PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 31, 2017

<u>**NEW ISSUE**</u> | <u>**RATING**</u>

BOOK-ENTRY | **Standard & Poor's: "___"**

(See "CONCLUDING INFORMATION - Rating on the 2017 Bonds" herein)

Interest on the 2017 Bonds is <u>not</u> intended to be excluded from gross income for federal income tax purposes. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California ("Bond Counsel") subject, however, to certain qualifications described herein, under existing law, the 2017 Bonds constitute "New Clean Renewable Energy Bonds" within the meaning of Section 54C of the Internal Revenue Code of 1986, and are eligible for the credit payable by the federal government to the County under Section 6431(f) of the Tax Code. In the further opinion of Bond Counsel, interest on the 2017 Bonds is exempt from California personal income taxes. See "TAX MATTERS" herein.

$7,900,000*
SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY
TAXABLE LEASE REVENUE BONDS, 2017 SERIES A
(DIRECT PAY SUBSIDY NEW CLEAN RENEWABLE ENERGY BONDS)

Dated: Date of Delivery | **Due: June 1, as Shown on the Inside Cover Page.**

The Santa Cruz County Capital Financing Authority Taxable Lease Revenue Bonds, 2017 Series A (Direct Pay Subsidy New Clean Renewable Energy Bonds) (the "2017 Bonds") are being issued to (i) finance the acquisition and installation of photovoltaic energy systems at various County facilities (ii) capitalize interest on the 2017 Bonds, and (iii) pay the costs incurred in connection with the issuance of the 2017 Bonds. The 2017 Bonds, together with the Santa Cruz County Capital Financing Authority's outstanding Taxable Lease Revenue Refunding Bonds, 2015 Series A and Santa Cruz County Capital Financing Authority's outstanding Lease Revenue Bonds, 2015 Series B (collectively referred to as the "Bonds") are payable from the revenues pledged under the Indenture, as defined herein, consisting primarily of lease payments (the "Lease Payments") to be made by the County of Santa Cruz (the "County") to the Santa Cruz County Capital Financing Authority (the "Authority") as rental for certain property (the "Property") pursuant to a Lease Agreement, as defined herein, and from certain funds held under the Indenture, as defined herein, and insurance or condemnation awards. The County is required under the Lease Agreement to make Lease Payments in each fiscal year in consideration of the use and possession of the Property from any source of available funds in an amount sufficient to pay the annual principal and interest due with respect to the Bonds, subject to abatement, as described herein. See "SOURCES OF PAYMENT FOR THE BONDS" and "RISK FACTORS" herein.

The Authority and the County will designate the 2017 Bonds as "New Clean Renewable Energy Bonds" ("CREBs") under section 54C of the Internal Revenue Code of 1986, as amended (the "Tax Code") and will irrevocably elect under section 6431(f)(2) of the Tax Code to receive a direct payment from the United States Treasury equal to the lesser of (i) the amount of interest payable with respect to the 2017 Bonds, or (ii) seventy percent (70%) of the amount of interest which would be payable with respect to the 2017 Bonds if the interest rates were determined at the applicable credit rate determined under section 54A(b)(3) of the Tax Code. See "THE 2017 BONDS - Designation of the 2017 Bonds as New Clean Renewable Energy Bonds" herein.

Interest on the 2017 Bonds is payable semiannually on June 1 and December 1 of each year, commencing on June 1, 2018, until maturity or earlier redemption. See "THE 2017 BONDS - General Provisions" and "THE 2017 BONDS - Redemption" herein.

THE 2017 BONDS DO NOT CONSTITUTE AN OBLIGATION OF THE AUTHORITY FOR WHICH THE AUTHORITY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE AUTHORITY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE COUNTY TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE COUNTY TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OR LIABILITY OF THE COUNTY, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See "RISK FACTORS" herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the 2017 Bonds.

The 2017 Bonds are offered, when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed on for the County and the Authority by the County Counsel, and by Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel, and for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the 2017 Bonds, in book-entry form, will be available for delivery on or about December 7, 2017 through the facilities of The Depository Trust Company (see "APPENDIX E - THE BOOK-ENTRY SYSTEM" herein).

The date of the Official Statement is _________, 2017.

STIFEL

---

* Preliminary, subject to change.

$7,900,000*
SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY
TAXABLE LEASE REVENUE BONDS, 2017 SERIES A
(DIRECT PAY SUBSIDY NEW CLEAN RENEWABLE ENERGY BONDS)

MATURITY SCHEDULE

(Base CUSIP®† 80181P)

Maturity Date June 1	Principal Amount	Interest Rate	Reoffering Yield	Reoffering Price	CUSIP®†
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the County, the Authority, the Municipal Advisor or the Underwriter and are included solely for the convenience of the holders of the Bonds. None of the County, the Authority, the Municipal Advisor or the Underwriter is responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY
SANTA CRUZ, CALIFORNIA

COUNTY GOVERNING BOARD

John Leopold, *Supervisor, 1st District*
Zach Friend, *Supervisor, 2nd District*
Ryan Coonerty, *Supervisor, 3rd District*
Greg Caput, *Supervisor, 4th District*
Bruce McPherson, *Supervisor, 5th District*

COUNTY OFFICIALS

Carlos Palacios, *County Administrative Officer*
Edith Driscoll, *Auditor-Controller-Treasurer-Tax Collector*
Sean Saldavia, *Assessor-Recorder*
Dana McRae, *County Counsel*
Nicole Coburn, *Assistant County Administrative Officer*
Carol Johnson, *Interim Director of General Services*

PROFESSIONAL SERVICES

Bond Counsel
Jones Hall, A Professional Law Corporation
San Francisco, California

Disclosure Counsel
Norton Rose Fulbright US LLP
Los Angeles, California

Municipal Advisor
Harrell & Company Advisors, LLC
Orange, California

Trustee
The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the 2017 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the 2017 Bonds.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the 2017 Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the County or any other parties described in this Official Statement.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the County, any press release and any oral statement made with the approval of an authorized officer of the County or any other entity described or referenced herein, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the Authority or the County to give any information or to make any representations in connection with the offer or sale of the 2017 Bonds other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority, the County, the Municipal Advisor or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the 2017 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The information and expressions of opinions 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 any implication that there has been no change in the affairs of the County since the date hereof. This Official Statement is submitted in connection with the sale of the 2017 Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the 2017 Bonds, the Lease Agreement, the Indenture or other documents, are made subject to the provisions of such documents 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 the County Clerk for further information. See "INTRODUCTION - Summaries Not Definitive."

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

2017 Bonds are Exempt from Securities Laws Registration. The issuance, sale and delivery of the 2017 Bonds has not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the execution, sale and delivery of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(l2) of the Securities Exchange Act of 1934.

Stabilization of Prices. In connection with this offering, the Underwriter may overallot or effect transactions which stabilize or maintain the market price of the 2017 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the 2017 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

County Website. The County maintains a website. The information on such website is not part of this Official Statement and is not intended to be relied on by investors with respect to the 2017 Bonds unless specifically set forth or incorporated herein.

TABLE OF CONTENTS

OFFICIAL STATEMENT

$7,900,000*

SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY
TAXABLE LEASE REVENUE BONDS, 2017 SERIES A
(DIRECT PAY SUBSIDY NEW CLEAN RENEWABLE ENERGY BONDS)

This Official Statement which includes the cover page and appendices (the "Official Statement"), is provided to furnish certain information concerning the sale of the Santa Cruz County Capital Financing Authority (the "Authority") Taxable Lease Revenue Refunding Bonds, 2017 Series A (Direct Pay Subsidy New Clean Renewable Energy Bonds) (the "2017 Bonds").

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision (see "RISK FACTORS" herein). For definitions of certain capitalized terms used herein and not otherwise defined, and the terms relating to the Bonds, see the summary included in "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

The Authority

The Authority is a joint exercise of powers authority organized and existing under and by virtue of the Joint Exercise of Powers Act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the "Joint Powers Act"). The County and the Santa Cruz County Flood Control and Water Conservation District formed the Authority by the execution of a joint exercise of powers agreement ("JPA Agreement") on February 25, 2014. Pursuant to the Joint Powers Act, the Authority is authorized to issue lease revenue bonds to provide funds to acquire or construct and to refinance public capital improvements, such revenue bonds to be repaid from the lease payments for such improvements, such as the lease payments described herein.

The Authority is governed by a five-member Board which consists of all members of the County Board of Supervisors. The Chair of the Board of Supervisors acts as the Chair of the Authority. The County Administrative Officer acts as the Executive Director, the Clerk of the Board acts as the Secretary and the County Auditor-Controller-Treasurer-Tax Collector acts as the Treasurer of the Authority.

The County

The County of Santa Cruz was incorporated in 1850. It has a general law form of government. It is located on the coast of California, between the San Francisco Bay area and the Monterey Bay Peninsula, 74 miles south of San Francisco (see "SANTA CRUZ COUNTY" herein).

Purpose

The 2017 Bonds are being issued to finance photovoltaic energy systems at various County facilities, fund capitalize interest on the 2017 Bonds, and to pay the costs of issuance of the 2017 Bonds. See "THE FINANCING PLAN" herein.

* Preliminary, subject to change.

Security and Sources of Repayment

The 2017 Bonds, together with the Authority's outstanding Taxable Lease Revenue Refunding Bonds, 2015 Series A ("the 2015 Series A Bonds") and the Authority's outstanding Lease Revenue Bonds, 2015 Series B (the "2015 Series B Bonds," and together with the 2015 Series A Bonds, the "2015 Bonds") are secured under an Indenture of Trust, dated as of June 1, 2015, as supplemented by a First Supplemental Indenture of Trust dated as of December 1, 2017 (as supplemented, the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the "Trustee") (see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein).

The 2017 Bonds and the 2015 Bonds are collectively referred to herein as the "Bonds." The Bonds are payable from the revenues pledged under the Indenture. The revenues consist primarily of lease payments (the "Lease Payments") to be made by the County to the Authority as the rental for certain property (the "Property") and from certain funds held under the Indenture and investment earnings thereon, and from net proceeds of insurance or condemnation awards. See "THE PROPERTY" herein.

Pursuant to a Site and Facility Lease, dated as of June 1, 2015 as amended by a First Amendment to Site and Facility Lease dated as of December 1, 2017 (as amended, the "Site Lease"), by and between the Authority and the County, the County has leased the Property to the Authority. The Authority has subleased the Property to the County under the Lease Agreement, dated as of June 1, 2015, as amended by a First Amendment to Lease Agreement dated as of December 1, 2017 by and between the County and the Authority (as amended, the "Lease Agreement"). The Lease Payments are to be made pursuant to the Lease Agreement.

All of the Authority's right, title and interest in and to the Lease Agreement (apart from certain rights to receive Additional Payments, as defined therein, to the extent payable to the Authority and to indemnification), including the right to receive Lease Payments under the Lease Agreement, are assigned to the Trustee under the Indenture for the benefit of the Owners of the Bonds and any additional bonds when and if issued, under an Amended and Restated Assignment Agreement by and between the Authority and the Trustee dated as of December 1, 2017 (the "Assignment Agreement").

For a summary of the Indenture, the Site Lease and the Lease Agreement, see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

In general, the County is required under the Lease Agreement to pay to the Authority the Lease Payments for use and possession of the Property, which amounts are calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the Bonds.

The County's obligation to pay Lease Payments under the Lease Agreement is subject, however, to events of abatement as described therein. The County is required to make the Lease Payments from legally available funds. The County has covenanted in the Lease Agreement to take such actions as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations for all such Lease Payments subject to complete or partial abatement of such Lease Payments resulting from a taking of the Leased Property (either in whole or in part) under the powers of eminent domain or resulting from title defect or damage or destruction of all or any portion of the Leased Property (see "RISK FACTORS - The Lease Payments - Abatement" herein).

The rights of the owners of the 2017 Bonds and the enforceability of the 2017 Bonds, the Indenture, the Site Lease, the Lease Agreement and the Assignment Agreement may be subject to bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity and by the limitations on legal remedies against municipalities in the State of California (see "RISK FACTORS - Limited Recourse on Default; No Acceleration" herein).

Limited Obligation

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF LEASE PAYMENTS AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. THE AUTHORITY HAS NO TAXING POWER.

THE COUNTY'S OBLIGATION TO MAKE LEASE PAYMENTS IS AN OBLIGATION PAYABLE FROM THE COUNTY'S GENERAL FUND OR ANY OTHER SOURCE OF FUNDS LEGALLY AVAILABLE TO THE COUNTY TO MAKE LEASE PAYMENTS. THE OBLIGATION OF THE COUNTY TO MAKE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE COUNTY WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION OR ANY OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION, OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

No Reserve Fund

The Authority will not fund a reserve fund for the Bonds.

Legal Matters

Certain legal matters relating to the issuance of the Bonds are subject to the approving opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. The proposed form of Bond Counsel's opinion expected to be delivered upon the issuance of the Bonds is attached hereto as "APPENDIX D." Certain legal matters will be passed on for the County and the Authority by Dana McRae, as County Counsel and by Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel, and for the Underwriter by its counsel, Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. Fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

Offering of the Bonds

Authority for Issuance and Delivery. The Bonds are to be issued and delivered pursuant to the Indenture authorized by a resolution of the Authority adopted on November 7, 2017.

Offering and Delivery of the Bonds. The Bonds are being sold to Stifel, Nicolaus & Company, Incorporated. The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. It is anticipated that the Bonds, in book-entry form, will be available for delivery on December 7, 2017 through the facilities of The Depository Trust Company ("DTC"). See "APPENDIX E - THE BOOK-ENTRY SYSTEM."

Summaries Not Definitive

The summaries and references contained herein with respect to the Indenture, the Lease Agreement, the Site Lease, the Bonds and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the documents described herein are available for inspection during the period of initial offering of the 2017 Bonds at the offices of the Municipal Advisor, Harrell & Company Advisors, LLC, 333 City Boulevard West, Suite 1215, Orange, California 92868, telephone (714) 939-1464. Copies of these documents may be obtained after delivery of the 2017 Bonds from the Auditor-Controller-Treasurer-Tax Collector of the County at Government Center, 701 Ocean Street, Santa Cruz, California 95060, telephone (831) 454-2500.

THE 2017 BONDS

General Provisions

The 2017 Bonds will be issued in fully registered form without coupons in denominations of $5,000 or any integral multiple thereof. The 2017 Bonds will mature on June 1 in each of the years and in the amounts, and will bear interest (calculated on the basis of a 360-day year of twelve 30-day months) at the rates set forth on the inside cover page hereof.

Interest on the 2017 Bonds will be payable semiannually on each June 1 and December 1, commencing June 1, 2018 (each, an "Interest Payment Date"), to the person whose name appears on the Registration Books as the Owner thereof as of the fifteenth calendar day of the month immediately preceding each such Interest Payment Date (each, a "Record Date").

Each 2017 Bond will be dated as of its date of delivery and will bear interest from the Interest Payment Date next preceding such date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (b) it is authenticated on or before May 15, 2018, in which event it will bear interest from the Closing Date; provided, however, that if, as of the date of authentication of any 2017 Bond, interest thereon is in default, such 2017 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

Book-Entry System. DTC will act as securities depository for the 2017 Bonds. The 2017 Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. Interest on and principal of the 2017 Bonds will be payable when due by wire of the Trustee to DTC which will remit such interest and principal to DTC Participants (as defined herein), who will, in turn, remit such interest and principal to Beneficial Owners (as defined herein) of the 2017 Bonds (see "APPENDIX E - THE BOOK-ENTRY SYSTEM" herein). As long as DTC is the registered owner of the 2017 Bonds and DTC's book-entry method is used for the 2017 Bonds, the Trustee will send any notices to 2017 Bond Owners only to DTC.

DTC may discontinue providing its services as securities depository with respect to the 2017 Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2017 Bonds are required to be printed and delivered as described in the Indenture.

Redemption

Optional Redemption. The 2017 Bonds maturing on or prior to June 1, 2027 are not subject to optional redemption prior to their maturity. The 2017 Bonds maturing on or after June 1, 2028 are subject to redemption at the option of the Authority (which option may be exercised by the County) as a whole or in part on any date on or after June 1, 2027, from such maturities as may be selected by the Authority in the case of a redemption in part, at a redemption price equal to the principal amount of the 2017 Bonds subject to redemption, plus accrued interest to the date fixed for redemption, without premium.

Special Mandatory Redemption from Insurance or Condemnation Proceeds. The Bonds are subject to redemption as a whole, or in part, on any date, pro rata in integral multiples of $5,000, to the extent the Trustee has received hazard insurance proceeds or condemnation proceeds not used to repair, reconstruct or replace any portion of the Property damaged or destroyed or elected by the Authority, at the direction of the County to be used for such purpose, at a redemption price equal to 100% of the principal amount thereof plus interest accrued thereon to the date fixed for redemption, without premium on a pro rata basis with all outstanding Bonds. See "SOURCES OF PAYMENT FOR THE BONDS - Insurance Relating to the Property." In the event that the Authority issues "Additional Bonds," as defined herein, any such Additional Bonds would also be subject to redemption as described above on a pro rata basis. There can be no assurance that such proceeds will be adequate to redeem all of the Bonds, and if issued, any Additional Bonds (see “RISK FACTORS - The Lease Payments - Insurance” and “SOURCES OF PAYMENT FOR THE BONDS - Additional Bonds” herein).

Mandatory Sinking Account Redemption of 2017 Bonds. The 2017 Bonds maturing on June 1 ___ (the “Term Bonds”) are also subject to redemption in part by lot on June 1 in each of the years as set forth in the following table at a redemption price equal to the principal amount thereof to be redeemed together with accrued interest thereon to the redemption date without premium or in lieu thereof shall be purchased as described below in the aggregate respective principal amounts and on the respective dates as set forth in the following table; provided however that if some but not all of the Term Bonds have been redeemed pursuant to the special mandatory redemption provisions described above the total amount of all future payments with respect to such Term Bonds shall be reduced by the aggregate principal amount of such Term Bonds so redeemed to be allocated among such payments on a pro rata basis in integral multiples of $5,000 as determined by the Authority (written notice of which determination shall be given by the Authority to the Trustee).

Sinking Account Redemption Date (June 1)	**Principal Amount To Be Redeemed**
(maturity)	

In lieu of redemption of the 2017 Bonds under the preceding paragraph, amounts on deposit in the Revenue Fund to the extent not required to be deposited by the Trustee in the Interest Account or the Principal Account during the current Bond Year may also be used and withdrawn by the Authority at any time for the purchase of such Term Bonds at public or private sale as and when and at such prices including brokerage and other charges and including accrued interest as the Authority may in its discretion determine. The par amount of any of such Term Bonds so purchased by the Authority in any twelve-month period ending on April 15 in any year shall be credited towards and shall reduce the par amount of such Term Bonds required to be redeemed on the next succeeding June 1.

