complementary paratransit service. Fixed route bus service includes local, urban, express, premium express and rural routes. MTS contracts with the San Diego & Imperial Valley Railroad and the Baja California Rail Road, Inc. to provide freight service to San Diego shippers over SD&AE right-of-way. MTS currently generates 88 million annual passenger trips or 300,000 trips each weekday.

MTS has an annual operating budget of approximately $278 million, $96 million of which is derived from fares. Fare revenue accounts for 34.5% of annual operating cost. MTS also receives funding from various federal, state, and local sources, primarily the California Transportation Development Act, FTA grants (sections 5307, 5337 and 5339), and local sales tax.

MTS will own, operate, and maintain the Project upon commencement of revenue operations of the Project pursuant to a Memorandum of Understanding, dated March 25, 2015, by and between SANDAG, MTS and UCSD. Grant Receipts are not eligible to fund the operations of MTS.

North County Transit District. SANDAG and NCTD are also separate legal entities established by statute. NCTD started as the North San Diego County Transit Development Board ("NSDCTDB") when created in 1975 by Senate Bill 802. It was created to plan, construct and operate – directly or through a contractor – public transit systems in its area of jurisdiction. On January 1, 2003, Senate Bill 1703 transferred future transit planning, programming, development and construction to SANDAG. On August 30, 2005, Assembly Bill 1238 was passed, which renamed NSDCTDB as the North County Transit District effective January 1, 2006.

NCTD operates buses, trains, hybrid rail, and paratransit services to a geographic area of approximately 1,020 square miles, in North County, from the Pacific Ocean east to Ramona, and from the County of Orange border south to Del Mar, with connections extending to downtown San Diego. NCTD serves approximately 11 million passengers annually through transit services that include: the COASTER commuter rail service, the SPRINTER light rail, the Breeze bus system, Flex rural and on-demand service and Lift paratransit.

NCTD maintains and controls right-of-entry between the Old Town Transit Center and north of SR 52, where the Project would transition to the I-5 right-of-way. The Project requires a right-of-entry permit for construction of the Project within the railroad right-of-way and requires the relocation of the NCTD railroad tracks in the vicinity of the SR 52. As such, the Project was subject to review and approval by NCTD. However, NCTD is not expected to operate any aspect of the Project. Grant Receipts are not eligible to fund the operations of NCTD.

INVESTMENT CONSIDERATIONS

Limited Obligations

The Bonds are limited obligations of SANDAG payable solely from and secured solely by Grant Receipts (as herein defined), amounts on deposit in the funds and accounts established under the Indenture (except the Rebate Fund), and investment earnings thereon. The Bonds are not a general obligation of SANDAG and the revenues of SANDAG (other than as described above) are not pledged for the payment of the Bonds or the interest thereon. The Bonds are not an

indebtedness or obligation of the State or any political subdivision of the State (other than SANDAG) or of any municipality within the State.

Uncertainties in Federal Funding

General. There can be no assurance that sufficient Grant Receipts will be received by SANDAG to pay the debt service on the Bonds. While SANDAG believes that sufficient Grant Receipts will be received to pay debt service on the Bonds to their maturity, various factors beyond the control of SANDAG may affect such receipts, including, without limitation, non-reauthorization of future federal transportation legislative programs, federal budgetary limitations, sequestration and government shutdowns, other possible changes in the Section 5309 Program, and SANDAG's continued eligibility for such funding.

Congressional Authorization and Appropriation. Federal transportation program funding must be reauthorized periodically by Congress. The most recent authorization is the FAST Act, which became law on December 4, 2015, and authorizes funding for surface transportation programs, including mass transit programs, for FFY 2016 through FFY 2020. THERE CAN BE NO ASSURANCE THAT ANY SUCH AUTHORIZATIONS WILL BE PROVIDED AFTER THE FAST ACT, OR ANY LEGISLATION THAT FOLLOWS OR REPLACES THE FAST ACT, EXPIRES.

