

## CONTINUING DISCLOSURE UNDERTAKING

This Continuing Disclosure Undertaking, dated as of June 1, 2006 (the "Undertaking") is executed and delivered by the City of San Diego Tobacco Settlement Revenue Funding Corporation (the "Issuer") and Wells Fargo Bank, National Association, as Indenture Trustee (the "Indenture Trustee"), under and pursuant to an Indenture, as supplemented by a Series 2006 Supplement, each dated as of June 1, 2006 (the "Indenture"), by and between the Issuer and the Indenture Trustee, in connection with the issuance of \$105,400,000 aggregate principal amount of the Issuer's Tobacco Settlement Asset-Backed Bonds, Series 2006 (the "Series 2006 Bonds"). Capitalized terms used in this Undertaking which are not otherwise defined in Article IV hereof shall have the respective meanings specified in the Indenture.

### ARTICLE I

#### The Undertaking

Section 1.1. Purpose. This Undertaking is being executed and delivered by the Issuer for the benefit of the Beneficial Owners and Owners of the Series 2006 Bonds and in order to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2. Annual Financial Information. (a) The Issuer shall provide, or cause the Dissemination Agent to provide, Annual Financial Information with respect to each fiscal year of the Issuer, commencing with fiscal year 2005-06, by no later than 285 days after the end of such fiscal year, to each NRMSIR and the SID. Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Financial Information to the Dissemination Agent (if other than the Issuer).

(b) The Issuer shall provide in a timely manner, notice of any failure of the Issuer, to provide Annual Financial Information by the date specified in this subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID.

Section 1.3. Audited Financial Statements. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof because not available, the Issuer shall provide Audited Financial Statements, when and if available, to each NRMSIR and the SID.

Section 1.4. Material Event Notices. (a) If a Material Event occurs, the Issuer shall provide, or cause to be provided, in a timely manner, notice of such Material Event to (i) either the MSRB or each NRMSIR, (ii) the SID, and (iii) the Indenture Trustee.

(b) Any such notice of a defeasance of Series 2006 Bonds shall state whether the Series 2006 Bonds have been escrowed to maturity or to an earlier redemption date and the timing of such maturity or redemption.

(c) The Indenture Trustee shall promptly advise the Issuer whenever, in the course of performing its duties as Indenture Trustee under the Indenture, the Indenture Trustee has actual notice of an occurrence which, if material, would require the Issuer to provide notice of a Material Event hereunder; provided, however, that the failure of the Indenture Trustee so to advise the Issuer shall not constitute a breach by the Indenture Trustee of any of its duties and responsibilities under this Undertaking or the Indenture.

Section 1.5. Additional Information. Nothing in this Undertaking shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Undertaking or any other means of communication, or including any other information in any Annual Financial Information or notice of Material Event hereunder, in addition to that which is required by this Undertaking. If the Issuer chooses to include any information in any Annual Financial Information or Material Event notice in addition to that which is specifically required by this Undertaking, the Issuer shall have no obligation under this Undertaking to update such additional information or include it in any future Annual Financial Information or notice of a Material Event hereunder.

## ARTICLE II

### Operating Rules

Section 2.1. Reference to Other Documents. It shall be sufficient for purposes of Section 1.2 hereof if the Issuer provides Annual Financial Information by specific reference to documents (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID or (2) filed with the SEC, or (ii) if such document is a “final official statement” as defined in paragraph (f)(3) of the Rule, available from the MSRB.

Section 2.2. Submission of Information. Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3. CUSIP Numbers in Material Event Notices. Each Material Event Notice relating to the Series 2006 Bonds shall include the CUSIP numbers of the Series 2006 Bonds to which such Material Event notice relates or, if the Material Event notice relates to all bond issues of the Issuer including the Series 2006 Bonds, such Material Event Notice need only include the CUSIP number of the Issuer.

Section 2.4. Filing with Certain Dissemination Agents. The Issuer may satisfy its obligations hereunder to file any notice, document or information with a NRMSIR or SID (i) solely by transmitting such filing to the Texas Municipal Advisory Council (the “MAC”) as provided at <http://www.disclosureusa.org> unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004, or (ii) by filing the same with any dissemination agent or conduit, including any “central post office” or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such NRMSIR or SID, to the extent permitted by the SEC or SEC staff or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC staff if and to the extent the agent or conduit has received an interpretive letter, which has not been withdrawn, from the SEC staff to the effect that using the agent or conduit to transmit information to the

NRMSIRs and the SID will be treated for purposes of the Rule as if such information were transmitted directly to the NRMSIRs and the SID.

Section 2.5. Transmission of Information and Notices. Unless otherwise required by law and, in the Issuer's sole determination, subject to technical and economic feasibility, the Issuer shall employ such methods of information and notice transmission as shall be requested or recommended by the recipients of the Issuer's information and notices.

Section 2.6. Fiscal Year. (a) The Issuer's fiscal year begins July 1 and ends on the next succeeding June 30. The Issuer shall promptly notify (i) each NRMSIR, (ii) the SID and (iii) the Dissemination Agent, if other than the City, of any change in its fiscal year.