Extraordinary Redemption from Unexpended Bond Proceeds. In the event and to the extent that the County fails to expend all of the proceeds of the 2017 Bonds within the Expenditure Period (as defined below), the 2017 Bonds shall be subject to extraordinary mandatory redemption on any date which is not more than 90 days following the Expenditure Period, at a redemption price equal to 100% of the principal amount of the Outstanding Bonds together with accrued interest thereon to the redemption date, without premium. Such redemption shall occur pro rata among maturities.

“Expenditure Period” means the “expenditure period” defined in Section 54A(d)(2)(B)(ii) of the Tax Code and consists of the period beginning on the date of issue and ending on the later of the date 3 years after the date of issue or such later date, if any, as permitted by the Internal Revenue Service in response to a request to extend the Expenditure Period.

Special Optional Redemption Following Loss of Refundable Credit Payments. The 2017 Bonds are subject to redemption prior to their maturity, as a whole or in part, on any date following a Loss of Refundable Credit Payments (as defined below), from the proceeds received from the optional prepayment of the Lease Payments with respect to the 2017 Bonds made by the County under the Lease Agreement, at a redemption price equal to 100% of the principal amount of the 2017 Bonds to be redeemed together with accrued interest thereon to the redemption date, without premium.

"Refundable Credit Payments" means, with respect to the 2017 Bonds, the amounts which are payable by the Federal government under Section 6431 of the Tax Code, which the Authority and the County have irrevocably elected to receive under Section 6431(f)(3) of the Tax Code.

"Loss of Refundable Credit Payments" means (a) the enactment of legislation by the Congress of the United States of America, (b) the promulgation of a non-appealable ruling, notice or determination by the Internal Revenue Service or (c) a rendering of a non-appealable ruling or holding by a court of competent jurisdiction, the effect of any of which either (i) causes the 2017 Bonds to lose their status or otherwise fail to qualify as "New Clean Renewable Energy Bonds" under Section 54C of the Tax Code or (ii) reduces, defers or eliminates the Refundable Credit Payments by an amount which equals or exceeds 25% of the amount which would otherwise be payable in respect of the 2017 Bonds under Section 6431 of the Tax Code.

Selection of 2017 Bonds for Redemption. Whenever provision is made for the redemption of less than all of the 2017 Bonds of a particular maturity, the Trustee will select the 2017 Bonds to be redeemed from all 2017 Bonds of such maturity or such given portion thereof not previously called for redemption, by lot in any manner which the Trustee in its sole discretion deems appropriate. For purposes of such selection, the Trustee will treat each 2017 Bond as consisting of separate $5,000 portions and each such portion will be subject to redemption as if such portion were a separate 2017 Bond. If less than all the Outstanding 2017 Bonds, 2015 Bonds and Additional Bonds, if any, are called for redemption from proceeds of eminent domain or insurance at any one time, the Authority shall specify to the Trustee a principal amount in each maturity to be redeemed as nearly as practicable on a pro rata basis between the 2017 Bonds, 2015 Bonds and any Additional Bonds.

Notice of Redemption. Notice of redemption will be mailed by first-class mail, postage prepaid, not less than 20 nor more than 60 days before any redemption date, to the respective Owners of any 2017 Bonds designated for redemption at their addresses appearing on the registration books maintained by the Trustee, and to the Municipal Securities Rulemaking Board, the Securities Depositories and the Information Services. Each notice of redemption will state the date of the notice, the redemption date, the place or places of redemption, whether less than all of the 2017 Bonds (or all 2017 Bonds of a single maturity) are to be redeemed, the CUSIP numbers and (in the event that not all 2017 Bonds within a maturity are called for redemption) Bond numbers of the 2017 Bonds to be redeemed, the maturity or maturities of the 2017 Bonds to be redeemed and in the case of 2017 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on the redemption date there will become due and payable on each of said 2017 Bonds the redemption price thereof, and that from and after such redemption date interest thereon will cease to accrue and will require that such 2017 Bonds be then surrendered. Neither the failure to receive any notice nor any defect therein will affect the sufficiency of the proceedings for such redemption or the cessation of accrual of interest from and after the redemption date. Notice of redemption of 2017 Bonds will be given by the Trustee, at the expense of the Authority, for and on behalf of the Authority.

So long as the book-entry system is used for the 2017 Bonds, the Trustee will give any notice of redemption or any other notices required to be given to registered Owners of 2017 Bonds only to DTC. Any failure of DTC to advise any Participant, or of any Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2017 Bonds called for redemption or any other action premised on such notice. Beneficial Owners may desire to make arrangements with a Participant so that all notices of redemption or other communications to DTC which affect such Beneficial Owners, and notification of all interest payments, will be forwarded in writing by such Participant. See "APPENDIX E - THE BOOK-ENTRY SYSTEM."

Rescission of Notice. The Authority shall have the right to rescind any optional or special mandatory redemption by written notice to the Trustee on or prior to the date fixed for redemption. The Trustee shall mail notice of rescission of redemption in the same manner notice of redemption was originally provided.

Effect of Redemption. If notice of redemption has been given, and moneys for payment of the redemption price of, together with interest accrued to the date fixed for redemption on, the 2017 Bonds (or portions thereof) so called for redemption are being held by the Trustee, on the redemption date designated in such notice, the 2017 Bonds (or portions thereof) so called for redemption will become due and payable, interest on the 2017 Bonds so called for redemption will cease to accrue, said 2017 Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of said 2017 Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

Designation of the 2017 Bonds as New Clean Renewable Energy Bonds

On July 27, 2017, the County received allocations of volume cap to issue New Clean Renewable Energy Bonds ("New CREBs") with respect to the eight Renewable Energy Projects described under the caption "THE FINANCING PLAN - The Project" herein.

Scheduled Lease Payments and Debt Service on the 2017 Bonds

The following is the schedule of Lease Payments payable with respect to the 2017 Bonds and the estimated Refundable Credit Payments.

Period Ending June 1	Principal	Interest	Annual Total	Refundable Credit Payments [1]	Net Annual Payments
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
Total					

(1) See the caption "SOURCES OF PAYMENT FOR THE BONDS - New CREBs Refundable Credit Payments."

The following is the scheduled debt service on the 2015 Bonds and the 2017 Bonds.

Period Ending June 1	2015 Bonds	2017 Bonds	Refundable Credit Payments [1]	Combined Net Payments [2]
2018	$ 2,345,674.54			
2019	2,350,471.94			
2020	2,355,819.94			
2021	2,355,395.94			
2022	2,353,990.34			
2023	2,352,964.34			
2024	2,346,764.34			
2025	783,156.34			
2026	593,806.28			
2027	596,206.28			
2028	596,306.28			
2029	590,681.26			
2030	594,037.52			
2031	561,437.52			
2032	559,537.52			
2033	566,850.02			
2034	568,437.50			
2035	564,000.00			
2036	553,200.00			
2037	552,200.00			
2038	550,600.00			
2039	558,400.00			
2040	555,200.00			
2041	371,400.00			
2042	374,200.00			
2043	371,400.00			
2044	373,200.00			
2045	374,400.00			
Total	$27,669,737.90			

[1] See the caption "SOURCES OF PAYMENT FOR THE BONDS - New CREBs Refundable Credit Payments."

[2] Includes mandatory sinking account installments.

THE FINANCING PLAN

Estimated Sources and Uses of Funds

Under the provisions of the Indenture, the Trustee will receive the proceeds from the sale of the 2017 Bonds and will apply them as follows:

Sources of Funds

Par Amount of 2017 Bonds
Net Original Issue Premium
County Deposit to 2017 Costs of Issuance Account
County Deposit to 2017 Improvement Account
Available Funds

Uses of Funds

2017 Improvement Account of the Improvement Fund
Underwriter's Discount
2017 Costs of Issuance Account [1]
Total Uses

---

[1] Expenses include fees and expenses of Bond Counsel, Municipal Advisor, Disclosure Counsel and Trustee, rating fees, costs of printing the Official Statement, and other costs incurred with the issuance of the 2017 Bonds.

The Project

The proceeds of the 2017 Bonds deposited in the 2017 Improvement Account of the Improvement Fund are expected to be used to acquire and construct eight photovoltaic energy systems at eight facilities located throughout the County (the "Renewable Energy Projects"). The Renewable Energy Projects consist of the installation of an aggregate 2,252 Kw DC photovoltaic energy systems to be installed at the various locations described below.

The County received the New CREBs allocation on July 27, 2017 in the following amounts at the following locations:

Main Administrative Building	$ 756,218
Health Services Agency - 1080 Emeline Ave Facility	1,979,422
Health Services Agency - 1400 Emeline Ave Facility	2,253,047
Men's Medium Security Detention Center	737,792
Public Safety Center	1,765,995
Animal Shelter	340,917
Simpkins Swim Center	484,864
Brommer Ave. Corporate Yard	359,390
	$8,677,645

THE PROPERTY

The Property consists of the County's main Administrative Building and main Courts Building (collectively, the "Facility") located on 10.6 acres (the "Site") in the City of Santa Cruz. The main office building is a five-story 206,000 square foot building and houses all the primary administrative functions of the County, including the Board of Supervisors, and offices of the County Administrative Officer, Auditor-Controller-Treasurer-Tax Collector, Assessor, County Clerk/Recorder, County Counsel, Planning, Public Works and Purchasing. The Courts Building is a one-story, 38,000 square foot building. The Administrative Building and the Courts Building were originally constructed in 1967.

The Administrative Building is insured for an estimated replacement value in excess of $100 million, and the Courts Building is insured for an estimated replacement value of over $19 million. Casualty insurance on the Facility currently includes earthquake damage. However, earthquake coverage is only required in the future if such coverage is available at reasonable cost from reputable insurers in the judgment of the County and only with respect to structures(see "SOURCES OF PAYMENT FOR THE BONDS - Insurance Relating to the Property" herein). The Property is not located in a flood zone. The County estimates the value of the Site to be at least $16 million.

Pursuant to certain joint occupancy agreements and transfer of responsibilities agreements between the Judicial Council of California, Administrative Office of the Courts (together, the "AOC") and the County, the AOC occupies the Courts Building and certain space within the Administrative Building for the purpose of operating and administering the trial courts. The County retains the obligation for making Lease Payments for the portion of the Facilities used by the AOC. The agreements with the AOC are Permitted Encumbrances under the Lease Agreement.

If the AOC is required to vacate the Court Building or space occupied in the Administrative Building through the operation or enforcement of the Indenture or Lease Agreement, the County will comply with the provisions of section 70325(c) of the Government Code, which states that if the AOC is required to vacate the facility through the operation or enforcement of the legal documents establishing the bonded indebtedness, the County shall be responsible for providing the AOC with suitable and necessary court facilities at least equal to those occupied by the AOC immediately prior to the date on which the State was compelled to vacate the facility.

The County also subleases approximately 1,300 square feet of space in the Administrative Building to local elected officials of the United States House of Representatives and California State Assembly. In addition, there are approximately 3,500 square feet of space in the Administrative Building for cafeteria operations. The County expects to enter an operating lease with an outside vendor for this space.

The County has the right under the Lease Agreement to delete or substitute portions of the Property with alternate Property subject to the satisfaction of certain requirements (see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT" herein).

SOURCES OF PAYMENT FOR THE BONDS

General

The Bonds are payable from and secured by a pledge of Revenues and certain funds and accounts established and held by the Trustee under the Indenture. Revenues, as defined in the Indenture, means (i) all Lease Payments, prepayments, insurance proceeds, condemnation proceeds paid pursuant to the Lease Agreement (but not Additional Payments), and (ii) all interest or other income from any investment of any money in any fund or account established pursuant to the Indenture.

As security for the Bonds and Additional Bonds, if any, the Authority has assigned to the Trustee its rights, title and interest in the Lease Agreement (with certain exceptions), including the right to receive Lease Payments to be made by the County under the Lease Agreement.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF REVENUES AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. THE AUTHORITY HAS NO TAXING POWER.

Lease Payments

The Lease Agreement requires the County, subject to abatement as provided therein, to deposit with the Trustee, as assignee of the Authority, on each November 15 and May 15 (the "Lease Payment Dates"), an amount equal to the aggregate Lease Payment coming due and payable on each such Lease Payment Date. The Lease Payments payable in any fiscal year of the County constitute payment for the use and possession of the Property during such fiscal year. The County will receive a credit towards payment of Lease Payments for amounts on deposit in the Revenue Fund (including the Interest Account, the Principal Account and Sinking Account therein) on each Lease Payment Date.

The obligation of the County to make Lease Payments is subject to annual appropriations of the County from funds lawfully available therefor. The obligation of the County to make Lease Payments under the Lease Agreement does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. Neither the full faith and credit nor the taxing power of the County, the State or any of its political subdivisions is pledged to make Lease Payments under the Lease Agreement. The Lease Payments are sufficient to pay, when due, the principal of and interest on the Bonds.

In addition to the Lease Payments, the County is required to pay when due the following Additional Payments: (a) any fees and expenses incurred by the Authority in connection with or by reason of its leasehold estate in the Property as and when the same become due and payable; (b) any amount due to the Trustee pursuant to the terms of the Indenture; (c) any reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Lease Agreement or the Indenture; and (d) any reasonable out-of-pocket expenses of the Authority in connection with the execution and delivery of the Lease Agreement or the Indenture or any other documents contemplated thereby, or incurred by the Authority in connection with the Continuing Disclosure Certificate, or otherwise incurred in connection with the administration of the Lease Agreement or the Indenture.

Pursuant to the Lease Agreement, the County covenants to take such action as may be necessary to include all Lease Payments and Additional Payments due thereunder in its annual budgets and to make annual appropriations therefor. As provided in the Lease Agreement, the covenants of the County to budget and appropriate Lease Payments are duties imposed by law, and it is the duty of each and every public official of the County to take such action and to do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the County.

California law requires, and the Lease Agreement provides, that Lease Payments are required to be abated in whole or in part during any period in which there is substantial interference with the use and occupancy of the Property by the County due to damage, destruction or taking in eminent domain proceedings. Under these circumstances, failure to make any Lease Payment will not be an event of default under the Lease Agreement. See "Abatement" below.

Lease Payments made by the County to the Authority are payable from any revenues lawfully available to the County therefor. The Lease Agreement and the Indenture require that Lease Payments be deposited in the Revenue Fund maintained by the Trustee, which fund is held for the benefit of the Owners of the Bonds and Additional Bonds, if any.

The County may enter into other obligations payable from its general fund without the consent of the Bond Owners. To the extent the County issues such obligations, funds available to pay Lease Payments may be reduced. See "RISK FACTORS - The Lease Payments - County's Lease Payments and Other Payments" herein.

Additional Bonds

The Indenture permits the Authority to issue "Additional Bonds," which are defined as bonds, notes or other obligations authorized to be issued pursuant to the provisions of the Indenture payable from Lease Payments on a parity with the Bonds, subject to the conditions set forth in the Indenture. These provisions include that the Authority must be in compliance with all covenants set forth in the Indenture, the Authority and the County must amend the Lease Agreement to provide for additional Lease Payments sufficient to pay the principal of and interest on such Additional Bonds in full, when and as the same become due and payable, and that the County must certify that the estimated value of the Leased Property is equal to or greater than the Outstanding amount of the Bonds and the Additional Bonds. The Authority may establish a separate reserve account with respect to a series of Additional Bonds. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

2015 Reserve Account; No Reserve Account for the 2017 Bonds

A 2015 Bonds Reserve Account was established under the Indenture. As defined in the Indenture, the term "2015 Reserve Requirement" means, (a) until June 1, 2024, one-third of maximum annual debt service on the 2015 Bonds, and (b) thereafter, maximum annual debt service on the 2015 Series B Bonds. The 2015 Reserve Requirement is initially $785,273.31. All amounts in the 2015 Bonds Reserve Account are required to be used and withdrawn by the Trustee solely for the purpose of paying principal of or interest on the 2015 Bonds when due and payable to the extent that moneys deposited in the Interest Account and the Principal Account are not sufficient for such purpose or for the retirement of all the 2015 Bonds then Outstanding.

Amounts in the 2015 Bonds Reserve Account secure only the 2015 Bonds, do not secure the 2017 Bonds and will not be available to secure Additional Bonds. The Authority may establish a separate reserve account to secure any Additional Bonds. **The Authority has not established a reserve account with respect to the 2017 Bonds.**

Abatement

The Lease Agreement provides for the abatement of Lease Payments during any period in which by reason of damage to or destruction of the Property (other than by eminent domain which may cause abatement of Lease Payments as described below), there is substantial interference with the use and occupancy by the

County of the Property or any portion thereof. The amount of such abatement will be an amount agreed upon by the County and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Property not damaged or destroyed and available for use and possession by the County. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction or the date when the remaining portion of the Property is available for use and possession by the County. In the event of any such damage, destruction or non-completion, the Lease Agreement will continue in full force and effect and the County waives any right to terminate the Lease Agreement by virtue of any such damage, destruction or non-completion. There will be no abatement of the Lease Payments to the extent that moneys derived from any person as a result of such damage or destruction are available to pay the amount which would otherwise be abated or if there is any money available in the Revenue Fund or the 2015 Bonds Reserve Account to pay the amount which would otherwise be abated. See “Insurance Relating to the Property” and “Rental Interruption Insurance” below. The 2015 Bonds Reserve Account will only be approved to the pro rata share of abatement relating to the 2015 Bonds and will not be applied to any abatement of Lease Payments allocable to the 2017 Bonds.

If all of the Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the Lease Agreement will terminate with respect to the Property as of the day possession is so taken. If less than all of the Property is taken permanently, or if all of the Property or any part thereof is taken temporarily under the power of eminent domain, (a) the Lease Agreement will continue in full force and effect, and (b) there will be a partial abatement of Lease Payments in an amount to be agreed upon by the County and the Authority such that the resulting Lease Payments for the Property represent fair consideration for the use and occupancy of the remaining usable portion of the Property.

Insurance Relating to the Property

Fire and Extended Coverage Insurance. The County is required under the Lease Agreement to procure and maintain or cause to be procured and maintained, throughout the term of the Lease Agreement, insurance against loss or damage to any structures constituting any part of the Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance is required to, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance will include earthquake coverage, but only if earthquake coverage is available at reasonable cost from reputable insurers in the reasonable opinion of the County, and only with respect to structures.

Such insurance shall be in an amount at least equal to 100% of the replacement cost of all of the insured improvements. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the County, and may be maintained in whole or in part in the form of the participation by the County in a joint powers agency or other program providing pooled insurance; provided however, that such insurance may not be maintained by the County in the form of self-insurance.

Rental Interruption Insurance. The Lease Agreement requires the County to procure and maintain or cause to be procured and maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the Property as a result of certain hazards, in an amount at least equal to the maximum Lease Payments coming due and payable during any future 24-month period. Such insurance may be maintained as part of or in conjunction with any other property insurance coverage carried by the County, and may be maintained in whole or in part in the form of the participation by the County in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained in the form of self-insurance. The proceeds of such insurance, if any, will be paid to the Trustee and deposited in the Revenue Fund, and will be credited towards the payment of the Lease Payments as the same become due and payable.