Congressional authorization of federal funding for the Grant Receipts is not, by itself, sufficient to allow SANDAG to receive the Grant Receipts. Appropriations acts are necessary in order to create budget authority for federal expenditures such as the expenditure of the funds that comprise the Grant Receipts. The amount of Grant Receipts available to SANDAG for the Project is subject to annual appropriation by Congress and to approval on an annual basis by FTA. As such, SANDAG competes for such funds with other transit funding priorities. The Grant Agreement specifically provides that the eligibility of SANDAG for funds does not create an obligation on the part of the United States to provide funds for the Project. Other federal actions must also take place to allow SANDAG to receive Grant Receipts. If sufficient funds are not so available, sufficient Grant Receipts will not be received to pay the debt service on the Bonds. See "THE GRANT AGREEMENT" and "FEDERAL TRANSIT PROGRAM."

To date, Congress has fully funded all FFGA commitments, but such funding may not have been provided in accordance with the funding schedule set forth in each FFGA. Fully funding the Grant Agreement can mean either funding to the Maximum Federal New Starts Financial Contribution or to the Maximum New Starts Participation Rate. There is a possibility that the total cost of the Project may come in less than anticipated such that the Maximum Federal New Starts Financial Contribution would exceed the Maximum New Starts Participation Rate; in this case, the Maximum New Starts Participation Rate would control, and SANDAG's Grant Receipts would be adjusted downward.

Federal Sequestration and Government Shutdown. The Budget Control Act of 2011 (the "Budget Control Act") provided for increases in the federal debt limit and established procedures designed to reduce the federal budget deficit. The Budget Control Act provided that a failure by Congress to otherwise reduce the deficit would result in sequestration: automatic, generally across-the-board spending reductions. The Bipartisan Budget Act of 2013 extended and made certain modifications to sequestration. However, the potential impact of sequestration to federal programs, such the New Starts program, is the same. Grant Receipts may be reduced as a result of the congressionally-mandated sequestration process, and may continue to be reduced or delayed if federal spending reductions continue as a result of the sequestration or ongoing shutdowns of the federal government occur.

Default Under Grant Agreement

Pursuant to the Grant Agreement, SANDAG agreed to a Required Revenue Service Date of on or before November 23, 2022. Failure to achieve the Required Revenue Service Date as set forth in the Grant Agreement constitutes a default of the Grant Agreement. As a result of such default, unless the Required Revenue Service Date is extended by FTA, FTA may exercise all remedies at law and equity, including the right to specific performance without federal financial assistance, and the right to terminate or suspend all or a part of the federal financial assistance. FTA may also demand that all grant funds provided to SANDAG for the Project be returned to FTA. SANDAG currently estimates that the Project will commence revenue operation on or about November 5, 2021. See "—Construction and Project Funding Risk."

Limitations on Remedies of Bondholders

The remedies available upon an event of default under the Indenture are limited, [particularly in instances resulting from a failure of FTA to transfer Grant Proceeds to SANDAG in amounts sufficient to pay principal and interest when due on the Bonds]. See "—Uncertainties in Federal Funding." Such remedies are also in many respects dependent upon judicial actions, which may be subject to discretion and delay. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various documents by bankruptcy, insolvency or other similar laws affecting the rights of creditors generally. See "—Bankruptcy Risks."

Financial and Operating Risks of the South Bay Expressway

SANDAG operates the South Bay Expressway. See "SANDAG-- Toll and Transit Operations; Toll Revenue Debt—South Bay Expressway."

Toll Revenues and the Toll Revenue Bond Trust Estate do not secure repayment of the Bonds. However, while SANDAG's financial obligations with respect to the South Bay Expressway and the Toll Revenue Bonds are limited to the Toll Revenue Bond Trust Estate, including Toll Revenues, any defaults or other operational or financial issues affecting the South Bay Expressway may also affect SANDAG as a whole, including, for example, were the South Bay Expressway to experience financial difficulty severe enough to justify protection under the Bankruptcy Code. In that case, SANDAG would be the entity filing for Chapter 9 bankruptcy. See "Bankruptcy Risks" below.

Bankruptcy Risks

SANDAG is authorized under State and federal law to file for bankruptcy under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"), subject to certain requirements set forth in State law and the Bankruptcy Code. Were SANDAG ever to file for bankruptcy, there could be adverse effects on the holders of the Bonds.