(b) Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months.

### ARTICLE III

#### Effective Date, Termination, Amendment and Enforcement

Section 3.1. Effective Date; Termination. (a) This Undertaking shall be effective upon the issuance of the Series 2006 Bonds.

(b) The Issuer's obligations under this Undertaking shall terminate upon a legal defeasance, prior redemption or payment in full of all of the Series 2006 Bonds. If such termination occurs prior to the final maturity of the Series 2006 Bonds, the Issuer shall give notice of such termination in the same manner provided in Section 1.4.

(c) This Undertaking, or any provision hereof, shall be null and void in the event that the Issuer (1) delivers to the Indenture Trustee an opinion of Counsel, addressed to the Issuer and the Indenture Trustee, to the effect that those portions of the Rule which require this Undertaking, or such provision, as the case may be, do not or no longer apply to the Series 2006 Bonds, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to each NRMSIR and the SID.

Section 3.2. Amendment. (a) This Undertaking may be amended, by written agreement of the parties, without the consent of the Owners (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby, (2) this Undertaking as so amended would have complied with the requirements of the Rule as of the date of this Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, (3) the Issuer shall have delivered to the Indenture Trustee an opinion of Counsel, addressed to the Issuer and the Indenture Trustee, to the same effect as set forth in clause (2) above, (4) either (i) the Issuer shall have delivered to the Indenture Trustee an opinion of Counsel or a determination by a person, in each case unaffiliated with the Issuer (such as bond counsel or the Indenture Trustee)

and acceptable to the Issuer, addressed to the Issuer and the Indenture Trustee, to the effect that the amendment does not materially impair the interests of the Owners or (ii) the Owners consent to the amendment to this Undertaking pursuant to the same procedures as are required for amendments to the Indenture with consent of Owners pursuant to Section 901 of the Indenture as in effect on the date of this Undertaking, and (5) the Issuer shall have delivered copies of such opinion(s) and amendment to each NRMSIR and the SID.

(b) This Undertaking may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Undertaking which is applicable to this Undertaking, (2) the Issuer shall have delivered to the Indenture Trustee an opinion of Counsel, addressed to the Issuer and the Indenture Trustee, to the effect that performance by the Issuer and Indenture Trustee under this Undertaking as so amended will not result in a violation of the Rule and (3) the Issuer shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) To the extent any amendment to this Undertaking results in a change in the type of core financial information or operating data provided pursuant to this Undertaking, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or core financial information being provided.

(d) If an amendment is made pursuant to Section 3.2(a) hereof to the accounting principles to be followed by the Issuer in preparing its financial statements, the Annual Financial Information for the fiscal year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the core financial information.

Section 3.3. Benefit; Third-Party Beneficiaries; Enforcement. (a) The provisions of this Undertaking shall constitute a contract with and inure solely to the benefit of the Owners, except that beneficial owners of Series 2006 Bonds shall be third-party beneficiaries of this Undertaking. The provisions of this Undertaking shall create no rights in any person or entity except as provided in this subsection (a) and subsection (b) of this Section.

(b) The obligations of the Issuer to comply with the provisions of this Undertaking shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, core financial information, operating data and notices, by any Owner, or by the Indenture Trustee on behalf of the Owners of Outstanding Bonds, or (ii) in the case of challenges to the adequacy of the financial statements, core financial information and operating data so provided, by the Indenture Trustee on behalf of the Owners of Outstanding Bonds; provided, however, that the Indenture Trustee shall not be required to take any enforcement action except at the direction of the Owners of not less than 25% of aggregate principal amount of the Series 2006 Bonds at the time Outstanding who shall have provided the Indenture Trustee

with adequate security and indemnity. The Owners' and Indenture Trustee's rights to enforce the provisions of this Undertaking shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the Issuer's obligations under this Undertaking. In consideration of the third-party beneficiary status of beneficial owners of Series 2006 Bonds pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be Owners for purposes of this subsection (b).

(c) Any failure by the Issuer or the Dissemination Agent to perform in accordance with this Undertaking shall not constitute a default or an Event of Default under the Indenture, and the rights and remedies provided by the Indenture upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Undertaking shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Undertaking shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Undertaking addresses matters of federal securities laws, including the Rule, this Undertaking shall be construed in accordance with such federal securities laws and official interpretations thereof.

## ARTICLE IV

### Definitions

Section 4.1. Definitions. The following terms used in this Undertaking shall have the following respective meanings:

(1) "Annual Financial Information" means (i) the Issuer's (a) core financial information and operating data for the Issuer's prior fiscal year, consisting of its Audited Financial Statements, prepared in accordance with GAAP, (b) an update of operating data for the preceding fiscal year set forth under the last three columns titled "Total Payments" in the table captioned "Projection of Strategic and Total Payments to be Received by the Indenture Trustee" in "METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS" in the Offering Circular, and (c) the actual interest and Principal due debt service coverage ratio for such preceding fiscal year, determined in substantially the manner described in "METHODOLOGY AND BOND STRUCTURING ASSUMPTIONS – Structuring Assumptions" in the Offering Circular; and (ii) the information regarding amendments, if any, to this Undertaking pursuant to Sections 3.2(c) and (d) of this Undertaking. Annual Financial Information shall include Audited Financial Statements, if available, or Unaudited Financial Statements.