Title Insurance. The County is required to obtain upon the execution and delivery of the Lease Agreement, title insurance on the Property, in an amount not less than the aggregate principal amount of Bonds issued, subject only to Permitted Encumbrances. All Net Proceeds received under such policy are required to be deposited by the Trustee in the Insurance and Condemnation Fund and applied by the Trustee to the redemption of Bonds.

If there are not sufficient insurance proceeds to complete repair of the Property, the Lease Payment schedule will be proportionally reduced in accordance with the Lease Agreement. Such reduced Lease Payments may not be sufficient to pay principal and interest with respect to the Bonds and Additional Bonds, if any. Such reduction would not constitute a default under either the Indenture or the Lease Agreement.

Insurance and Condemnation Awards

Any Net Proceeds of insurance against accident to or destruction of the Property collected by the County in the event of any such accident or destruction shall be paid to the Trustee by the County pursuant to the Lease Agreement and deposited by the Trustee promptly upon receipt thereof in the Insurance and Condemnation Fund to be established by the Trustee. If the County fails to determine and notify the Trustee in writing of its determination, within 45 days following the date of such deposit, to replace, repair, restore, modify or improve the Property, then such Net Proceeds shall be promptly transferred by the Trustee to the Redemption Fund and applied to the redemption of Bonds and any Additional Bonds on a pro rata basis pursuant to the Indenture to the extent that such Net Proceeds permit. All proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Redemption Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Property by the County, upon receipt of Written Requisitions of the County, as agent for the Authority. Any balance of the proceeds remaining after such work has been completed as certified by the County to the Trustee shall after payment of amounts due the Trustee be paid to the County.

If all or any part of the Property shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund and shall be applied and disbursed by the Trustee as follows: (i) if the County has not given written notice to the Trustee, within 45 days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for the replacement of the Property or such portion thereof, the Trustee shall transfer such Net Proceeds to the Redemption Fund to be applied towards the redemption of the Bonds and any Additional Bonds on a pro rata basis, or (ii) if the County has given written notice to the Trustee, within 45 days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for replacement of the Property or such portion thereof, the Trustee shall pay to the County, or to its order, from said proceeds such amounts as the County may expend for such repair or rehabilitation, upon the filing of Written Requisitions of the County as agent for the Authority.

No assurance can be given that the proceeds of any insurance or condemnation award will be sufficient under all circumstances to repair or replace any damaged or taken Property or to prepay all Lease Payments with respect to the Property. Also, the County makes no representation as to the sufficiency of any insurance awards or the adequacy of any self-insurance to pay, when and as due, amounts payable under the Lease Agreement or the Bonds.

If there are not sufficient insurance proceeds to complete repair of the Property, the Lease Payment schedule will be proportionally reduced in accordance with the Lease Agreement. Such reduced Lease Payments may not be sufficient to pay principal and interest with respect to the 2017 Bonds and the 2015 Bonds, or Additional Bonds, if any. Such reduction would not constitute a default under either the Indenture or the Lease Agreement.

Remedies on Default

If the County defaults in performance of its obligations under the Lease Agreement, including but not limited to the payment of Lease Payments when and as due under the Lease Agreement, it shall be lawful for the Trustee, as assignee of the Authority, to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything to the contrary in the Lease Agreement or in the Indenture, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable or to terminate the Lease Agreement or to cause the fee interest or the leasehold interest of the County in the Property to be sold, assigned or otherwise alienated.

The exercise of the remedies provided to the Trustee is subject to various limitations on the enforcement of remedies against public agencies. See “RISK FACTORS - Limited Recourse on Default; No Acceleration” and “- Enforcement of Remedies” herein.

The County has consented to the Authority’s repossession of the Property if an Event of Default shall occur and consented to the Authority’s re-letting of the Property for the account of the County. Notwithstanding any re-entry by the Authority, the County shall continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions contained in the Lease Agreement. The County shall remain liable for the payment of all Lease Payments and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Property, or, in the event the Authority is unable to re-lease the Property, then for the full amount of all Lease Payments to the end of the Term of the Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as provided for the payment of Lease Payments, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Property or the exercise of any other remedy by the Authority. See “APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT - Events of Defaults.”

New CREBs Refundable Credit Payments

The County has made an irrevocable election to have Section 6431 of the Tax Code apply to the 2017 Bonds so that the 2017 Bonds are treated as “specified tax credit bonds,” with respect to which the County will be allowed a direct interest subsidy payment from the United States Treasury to the County.

As a result of this election, interest on the 2017 Bonds is not excludable from gross income of owners of the 2017 Bonds under Section 103 of the Tax Code, and owners of the 2017 Bonds will not be allowed any federal tax credits as a result of ownership of or receipt of interest payments on the 2017 Bonds. See “TAX MATTERS.”

The maximum direct payment from the United States Treasury is equal to the lesser of (i) the amount of interest payable with respect to the 2017 Bonds, or (ii) seventy percent (70%) of the amount of interest which would be payable with respect to the 2017 Bonds if the interest rates were determined at the applicable credit rate determined under section 54A(b)(3) of the Tax Code. Due to sequestration as described below, direct payments are currently reduced by 6.6% of the maximum direct payment calculated in accordance with the Tax Code. The obligation of the United States Treasury under Section 6431 of the Tax Code to make direct payments to the County in respect of interest payments on the 2017 Bonds (the “Refundable Credit Payments”) does not constitute a full faith and credit guarantee of the 2017 Bonds by the United States of America.

As described under “TAX MATTERS,” no assurances are provided that the County will receive any Refundable Credit Payments. The amount of the Refundable Credit Payments is subject to legislative changes by the Congress and the President of the United States of America. Refundable Credit Payments are subject to sequestration under The Budget Control Act of 2011, Pub. L. No. 112-25, 125 Stat. 240, unless the Congress and the President take action to prevent such sequestration. Refundable Credit Payments can also be offset against certain amounts that may, for unrelated reasons, be owed by the County to an agency of the United States of America or certain state agencies.

The County cannot and does not make any representation regarding the County's receipt of Refundable Credit Payments with respect to the 2017 Bonds, including the amount and timing of receipt of such payments. *The Refundable Credit Payments, payable directly to the County, are not pledged to the Owners of the 2017 Bonds as security therefore.*

In addition, the 2017 Bonds are subject to special optional redemption at the option of the County and the Authority in the event that a significant reduction in the Refundable Credit Payment occurs. See "THE 2017 BONDS - Redemption."

SANTA CRUZ COUNTY

General Information

The County is situated at the northern tip of Monterey Bay, 65 miles south of San Francisco, 35 miles north of Monterey, and 35 miles south of the Silicon Valley. The County is the gateway to the Monterey Bay National Marine Sanctuary, has 29 miles of beaches and includes seven state parks and seven state beaches. It is the second smallest county in California in land area, containing a total of 440 square miles. There are four incorporated cities in the County of Santa Cruz: Capitola, Santa Cruz, Scotts Valley and Watsonville. The City of Santa Cruz was incorporated as a city in 1866. It is the county seat of the County and is the location of the Santa Cruz campus of the University of California. The City of Watsonville, established in 1868, lies 18 miles southeast of the City of Santa Cruz. The City of Watsonville is the center of the County's agriculture region transporting fresh and processed farm crops to worldwide destinations. The City of Capitola stretches along the coast east and south of the City of Santa Cruz. It was incorporated in 1949 and is a tourist destination. The City of Scotts Valley, incorporated in 1966, lies north of the City of Santa Cruz and includes community commercial areas serving local residents and a mix of industrial sites that have supported light manufacturing and research development firms predominantly in the electronics and technology industries.

Unincorporated communities in the County include: Live Oak, an urban coastal area, between the City of Santa Cruz and the City of Capitola; Soquel, which lies inland between Capitola and Santa Cruz; Aptos, south of Soquel; Felton; Ben Lomond and Boulder Creek, which are located in the San Lorenzo Valley between the City of Santa Cruz and Big Basin State Park; Davenport, which is located on the coast north of the City of Santa Cruz; Freedom, which is adjacent to and north of the City of Watsonville; and the Pajaro Valley, an agricultural area surrounding the City of Watsonville.

Government Organization

The County was incorporated in 1850 as one of the original 27 counties of the State with the City of Santa Cruz as the county seat. It has a general law form of government. A five-member Board of Supervisors elected to four-year terms serves as the legislative body. Also elected are the Auditor-Controller- Treasurer-Tax Collector, District Attorney-Public Administrator, Sheriff-Coroner, Registrar of Voters-Clerk and Assessor-Recorder. The County Administrative Officer and County Counsel are appointed by the Board of Supervisors.

The members of the Board of Supervisors, the expiration dates of their terms and key administrative personnel are set forth below.

BOARD OF SUPERVISORS

Board Member	Term Expires
John Leopold, Supervisor, 1st District	January 2021
Zach Friend, Supervisor, 2nd District	January 2021
Ryan Coonerty, Supervisor, 3rd District	January 2019
Greg Caput, Supervisor, 4th District	January 2019
Bruce McPherson, Supervisor, 5th District	January 2021

KEY ADMINISTRATIVE PERSONNEL

Carlos Palacios	County Administrative Officer
Edith Driscoll	Auditor-Controller-Treasurer-Tax Collector
Sean Saldavia	Assessor-Recorder
Dana McRae	County Counsel
Nicole Coburn	Assistant County Administrative Officer
Carol Johnson	Interim Director of General Services

Governmental Services

The County's departments are grouped by service function for budget and reporting purposes.

General Government

General Government includes the departments of the Assessor-Recorder, Auditor-Controller-Treasurer-Tax Collector, Board of Supervisors, the County Administrative Office, County Clerk, County Counsel, General Services, Information Services and Personnel & Risk Management. These departments primarily oversee the administration and financial functions of the County. The County is responsible for the administration of the property tax system, including property assessment, assessment appeals, collection of taxes and distribution of taxes to cities, former redevelopment agencies, special districts, local school districts and the County. A second major function is the County's voter registration and election system. In addition, the County provides contributions to other agencies such as Association of Monterey Bay Area Governments (AMBAG).

Health and Human Services

Health and Human Services includes the Health Services Agency, the Human Services Department, and the Department of Child Support Services. The County's Health Services Agency was established to provide central administration for various health-related programs operated or sponsored by the County. These programs include mental health, public health, medical outpatient clinics, medical care for indigents and drug and alcohol treatment services. Most programs operated by the Health Services Agency are mandated by State law and are funded through State subsidies, grants and fees for services. State and federal laws also mandate that counties provide certain human services including Aid to Families with Dependent Children, CalFresh program, Adult Protective Services, public guardian, Child Protective Services, foster care and adoption services and job training. The Patient Protection and Affordable Care Act ("Affordable Care Act") is administered by the County's Human Services Department (social services) and by the Health Services Agency. The Department of Child Support Services works with parents and guardians to ensure children and families receive court-ordered financial and medical support. In addition, the County provides funding to community non-profits under the CORE Investments budget.

Public Safety & Justice

The County criminal justice system is supported primarily by local County revenues, and consists of the Sheriff-Coroner, the Probation Department, the District Attorney, the Public Defender and a contribution to Superior Court and the Grand Jury. Public Safety is supported primarily through fees for service and includes fire protection, flood control and water conservation, as well as animal control services.

In addition to countywide law enforcement services, the Sheriff provides narcotics enforcement, investigation of arson, homicides, consumer fraud and crime scene investigation, and acts as coroner for the County and all incorporated cities. The Sheriff operates three jail facilities throughout the County.

The County coordinates an entire emergency network to handle floods, fires, earthquakes and other major disasters through the Emergency Services Department. The Santa Cruz County Flood Control and Water Conservation District provides flood control and water conservation planning. Fire protection services in the County are provided by the cities of Santa Cruz and Watsonville, ten fire protection districts and the University of California, Santa Cruz. The Santa Cruz County Fire Department in cooperation with the California Department of Forestry and Fire Protection (CALFIRE) is responsible for fire protection and first responder emergency medical services, in all five unincorporated areas outside the boundaries of the fire protection districts. The County is a participant in a joint powers emergency communications agency which provides public safety dispatchers who coordinate multi-agency mutual aid response, as well as dispatch the Sheriff's Department, ambulance/paramedic services and most fire protection agencies operating within the County. The County of Santa Cruz Animal Shelter is a joint powers authority that includes the County and the cities of Santa Cruz, Watsonville and Scotts Valley to provide animal control services to residents.

Land Use and Community Services

The departments included in this category include the Agricultural Commissioner, Agricultural Extension, Parks, Open Space and Cultural Services ("POSCS"), Planning, Public Works and the Redevelopment Successor Agency. The Agricultural Commissioner provides for the protection of agriculture, enforcement of weights and measures and vector control. The Planning Department develops, implements and enforces county land use policies and ordinances, administers environmental review and protection programs, processes and issues building, zoning, and other developmental permits, code compliance and oversees affordable housing and community development efforts. The Department of Public Works provides for the maintenance of public infrastructure for transportation, solid waste, real property, sanitation, parking, drainage, and solid waste/recycling. POSCS is responsible for operation and maintenance of the County's park system, and currently operates 1,400 acres of parkland, multiple beach access points, and the Simpkins Family swim Center. POSCS offers a wide variety of recreational and cultural programs, events and services year-round. In addition, the County provides contributions to Local Area Formation Commission (LAFCO), Monterey Unified Air Pollution Control District and receives library services and funding from the Library Fund.

Community Information

Public school education is available through 35 elementary schools, 21 secondary schools and 10 unified school districts as well as numerous charter and alternative education programs. The University of California (the "University") established its Santa Cruz campus in 1965. The University is structured into ten independent undergraduate colleges and offers graduate study in numerous academic fields. The Lick Observatory, a multi-campus research facility for astronomers, is headquartered at the University. The 2,000-acre campus, set among redwood groves and meadows, lies on the northwest boundary of the City of Santa Cruz.

Cabrillo Community College ("Cabrillo"), a publicly supported institution, offers a broad curriculum which includes liberal arts, business, engineering, nursing and allied health technologies, and vocational education. Cabrillo is located in the community of Aptos.

The County also hosts the Seymour Marine Discovery Center, the Long Marine Laboratory, the National Oceanic and Atmospheric Administration (NOAA) Fisheries, the Oiled Wildlife Veterinary Care and Research Center, and the Monterey Bay National Marine Sanctuary Exploration Center.

There are two full-service hospitals in the County. Dignity Health Dominican Hospital is located east of the City of Santa Cruz and Watsonville Community Hospital is located in Watsonville. A maternity and outpatient surgery center, Sutter Hospital, is also located in the County.

Cultural amenities in the area include Open Studios, the Tannery Arts Center, the Santa Cruz County Symphony, the Cabrillo Music Festival, Shakespeare Santa Cruz, the McPherson Museum of Art and History, the University of California Performing Arts Center, the Henry J. Mello Performing Arts Center and the Cabrillo College Visual & Performing Arts Complex.

Transportation

Six major State highways connect the County with adjacent counties. Highway 1 leads along the coast from San Francisco south to the City of Santa Cruz and on to Monterey. Highways 9 and 17 traverse the County from the City of Santa Cruz across the Santa Cruz Mountains into Santa Clara County. The City of Watsonville is joined with Santa Clara County by Highway 152 and with San Benito County by Highway 129. Highways 17, 152 and 129 connect with U.S. 101, a major north-south route. Highway 236 provides access to Big Basin State Park.

Air cargo and passenger flight services are provided at the Norman Y. Mineta San José International Airport, 32 miles northeast; Monterey Peninsula Airport, 43 miles south; and San Francisco International Airport, 60 miles north. Watsonville Municipal Airport provides private and executive air transportation facilities and air cargo.

Bus transportation is provided through the Santa Cruz Metropolitan Transit District for inter-urban and local inter-community service. Greyhound Bus Lines provide service to other local areas and additional transcontinental service with connections to Amtrak.

Population

Approximately 50.8% of the County's population lives in the County's four incorporated cities: Capitola, Santa Cruz, Scotts Valley and Watsonville.

TABLE NO. 1
COUNTY OF SANTA CRUZ
POPULATION
INCORPORATED CITIES AND UNINCORPORATED COMMUNITIES
2013 – 2017

January 1	Incorporated Cities		Unincorporated Communities		Santa Cruz County	
Year	Population	Percentage Change	Population	Percentage Change	Population	Percentage Change
2013	136,388		132,732		269,120	
2014	137,249	0.6%	133,812	0.8%	271,061	0.7%
2015	138,898	1.2	134,958	0.9	273,856	1.0
2016	139,647	0.5	135,910	0.7	275,557	0.6
2017	140,410	0.5	136,193	0.2	276,603	0.4
% Increase Between 2013 - 2017		2.9		2.6		2.8

The County is adjacent to Santa Clara and Monterey counties. The following table sets forth the population for the County, Santa Clara County and Monterey County between 2013 and 2017.

TABLE NO. 2
POPULATION
COUNTIES OF SANTA CRUZ, SANTA CLARA AND MONTEREY
2013 – 2017

January 1	SANTA CRUZ COUNTY		SANTA CLARA COUNTY		MONTEREY COUNTY	
Year	Population	Percentage Change	Population	Percentage Change	Population	Percentage Change
2013	269,120		1,856,416		427,087	
2014	271,061	0.7%	1,879,196	1.2%	429,298	0.5%
2015	273,856	1.0	1,903,209	1.3	432,664	0.8
2016	275,557	0.6	1,922,619	1.0	438,171	1.3
2017	276,603	0.4	1,938,180	0.8	442,365	1.0
% Increase Between 2013 – 2017		2.8		4.4		3.6

Source: *State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties and the State, 2011-2017, with 2010 Census Benchmark,"* Sacramento, California, May 2017.

Per Capita Personal Income

Per capita personal income information for the County, the State of California and the United States are summarized in the following table.

TABLE NO. 3
PER CAPITA PERSONAL INCOME [(1)]
COUNTY OF SANTA CRUZ, STATE OF CALIFORNIA AND UNITED STATES
2011 – 2015 [(2)]

Year	County of Santa Cruz	State of California	United States
2011	$49,439	$45,820	$42,453
2012	52,256	48,312	44,267
2013	52,908	48,471	44,462
2014	54,585	50,988	46,414
2015	57,257	53,741	48,112

(1) Per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2011-2015 reflect county population estimates available as of March 2016.

(2) Most recent year for which full year statistics are available.

Note: All dollar estimates are in current dollars (not adjusted for inflation).

Last updated: November 17, 2016 - new estimates for 2015; revised estimates for prior years.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Employment and Industry

Services

Analysis prepared by the Santa Cruz County Workforce Development Board identified five major economic clusters that contribute significantly to the regional economy: technology, tourism, lifestyle enterprises, agriculture, and environmental technology.

The services sector is the largest economic sector in the County, and includes a wide range of activity. Hotels, other lodging places, business and finance services, personal services, automotive repairs services, amusement and recreation, and health services are all part of this sector. The sector includes very large employers such as Plantronics, which develops computer software and business computer applications, and Bluetooth Mobile headsets, the Santa Cruz Beach Boardwalk (employing 1,600 in the high season) and Dominican Hospital (about 1,000 employees), as well as very small software development and business service firms employing 10 or fewer.