If SANDAG is in bankruptcy, the parties (including the Trustee and the holders of the Bonds) may be prohibited from taking any action to collect any amount from SANDAG or to enforce any obligation of SANDAG, unless the permission of the bankruptcy court is obtained. In particular, the Trustee may be prevented from foreclosing on the Grant Receipts or any other collateral that secures the Bonds. These restrictions may also prevent the Trustee from making payments to the holders of the Bonds from funds in the Trustee's possession.

SANDAG as a debtor in bankruptcy may be able to borrow additional money that is secured by a lien on any of its property (including Grant Receipts), which lien could have priority over the lien of the

Indenture, or to cause some Grant Receipts to be released to it, free and clear of lien of the Indenture, in each case provided that the bankruptcy court determines that the rights of the Trustee and the holders of the Bonds will be adequately protected. SANDAG may also be able, without the consent and over the objection of the Trustee and the holders of the Bonds, to alter the priority, interest rate, principal amount, payment terms, collateral, maturity dates, payment sources, covenants (including tax-related covenants), and other terms or provisions of the Indenture and the Bonds as long as the bankruptcy court determines that the alterations are fair and equitable.

The lien of the Indenture will likely not attach to any Grant Receipts that SANDAG receives after the filing of a bankruptcy petition. Under such circumstances, it is not clear whether the holders of the Bonds would be treated as general unsecured creditors of SANDAG or whether the holders of the Bonds would have no further claim against any assets of SANDAG. In either case, the holders of the Bonds could suffer substantial losses.

SANDAG is permitted to hold Grant Receipts for one day before turning them over to the Trustee. If SANDAG were to go into bankruptcy, the Trustee and the holders of the Bonds may not have a valid or priority interest in any Grant Receipts that are in the possession of SANDAG or that have not been remitted to the Trustee at the time of the commencement of the bankruptcy. SANDAG may not be required to remit to the Trustee any Grant Receipts that are in its possession or under its control at the time it enters bankruptcy.

Actions could be taken in a bankruptcy of SANDAG that could adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

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

[Insolvency of Insurer]*[To be included only if Bond Insurance]*

[Should the Insurer encounter financial difficulties, there could be adverse effects on the holders of the Bonds. The applicable regulators can order an insurance company to stop paying claims, or to pay claims only with the permission of the regulators, even before the insurance company becomes the subject of a formal insolvency proceeding. An insolvent financial guaranty insurer may be able to retain its rights to control remedies and direct the trustee, and its rights to consent to amendments of the documents, even though it is insolvent or not paying claims as required by the financial guaranty policy. An insolvent financial guaranty insurer may also be able to require the issuer to reimburse the insurer before paying amounts due on the bonds, regardless of what the documents provide. There may be other possible effects of the financial distress of the Insurer that could result in delays or reductions in payments on the Bonds, or result in losses to the holders of the Bonds. Regardless of any specific adverse determinations, the fact of the financial distress of the Insurer could have an adverse effect on the liquidity and value of the Bonds.]

Bonds Subject to Redemption Prior to Maturity

[The maturities of the Bonds have been structured on the basis of certain assumptions as to the amount and timing of the receipt of Grant Receipts by SANDAG including an assumption that may accommodate certain delays in the anticipated receipt of Grant Receipts. If Grant Receipts are received by SANDAG in the amounts and at the times anticipated, all or a portion of the Bonds may be redeemed prior to maturity at a redemption price equal to the principal amount thereof without penalty. See "SECURITY FOR THE BONDS—Projected Grant Receipts" and "THE BONDS—Redemption Prior to Maturity."]

No Acceleration

The Indenture does not contain a provision allowing for the acceleration of the Bonds in the event of a default in the payment of principal and interest on the Bonds when due. In the event of a default under the Indenture, each Bondholder will have the right to exercise the remedies provided in the Indenture[, subject to the rights of the Bond Insurer]. See "APPENDIX B—SUMMARY OF THE INDENTURE—Events of Default and Remedies."

Construction and Project Funding Risk

Construction of the Project has not yet been completed, and as with any major construction effort, the completion of the Project involves many risks, including shortages of materials and labor, work stoppages, labor disputes, weather interferences, earthquakes, unforeseen engineering, environmental or geological problems, seismic events, power outages, and unanticipated cost overruns in excess of contingencies, any of which could increase the cost or delay the construction of the Project. See "Risk of Earthquake" and "Risk of Wildfire" below. There can be no assurance that the Project will be completed on the timetable projected by SANDAG or within the budget and other assumptions used by SANDAG.