Any Annual Financial Information containing modified core financial information or operating data shall explain, in narrative form, the reasons for the modification and the impact of the modification on the type of core financial information or operating data being provided.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the Issuer, audited by such auditor as shall then be required or permitted by State law or the Indenture. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that pursuant to Section 3.2(a) hereof, the Issuer may from time to time, if

required by federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(a) hereof shall include a reference to the specific federal or State law a regulation describing such accounting principles, or other description thereof.

(3) “Beneficial Owners” means any person having the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2006 Bond or Series 2006 Bonds, including persons holding Series 2006 Bonds through nominees or depositories.

(4) “Counsel” means a nationally recognized bond counsel or counsel expert in federal securities laws.

(5) “Dissemination Agent” means the City, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer and Indenture Trustee a written acceptance of such designation or, in the event of the resignation or discharge of the City and the absence of such successor designation, the term Dissemination Agent shall mean the Issuer.

(6) “GAAP” means generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

(7) “Material Event” means any of the following events with respect to the Series 2006 Bonds, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to rights of security holders;
- (viii) bond calls
- (ix) defeasances;

- (x) release, substitution, or sale of property securing repayment of the securities; and
- (xi) rating changes.

The Series 2006 Bonds are Taxable Bonds and there will be no credit enhancements delivered in connection therewith.

(8) “MSRB” means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

(9) “NRMSIR” means, at any time, a then existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs are identified on the SEC website at <http://www.sec.gov/info/municipal/nrmsir.htm>.

(10) “Offering Circular” means the Offering Circular, dated June 16, 2006 of the Issuer relating to the Series 2006 Bonds.

(11) “Rule” means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, §240.15c2-12), as in effect on the date of this Undertaking, including any official interpretations thereof issued either before or after the effective date of this Undertaking which are applicable to this Undertaking.

(12) “SEC” means the United States Securities and Exchange Commission.

(13) “SID” means, at any time, a then-existing a state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Undertaking, there is no SID.

(14) “Unaudited Financial Statements” means the same as Audited Financial Statements, except that they shall not have been audited.

(15) “Underwriter” means the original underwriters of the Series 2006 Bonds required to comply with the Rule in connection with the offering of the Series 2006 Bonds.

## ARTICLE V

### Miscellaneous

Section 5.1. Duties of Dissemination Agent. The Dissemination Agent shall:

- (a) determine each year prior to the date for providing the Annual Financial Information the name and address of each NRMSIR and the SID; and
- (b) file a notice with the Issuer and the Indenture Trustee (if the Indenture Trustee is not the Dissemination Agent) certifying that the Annual Financial Information has

been provided pursuant to this Undertaking, stating the date it was provided and listing all the NRS MIR and the SID to which it was provided.

Section 5.2. Immunities and Liabilities of Dissemination Agent. Article VI of the Indenture is hereby made applicable to this Undertaking as if this Undertaking were, solely for this purpose, contained in the Indenture. The Dissemination Agent (if other than the Indenture Trustee) and the Indenture Trustee shall have only such duties under this Undertaking as are specifically set forth herein, and the Issuer agrees to indemnify and save the Dissemination Agent and the Indenture Trustee, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or Indenture Trustee's negligence or willful misconduct in the performance of its duties hereunder. Such indemnity shall be separate from and in addition to that provided to the Indenture Trustee under the Indenture. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series 2006 Bonds. The Indenture Trustee shall have no duty or obligation to review any information provided to it hereunder and shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Undertaking.

Section 5.3. Removal, Replacement or Resignation of Dissemination Agent. The Issuer may from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Undertaking, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 30 days written notice to the Issuer and the Indenture Trustee.

Section 5.4. Notices. Any notices or communications to or among any of the parties to this Certificate may be given as follows:

To the Issuer: City of San Diego  
City Administrative Building  
202 C Street, 7th Floor  
San Diego, California 92101  
Attention: Tobacco Financing Analyst  
Fax: (619) 235-5835  
Telephone: (619) 236-6928

To the Indenture Trustee: Wells Fargo Bank, National Association  
707 Wilshire Blvd., 17th Floor  
Los Angeles, California 90017  
Attention: Corporate Trust Office  
Fax: (213) 614-3355  
Telephone: (213) 614-3325

Any person may, by written notice to the other persons listed above, designate a different address, telephone number or email address to which subsequent notices or communications should be sent.

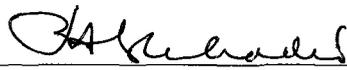
Section 5.5. Counterparts. This Undertaking may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

IN WITNESS WHEREOF, the Issuer has caused this Undertaking to be executed by a duly authorized representative as of the date first above written.

CITY OF SAN DIEGO TOBACCO  
SETTLEMENT REVENUE FUNDING  
CORPORATION, as Issuer

By:  \_\_\_\_\_  
An Authorized Representative

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as Indenture Trustee

By:  \_\_\_\_\_  
An Authorized Representative