New information technologies and the County's proximity to Silicon Valley are factors that contribute to growth in the areas of computer, networking services, and software development, and the County's location on the Monterey Bay National Marine Sanctuary contributes to growth in marine sciences' research and development.

Agriculture

Agriculture is an important industry in the region. The gross value of crops has increased steadily in recent years, as some segments of the industry have adapted successfully to changing consumer tastes, adopted new technologies and taken advantage of growing overseas markets. The agriculture economy has become highly diversified, producing over 2,000 kinds of crops in Santa Cruz County. According to the County's Agriculture Commissioner, the largest crops produced (by sales volume) are strawberries, raspberries, cut flowers, nursery plants and blackberries. There are approximately 100 organic growers in the County. [discuss cannabis cultivation initiatives]

Tourism

Santa Cruz County is an important vacation and recreation area. Miles of coastline and accessible beaches border the second largest Marine Sanctuary in the world, an amusement park and other attractions, acres of redwood forest land, several State parks and beaches, U-pick farms, wineries, and the presence of a diverse music and art scene, all in close proximity to the Bay Area.

Commercial

In addition to traditional commercial and retail businesses, Santa Cruz County is home to many recreation and personal lifestyle businesses started by local entrepreneurs with nationally-recognized brands and products, including O'Neill Wetsuits, Santa Cruz Skateboards, Annieglass, Driscoll Berries, Santa Cruz Guitars and Santa Cruz Bicycles. The County also has a diverse and productive arts community anchored by the Tannery Arts Center in Santa Cruz, the Visual, Applied and Performing Arts Division at Cabrillo College, and the Digital Arts and New Media Program at the University of California, Santa Cruz.

Employment

As of August 2017 the civilian labor force for the County was approximately 145,900 of whom 138,000 were employed. The unadjusted unemployment rate as of August 2017 was 5.4% for the County as compared to 5.4% for the State. Civilian labor force, employment and unemployment statistics for the County, the State and the United States, for the years 2012 through 2016 are shown in the following table:

TABLE NO. 4
COUNTY OF SANTA CRUZ
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
ANNUAL AVERAGES

Year	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
2012				
Santa Cruz County	142,100	125,300	16,800	11.8%
California	18,523,800	16,602,700	1,921,100	10.4
United States	154,975,000	142,469,000	12,506,000	8.1
2013				
Santa Cruz County	142,100	127,500	14,600	10.3
California	18,624,300	16,958,700	1,665,600	8.9
United States	155,389,000	143,929,000	11,460,000	7.4
2014				
Santa Cruz County	142,600	130,100	12,500	8.8
California	18,755,000	17,348,600	1,406,400	7.5
United States	155,922,000	146,305,000	9,617,000	6.2
2015				
Santa Cruz County	143,400	132,700	10,700	7.5
California	18,893,200	17,723,300	1,169,900	6.2
United States	157,130,000	148,834,000	8,296,000	5.3
2016				
Santa Cruz County	144,500	134,600	10,000	6.9
California	19,102,700	18,065,000	1,037,700	5.4
United States	159,187,000	151,436,000	7,751,000	4.9

Source: California State Employment Development Department and United States Bureau of Labor Statistics.

Industry

The County is located in the Santa Cruz-Watsonville Metropolitan Statistical Area ("MSA"). The historical employment in the Santa Cruz-Watsonville MSA is presented in the following table.

TABLE NO. 5
SANTA CRUZ-WATSONVILLE MSA
WAGE AND SALARY WORKERS BY INDUSTRY [(1)]
(in thousands)

Industry	2013	2014	2015	2016	2017
Government	19.3	19.6	19.8	19.9	20.7
Other Services	4.1	4.4	4.7	4.7	4.9
Leisure and Hospitality	13.4	14.2	14.9	15.2	15.3
Educational and Health Services	16.3	16.5	17.1	17.3	17.5
Professional and Business Services	9.9	9.6	9.9	9.8	9.5
Financial Activities	3.5	3.6	3.7	3.7	3.7
Information	0.8	0.8	0.8	0.8	0.8
Transportation, Warehousing and Utilities	1.4	1.3	1.5	1.6	1.5
Service Producing					
Retail Trade	11.6	11.9	12.2	12.5	12.6
Wholesale Trade	3.6	3.5	3.6	3.5	3.8
Manufacturing					
Nondurable Goods	2.8	3.0	3.2	3.3	3.6
Durable Goods	3.1	3.4	3.6	3.6	3.7
Goods Producing					
Mining, Logging and Construction	3.3	3.5	3.8	4.7	5.0
Total Nonfarm	93.1	95.3	98.8	100.6	102.6
Farm	12.1	12.1	11.8	11.9	12.0
Total (all industries)	105.2	107.4	110.6	112.5	114.6

(1) Annually, as of August.

Note: The unemployment rate is calculated using unrounded data. Data may not add due to rounding.

Source: State of California Employment Development Department, Labor Market Information Division, "*Industry Employment & Labor Force - by month, March 2016 Benchmark.*"

The principal employers operating within the County during the Fiscal Year ended June 30, 2017 are as follows:

TABLE NO. 6
COUNTY OF SANTA CRUZ
PRINCIPAL EMPLOYERS
FISCAL YEAR 2016/17

Name of Company	Number of Employees [1]	Product/Service
University of California at Santa Cruz	1,000-4,999	Education
Pajaro Valley Unified School District	1,000-4,999	Education
County of Santa Cruz	1,000-4,999	County Services
Dominican Hospital	1,000-4,999	Hospital
Santa Cruz Beach Boardwalk	1,000-4,999	Amusement/Recreation
Dutra Farms	1,000-4,999	Grocery/Wholesale
Granite Rock	500-999	Excavating Contractors
Cabrillo College	500-999	Education
City of Santa Cruz	500-999	City Services
Watsonville Community Hospital	500-999	Hospital
West Marine	500-999	Retail
Plantronics	500-999	Telephone Apparatus Manufacturer

(1) Number of Employees reflects an average range based on California Employment Development Department data.

Source: County of Santa Cruz Comprehensive Annual Financial Report.

The County is not aware of any significant change since June 30, 2017 to the principal employers shown in Table No. 6.

Commercial Activity

The following table summarizes the volume of retail and food services sales and taxable transactions for the County for calendar years 2011 through 2015 (the most recent year for which full-year statistics are available).

TABLE NO. 7
COUNTY OF SANTA CRUZ
TOTAL TAXABLE TRANSACTIONS
(in thousands)
2011 - 2015

Year	Retail and Food Services ($000's)	% Change	Retail and Food Services Permits	Total Taxable Transactions ($000's)	% Change	Issued Sales Permits
2011	2,248,131	8.1%	5,823	2,893,395	5.9%	8,301
2012	2,375,320	5.7	5,835	3,056,694	5.6	8,320
2013	2,525,183	6.3	6,074	3,270,766	7.0	8,539
2014	2,610,443	3.4	6,274	3,382,117	3.4	8,735
2015	2,679,131	2.6	N/A	3,546,784	4.9	N/A

Source: California State Board of Equalization, *"Taxable Sales in California."*

The following table sets forth taxable transactions in the County and surrounding counties for 2011 through 2015 (the most recent year for which full-year statistics are available).

TABLE NO. 8
TOTAL TAXABLE TRANSACTIONS
COUNTY OF SANTA CRUZ AND SURROUNDING COUNTIES
(in thousands)
2011 - 2015

County	2011	2012	2013	2014	2015	% Change from 2011 - 2015
SANTA CRUZ	$ 2,893,395	$ 3,056,694	$ 3,270,766	$ 3,382,117	$ 3,546,784	22.6%
San Mateo	13,020,643	13,906,978	14,611,618	15,298,434	15,478,010	18.9
Santa Clara	33,431,217	36,220,445	37,621,606	39,628,655	41,237,759	23.4
San Benito	486,490	530,017	560,238	560,376	607,831	24.9
Monterey	5,312,732	5,637,445	5,910,531	6,200,747	6,406,117	20.6

Source: California State Board of Equalization, *"Taxable Sales in California."*

Taxable transactions by type of business for the County are summarized below for 2011 through 2015 (the most recent year for which full-year statistics are available).

TABLE NO. 9
COUNTY OF SANTA CRUZ
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
(in thousands)
2011 – 2015

	2011	**2012**	**2013**	**2014**	**2015 (1)**
Retail and Food Services					
Motor Vehicle and Parts Dealers	$ 257,320	$ 272,189	$ 300,257	$ 303,969	
Furniture and Home Furnishings Stores	47,221	47,659	52,238	56,212	
Electronics and Appliance Stores	66,499	68,525	66,165	65,301	
Building Material, Garden Equip. and Supplies	247,364	251,652	279,264	290,117	
Food and Beverage Stores	226,249	237,420	243,935	254,794	
Health and Personal Care Stores	96,753	99,767	106,698	113,219	
Gasoline Stations	349,163	363,261	354,464	348,016	
Clothing and Accessories Stores	139,153	147,701	160,507	166,076	
Sporting Goods, Hobby, Books, Music Stores	81,319	80,702	84,288	80,739	
General Merchandise Stores	238,918	260,340	272,124	278,434	
Miscellaneous Store Retailers	128,820	136,364	140,321	146,764	
Nonstore Retailers	14,918	26,359	51,546	58,799	
Food Services and Drinking Places	354,433	383,382	413,375	448,005	
Total Retail and Food Services	**2,248,131**	**2,375,320**	**2,525,183**	**2,610,443**	**$2,679,131**
All Other Outlets	645,264	681,374	745,583	771,673	867,653
Total All Outlets	**$2,893,395**	**$3,056,694**	**$3,270,766**	**$3,382,117**	**$3,546,784**

(1) Beginning in 2015, the State Board of Equalization no longer publishes detailed retail sales information.

Note: Detail may not compute to total due to rounding.

Source: California State Board of Equalization, *"Taxable Sales in California."*

Building Activity

The following table summarizes building activity valuations for the County for the five calendar years from 2012 through 2016.

TABLE NO. 10
COUNTY OF SANTA CRUZ
BUILDING ACTIVITY AND VALUATION
(in $ thousands)
2012 – 2016

	2012	2013	2014	2015	2016
Residential	$ 68,932	$ 69,559	$ 70,444	$ 72,860	$102,393
Non-Residential	51,671	44,708	79,182	42,430	93,011
Total Valuation	**$120,603**	**$114,267**	**$149,626**	**$115,290**	**$195,404**
No. of New Dwelling Units:					
Single-Dwelling	80	94	113	101	116
Multi-Dwelling	173	32	5	62	202
Total New Units	**253**	**126**	**118**	**163**	**318**

Source: County of Santa Cruz.

FINANCIAL INFORMATION

Economic Conditions and Outlook

The County, like many other municipal entities, was not immune to the effects of the most recent economic recession. The County's General Fund revenues were hampered as a result of declining assessed values and depressed consumer spending while employee retirement and health care costs continued to increase. Even as the local economy recovered, between 2012 and 2016, expenditure growth outpaced revenue growth. The County's Budget for Fiscal Year 2017/18 (the "Budget") reflects revenues increasing more than expenditures for just the second time in as many years. However, ongoing efforts to constrain cost increases are challenging as the needs and requirements of the community continue to expand.

The Budget focuses on the following objectives:

- Maintaining quality of services while preparing for uncertainties of changing state and federal priorities;
- Continuing to improve reserves;
- Reducing the budget deficit.
- Maintaining operations and addressing the increases in the costs of doing business including salaries, health and retirement benefits and other fixed costs;
- Meeting the requirements of the Board's budgeting principles; and
- Providing additional financial information for use by the public.

The Budget includes funding for programs and projects which the Board has made a priority, including the Nurse-Family Partnership and Thrive by Three programs, cannabis licensing, mental health and substance abuse services, homeless services, economic development, and technological improvements. Other areas needing attention, such as facility improvements and funding for local roads and winter storm recovery are also high priorities for the coming year.

Property Tax. Assessed values reversed their declines from the recession beginning in Fiscal Year 2013/14, which included the recapture of some of the market value reductions in real estate in prior years as discussed under the caption "Taxable Property and Assessed Valuation" below. Recapture of prior years' market value reductions continued in subsequent years and total value exceeded pre-recession levels by 2014/15. The County experienced an overall 5.7% increase in assessed values for 2017/18, after an increase of 5.1% in 2016/17. These increased assessed values also impact property taxes in-lieu of vehicle license fees (see "Other Local Taxes" below).

Sales Tax. The County has seen a relatively consistent, although small, growth in sales tax over the last 3 years, after taking into account the effect of $1.4 million one-time revenue from the end of the "triple flip" (see "Other Local Taxes - Sales and Use Taxes" herein). In Fiscal Year 2016/17, the County anticipated 6.9% growth in total sales tax revenue from the prior year, but growth in base sales tax was 4.0% after deducting the one-time revenue. In 2017/18, 3.8% base sales tax growth is projected.

Transient Occupancy Tax. Tourism is important to the County's economy. The County continues to experience significant annual increases in transient occupancy tax collections, due to both increasing occupancy and institution of audit compliance procedures. In November 2012, voters approved a 1.5% increase to the transient occupancy tax rate which, together with higher occupancy rates, increased revenue by 22% in Fiscal Year 2013/14. Actual transient occupancy tax for Fiscal Year 2014/15 increased another 17.6% from the prior year and increased a further 9.3% in Fiscal Year 2015/16. The County entered into an agreement with Airbnb to collect transient occupancy tax from its customers in 2016/17. The Budget includes a 6% increase in transient occupancy tax in 2017/18 after an increase of 13% in 2016/17, taking into account the impact of the Airbnb agreement.

Voter-Approved Taxes.

- *Measure F*. The voters approved Measure F in June 2014, authorizing a parcel tax on all improved parcels of land in the unincorporated County at a rate of $8.50 per parcel. The annual revenue is estimated at $343,000 and is earmarked for cleaning and maintaining park restrooms, County parks and recreational areas, beaches and other open space areas.

- *Cannabis Business Tax*. The voters in the County approved Measure K in November 2014, authorizing up to a 10% tax of the gross receipts of medical marijuana businesses in the unincorporated County. Initially the tax is levied at 7%. The Cannabis Business tax generated $978,000 in Fiscal Year 2014/15 and $2.5 million in Fiscal Year 2015/16, the first full year of the tax. The tax is expected to generate approximately $2.56 million in Fiscal Year 2017/18. In November 2016, voters in the County approved Measure E, expanding the tax to apply to all cannabis-related businesses. This component of the tax generated approximately $254,000 in Fiscal Year 2016/17, and is expected to generate $1.19 million in Fiscal Year 2017/18, the first full year of the tax.

- *Measure D.* The voters in the County approved Measure D in November 2016, a one-half cent additional sales tax for transportation-related expenditures, to be levied for 30 years. Local jurisdictions, such as the County, will share in 30% of the annual sales tax for local transportation purposes, with the balance used for regional projects.

Salaries and Benefits. The County continues to employ personnel cost control measures to reduce budget imbalances. Prior to the implementation of the Affordable Care Act (the "ACA") which required additional staffing, the County had reduced its personnel by 20% County-wide during the recession, and implemented furloughs. The furloughs were fully eliminated in Fiscal Year 2014/15. Employees also began contributing toward the employees' share of their retirement cost (50% of the 7% employees' share in Fiscal Year 2014/15 and 100% in Fiscal Year 2015/16), and the County increased salaries to compensate for the retirement cost contributions. The California Public Employees' Retirement Plan ("CalPERS") continues to revise their actuarial assumptions and increase contribution rates, significantly impacting past budgets and the current Fiscal Year 2017/18 Budget. See "Retirement Program" for further detail on County retirement programs.

Personnel. A total of 2,437.65 full-time equivalent ("FTE") positions County-wide were approved in the Budget, of which 2,012.90 positions are financed by the General Fund. The Budget shows a net decrease of 14.4 FTE positions County-wide compared to the 2016/17 adopted budget. The net change results from deletion of certain prior years' unfunded or vacant FTE positions and the addition of other personnel in various departments. No filled positions were deleted.

Sequestration. One factor not in the control of the County, and not estimated at this time, are any impacts of potential further federal sequestration spending cuts which, with respect to the County, target discretionary programs such as funding for United States Department of Agriculture Rural Development and Community Development Block Grant Programs, or payments such as the Refundable Credit Payment. There is also proposed elimination of State Criminal Alien Assistance Program funds, which is a Department of Justice program that reimburses states and counties for the costs of incarcerating undocumented individuals. The County has made and continues to make supplemental budget changes as details of the federal budget are available, and to reduce programs in line with any funding cuts.

State Budgets. From time to time, the County expects to make budget changes when the State budgets are adopted, and to reduce programs if any funding cuts are adopted or increase program costs in line with available funding increases, if any.

Fiscal Year 2017/18. The backdrop for the Budget are healthy Bay Area and County economies. However, as part of the State's Budget for 2017/18, the Governor's overall message was one of caution and saving for the future, due to lagging State revenues and the unknowns associated with a new federal administration. Therefore, the State budget pulls back on a variety of funding commitments. Some of these issues will impact the County in future years, including the proposed abandonment of the Maintenance of Effort agreement regarding In-Home Supportive Services ("IHSS") and requirement for counties to pay 35% of the non-federal costs of providing IHSS. Fiscal 2017/18 will also be the second year of reduced State funding for CalWORKs. The County also experienced storm damage during the winter 2017 rains and will need to provide matching funds to leverage federal and State funding for road repair projects. Even with these challenges, the Budget includes funding General Fund reserves of 10% of budgeted revenues. The County also anticipates decreasing its ongoing structural deficit. The structural deficit continues to be funded, as in prior years, from budget savings realized in the prior year, primarily salary savings from vacant staff positions or unused amounts budgeted for contingencies.

Budgetary Process and Administration

In accordance with the provisions of Chapter 1, Division 3, Title 3, of the Government Code of the State of California, the County prepares and adopts a budget for each fiscal year. The County Administrative Officer is required to submit to the Board of Supervisors (the "Board") a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. On or before June 30, public hearings are conducted to obtain public comments. On or before October 2, the final budget is prepared by the Auditor-Controller-Treasurer-Tax Collector and is legally enacted by adoption of a resolution.

The Board approves all transfers of budgeted appropriation amounts between budget units within any fund or between expenditure objects. Budgetary control is maintained at the object level. Object levels are appropriation totals for salaries and employee benefits, services and supplies. All budgetary changes during the budget year require Board action. No increase in the aggregate appropriations can be made unless the County receives written certification of additional revenue from the sources of such revenue.

Budget Policy

The County has adopted Budget Principles. The Budget Principles are designed to provide overall guidance in the preparation, adoption, implementation and evaluation of the annual budget. The major principles include:

- encouraging public input,
- balanced budgeting,
- targeting the use of Fund Balance for one-time costs and cyclical rather than structural budgetary imbalances,
- maintaining prudent reserves for cashflow, and for unforeseen or emergency events,
- prioritizing funding decisions,
- responding to changing conditions,
- developing strategic approach to address unfunded liabilities,

- maintaining a five-year Capital Improvement Program, and
- seeking cost recovery.