In the Grant Agreement, SANDAG has covenanted to pay for any Project budget shortfall out of its own funding sources. See "—Default Under Grant Agreement" and "THE GRANT AGREEMENT—Noncompliance."

Risk of Earthquake

The Rose Canyon Fault Zone near the Project could generate large magnitude earthquakes that could affect the Project structures and alignment as a result of strong seismic ground shaking. The Project incorporates State seismic design standards to prevent structural collapse at these locations and reduce the exposure of people to harm from fault rupture hazards. Project structures are expected to remain standing during a strong earthquake, although they may be subject to damage that results in their closure or replacement. If an earthquake occurred prior to the Required Revenue Service Date of the Project, the impact could cause delays in construction. See "Construction and Project Funding Risk."

Risk of Wildfire

The San Diego region is subject to both urban and wildland fires. In urbanized areas of the San Diego region, the land is highly developed with buildings, streets, and hardscape. In most of these urbanized areas, there are canyons and other strips or areas of native vegetation that are susceptible to wildland fires. The Project lies within an urbanized area and a portion of the alignment runs through the Rose Canyon area where native vegetation exists. A wildfire in this area could cause delays in construction. See "Construction and Project Funding Risk."

Cybersecurity

In the course of its daily business, SANDAG collects and stores sensitive data, including financial information, security information, proprietary business information, information regarding customers, suppliers and business partners, and personally identifiable information of customers and employees. The secure processing, maintenance and transmission of this information is critical to certain of SANDAG's operations, including operations of the South Bay Expressway. Despite security and other technical measures currently in place and those which may be adopted in the future, information technology and infrastructure may be vulnerable to attacks by hackers or other breaches, including as a result of employee error, malfeasance or other disruptions or failures. Any such breach, disruption or other failure could compromise networks, and the information stored there could be accessed, disrupted, publicly disclosed, lost or stolen. Any such access, disruption, disclosure, theft or other loss of information could result in disruptions to SANDAG's operations and financial or other activities, including as they relate to the Project or the Grant Agreement or otherwise, or legal claims or proceedings, including pursuant to laws that protect the privacy of personal information, or regulatory penalties.

State Legislation

SANDAG was created in the 1970s as a Joint Powers Authority composed of various cities in the County of San Diego that desired to voluntarily carry out regional planning activities as a joint enterprise. SANDAG's governance structure was codified into State law by State statute in 2002. The State Legislature can alter the governance and structure of SANDAG. In 2017, AB 805 was enacted which changed the voting mechanisms of the Board of Directors of SANDAG and provides for additional audit requirements. The State Legislature can adopt statutory changes that could materially impact the composition of the Board of Directors or composition of management, or impose new requirements or standards, any of which could cause material changes for SANDAG policy objectives or how it operates. Any of these changes, in turn, could affect how SANDAG approaches its management of the Project and the Grant Agreement.

Loss of Federal Tax Exemption

Interest on the Bonds could become includable in federal gross income, possibly from the date of issuance of the Bonds, as a result of acts or omissions of SANDAG subsequent to the issuance of the Bonds. Should interest become includable in federal gross income, the Bonds are not subject to redemption by reason thereof and will remain outstanding until maturity or earlier redemption. See "TAX MATTERS."

LEGAL MATTERS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, Bond Counsel to SANDAG. Bond Counsel expects to deliver an opinion with respect to the Bonds at the time of issuance substantially in the form set forth 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 SANDAG by Orrick, Herrington & Sutcliffe LLP, as Disclosure Counsel to SANDAG and by the General Counsel to SANDAG, and for the Underwriters by Nixon Peabody LLP, Underwriters' Counsel.

