Presentation to

SANDAG
BOARD OF DIRECTORS

November 18, 2005

SANDAG Financial Strategy

- Expand Commercial Paper program to make $335 million in project funding available for Early Action Program (EAP).
- Develop financial planning model to evaluate plan of finance alternatives.
- Hedge cost of 2008 debt.

Financial Strategy Goals and Objectives

- Minimize funding costs for *TransNet* projects.
- Protect against potential upward interest rate movements prior to 2008.
- Capitalize on near historically low interest rate environment and flat yield curve.
- Mitigate SANDAG's exposure to risk.

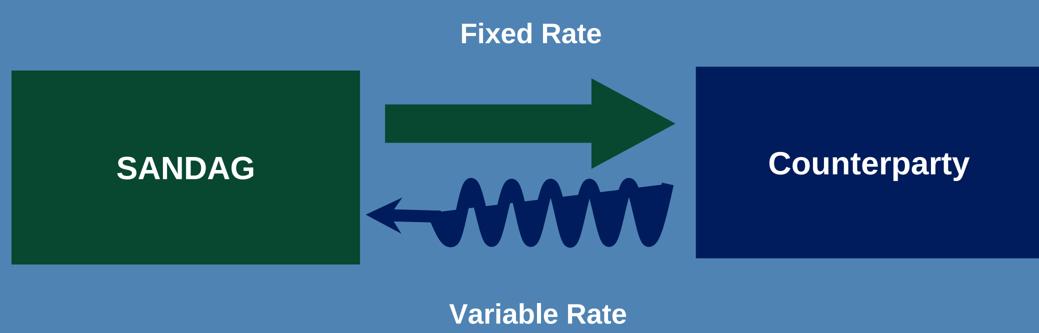
Financial Strategy
Benefits of Implementation

- Execute three interest rate exchange agreements (SWAPS).
- Lock-in cost of funds for 2008 issue at less than 4%.
- Remove interest rate risk from approximately 50% of expected EAP program debt.
- Save 79 basis points or more than $3.1 million annually, compared to traditional fixed rate bonds (approximately $93 million over life of the bonds).

Locking in the 2008 Cost of Funds
Interest Rate Swaps

An interest rate swap is a *contract* between two organizations to exchange cash flows over time. One cash flow is calculated using a *fixed* interest rate, while the other is calculated using a *variable* interest rate.

- Synthetic fixed rate debt (or fixed payer swap): SANDAG pays a fixed rate cash flow and receives a variable rate cash flow.
- Variable interest rate: A benchmark variable rate bond index like LIBOR (the London Interbank Offered Rate) or the BMA (Bond Market Association) Index.

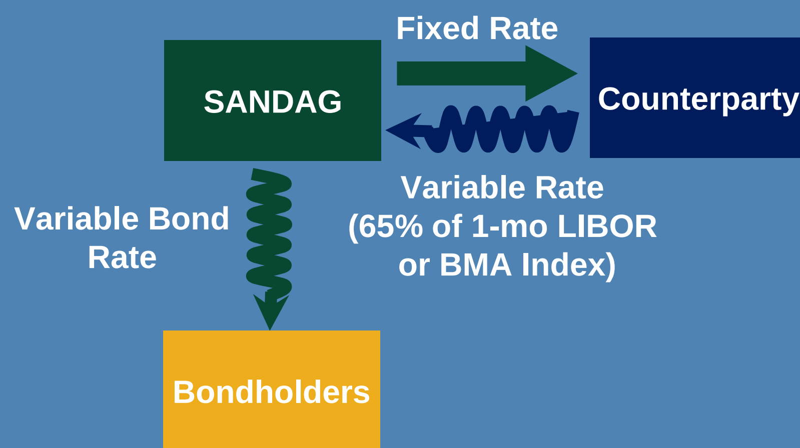


Locking in the 2008 Cost of Funds
Overview of Synthetic Fixed Rate Debt

Issue variable rate bonds in 2008.

Use 65% of LIBOR synthetic fixed rate swaps to convert the variable rate bonds to a fixed rate.

Result is a fixed rate cost of funds 0.79% lower than the cost of AAA insured natural fixed rate bonds.