Fund Balance Policy

The County believes that sound financial management principles require that sufficient funds be retained by the County to provide a stable financial base at all times. To retain this stable financial base, the County needs to maintain unrestricted fund balance sufficient to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances (described below under "Financial Statements - GASB Statement No. 54") are considered unrestricted.

The purpose of the County's fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

The policy is designed to achieve and maintain committed and assigned fund balance categories of no less than 10% of the upcoming year's estimated General Fund budgetary revenues. The County Board increased this percentage from 7% to 10% during Fiscal Year 2014/15, with the increase to be phased in over a period of seven years, by Fiscal Year 2021/22. The County is budgeting the fund balance to reach 10% of budgetary revenues by the end of Fiscal Year 2017/18, ahead of schedule. Budgetary revenues are typically 5% to 6% higher than actual revenues shown in its General Fund financial statements because the budget includes revenue from interdepartmental transfers that are eliminated in the preparation of the audited financial statements as described below under "General Fund Revenues and Expenditures." The table below provides the budgetary and actual revenues for Fiscal Year 2015/16 and estimated actual revenues for Fiscal Year 2016/17.

	2015/16		2016/17	
	Budgetary	Actual	Budgetary	Actual
Intergovernmental Transfers	$ 28,485,925	$ 4,025,238		
All Other Revenues	424,252,404	418,020,606		
Total Revenues	$452,738,329	$426,001,437		

General Fund Revenues and Expenditures

The revenues in the tables that follow are categorized as:

- Taxes, detailed in Table No. 16 "Tax Revenues by Source," which includes general property tax, property tax in-lieu of motor vehicle license fees, sales tax, property tax in-lieu of sales tax and transient occupancy taxes;
- Licenses and Permits, which includes construction and grading permits, franchise fees (cable, utility, trash) and food vendor permits;
- Fines and Forfeitures, which includes municipal and vehicle code violations and criminal fines;
- Revenue from Use of Money, which includes interest income and rent and concessions;
- Intergovernmental Revenue, detailed in Table No. 17 "State and Federal Funds" which includes Proposition 172 sales tax, motor vehicle license fees (health realignment portion), and state and federal reimbursements for health and welfare services;

- Charges for Services, comprised of outpatient clinic fees, County overhead charges, property tax administration fees, consumer fraud penalties and other charges such as booking fees, court filing fees, fees for dispatch services and alarm response, recoding fees, plan checking, building inspection, park and recreation fees and other municipal services; and

- Miscellaneous Revenue.

The expenditures in Table No. 11 that follows are categorized by governmental function, such as public protection and public assistance. Each function generally includes salaries and benefits, services and supplies and other charges.

Salaries and benefits include direct personnel costs, pension and post-retirement benefits, health insurance costs and workers' compensation and unemployment insurance costs.

Services and supplies include non-personnel operating costs and contract professional services, of which the largest share relates to the Health Services Agency operations and the Human Services department.

Other charges primarily consist of non-personnel related costs, of which a large majority is associated with social services.

Operating transfers reflected in the financial statements consist primarily of debt service payments. However, as shown in Table No. 11, for budget purposes, the County includes inter-department cost allocations for cost of services provided by various General Fund departments to other General Fund functions in the "transfers out" line. These transfers are eliminated in preparing the audited financial statements.

Fiscal Year 2017/18 Budget Assumptions

The County's Budget for 2017/18 reflects the County's assessment of the continuing impact on salaries and benefits of rising pension costs as well as the permanent elimination of certain positions, offset by additional staffing requirements.

Some key assumptions incorporated into the Budget, and related variances from Fiscal Year 2016/17 actual unaudited results, are as follows:

- Assessed value increase of 5.7%, resulting in a 4.3% increase in current year's general property tax (not including supplemental taxes, prior years collections and penalties, residual property tax from the former redevelopment agencies, or one-time releases from the Tax Loss Reserve) and a 5.7% increase in property taxes in lieu of vehicle license fees.

- $3.2 million one-time transfer from excess in the Teeter Plan Tax Loss Reserve.

- 3.8% growth in overall sales tax revenue, taking into account the $1.39 million one-time 2016/17 sales tax increase for the end of the "triple flip."

- Transient occupancy tax increase of 6%, including continued growth in demand and a full year impact associated with the Airbnb rentals.

- Estimated $935,000 increase in Cannabis Licenses fee revenue relating to cannabis growers.

- Increased salary and benefit costs for current staff under existing employee contractual agreements and increased costs for retirement based on rising CalPERS rates.

- After elimination of 14.4 FTE long-term unfunded positions, assumed all vacant positions are filled, less a vacancy factor between 2% and 7%, depending on the department.

- Inclusion of a $6.65 million contingency for unplanned expenditures.

- Use of $6.3 million budget surplus from Fiscal Year 2016/17 to offset budget shortfall in Fiscal Year 2017/18.

As previously described the County's health and mental health programs are largely paid for with State and federal funding or by charging for services. Typically, an increase in the cost to provide particular programs or an increase in services provided will result in an offsetting increase in "Intergovernmental Revenues" or "Charges for Services" revenues. Similarly, if a program cost decreases, as a result of serving fewer patients, revenue from reimbursement of the costs will decrease. The significant changes in the Budget are:

- Intergovernmental Revenues (net $16.9 million increase):

    - $8 million in new grants, or unspent grants from prior year and rebudgeted, including $4.7 Whole Person Care grant, $2 million CDBG grant, $400,000 recovery center grant and $585,000 anti-terrorism grants.

    - $6 million increase in AB 118 food program funding.

    - $8 million increased state and federal health and public assistance reimbursements due to higher staffing levels by filling vacant positions.

    - $6.2 million reduction in Telecare patient services reimbursed revenues reclassified to "Charges for Services."

    - $400,000 in storm damage assistance.

- Charges for Services (net $11.1 million increase):

    - $7 million increase in outpatient clinic fees due to higher staffing levels by filling vacant positions.

    - $4.3 million of Telecare patient services reimbursed expenses reclassified to "Charges for Services."

    - $1 million increase for updated service fee schedule, offset by reduction in a variety of service charges such as legal services and EMS services.

- $21.7 million expenditure increase (4.8%), net of interdepartment cost allocations

    - $8 million in new or rebudgeted grant expenditures.

    - $1.5 million for remaining financial system capital outlay, together with additional fixed assets.

    - $7 million increase across all departments for contract cost of living salary adjustments and retirement contribution increased costs.

    - $3.5 million for salaries and benefits for new positions expected to be funded from new grant revenues or other revenue increases.

Table No. 11 provides a comparison of audited results for Fiscal Years 2014/15 and 2015/16, the unaudited actual results for Fiscal Year 2016/17 and the 2017/18 Budget. A five-year summary of the General Fund Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance is shown in Table Nos. 28 and 29.

TABLE NO. 11
COUNTY OF SANTA CRUZ
GENERAL FUND REVENUES AND EXPENDITURES

	FY 2014/15 Actual	FY 2015/16 Actual	FY 2016/17 Unaudited	FY 2017/18 Final Budget
Revenues				
Taxes	$ 99,687,028	$107,566,543	$116,873,004	$124,652,208
Licenses, Permits and Franchises	11,050,811	11,875,855	13,258,979	14,819,294
Fines and Forfeitures	4,713,148	3,617,246	4,069,870	4,743,520
Use of Money and Property	2,005,411	3,620,166	2,708,281	2,628,752
Intergovernmental Revenues	232,578,980	234,772,832	219,735,815	236,645,854
Charges for Current Services	50,326,472	57,591,811	63,205,075	74,259,284
Other Revenues	3,962,344	3,001,431	6,674,384	6,679,141
Other Financing Sources	92,808	69,685	2,475,138	1,373,781
Transfers In [(1)]	3,987,479	4,025,238	25,499,560	23,994,926
Total Revenues	408,404,481	426,140,807	454,499,560	489,796,760
Expenditures				
General Government	30,999,229	29,664,592	32,915,340	37,013,087
Public Protection	124,019,686	133,115,694	142,175,956	153,246,015
Public Ways and Facilities	193,935	239,884	254,318	344,800
Health and Sanitation	111,482,429	117,006,779	132,753,673	151,163,027
Public Assistance	117,130,460	124,984,705	125,553,216	131,347,649
Education	113,540	123,569	123,620	123,812
Recreation and Culture	6,082,284	7,188,886	8,400,771	9,008,870
Debt Service	162,213	(17,225)	370,010	491,000
Transfers Out [(2)]	8,730,706	12,302,785	7,859,588	6,716,578
Appropriation for Contingency	-	-	-	6,652,763
Total Expenditures	398,914,482	424,609,669	450,406,492	496,107,601
Net Change in Fund Balances	9,489,999	1,531,138	4,093,068	(6,310,841)
Beginning Fund Balance [(3)]	39,840,614	49,069,446	50,984,980	55,125,781
Change in Restricted Reserves	(261,167)	384,396	47,733	-
Ending Fund Balance [(3)]	$ 49,069,446	$ 50,984,980	$ 55,125,781	$ 48,814,940

(1) For budget purposes, the County budgets as "transfers in" revenues that the County receives for public health, mental health and social services that are required to be recorded first in a trust fund and transferred in or "realigned" for the intended General Fund purpose. These transfers are eliminated in preparing the audited financial statements.

(2) For budget purposes, the County budgets as "transfers out" the cost allocation which offsets the cost of services provided by various General Fund departments to other General Fund functions. These transfers are eliminated in preparing the audited financial statements. The primary transfers out shown in the audited financial statements are for the payment of debt service.

(3) Committed and Assigned Fund Balance only. See "- Financial Statements - GASB Statement No. 54" below.

Ad Valorem Property Taxes

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment in addition to a $20 cost on the second installment. On July 1 of each fiscal year any property which is delinquent will become defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of l½% per month to the time of redemption, together with any other charges permitted by law. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll become delinquent, if unpaid on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of l½% per month begins to accrue on November 1 of the fiscal year. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's Office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

The Teeter Plan

The County has adopted an alternate procedure authorized in Chapter 3, Part 8, Division 1 of the Revenue and Taxation Code of the State of California (comprising Sections 4701 through 4717, inclusive) commonly referred to as the "Teeter Plan," for distribution of certain property tax levies on the secured roll.

Pursuant to the Teeter Plan, the County adopted Resolution 541-93 on October 5, 1993 adopting the Teeter Plan. Generally, the Teeter Plan provides for a tax distribution procedure by which secured roll taxes are distributed to taxing agencies within the County included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all participating taxing agencies is avoided. All taxing agencies within the County are participating in the Teeter Plan. The County anticipates property taxes to be apportioned within Fiscal Year 2017/18 during December, April and June, with the balance of the levy to be apportioned on or before June 30, 2018. The historical and estimated current year and total delinquency rates (including prior years' tax roll delinquencies outstanding) in the County are as follows:

Fiscal Year	Current Year's Delinquency Rate	Total Delinquency Rate
2009/10	3.0%	5.31%
2010/11	2.4	3.98
2011/12	1.9	3.92
2012/13	1.5	3.77
2013/14	1.2	2.94
2014/15	1.2	2.86
2015/16	1.1	2.33
2016/17	1.3	2.38
2017/18	1.3	2.40 (Estimate)

The delinquency rates represent the current year delinquencies (see "TABLE NO. 14" below) together with past years' delinquencies that continue to accrue interest until paid. The County bases budget estimates for penalties and interest on unpaid taxes on these delinquency rates.

In addition, pursuant to the Teeter Plan, the County is required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property (*i.e.*, if the sale price of the property is less than the amount owed). The appropriate amount in the fund is determined by one of two methods: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. The County's tax losses reserve fund is fully funded in accordance with the County's most current election (on October 29, 2013) to be governed by the second alternative at $2,929,382 as of June 30, 2017. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are available to be credited to the County's General Fund.

Taxable Property and Assessed Valuation

Set forth in the tables below are assessed valuation for secured and unsecured property and tax levies and collections within the County. Article XIIIA of the California Constitution prescribes the method for determining the full cash value of real property and the maximum ad valorem tax on real property. The full cash value, once established, is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the California Consumer Price Index. There may also be declines in valuations if the California Consumer Price Index is negative.

Proposition 8 provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions based on Proposition 8 do not establish new base year values, and the property may be reassessed as of the following lien date up to the lower of the then-current fair market value or the factored base year value. The County saw Proposition 8 reductions in property values between Fiscal Years 2008/09 and 2012/13. Such reduction are reflected in the assessed values shown below in Table No. 12. See "RISK FACTORS - Constitutional Limitation on Taxes and Appropriations - Article XIIIA" and "- Proposition 8 Adjustments" herein.

TABLE NO. 12
COUNTY OF SANTA CRUZ
GROSS ASSESSED VALUE OF ALL TAXABLE PROPERTY
(INCORPORATED CITIES AND UNINCORPORATED COUNTY AREAS)

Fiscal Year	Secured [(1)]	Unsecured	Total	Change
2013/14	$33,301,783,628	$764,939,349	$34,066,722,978	
2014/15	35,662,018,950	823,368,900	36,485,387,850	7.1%
2015/16	37,958,881,477	873,141,038	38,832,022,515	6.4
2016/17	39,916,762,241	876,809,414	40,793,571,655	5.1
2017/18	42,203,970,597	936,889,955	43,140,860,552	5.7

(1) Including homeowners' exemption values.

Source: County of Santa Cruz Auditor-Controller-Treasurer-Tax Collector.

Proposition 8 Adjustments. There are approximately 100,000 taxable secured parcels and 11,000 taxable unsecured parcels in the County. Under Proposition 8 (see "RISK FACTORS - Constitutional Limitation on Taxes and Appropriations - Proposition 8 Adjustments,") since the great recession, the County Assessor reduced the assessed value of properties throughout the County from the maximum amount that could be assessed on such property under Proposition 13 (see "RISK FACTORS - Constitutional Limitation on Taxes and Appropriations - Article XIIIA." The following table shows the number of parcels that were not assessed at their maximum permitted under Proposition 8.

Fiscal Year	No. of Parcels Subject to Proposition 8 Adjustments
2010/11	18,253
2011/12	21,000
2012/13	26,271
2013/14	23,808
2014/15	12,489
2015/16	9,651
2016/17	7,663
2017/18	5,304

Largest Taxpayers. The largest taxpayers in the County for the 2016/17 Fiscal Year are shown below.

TABLE NO. 13
COUNTY OF SANTA CRUZ
LARGEST TAXPAYERS

Taxpayers	Type of Business	2016/17 Assessed Valuation	% of Total Assessed Valuation 2016/17
Pacific Gas & Electric Company	Gas & Electric Utility	$272,331,891	0.8%
Santa Cruz Seaside Company	Amusement Park	111,243,992	0.3%
Watsonville Hospital	Hospital	60,574,364	0.1%
AT&T	Telephone Utility	60,499,386	0.1%
Capitola Mall, LLC	Regional Retail Center	59,779,061	0.1%
Rancho Del Mar Center	Shopping Center	55,556,111	0.1%
Safeway	Grocery Stores	47,844,545	0.1%
Bei-Scott Company, LLC	Property Management	46,272,692	0.1%
Cypress Point Real Estate Investors	Real Estate	46,227,717	0.1%
Santa Cruz Beach Hotel Partners	Hotel Operator	45,821,941	0.1%

Source: County of Santa Cruz Auditor-Controller-Tax Collector.

Tax Collections. The County reports tax collection data on a County-wide basis for secured taxes only as set forth in Table No. 14.

TABLE NO. 14
COUNTY OF SANTA CRUZ
SECURED TAX LEVIES AND COLLECTIONS [(1)]
(in thousands)

Fiscal Year Ended June 30	Total Secured Tax Levy for Fiscal Year	Collections within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Tax Collections	Percentage of Levy
		Amount	Percentage of Levy			
2013	$399,146	$393,223	98.5%	$2,025	$395,248	99.0%
2014	418,414	413,276	98.8	2,210	415,486	99.3
2015	443,002	437,476	98.8	2,695	440,171	99.4
2016	470,552	465,411	98.9	2,354	467,765	99.4
2017	503,093	496,571	98.7	-	496,571	98.7

(1) Secured tax levy for the County, school districts, cities and special districts in the County under the supervision of independent governing boards.

Source: County of Santa Cruz Auditor-Controller-Tax Collector.

Redevelopment Agencies. The California Redevelopment Law (Part 1 of Division 24 of the Health & Safety Code of the State) authorized the redevelopment agency of any city or county to receive an allocation of tax revenues resulting from increases in assessed values of properties within designated redevelopment project areas (the "incremental value") occurring after the year the project area was formed. In effect, local taxing authorities, such as the County, realized tax revenues only on the assessed value of such property at the time the redevelopment project was created for the duration of such redevelopment project, except to the extent a redevelopment agency made payments to other taxing agencies by agreement or in some cases, pursuant to a statutory formula. There have been numerous redevelopment projects formed in the County. Table No. 15 sets forth total County assessed valuations and redevelopment project incremental values for all redevelopment projects County-wide.

TABLE NO. 15
COUNTY OF SANTA CRUZ
TOTAL AND NET PROPERTY TAX VALUATIONS

Fiscal Year	Total Assessed Valuation	Redevelopment Agency Incremental Value	Net Value
2013/14	$34,066,722,978	$6,416,711,625	$27,650,011,353
2014/15	36,485,387,850	6,784,225,646	29,701,162,204
2015/16	38,832,022,515	7,374,079,739	31,457,942,776
2016/17	40,793,571,655	7,897,697,832	32,895,873,823
2017/18	43,149,860,552	8,653,702,622	34,487,157,930

Source: County of Santa Cruz Auditor-Controller-Treasurer-Tax Collector.

The State Legislature approved a bill, AB X1 26, during the 2011/12 State budget process. AB X1 26 eliminated redevelopment agencies State-wide. On December 29, 2011, the California Supreme Court issued its opinion and upheld AB X1 26. As a result of the decision, all California redevelopment agencies, including the County's Redevelopment Agency and other redevelopment agencies formed by cities within the County, were dissolved as of February 1, 2012. Certain tax revenues allocable to the County's former Redevelopment Agency will continue to be available to the County, as successor agency to the County's Redevelopment Agency, to pay certain obligations of the former Redevelopment Agency, and any residual amounts available after payment of obligations are redirected to other taxing agencies, such as the County, school districts, and cities. This is also true for the former redevelopment agencies formed by cities within the County. Any General Fund impact resulting from AB X1 26 (and subsequent Legislation AB 1484) were incorporated into the County's budget beginning in 2012/13. As a result of redevelopment dissolution, the following one-time revenues and residual property taxes have been received or are budgeted to be received by the County.

Fiscal Year	One-Time	Residual
2011/12	$ 74,000	$ 184,000
2012/13	448,000	481,000
2013/14	-	761,000
2014/15	-	1,146,000
2015/16	-	1,549,000
2016/17	-	1,976,000
2017/18 (Budget)	-	1,976,000

The County's Successor Agency has certain property that it expects to sell during Fiscal Year 2017/18. If such sale occurs, the County will also receive a portion of the proceeds.