TAX MATTERS

Federal Tax-Exemption

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel to SANDAG, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance by SANDAG with certain covenants in the Indenture and other documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Indenture or in other documents pertaining to the Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the effect of any change to any document pertaining to the Bonds or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Norton Rose Fulbright US LLP, or in reliance upon the advice of counsel other than Norton Rose Fulbright US LLP, with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

Bond Counsel's opinion is not a guarantee of result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of SANDAG described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of examining the tax-exempt status of the interest on municipal obligations. If an examination of the Bonds is commenced, under current procedures the IRS is likely to treat SANDAG as the "taxpayer," and the owners of the Bonds would have no right to participate in the examination process. In responding to or defending an examination of the tax-exempt status of the interest on the Bonds, SANDAG may have different or conflicting interests from the owners. Additionally, public awareness of any future examination of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the examination, regardless of its ultimate outcome.

Tax Accounting Treatment of Bond Premium and Original Issue Discount

Bond Premium. To the extent that a purchaser of a Bond acquires that Bond at a price in excess of the amount payable at maturity, such excess will constitute "bond premium" under the Code. The Code and applicable Treasury Regulations provide generally that bond premium on a tax-exempt obligation is amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations) based on the obligation's yield to maturity (or shorter period in the case of certain callable obligations); that the amount of premium so amortized reduces the owner's basis in such obligation for federal income tax purposes; and that such amortized premium is not deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation.

Original Issue Discount. The excess, if any, of the stated redemption price at maturity of Bonds of a maturity over the initial offering price to the public of the Bonds of that maturity is "original issue discount." Original issue discount accruing on a Bond is treated as interest excluded from the gross income of the owner of such Bond for federal income tax purposes under the same conditions and limitations as are applicable to interest on such Bond. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering accrues on a semiannual basis over the term of the Bond on the basis of a constant yield and, within each semiannual period, accrues on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Bond, which will affect the amount of taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of owners of Bonds that have purchased such Bonds other than at the initial offering price and pursuant to the initial offering.

Bond Counsel are not opining on the accounting for or consequence to a Bond purchaser of bond premium or original issue discount on the Bonds. Persons considering the purchase of Bonds with bond premium or original issue discount should consult with their own tax advisors with respect to the determination of bond premium or original issue discount on such Bonds for federal income tax purposes, and with respect to the state and local tax consequences of owning and disposing of such Bonds.

Information Reporting and Backup Withholding

Interest paid on the Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

State Tax Exemption

In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Future Developments

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of the interest on the Bonds from gross income for federal income tax purposes or of the exemption of interest on the Bonds from State of California personal income taxation. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future change in tax law.

A copy of the form of opinion of Bond Counsel relating to the Bonds is included in APPENDIX E hereto.

LITIGATION

To the knowledge of SANDAG, there is no litigation pending or threatened that would in any way (i) restrain or enjoin the issuance, sale or delivery of the Bonds or (ii) question the validity of the Bonds or the authority of SANDAG to make principal and interest payments or to collect Grant Receipts to pay the Bonds.

[SANDAG is a defendant in various legal actions resulting from normal transit operations. Although the outcome of such actions cannot presently be determined, it is the opinion of management and legal counsel that settlement of these matters will not have a material adverse effect on SANDAG's ability to pay debt service on the Bonds, or on SANDAG's financial position, results of operations or cash flows.]

RATINGS

The Bonds have been assigned ratings of "[__]" and "[__]", by [__________] and [____________], respectively. Rating agencies generally base their ratings on their own investigations, studies and assumptions as well as information and materials furnished to them (which may include information and materials from SANDAG, which are not included in this Official Statement). The rating reflects only the view of the rating agency furnishing the same, and any explanation of the significance of such rating should be obtained only from the rating agency providing the same. Such rating is not a recommendation to buy, sell or hold the Bonds. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency providing the same, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of a rating may have an adverse effect on the market price of the Bonds. Neither the Underwriters nor SANDAG has undertaken any responsibility after the offering of the Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal.

MUNICIPAL ADVISOR

PFM Financial Advisors, LLC has served as Municipal Advisor to SANDAG in connection with the issuance of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. PFM Financial Advisors, LLC is an independent registered municipal advisory firm and is not engaged in the business of underwriting municipal bonds or other securities.