Proposed Swap Program

$200 million 65% of LIBOR Fixed Payer Swap	3.53% (estimate)
$400 million 65% of LIBOR Fixed Payer Swap converting to BMA Index after 10 years	3.92% (estimate)
Blended Swap Rate	**3.79% (estimate)**
“All-in” Cost, including Bond Fees at .21%	**4.00% (estimate)**

Market Rates as of November 7th, 2005

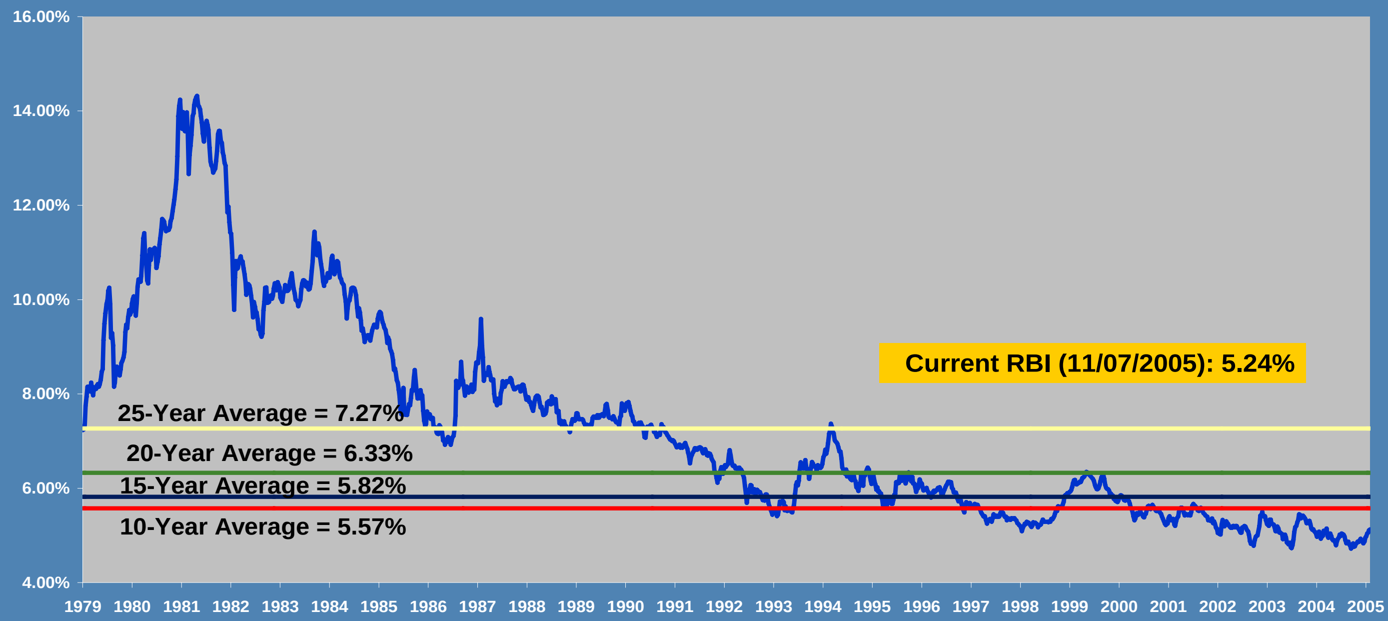
Locking in the 2008 Cost of Funds
Comparing Options

	Cost of Funds	Average Annual Debt Service on $600 Million
Recommended Strategy*	3.79%	$33.8 Million
Fixed Rate Non-Callable Bonds	4.58%	$36.9 Million
Forward Delivery Bonds (to 2008)	5.16%	$39.4 Million
Average Cost of *TransNet I* Debt	5.60%	$40.4 Million

**Market Rates as of November 7th, 2005*

Locking in the 2008 Cost of Funds
Key Observations on the Current Market

Bond Buyer Revenue Bond Index (RBI) – Weekly Reset Rate History (1979 to Present)



Over the last few months, the Bond Buyer Revenue Bond Index has remained near its lowest rates since inception in 1979.

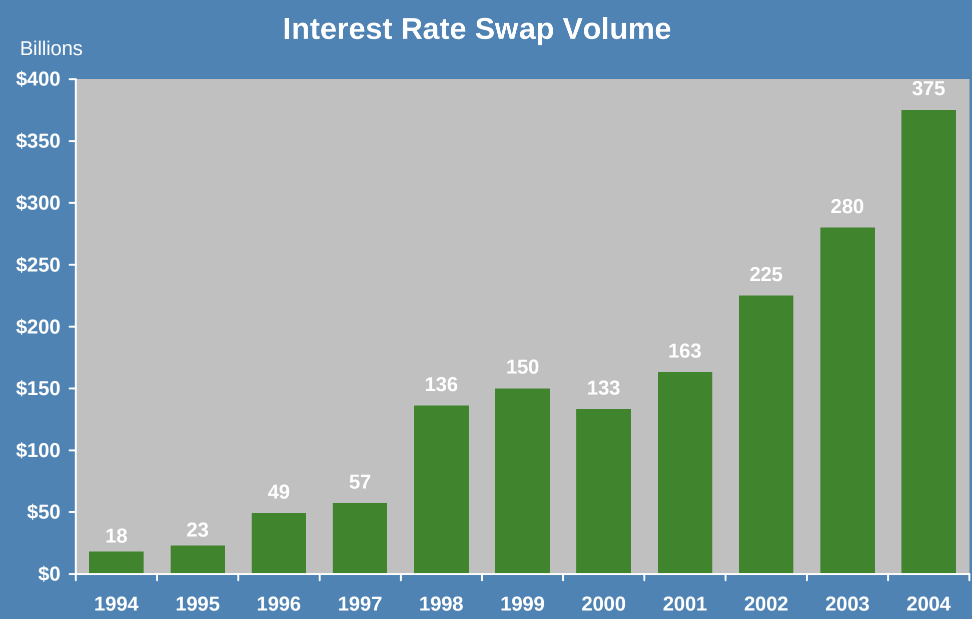
Locking in the 2008 Cost of Funds
Interest Rate Swaps