Other Local Taxes

In addition to ad valorem taxes on real property, the County receives the following local taxes:

Transient Occupancy Taxes. The County levies a transient occupancy tax on hotel and motel bills. In November 2012, voters approved an increase in this tax from 9.5% to 11%.

Property Transfer Taxes. A documentary stamp tax is assessed for recordation of real property transfers.

Sales and Use Taxes. Sales tax is collected and distributed by the State Board of Equalization. Each local jurisdiction receives an amount equal to 1% of taxable sales within their jurisdiction.

On March 2, 2004, voters approved a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of $15 billion in bonds to finance the 2002/03 and 2003/04 State budget deficits, which would be payable from a fund to be established by the redirection of tax revenues through the Triple Flip as described more fully below.

Under the "Triple Flip," one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction was redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provided for certain property taxes to be redirected to local government. Because such moneys were previously earmarked for schools, the legislation provided for schools to receive other state general fund revenues. The swap of sales taxes for property taxes terminated once the deficit financing bonds were repaid during 2015/16. The County treated the Triple Flip property tax revenue as sales tax in its financial statements.

Cannabis Business Tax. In November 2014, voters approved a tax of up to 10% on the gross sales of medical marijuana businesses in the unincorporated County. The initial year tax was established at 7%, and collection began in December 2014. In November 2016, voters approved expanding the tax to apply to all cannabis-related businesses.

Property Tax In-Lieu of Motor Vehicle License Fee. The payments of property tax in-lieu of Motor Vehicle license fees ("VLF") are a State backfill from property tax revenues for a portion of the VLF fees collected statewide.

TABLE NO. 16
COUNTY OF SANTA CRUZ
TAX REVENUES BY SOURCE

	2013/14	2014/15	2015/16	Unaudited 2016/17	Budget 2017/18
Transient Occupancy Tax	$ 5,513,983	$ 6,482,217	$ 7,083,724	$ 8,002,021	$ 8,482,142
Property Transfer Tax	1,906,116	2,242,933	2,266,471	2,317,423	2,332,225
Cannabis Business Tax	-	978,009	2,504,043	2,805,386	3,746,053
Other Taxes	72,117	76,789	82,685	88,150	59,603
Sales Tax (1)	9,839,967	10,247,085	10,070,557	11,862,714	10,874,000
Property Tax In Lieu - VLF	25,017,262	26,793,487	28,516,308	29,957,692	31,678,874
Regular Property Taxes(2)(3)(4)	50,608,888	52,866,506	57,042,755	61,839,618	67,479,311
Total Tax Revenues	**$92,958,333**	**$99,687,026**	**$107,566,543**	**$116,873,004**	**$124,652,208**

(1) 2016/17 includes a one-time $1.39 million payment as a result of the end of the "Triple Flip."

(2) Does not reflect amounts paid by the State in lieu of sales tax. Property taxes paid in lieu of sales tax under the "Triple Flip" are included in the Sales Tax figures.

(3) Due to redevelopment dissolution (see "Taxable Property and Assessed Valuation - Redevelopment Agencies" above), the County received certain one-time revenues, as well some ongoing residual property tax, both included in Regular Property Taxes above.

(4) Includes approximately $3.2 million of one-time transfers from the Tax Loss Reserve Fund in Fiscal Year 2017/18.

Source: County of Santa Cruz.

State and Federal Funds

A significant source of the County's revenues comes from State and federal funds. Payment of State funds depends on the adoption by the State of its budget, including the appropriations therein providing for local assistance. These revenues are shown in the accompanying financial statements as "intergovernmental revenues" (see "RISK FACTORS - State Budget" herein). The following table sets forth the State and federal funds received by the County:

TABLE NO. 17
COUNTY OF SANTA CRUZ
STATE AND FEDERAL FUNDS

Source	2013/14	2014/15	2015/16	Estimated 2016/17	Budget 2017/18
State Funds:					
VLF In Lieu Taxes	$ 6,222,320	$ 6,332,401	$ 4,884,287	$ 5,201,286	$ 4,981,276
Proposition 172	15,725,161	17,408,947	17,347,814	17,562,732	18,294,851
All Other State Funds	112,739,696	132,892,723	134,682,171	128,411,257	136,699,214
Total	**$134,687,177**	**$156,634,071**	**$156,914,272**	**$151,175,275**	**$159,975,341**
Federal Funds	**$ 66,892,316**	**$ 63,099,261**	**$ 63,740,129**	**$ 68,560,540**	**$ 76,670,513**
Total All Gov't Agencies	**$201,579,493**	**$219,733,332**	**$220,654,401**	**$219,735,815**	**$236,645,854**

Source: County of Santa Cruz Annual Budget.

The significant categories of state aid include additional taxes in-lieu of VLF for a portion of fees realigned to the Health Services Agency, Proposition 172 (sales tax dedicated to public safety uses) and reimbursement for programs such as Aid to Families with Dependent Children, In-Home Supportive Services, Medi-Cal, food stamps, Short/Doyle medical and mental health services, AB 109 realignment, and AB 118 food programs. The significant categories of federal aid include various health programs, foster care programs, Aid to Families with Dependent Children, adoption assistance program, food stamps and child welfare programs.

Other Revenue Sources

Licenses and Permits. These revenues consist primarily of building construction permit fees and franchise fees. The County levies franchise fees on its cable television, trash collection and utility franchises.

Fines, Forfeitures and Penalties. These revenues include parking citations, municipal court fines, asset seizure proceeds and other fines for municipal code violations.

Use of Money and Property. These revenues consist primarily of investment earnings and rental/concession income.

Charges for Services. The County charges recording fees, booking fees, court filing fees, fees for dispatch services and alarm response, plan checking, building inspection and other municipal services.

Long-Term Obligations

General Obligation Debt. As of the date hereof, the County has no long-term general obligation bonded indebtedness outstanding and has never defaulted on any of its bonded indebtedness previously issued. The County has no authorized but unissued general obligation debt.

Lease Obligations. The County has made use of various lease arrangements with joint powers authorities to finance capital projects and purchase equipment through the issuance of certificates of participation and lease revenue bonds. Upon expiration of these leases, title to the projects or equipment vests in the County. There are currently nine outstanding certificates of participation and lease revenue bonds aggregating $69 million in principal amount, payable from the General Fund. All issues are fixed rate obligations. The County also leases other assets under both operating and capital leases.

The lease payments relating to the 2017 Bonds are anticipated to be offset by utility cost savings and the Refundable Credit Payments, with no increase expected in the net General Fund budgets in future years related to financing of the Renewable Energy Projects.

TABLE NO. 18
SUMMARY OF LONG-TERM OBLIGATIONS
(in millions)

	Original Issue	Principal Outstanding as of 6/30/17	Estimated 2017/18 Payments	Final Maturity
1996 Certificates of Participation	$24.855	$12.830	$1.696	2026
2008 Certificates of Participation	4.625	1.955	0.462	2023
2011 Certificates of Participation	5.605	4.995	0.389	2036
2012 Use Payments	1.885	1.576	0.135	2034
2014 Refunding Certificates of Participation	6.285	5.500	0.499	2031
2014 Lease Revenue Bonds (1)	11.810	11.005	0.866	2034
2015 Taxable Lease Revenue Refunding Bonds, Series A (2)	13.770	10.915	1.753	2025
2015 Lease Revenue Bonds, Series B (3)	9.945	9.530	0.593	2035
2016 Refunding Certificates of Participation	10.500	10.500	1.155	2036
CERC Loan	0.173	0.058	0.017	2018
	89.453	68.864	7.565	
Capital Leases	10.113	7.720	1.173	2027
TOTAL LONG-TERM OBLIGATIONS	$99.566	$76.584	$8.738	

(1) Approximately 57% of annual debt service is reimbursed by County Service Area 9C.

(2) Approximately $800,000 of the annual debt service is reimbursed by the Santa Cruz County Flood Control and Water Conservation District and the Pajaro Storm Maintenance District.

(3) Approximately $65,000 of annual debt service is reimbursed by County Service Area 11.

Contingent Liability. The County is a participant in the Monterey Bay Community Power joint powers authority ("MBCP"). MBCP is a regional project among 19 local government agencies in Santa Cruz, Monterey and San Benito counties that aims to provide electricity to residents and businesses through the Community Choice Energy (CCE) model enabled by State in 2002. The MBCP was formed in early 2017 and is expected to start serving customers in Spring 2018. MBCP obtained a loan commitment from a bank to provide up to $3 million in start-up costs. The bank required the three counties that are a party to the joint powers authority to each guarantee repayment of some or all of the $3 million if MBCP is unable to repay the loan from operating net income. The County's share of the guaranty is $1.5 million. The MBCP loan bears interest at a variable rate and the balance drawn at the end of 12 months converts to a fixed rate with a repayment term of 5 years.

Estimated Direct and Overlapping Debt

Set forth below is a statement of direct and overlapping debt report (the "Statement") prepared by the County, as of June 30, 2017. This information is included for general information purposes only.

The Statement generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the County in whole or in part. Such long-term obligations are not payable by the County.

There are liens for Property Assessed Clean Energy ("PACE") financings made through the Home Energy Renovation Opportunity (HERO) program against within the County. The overlapping debt information in this Official Statement does not include these PACE liens. The PACE financing program was developed to assist homeowners in obtaining funds for solar panels improvements, energy efficient windows and doors, high efficiency heating, ventilation and air conditioning systems, cool roofs and artificial turf and similar energy efficiency projects authorized thereunder.

TABLE NO. 19
COUNTY OF SANTA CRUZ
STATEMENT OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2017

2016-17 Total Net Assessed Valuation $43,284,454	Percentage Applicable [1]	Net Debt Outstanding
Overlapping Tax and Assessment and General Obligation Debt		
SCHOOL DISTRICTS		
Live Oak Elementary	100%	$ 12,056
Santa Cruz City Elementary	100%	15,800
Soquel Union Elementary	100%	28,870
Santa Cruz City High	100%	87,724
Scott Valley Unified	100%	46,020
San Lorenzo Valley Unified	100%	26,984
Pacific	100%	823
Pajaro Valley Unified	100%	154,084
Cabrillo College	100%	120,154
SPECIAL DISTRICTS		
Zayante Fire	100%	40
Lompico Water	100%	61
Rolling Woods Water	100%	970
Rolling Woods Sewer Improvements	100%	640
Orchard Drive	100%	815
North Polo Drive Sewer Extension	100%	155
Felton Community Facilities – District No. 1	100%	8,420
Total Overlapping Tax and Assessment and General Obligation Debt		503,616
Direct Debt		
Santa Cruz County [2]	100%	70,042
Total Direct Debt		70,042
Total Combined Overlapping and Direct Debt		$573,658
Ratio of 2016-17 Assessed Valuation		
Total Overlapping Tax and Assessment and General Obligation Debt	1.16%	
Total Direct Debt	0.16%	
Total Combined Direct Debt and Overlapping Debt	1.33%	

[1] Percentage of overlapping agency's assessed valuation located within the boundaries of the County.

[2] Governmental activities debt excluding tax and revenue anticipation notes, compensated absences and estimated claims, business type activities and debt related to the Santa Cruz County Sanitation District.

Retirement Program

This caption contains certain information relating to the California Public Employees Retirement System ("CalPERS"). The information is primarily derived from information produced by CalPERS, its independent accountants and its actuaries. The County has not independently verified the information provided by CalPERS and makes no representations nor expresses any opinion as to the accuracy of the information provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. The textual reference to such Internet website is provided for convenience only. None of the information on such Internet website is incorporated by reference herein. The County cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future.

Plan Description. The County provides retirement benefits, disability benefits, periodic cost-of-living adjustments, and death benefits to plan members and beneficiaries (the "Plans"). The Plans are part of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. Benefit provisions are established by State statute and by County contracts with employee bargaining groups. The Plans as described herein cover three separate employee groups – Miscellaneous, Safety and Safety Sheriff.

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 ("PEPRA"), which made changes to CalPERS Plans, most substantially affecting new employees hired on or after January 1, 2013 (the "Implementation Date"). For non-safety CalPERS participants hired on or after the Implementation Date, PEPRA changed the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increased the eligibility requirement for the maximum age factor of 2.5% to age 67.

PEPRA also: (i) requires all new participants enrolled in CalPERS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary to a maximum of 8% of salary, (ii) requires CalPERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date, and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for members not participating in social security, while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

Benefit Tiers. In 2012 the County established two tiers of benefits for employees in each of the employee plans (Miscellaneous, Safety and Safety Sheriff), based on date of hire ("Tier 1" and "Tier 2"). Benefits were reduced for Tier 2 employees in the Safety and Safety Sheriff's Plans hired on or after June 9, 2012. Benefits were reduced for employees in the Tier 2 Miscellaneous Plan hired on or after December 17, 2012.

Due to PEPRA, the County added a benefit tier in each employee group for employees subject to PEPRA ("PEPRA Tier 3"). Ultimately, PEPRA is expected to reduce the County's long-term pension obligation as existing employees retire and new employees are hired to replace them.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	Miscellaneous Plan		
	Tier 1	**Tier 2**	**PEPRA Tier 3**
Benefit Formula	2% at 55	2% at 60	2% at 62
Benefit Vesting Schedule	5 years	5 years	5 years
Earliest Retirement Age	50	50	52
Maximum Benefit Factor	2.418% at 63	2.418% at 63	2.5% at 67
Final Compensation	12 months	36 months	36 months
Required Employee Contribution Rates	7%	7.0%	6.25%
2017 Employer Contribution Rates	18.7%	18.7%	18.7%

	Safety Plan		
	Tier 1	**Tier 2**	**PEPRA Tier 3**
Benefit Formula	2% at 50	2% at 50	2.7% at 57
Benefit Vesting Schedule	5 Years	5 Years	5 Years
Earliest Retirement Age	50	50	50
Maximum Benefit Factor	2.7% @ 55	2.7% @ 55	2.7% @ 57
Final Compensation	12 Months	36 Months	36 Months
Required Employee Contribution Rates	9.0%	9.0%	10.0%
2017 Employer Contribution Rates	25.6%	25.6%	25.6%

	Safety Sheriff Plan		
	Tier 1	**Tier 2**	**PEPRA Tier 3**
Benefit Formula	3% at 50	3% at 55	2.7% at 57
Benefit Vesting Schedule	5 Years	5 Years	5 Years
Earliest Retirement Age	50	50	50
Maximum Benefit Factor	3% @ 55	3% @ 55	2.7% @ 57
Final Compensation	12 Months	36 Months	36 Months
Required Employee Contribution Rates	9.0%	9.0%	12.0%
2017 Employer Contribution Rates	38.2%	38.2%	38.2%

Funding Policy. Active members in the Plans are required to contribute a percent of their annual covered salary as shown in the charts above. In Fiscal Year 2015/16, the County paid 3.5% of the required employee contribution on the behalf of Tier 1 and Tier 2 Miscellaneous Plan employees in the General Representation employee bargaining group. Those employees make up approximately 58% of the workforce. All other employees pay their own employee contributions towards retirement. The County phased out its contribution of the employees' share for the Tier 1 and Tier 2 General Representation employee bargaining group for Fiscal Year 2016/17, with offsetting salary increases.

For PEPRA Tier 3 active plan members in the Miscellaneous and Safety plans, the State statute requires a contribution of 6.25% and 11%, respectively of annual covered salary. However, as a result of labor negotiations PEPRA Tier 3 Miscellaneous members contribute 7% of annual covered salary up to $117,200. If 7% is greater than one half the normal cost of the employees' retirement plan, any difference between 7% and one half the normal cost shall be considered an employee "pick up" of the employer contribution. The employee contribution shall not fall below 7% even if one half of the normal cost of their retirement plan decreases. Also as a result of labor negotiations, Sheriff Safety members in the PEPRA Tier 3 contribute 12% of annual covered salary.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability. The total pension liabilities in the June 30, 2015 actuarial valuations, rolled forward to June 30, 2016, using standard update procedures, were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies [(1)]
Investment Rate of Return	7.65% [(2)]
Mortality	[(3)]
Post Retirement Benefit Increase	Contract cost of living adjustment up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

(1) Depending on age, service and type of employment.

(2) Net of pension plan investment expenses, including inflation.

(3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 Experience Study.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of a January 2014 actuarial experience study ("Experience Study") for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website under "Forms and Publications."

Recent Changes in Actuarial Assumptions. On March 14, 2012, the CalPERS Board approved a change in the inflation assumption used in the actuarial assumptions used to determine employer contribution rates. This reduced the assumed investment return from 7.75% to 7.50%, reduced the long-term payroll growth assumption from 3.25% to 3.0%, and adjusted the inflation component of individual salary scales from 3.25% to a merit scale varying by duration of employment, an assumed annual inflation component of 2.75% and an annual production growth of 0.25%.

On April 17, 2013, the CalPERS Board of Administration approved a plan: (i) to replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process; and (ii) to replace the current 30-year rolling amortization of unfunded liabilities with a 30-year fixed amortization period. CalPERS' Chief Actuary has stated that the revised approach provides a single measure of funded status and unfunded liabilities, less rate volatility in extreme years, a faster path to full funding and more transparency to employers such as the County about future contribution rates. These changes are expected to accelerate the repayment of unfunded liabilities (including CalPERS' Fiscal Year 2009 market losses) of the County's plans in the near term; the exact magnitude of the potential contribution rate increases is not known at this time, but may be significant. These changes are reflected beginning with the June 30, 2014 actuarial valuation affecting contribution rates for Fiscal Year 2016 and thereafter.

On February 19, 2014, the CalPERS Board approved changes to actuarial assumptions and methods based upon a recently completed experience study. These changes include: moving from using smoothing of the market value of assets to obtain the actuarial value of assets to direct smoothing of employer contribution rates; increased life expectancy; changes to retirement ages (earlier for some groups and later for others); lower rates of disability retirement; and other changes.

On December 21, 2016, the CalPERS Board of Administration approved an incremental lowering of the discount rate from 7.5% to 7.0% over the next three Fiscal Years. For Fiscal Years 2017/18, 2018/19 and 2019/20, the Board of Administration approved discount rates of 7.375%, 7.25% and 7.0%, respectively. While the full impact of the discount rate changes on the County is not yet clear, CalPERS expects such changes to increase average employer rates by approximately 1% to 3% of normal cost as a percent of payroll for most miscellaneous retirement plans and by approximately 2% to 5% for most safety plans. CalPERS also expects the discount rate changes to result in increased unfunded accrued liability payments for employers, and estimates that many employers will see such payments increase by 30% to 40%.

Contribution Rates. The contribution requirements of Plan members and the County are established by CalPERS and labor negotiations.

The County's percentage of payroll for CalPERS payments for Fiscal Years 2010/11 through 2016/17 are shown in Table No. 20. These rates do not include the employees' contribution rates. They include both the employer's normal cost and an unfunded actuarial liability.