CONTINUING DISCLOSURE

SANDAG will execute a continuing disclosure agreement (the "Continuing Disclosure Agreement"), pursuant to which SANDAG will covenant for the benefit of the owners of the Bonds to provide annually certain financial information and operating data by not later than six months after the end of the prior fiscal year, commencing with fiscal year 2018-19 (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events (the "Notice Events") in a timely manner. The Annual Reports and Notice Events will be filed with the Municipal Securities Rulemaking Board Electronic Municipal Market Access system. These covenants will be made to assist the Underwriters in complying with Rule 15c2-12, as amended, adopted by the SEC under the Securities Exchange Act of 1934, as amended. See APPENDIX C –"FORM OF CONTINUING DISCLOSURE AGREEMENT."

UNDERWRITING

The Bonds are being purchased for reoffering to the public by Wells Fargo Securities, Citigroup Global Markets Inc., Goldman Sachs & Co. LLC and J.P. Morgan Securities LLC, (collectively, the "Underwriters") pursuant to the terms of a bond purchase agreement executed on __________, 2019 (the "Purchase Agreement"), by and between SANDAG and the Underwriters. The Underwriters have agreed to purchase the Bonds at a price of $__________ (which represents the aggregate principal amount of the Bonds, [plus/less] [net] original issue [premium/discount] of $__________, and less Underwriters' discount in the amount of $__________). The Purchase Agreement provides that the Underwriters will purchase all of the Bonds, subject to certain terms and conditions set forth in the Purchase Agreement, including the approval of certain legal matters by counsel.

The Underwriters may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices shown on the inside front cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriters.

[Wells Fargo Securities is the trade name for certain securities-related capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association, which conducts its municipal securities sales, trading and underwriting operations through the Wells Fargo Securities Municipal Products Group, a separately identifiable department of Wells Fargo Bank, National Association, registered with the Securities and Exchange Commission as a municipal securities dealer pursuant to Section 15B(a) of the Securities Exchange Act of 1934.

Wells Fargo Bank, National Association, acting through its Municipal Products Group ("WFBNA"), the sole underwriter of the Bonds, has entered into an agreement (the "WFA Distribution Agreement") with its affiliate, Wells Fargo Clearing Services, LLC (which uses the trade name "Wells Fargo Advisors") ("WFA"), for the distribution of certain municipal securities offerings, including the Bonds. Pursuant to the WFA Distribution Agreement, WFBNA will share a portion of its underwriting or remarketing agent compensation, as applicable, with respect to the Bonds with WFA. WFBNA has also entered into an agreement (the "WFSLLC Distribution Agreement") with its affiliate Wells Fargo Securities; LLC ("WFSLLC"), for the distribution of municipal securities offerings, including the Bonds. Pursuant to the WFSLLC Distribution Agreement, WFBNA pays a portion of WFSLLC's expenses based on its municipal securities transactions. WFBNA, WFSLLC, and WFA are each wholly-owned subsidiaries of Wells Fargo & Company.

Certain subsidiaries of Wells Fargo & Company (parent company of Wells Fargo Bank, National Association, serving as underwriter for the Bonds through the Wells Fargo Bank, N.A. Municipal Products Group) have provided, from time to time, investment banking services or commercial banking services to SANDAG, for which they have received customary compensation. Wells Fargo & Company or its subsidiaries may, from time to time, engage in transactions with and perform services for SANDAG in the ordinary course of their respective businesses.]

[Citigroup Global Markets Inc., an Underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, Citigroup Global Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, Citigroup Global Markets Inc. will compensate Fidelity for its selling efforts with respect to the Bonds.]

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

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between SANDAG and the purchasers, holders or beneficial owners of any of the Bonds. All of the summaries of the Bonds, the Indenture, the Grant Agreement, applicable legislation and other agreements and documents in this Official Statement are made subject to the provisions of the Bonds and such documents, respectively, and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with SANDAG for further information in connection therewith.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

The execution and delivery of this Official Statement by the Executive Director of SANDAG has been duly authorized by SANDAG.

SAN DIEGO ASSOCIATION OF
GOVERNMENTS

By ______________________________________
Executive Director

APPENDIX A

THE GRANT AGREEMENT

APPENDIX B

SUMMARY OF THE INDENTURE

APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX D

DTC AND THE BOOK-ENTRY ONLY SYSTEM

APPENDIX E

PROPOSED FORM OF BOND COUNSEL OPINION