The interest rate swap market is very large and well accepted; global volume exceeds $7 trillion.

The use of interest rate swaps by governments and non-profits has steadily increased.

Transportation swap users include BATA, LA MTA, NY MTA, MARTA, Pennsylvania Turnpike Authority, NJ Turnpike Authority, Chicago Regional Transportation Authority, Santa Clara Valley Transportation Authority, and Contra Costa Transportation Authority *(pending)*.

Growth Trend in the Interest Rate Swap Market



Swap statistics are estimated as independent data is not available.

Locking in the 2008 Cost of Funds
Key Observations on the Current Market

Historically low rates

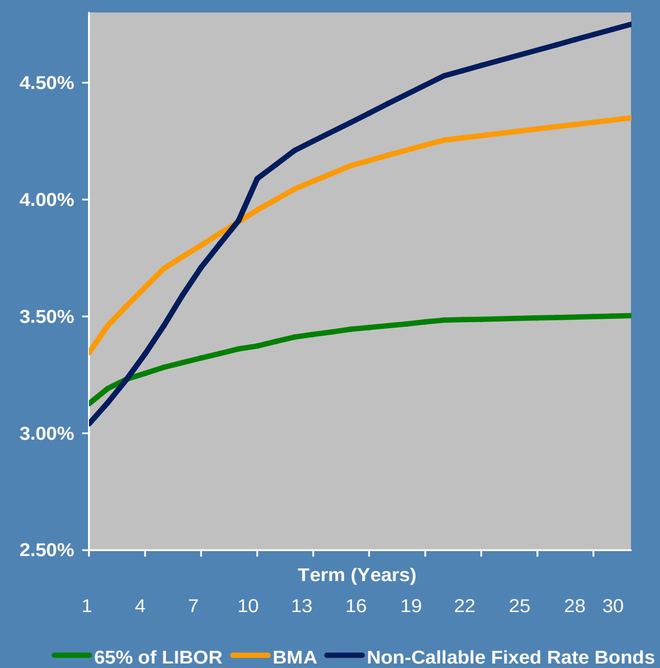
- A great time to lock-in rates
- Surprisingly resilient bull market in bonds over extended time frame (1982-Present)

Flat yield curves

- Forward hedging costs are very inexpensive

Interest rate swaps provide significant savings

- Proposed structure costs 79 basis points less than traditional fixed rate bonds
- All-in financing costs of approximately 4%



Market Rates as of November 7th, 2005

SANDAG

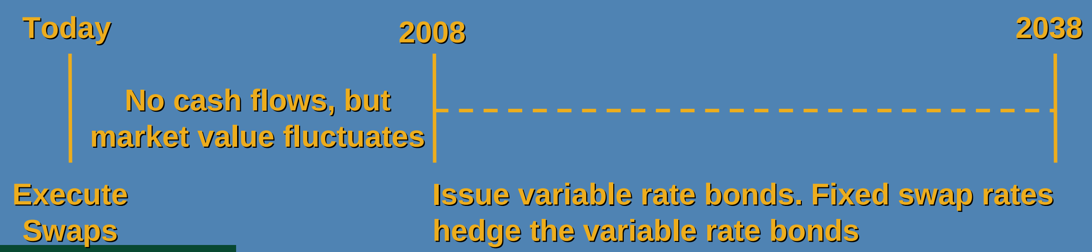
Locking in Fixed Swap Rates on a Forward Basis