TABLE NO. 20
EMPLOYER RETIREMENT CONTRIBUTION RATES

Fiscal Year	Miscellaneous	Safety	Sheriff Safety
2008/09	12.197%	14.201%	25.642%
2009/10	12.051	13.784	25.823
2010/11	12.150	13.989	25.145
2011/12	13.776	17.046	28.749
2012/13	14.253	17.381	29.153
2013/14	15.099	19.094	30.534
2014/15	16.084	20.292	34.020
2015/16	17.338	21.526	35.587
2016/17	18.742	25.627	38.177

Source: California Public Employees' Retirement System.

CalPERS modified the calculation of the contribution rates beginning in Fiscal Year 2017/18. They now represent only the employer's normal cost as a percentage of payroll, and include a dollar amount for the amortization of the unfunded actuarial liability (UAL). Shown in Table No. 21 are the CalPERS projections of the normal cost and amortization of the UAL. For comparison, the normal cost for 2016/17 was 8.172% of payroll for the Miscellaneous Plan, 14.291% for the Safety Plan and 19.546% for the Sheriff Safety Plan.

TABLE NO. 21
ACTUAL AND PROJECTED EMPLOYER RETIREMENT CONTRIBUTIONS

	Miscellaneous		Safety Plan		Sheriff Safety Plan	
Fiscal Year	Normal Cost	Amortize UAL	Normal Cost	Amortize UAL	Normal Cost	Amortize UAL
2017/18	7.974%	$17,989,274	13.964%	$2,455,361	19.051%	$3,243,326
2018/19	8.188	21,745,883	14.299	3,118,725	19.391	3,886,647
2019/20	8.600	26,039,000	15.000	3,876,000	20.200	4,623,000
2020/21	9.500	29,275,000	16.400	4,507,000	21.900	5,242,000
2021/22	9.500	33,644,000	16.400	5,188,000	21.900	5,927,000

Projected by CalPERS based on various assumptions as of July 2017.

Source: California Public Employees' Retirement System.

Annual Pension Costs. A five-year history of the County's required annual pension costs is shown in the table below. The required contribution was determined as part of an annual actuarial valuation. The most recent actuarial assumptions are described under the caption "Actuarial Methods and Assumptions Used to Determine Total Pension Liability."

TABLE NO. 22
FIVE-YEAR TREND INFORMATION FOR ANNUAL PENSION COSTS
ALL TIERS COMBINED

Fiscal Year Ending	Annual Pension Cost (APC)
6/30/2013	$34,366,000
6/30/2014	36,463,000
6/30/2015	36,541,000
6/30/2016	36,542,000
6/30/2017	46,744,000

For Fiscal Years 2016/17 and 2017/18, the employer and employees' share of CalPERS costs for all personnel are shown below.

	2016/17	Budget 2017/18
Employer Share		
Employees' Share		
Total Annual Pension Cost		

Pension Liabilities. The County's net pension liability for the Plans is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plans is measured as of June 30, 2016, using the annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The changes in the County's net pension liability for the Plans between June 30, 2015 and 2016 was as follows:

TABLE NO. 23
NET PENSION LIABILITY BY PLAN

	Miscellaneous Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	$1,067,800,573	$811,736,573	$256,064,000
Changes in the Year:			
Service Cost	20,912,258	-	20,912,258
Interest on the Total Pension Liability	80,819,316	-	80,819,316
Changes in Benefit Terms	-	-	-
Changes in Assumptions	-	-	-
Differences Between Actual and Expected Experience	4,064,942	-	4,064,942
Plan to Plan Resource Movement	-	2,795	(2,795)
Contribution – Employer	-	25,325,052	(25,325,052)
Contribution – Employee	-	10,145,692	(10,145,692)
Net Investment Income	-	4,332,779	(4,332,779)
Benefit Payments, Including Refunds of Employee Contributions	(51,719,979)	(51,719,979)	-
Administrative Expenses	-	(494,711)	494,711
Other Miscellaneous Income	-	-	-
Net Changes	54,076,537	(12,408,372)	66,484,909
Balance at June 30, 2016	$1,121,877,110	$799,328,201	$322,548,909

(Continued on following page)

	Safety Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	$166,302,481	$126,683,916	$39,618,565
Changes in the Year:			
Service Cost	3,791,377	-	3,791,377
Interest on the Total Pension Liability	12,551,117	-	12,551,117
Changes in Benefit Terms	-	-	-
Changes in Assumptions	-	-	-
Differences Between Actual and Expected Experience	(118,236)	-	(118,236)
Plan to Plan Resource Movement	-	(109,006)	109,006
Contribution – Employer	-	3,805,037	(3,805,037)
Contribution – Employee	-	1,654,180	(1,654,180)
Net Investment Income	-	603,660	(603,660)
Benefit Payments, Including Refunds of Employee Contributions	(8,026,081)	(8,026,081)	-
Administrative Expenses	-	(77,207)	77,207
Other Miscellaneous Income	-	-	-
Net Changes	8,198,177	(2,149,417)	10,347,594
Balance at June 30, 2016	$174,500,658	$124,534,499	$49,966,159

(Continued on following page)

	Safety Sheriff Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	$154,871,864	$102,302,202	$52,569,662
Changes in the Year:			
Service Cost	4,040,526	-	4,040,526
Interest on the Total Pension Liability	11,815,906	-	11,815,906
Changes in Benefit Terms	-	-	-
Changes in Assumptions	-	-	-
Differences Between Actual and Expected Experience	544,964	-	544,964
Plan to Plan Resource Movement	-	(3,974)	3,974
Contribution – Employer	-	5,383,357	(5,383,357)
Contribution – Employee	-	1,418,363	(1,418,363)
Net Investment Income	-	522,229	(522,229)
Benefit Payments, Including Refunds of Employee Contributions	(5,961,612)	(5,961,612)	-
Administrative Expenses	-	(62,348)	62,348
Other Miscellaneous Income	-	-	-
Net Changes	10,439,784	1,296,015	9,143,769
Balance at June 30, 2016	$165,311,648	$103,598,217	$61,713,431

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents what the County's net pension liability would be if it were calculated using a 6% discount rate, a 7% discount rate and an 8% discount rate.

	Miscellaneous	Safety	Safety Sheriff
6% Discount Rate Net Pension Liability	$576,782,716	$92,418,821	$105,264,285
7% Discount Rate Net Pension Liability	$418,203,939	$65,190,184	$78,020,248
8% Discount Rate Net Pension Liability	$286,239,669	$42,911,944	$55,900,225

See Note 14 of the County's Comprehensive Annual Financial Report included in "APPENDIX B" for further information about the Plan.

Deferred Compensation Plan

The County offers all of its employees a deferred compensation plan (the Deferred Compensation Plan) created in accordance with Section 457 of the Internal Revenue Code. The Deferred Compensation Plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or emergency. Employees direct the investment of plan assets into certificates of deposits and various mutual funds. The County has significant administrative duties.

As of June 30, 2017, the Deferred Compensation Plan's assets of $166,661,913 were on deposit with a third-party administrator independent of the County.

Other Post-Employment Benefits

Plan Description. Employees of the County who retire through CalPERS, their spouse, and eligible dependents may receive health plan coverage through the Public Employees' Medical & Hospital Care Program Plan ("Plan"). The Plan is a defined benefit plan which provides the retirees a monthly medical contribution that is not to exceed the cost of the plan selected. The cost of the Plan to the County for each bargaining group will be determined through CalPERS' regulations and requirements. For all bargaining units, the County contributions are based on longevity schedules with fixed dollar scaling that varies by bargaining unit. The Plan does not issue a financial report.

Funding Policy. The contribution requirements for the County are established by a Memorandum of Understanding as negotiated by each group or bargaining unit. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016/17, the County contributed $6,776,963 to the Plan. The County's estimated contribution is $5,811,000 for Fiscal Year 2017/18.

Annual Other Post-Employment Benefits (OPEB) Cost and Net OPEB Obligation/Asset. The County's annual Other Post-Employment Benefits ("OPEB") cost (expense) is calculated based on the annual required contribution ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate of annual covered payroll is 13.6%.

The following table shows the components of the County's annual OPEB cost for the fiscal years 2014/15, 2015/16 and 2016/17, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

TABLE NO. 24
NET OPEB OBLIGATION

	2014/15	2015/16	2016/17
Annual required contribution	$ 13,897,000	$ 16,323,000	$ 17,570,000
Interest on net OPEB obligation	4,011,392	4,286,079	4,598,401
Amortization of Net OPEB obligation	(5,344,000)	(6,174,000)	(7,091,000)
Annual OPEB cost (expense)	12,564,392	14,435,079	15,077,401
Contributions made	(4,917,343)	(6,477,103)	(6,776,963)
Increase in net OPEB obligation	7,647,049	7,957,976	8,300,438
Net OPEB obligation - beginning of year	102,743,480	110,390,529	118,348,506
Net OPEB obligation - end of year	$110,390,529	$118,348,505	$126,648,944

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation/asset for the fiscal years 2014/15, 2015/16 and 2016/17 were as follows:

TABLE NO. 25
ANNUAL OPEB COST

Fiscal Year	Annual OPEB Cost	Annual Contribution	% of Annual OPEB Cost Contributed	Net OPEB Obligation
2014/15	$12,564,392	$4,917,343	39.1%	$110,390,529
2015/16	14,435,079	6,477,103	44.9	118,348,505
2016/17	15,077,401	6,776,963	44.9	126,648,943

Funded Status and Funding Progress. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

TABLE NO. 26
OPEB FUNDING PROGRESS

Valuation Date	Entry Age Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Covered Payroll
1/1/2009	$181,575,000	$ -	$181,575,000	0.0%	$161,577,000	112.4%
1/1/2012	127,836,000	-	127,836,000	0.0	154,788,000	82.6
1/1/2014	145,013,000	-	145,013,000	0.0	153,879,000	94.2
1/1/2016	167,095,000	-	167,095,000	0.0	167,418,000	99.8

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Actuarial assumptions involve estimates and assumptions that extend far into the future. These assumptions are subject to future revisions as new facts become known.

The actuarial assumptions include a 4.0% investment rate of return which is based on the expected return on funds invested in County investments, and an annual healthcare cost trend of actual premiums initially and reduced to an ultimate rate of 5% thereafter. The actuarial assumption for inflation was 3%, and the aggregate payroll increases were 3.25%. The Unfunded Actuarial Accrued Liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization as of June 30, 2017 was 23 years.

See Note 15 in the County's Comprehensive Annual Financial Report included in "APPENDIX B" for further information about the Plan.

Employee Relations and Collective Bargaining

County employees are represented by ten bargaining units. The largest unit is the Service Employees International Union (Local 521), which represents approximately 70% of all County employees. Most County employees are covered by negotiated agreements.

Bargaining Unit	Expiration Date
Middle Management	June 30, 2021
District Attorney Association	June 30, 2017 [(1)]
Sheriff's Correctional Officers	November 30, 2018
Law Enforcement Middle Management	June 30, 2020
Law Enforcement	June 30, 2020
Sheriff Supervisory	June 30, 2020
General Representation Unit (SEIU)	September 18, 2020
District Attorney Inspectors	June 30, 2021
Physicians' Representation Unit	September 11, 2020
Probation Association	December 31, 2020

(1) An extension of this agreement is under negotiation. The parties are operating under the terms of the expired agreement while such extension is being negotiated.

Self-Insurance Program

The County is self-insured for its general and auto liability, workers' compensation, medical malpractice and employees' dental coverage. Excess coverage is purchased through the California State Association of Counties Excess Insurance Authority ("CSAC-EIA"). Each self-insurance program is described below.

Workers' Compensation. Under the Workers' Compensation Self-Insurance Program the County is liable for the first $500,000 and carries catastrophic insurance coverage for any amount required by statute. At June 30, 2017, this program had estimated future liabilities of $30 million.

Dental. The County's self-insurance dental program had estimated future liability for dental benefits of $406,120 as of June 30, 2017.

Liability and Property. The County has a $1,000,000 self-insured retention with excess insurance up to $25 million for the general liability program. The County purchases commercial property insurance through CSAC-EIA. At June 30, 2017, the County had estimated future liabilities totaling $6.5 million which included estimates for known claims and losses incurred but not reported.

Unemployment Insurance. The estimated future liabilities at June 30, 2017 were $62,008.

Claims Liabilities. The change in the balance of claims liabilities during the fiscal years ended June 30, 2017, and two prior years for all Self-Insurance Internal Service Funds combined is as follows:

	2015	2016	2017
Unpaid claims and claim adjustment expenses,			
beginning of the fiscal year	$46,984,023	$38,986,910	$39,004,128
Incurred claims and claim adjustment expenses	10,618,009	12,049,811	-
Decrease in provision of insured events for prior years	(8,028,909)	-	(2,247,000)
Claim payments	(10,586,213)	(12,032,553)	-
Unpaid claims and claim adjustment expenses,			
end of the fiscal year	$38,986,910	$39,004,128	$36,757,128

Source: County of Santa Cruz Comprehensive Annual Financial Reports.

Self-Insurance Funds. The County has established separate self-insurance funds. Summary financial information for the self-insurance funds is shown in Table No. 27. The County's Worker's Compensation Self-Insurance Fund accounts for the negative fund balance shown in Table No. 27. However, of the $22.6 million of estimated future liabilities in the Worker's Compensation Self-Insurance Fund, the County expects that almost half of such claims, if required to be paid, will be charged to the applicable State or federal government program, because the claims relate to employees whose programs are funded by the State or federal government. As of June 30, 2017, the Self-Insurance funds held a total of $30 million in cash.

TABLE NO. 27
COUNTY OF SANTA CRUZ
SELF-INSURANCE FUNDS

	2013/14	2014/15	2015/16	2016/17
Operating Revenues:				
Charges for Services	$ 16,067,879	$ 15,592,846	$ 17,497,653	$ 18,290,132
Other Revenues	593	1,606	30,600	5,107,129
Total Operating Revenues	16,068,472	15,594,452	17,528,253	23,397,261
Operating Expenses:				
Salaries and Employee Benefits	1,074,992	1,209,413	1,203,584	1,312,616
Services and Supplies	3,261,835	3,643,500	4,219,196	4,295,678
Insurance and Compensation Claims	10,380,014	10,586,213	9,729,599	13,568,693
Provision for Prior Year Insured Event	-	(8,028,909)	-	-
Total Operating Expenses	14,716,841	7,410,217	15,152,379	19,176,987
Operating Income (Loss)	1,351,631	8,184,235	2,373,874	4,220,274
Non-Operating Revenues:				
Interest and Investment Income	173,484	117,716	161,348	244,732
Net Income	1,525,115	8,301,951	2,5,35,222	4,465,006
Net Assets – Beginning	(24,072,988)	(22,547,873)	(15,724,340)	(13,189,118)
Prior Period Adjustment	-	(1,478,418)	-	-
Net Assets – Ending	$(22,547,873)	$(15,724,340)	$(13,189,118)	$ (8,724,112

Source: County of Santa Cruz Comprehensive Annual Financial Reports.

County Treasurer's Investment Pool

As of September 30, 2017, the market value of the County Treasurer's investment pool was $721,815,878. The diversification of the County Treasurer's investment pool's assets as of such date is shown in the following table.

TABLE NO. 28
COUNTY OF SANTA CRUZ
TREASURER'S PORTFOLIO

Type of Investment	% of Combined Pool
U.S. Government Agencies	33.6%
U.S. Treasuries	37.8
Supranationals	5.5
Medium-Term Notes	7.9
Local Agency Investment Fund	9.0
Money Market Mutual Funds	3.1
Checking	3.1
	100.0%

The weighted average maturity of all County Treasurer's investment pool moneys was 294 days. The current yield of the County Treasurer's investment pool at September 30, 2017 was 1.08% and the apportionment rate was 0.981%.

In general, all depositors in the County Treasurer's investment pool are required by law to deposit their funds in the County Treasurer's investment pool. This includes the County, school districts and other special districts in the County. The County's share of the investment pool at September 30, 2017 was 34.5%.

Financial Statements

The County's accounting policies conform to generally accepted accounting principles and reporting standards set forth by the State Controller. The audited financial statements also conform to the principles and standards for public financial reporting established by the National Council of Government Accounting and the Governmental Accounting Standards Board.

Basis of Accounting and Financial Statement Presentation. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

The County retained the firm of Brown Armstrong Certified Public Accountants, Bakersfield, California, to examine the general purpose financial statements of the County as of and for the year ended June 30, 2016. The following tables summarize the Balance Sheet and Statement of Revenues, Expenditures and

Changes in Fund Balance of the County's General Fund for the last four fiscal years. The County received a Certificate of Achievement for Excellence in Financial Reporting for the Fiscal Year ended June 30, 2016.

GASB Statement No. 54. GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, which are amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact. GASB Statement No. 54 also provides for additional classification as "restricted," "committed," "assigned," and "unassigned" based on the relative strength of the constraints that control how specific amounts can be spent.

Restricted - Restricted fund balance includes amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) improved by law through constitutional provisions or enabling legislation. The County currently has only a minor amount of "Restricted" fund balance.

Committed - Committed fund balance includes amounts that can only be used for a specific purpose determined by formal action of the Board of Supervisors and that remain binding unless removed in the same manner. The establishment of a "committed" fund balance requires (in accordance with the County's Fund Balance Policy) the passage of a resolution by a simple majority vote before June 30 of the applicable fiscal year.

The Board of Supervisors established a separate committed fund balance account known as the Reserve for Working Capital. Funding of the Reserve for Working Capital is established by resolution during the annual budget process. The purpose of the reserve is to assist the County in maintaining a minimal fund balance. In accordance with the County's Fund Balance Policy, any use of funds requires a four-fifths vote of the Board of Supervisors appropriating the funds and a resolution of the Board of Supervisors declaring a Fiscal Emergency.

The Board of Supervisors has also established a separate Committed fund balance account known as the Reserve for Economic Uncertainty. Funding of the Reserve for Economic Uncertainty is established by resolution during the annual budget process. The reserve is to be used only during recessions or periods of economic distress as measured by periods of time when the local unemployment rate exceeds 8% and/or the rate of inflation exceeds the growth in property taxes. In accordance with the County's Fund Balance Policy, any use of funds requires a four-fifths vote of the Board of Supervisors appropriating the funds.

The Board of Supervisors has also established a separate Committed fund balance account known as the Reserve for Natural Disasters. Funding of the Reserve for Natural Disasters is established by resolution during the annual budget process. The purpose of the reserve is to fund extraordinary operating costs, legal costs and cashflow associated with delays in State and federal reimbursements for any natural disaster. In accordance with the County's Fund Balance Policy, any use of funds requires a four-fifths vote of the Board of Supervisors appropriating the funds.

As of June 30, 2017, the County has Committed fund balances as follows:

Committed to:	
Natural Disasters	$ 1,251,089
Working Capital	6,000,000
Economic Uncertainty	10,000,000
Total Committed fund balance	$17,251,089

The County has budgeted an increase to the Natural Disasters Reserve in 2017/18 to increase the balance to $2,000,000.

Assigned - Assigned fund balance includes amounts that are constrained by the County's intent to be used for specific purposes. In accordance with the County's Fund Balance Policy, the Board of Supervisors has the authority to assign funds for a specific purpose, or change or remove an assignment, with a simple majority vote.