Mechanics

Fixed Payer Swaps

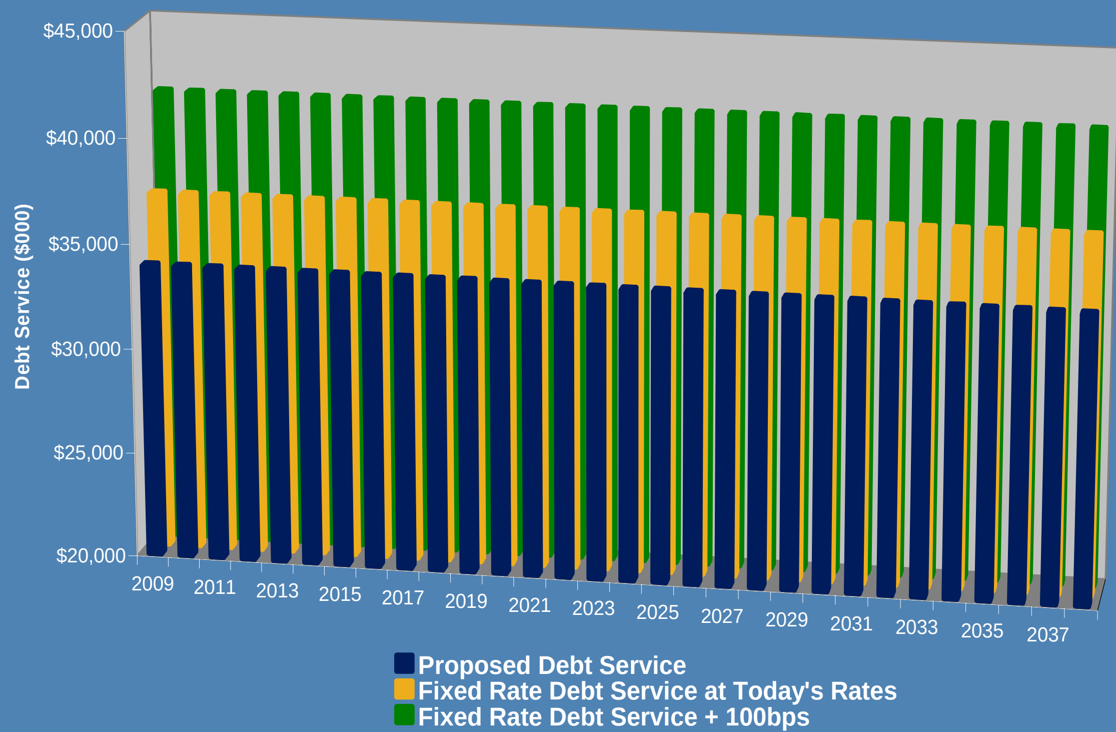
The interest rate swaps will be used to lock-in fixed rates for a variable rate issue that will be issued and converted to fixed rate in 2008.

- At the forward start date (2008), SANDAG will issue variable rate debt that will be swapped to fixed. The swaps will remain in place to provide a fixed rate financing cost.
- The proposed swaps can be executed at a low all-in cost (79 basis points below comparable fixed rate bonds) and will act as a hedge against rising rates.
- SANDAG Board approvals required in connection with both swaps and 2008 variable rate bonds.



Risk of Not Proceeding With Swap Proposal

Locking in Current Swap Rates Will Provide Significantly Lower Debt Service Costs



Market Rates as of November 7th, 2005

SANDAG

Risks of Using SWAP Agreements

Financial Strategy Designed to Minimize the Following Risks:

- Counterparty Risk
- Basis Risk
- Tax Law Change Risk
- Market Access Risk

Risks and Considerations Termination Risk

Termination Risk is the risk that a payment may be due if SANDAG terminates in a lower rate environment.

Mitigating factors include:

- SANDAG has strong reasons to borrow in 2008 and thus not terminate the swaps thereby risk a termination payment.
- Recent liquidity bids and ratings affirmations indicate strong market access.

Valuation for Proposed $600 million Swap Program			
Termination Date	March 2006	March 2007	March 2008
Change in Taxable Rates			
+100 basis points	33,375	33,919	33,625
+50 basis points	16,277	15,620	14,066
Rates the Same	(2,726)	(4,513)	(7,240)
-50 basis points	(23,860)	(26,691)	(30,488)
-100 basis points	(47,386)	(51,152)	(55,895)

Valuations shown in 000s.

The value of the swaps will be positive (negative) in higher (lower) interest rate environments. SANDAG will "breakeven" if rates in 2008 are only 17 basis points higher than today's rates (includes forward premium + spread).

Market Rates as of November 7th, 2005

Why Does This Strategy Make Sense for SANDAG?

- Establishes cost of funds for approximately 50% of EAP debt at the lowest level ever achieved by SANDAG, 79 basis points lower than fixed rate bonds, 3.79% for 30 years.
- Rates are near historic lows, only 17 basis point rise to reach breakeven.
- Swap agreements become assets that gain in value as interest rates rise.
- Lower debt costs provide additional project delivery capacity.
- Risks are identified and mitigated.

Recommendation

- Approve Interest Rate Swap Policy (Attachment 2)
- Adopt Resolution RC 2005-02 authorizing:
  - Issuance of up to $600 million in bonds in 2008
  - Forward Interest Rate Swap Transaction in connection with bonds
  - Execution of required documents including:
    - Exhibit A – Master Agreements
    - Exhibit B – Schedule to the Master Agreements
    - Exhibit C – Credit Support Annexes
    - Exhibit D - Confirmation documents