The County Administrative Officer also has the authority to assign funds for specific purposes, and to change or remove the assignment, which action is to be reported to the Board of Supervisors at their next meeting. An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget may be classified as Assigned fund balance.

The County Administrative Officer has established and the Board of Supervisors has approved establishment of Assigned fund balance for federally qualified health program. The amount assigned is for revenue already recognized in the General Fund but assigned to (1) provide a cushion to mitigate risk associated with mental health managed care programs, (2) provide an audit reserve for disallowed mental health costs under State or federal programs, and (3) hold for possible future repayment of grant funds.

As of June 30, 2017, the County has "assigned" fund balances as follows:

Assigned to:	
Federally qualified health program	$14,229,750
Structural deficit	6,632,662
Eliminate projected budgetary deficit	
in subsequent year's budget	8,149,727
Liabilities	1,500,000
MBCP Grant Guaranty	
Human services	460,000
Salary Savings	2,794,959
Total Assigned fund balance	$33,767,098

The estimated 2016/17 Committed and Assigned ending fund balance is $42,868,460, or 9.0% of 2016/17 budgetary revenues.

The 2017/18 Budget anticipates a total Committed and Assigned fund balance of $_______ or ___% of 2017/18 budgetary revenues.

GASB Statement No. 68. Reporting obligations under Governmental Accounting Standards Board Statement No. 68 -Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 ("GASB No. 68"), and GASB Statement No. 71 - Pension Transitions for Contributions Made Subsequent to the Measurement Date-an amendment of GASB No. 68, commenced with financial statements for Fiscal Year 2014/15. Under GASB No. 68, an employer reports the net pension liability, pension expense and deferred outflows/deferred inflows of related to pensions in its financial statements as part of its financial position. The result of the implementation of these standards was to decrease the net position at July 1, 2014 shown on the County's Government-wide Financial Statements by $339 million, which consists of net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The audited financial statements of the County for the Fiscal Year ended June 30, 2016 included in "APPENDIX B" contain additional information about the retirement liability and the application of GASB No. 68.

TABLE NO. 29
COUNTY OF SANTA CRUZ
GENERAL FUND
BALANCE SHEET
As of June 30

	2014 (1)	2015 (1)	2016 (1)	Unaudited 2017 (2)
Assets				
Cash and Investments	$113,643,756	$128,374,124	$113,047,344	
Receivables, Net	31,336,409	25,033,754	32,290,501	
Due from Other Funds	398,728	1,825,695	1,415,354	
Due from Other Governments	-	-	38,250	
Loans Receivable	-	128,000	128,000	
Deposits with Others	90,000	90,000	90,000	
Inventory	27,616	16,531	-	
Prepaids	428,354	747,540	443,863	
Land Held for Resale	-	-	-	
Total Assets	$145,924,863	$156,215,644	$147,453,312	
Liabilities				
Payables	$ 15,798,811	$ 16,647,807	$ 20,095,627	
Tax and Revenue Anticipation Notes Payable	50,997,222	50,498,611	41,500,000	
Advances from Grantors and Third Parties (1)	38,413,948	38,864,345	34,121,666	
Total Liabilities	$105,209,981	$106,010,763	$ 95,717,293	
Fund Balances				
Nonspendable	$ 872,268	$ 1,135,435	$ 751,039	
Restricted	2,000	-	-	
Committed	21,627,133	15,541,090	17,251,089	
Assigned	18,213,481	33,599,812	33,767,098	
Unassigned	-	(71,456)	(33,207)	
Total Fund Balance	$ 40,714,882	$ 50,204,881	$ 51,736,019	
Total Liabilities and Fund Balances	$145,924,863	$156,215,644	$147,453,312	

Source: (1) County of Santa Cruz Comprehensive Annual Financial Reports.
(2) County of Santa Cruz Auditor-Controller-Tax Collector.

TABLE NO. 30
COUNTY OF SANTA CRUZ
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended June 30

	2014 [1]	2015 [1]	2016 [1]	Unaudited 2017 [2]
Revenues:				
Taxes	$ 92,958,333	$ 99,687,028	$107,566,543	
Licenses and Permits	9,848,179	11,050,811	11,875,855	
Fines, Forfeits and Penalties	4,751,384	4,713,148	3,617,246	
Use of Money and Property	2,891,836	2,005,411	3,620,166	
Aid from Other Governments	218,825,254	232,578,980	234,772,832	
Charges for Services	46,183,054	50,326,472	57,591,811	
Other	3,358,987	3,962,344	3,001,431	
Total Revenues	$378,817,027	$404,324,194	$422,045,884	
Expenditures:				
Current:				
General Government	$ 28,536,007	$ 30,999,229	$ 29,664,592	
Public Protection	117,970,260	124,019,686	133,115,694	
Public Ways and Facilities	217,613	193,935	239,884	
Health and Sanitation	108,080,235	111,482,429	117,006,779	
Public Assistance	109,586,455	117,130,460	124,984,705	
Education	114,039	113,540	123,569	
Recreation and Cultural Services	6,071,566	6,082,284	7,188,886	
Interest and Fiscal Charges	178,727	162,213	(17,225)	
Total Expenditures	$370,754,902	$390,183,776	$412,306,884	
Excess of Revenues Over (Under) Expenditures	$ 8,062,125	$ 14,140,418	$ 9,739,000	
Other Financing Sources (Uses):				
Inception of Capital Lease	$ 424,824	$ 92,808	$ 69,685	
Capital Contributions	-	-	-	
Operating Transfers In	2,423,227	3,987,479	4,025,238	
Operating Transfers Out	(10,764,216)	(8,730,706)	(12,302,785)	
Total Other Financing Sources (Uses)	$ (7,916,165)	$ (4,650,419)	$ (8,207,862)	
Net Change in Fund Balances	$ 145,960	$ 9,489,999	$ 1,531,138	
Fund Balance – Beginning	$ 40,568,922	$ 40,714,882	$ 50,204,881	
Fund Balance – Ending	$ 40,714,882	$ 50,204,881	$ 51,736,019	

Source: [1] County of Santa Cruz Comprehensive Annual Financial Reports.
[2] County of Santa Cruz Auditor-Controller-Tax Collector.

RISK FACTORS

The purchase of the Bonds involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal and/or interest on the Bonds. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

The Lease Payments

County's Lease Payments and Other Payments. The County's Lease Payments and other payments due under the Lease Agreement (including the costs of improvement, repair and maintenance of the Property and taxes, other governmental charges and assessments levied against the Property) are not secured by any pledge of taxes or other revenues of the County but are payable from yearly appropriations of any funds lawfully available to the County. If the County's revenue sources are less than its total obligations, the County could choose to fund other services before making Lease Payments and other payments due under the Lease Agreement. The same result could occur if, because of State Constitutional limits on expenditures, the County is not permitted to appropriate and spend all of its available revenues (see "Constitutional Limitation on Taxes and Expenditures" herein). To the extent these types of events or other events adversely affecting the funds available to the County occur in any year, the funds available to make Lease Payments may be decreased.

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

Abatement. Except to the extent that amounts are available from proceeds of rental interruption insurance required to be maintained pursuant to the Lease Agreement, or with respect to Lease Payments allocable to the 2015 Bonds, amounts in the 2015 Bonds Reserve Account, the amount of Lease Payments due under the Lease Agreement will be adjusted or abated during any period in which by reason of damage or destruction to the Property, eminent domain proceedings or some other event there is substantial interference with the use and possession of the Property. The amount of such abatement shall be such that the resulting Lease Payments, exclusive of the amounts described above, do not exceed the fair rental value for the use and possession of the portion of the Property not damaged, destroyed, interfered with or taken. Such abatement shall continue for the period commencing with such damage, destruction, interference or taking and ending with the substantial completion of the replacement or work of repair or the removal of the title defect causing such interference with use. The Lease Agreement shall continue in full force and effect following an event of abatement and the County waives any right to terminate the Lease by virtue of an abatement event. Notwithstanding the provisions of the Lease Agreement and the Indenture specifying the extent of abatement in the event of the County's failure to have use and possession of the Property, such provisions may be superseded by operation of law, and, in such event, the resulting Lease Payments may not be sufficient to pay all of that portion of the remaining principal and interest represented by the Bonds. The amount of such abatement shall reduce the Lease Payments applicable to the Bonds.

In the event that such funds are insufficient to make all payments with respect to the Bonds during the period that the Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners under the Lease Agreement or the Indenture for nonpayment under such circumstances. Failure to pay principal or interest on to the Bonds as a result of abatement of the County's obligation to make Lease Payments under the Lease Agreement is not an event of default under the Indenture or the Lease Agreement. In the event that Lease Payments are abated due to damage caused by earthquake or flood, such abatement may continue indefinitely, as no insurance for such damages is required under the Lease Agreement and the County cannot be compelled to repair or replace the damaged Property or to redeem the Bonds but has covenanted in the Lease Agreement to use its best efforts to repair or replace the Property from other lawfully available funds to the extent that the Net Proceeds are insufficient. See "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT - Abatement."

Insurance. The Lease Agreement obligates the County to obtain and keep in force various forms of insurance, to assure repair or replacement of the Property in the event of damage or destruction to the Property (see "APPENDIX A - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE AGREEMENT - Insurance" herein). The Lease Agreement only requires earthquake and flood coverage if the County, in its reasonable discretion, determines that such coverage is available from reputable insurers at commercially reasonable rates. The County makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Lease Agreement. In addition, certain risks may not be covered by such property insurance (see "SOURCES OF PAYMENT FOR THE BONDS - Insurance Relating to the Property" herein).

In the event the Property is partially or completely damaged or destroyed due to any uninsured or underinsured event, it is likely that Lease Payments will be partially or completely abated. Apart from the Net Proceeds of insurance, the County and the Authority will have no obligation to expend any funds to repair or replace such damaged or destroyed property. If any Property so damaged or destroyed is not repaired or replaced within the period during which the proceeds of rental interruption insurance or amounts in the 2015 Bonds Reserve Account are available, any such abatement could prevent the County from making timely Lease Payments.

Discovery of a Hazardous Substance That Would Limit the Beneficial Use of the Property. In general, the owners and lessees of a parcel may be required by law to remedy conditions of the property relating to the releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 sometimes referred to as CERCLA or the Superfund Act, is the most well-known and widely applicable of these laws but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or lessee) is obligated to remedy a hazardous substance condition of property whether or not the owner (or lessee) had any involvement in creating or handling the hazardous substance. The effect, therefore, should the Property be affected by a hazardous substance, might be to limit the beneficial use of the Property upon discovery and during remediation. The County is not aware of any such conditions on the Property.

Limited Recourse on Default; No Acceleration

If an event of default occurs and is continuing under the Lease Agreement, there is no remedy of acceleration of any Lease Payments which have not come due and payable in accordance with the Lease Agreement. The County will continue to be liable for Lease Payments as they become due and payable in accordance with the Lease Agreement if the Trustee does not terminate the Lease Agreement, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against counties in California, including a limitation on enforcement of judgments against funds or property needed to serve the public welfare and interest. In addition, the enforcement of any remedies provided in the Lease Agreement and the Indenture could prove both expensive and time-consuming. The County is not aware of any such conditions on the Property.

The Lease Agreement permits the Trustee to take possession of and re-lease the Property in the event of a default by the County under the Lease Agreement. However, due to the fact that the Property serves essential governmental purposes and, the specialized nature of the Property, it is unlikely that the Trustee could readily re-lease it for rents which are sufficient to enable it to pay principal and interest on the Bonds in full when due or that a court would permit such remedy to be exercised on a timely basis.

New CREBs Refundable Credit Payments

The maximum direct payment from the United States Treasury is equal to the lesser of (i) the amount of interest payable with respect to the 2017 Bonds, or (ii) seventy percent (70%) of the amount of interest which would be payable with respect to the 2017 Bonds if the interest rates were determined at the applicable credit rate determined under section 54A(b)(3) of the Tax Code. Due to sequestration, direct payments are currently reduced by 6.6% of the maximum direct payment calculated in accordance with the Tax Code. The obligation of the United States Treasury under Section 6431 of the Tax Code to pay the Refundable Credit Payments does not constitute a full faith and credit guarantee of the 2017 Bonds by the United States of America.

No assurances are provided that the County will receive any Refundable Credit Payments, or that the amount of the Refundable Credit Payments payable to the County will not be reduced the Congress and the President of the United States of America. Refundable Credit Payments are subject to sequestration under The Budget Control Act of 2011, Pub. L. No. 112-25, 125 Stat. 240, unless the Congress and the President take action to prevent such sequestration. Refundable Credit Payments can also be offset against certain amounts that may, for unrelated reasons, be owed by the County to an agency of the United States of America or certain state agencies.

State Budget

The following information concerning the State's budgets has been obtained from publicly available information which the County believes to be reliable; however, the County does not guaranty the accuracy or completeness of this information and has not independently verified such information. Furthermore, it should not be inferred from the inclusion of this information in this Official Statement that the principal of or interest with respect to the Bonds is payable by or the responsibility of the State of California.

State Budget. Information about the State budget is regularly available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." An impartial analysis of the budget is posted by the Office of the Legislative Analyst at www.lao.ca.gov. In addition, various State of California official statements, many of which contain a summary of the current and past State budgets and the impact of those budgets on cities in the State, may be found at the website of the State Treasurer, www.treasurer.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the County, and the County can take no responsibility for the continued accuracy of these internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

According to the State Constitution, the Governor of the State (the "Governor") is required to propose a budget to the State Legislature (the "Legislature") by no later than January 10 of each year, and a final budget must be adopted by the vote of each house of the Legislature no later than June 15, although this deadline has been routinely breached in the past. The State budget becomes law upon the signature of the Governor, who may veto specific items of expenditure.

Prior to Fiscal Year 2010-11, the State budget had to be adopted by a two-thirds vote of each house of the Legislature. However, in November 2010, the voters of the State passed Proposition 25, which reduced the vote required to adopt a budget to a majority vote of each house and which provided that there would be no appropriation from the current budget or future budget to pay any salary or reimbursement for travel or living expenses for members of the Legislature for the period during which the budget was presented late to the Governor.

Potential Impact of State of California Financial Condition on the County. During the most recent recession, the State faced a structural deficit that resulted in substantial annual deficits and reductions in expenditures. Although the State has had a budget surplus in the more recent fiscal years, according to the State there remain a number of major risks and pressures that threaten the State's financial condition, including the threat of recession, potential changes to federal fiscal policies and unfunded long-term liabilities of more than $200 billion related to pensions and other post-retirement benefits. These risks and financial pressures could result in future reductions or deferrals in amounts payable to the County. The State's financial condition and budget policies affect local public agencies throughout California. To the extent that the State budget process results in reduced revenues to the County, the County will be required to make adjustments to its budget. State budget policies can also impact conditions in the local economy and could have an adverse effect on the local economy and the County's major revenue sources.

No prediction can be made by the County as to whether the State will encounter budgetary problems in future fiscal years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the County cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on County finances and operations or what actions will be taken in the future by the Legislature and the Governor to deal with changing State revenues and expenditures. There can be no assurance that actions taken by the State to address its financial condition will not materially adversely affect the financial condition of the County. Current and future State budgets will be affected by national and State economic conditions and other factors over which the County has no control.

State Legislative Shifts of Property Tax Allocation. From time to time, the State has realigned certain property tax revenue to deal with its budget problems. Since 1992-93, the State has required that local agencies including cities remit a portion of property taxes received to augment school funding. These funds are deposited in each county's Education Revenue Augmentation Fund ("ERAF"). These property taxes have been permanently excluded from the County's property tax revenues.

On July 24, 2009, the Legislature approved amendments to the 2009-10 Budget to close its anticipated $26.3 billion budget shortfall. The approved amendments included borrowing from local governments by withholding of the equivalent of 8% of Fiscal Year 2008-09 property related tax revenues from cities' and counties' property tax collections under provisions of Proposition 1A (approved by the voters in 2004), which the State was required to repay with interest within three years. The first (and to date, only) shift occurred in Fiscal Year 2009-10.

On March 2, 2004, voters approved a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of $15 billion in bonds to finance the Fiscal Year 2002-03 and Fiscal Year 2003-04 State budget deficits, which would be payable from a fund to be established by the redirection of tax revenues through the "Triple Flip." Under the "Triple Flip," one-quarter of local governments' 1% share of the sales tax imposed on taxable transactions within their jurisdiction were redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provided for property taxes in the ERAF to be redirected to local government. Because the ERAF moneys were previously earmarked for schools, the legislation provided for schools to receive other state general fund revenues. The swap of sales taxes for property taxes terminated once the deficit financing bonds were repaid in September 2015. The County treated the Triple Flip property tax revenue as sales tax in its financial statements.

The County also received a portion of Department of Motor Vehicles license fees ("VLF") collected statewide. Several years ago, the State-wide VLF was reduced by approximately two-thirds. However, the State continued to remit to cities and counties the same amount that those local agencies would have received if the VLF had not been reduced, known as the "VLF backfill." The State VLF backfill was phased out and as of 2011-12 all of the VLF is now received through an in lieu payment from State property tax revenues.

Enforcement of Remedies

The enforcement of any remedies provided in the Lease Agreement and the Indenture could prove both expensive and time consuming. The rights and remedies provided in the Lease Agreement and the Indenture may be limited by and are subject to the limitations on legal remedies against counties, including State constitutional limits on expenditures, and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest; by federal bankruptcy laws, as now or hereafter enacted; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect (see "Bankruptcy of the County" below); equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose; and the limitations on remedies against municipal entities in the State. Bankruptcy proceedings or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the 2017 Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

The legal opinions to be delivered concurrently with the delivery of the 2017 Bonds (including Special Counsel's legal opinion) will be qualified, as to the enforceability of the 2017 Bonds, the Indenture, the Lease Agreement, the Assignment Agreement and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitation on legal remedies against counties in the State. See "Bankruptcy of the County" below.

Bankruptcy of the County

In addition to the limitations on remedies contained in the Indenture and the Lease Agreement, the rights and remedies in the Lease Agreement may be limited and are subject to the provisions of federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect the enforcement of creditors' rights.

Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs bankruptcy proceedings of public entities such as the County, no involuntary bankruptcy petition may be filed against a public entity. However, upon satisfaction of certain prerequisite conditions, a voluntary bankruptcy petition may be filed by the County. The filing of a bankruptcy petition results in a stay against enforcement of certain remedies under agreements to which the bankrupt entity is a party. A bankruptcy filing by the County could thus limit remedies under the Lease Agreement. A bankruptcy debtor may choose to assume or reject executory contracts and leases, such as the Lease Agreement. However, a debtor may not assume or reject executory contracts to loan money or to make a financial accommodation, such as the Indenture. In the event of rejection of a lease by debtor lessee, the Property is returned to the lessor and the lessor has a claim for a limited amount of the resulting damages.

Among the adverse effects of a bankruptcy is the possibility of the adoption of a plan (an "Adjustment Plan") for the adjustment of the County's various obligations over the objections of the Trustee or all of the Owners of the Bonds and without their consent, which Adjustment Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that such Adjustment Plan is "fair and equitable" and in the best interests of creditors. The adjustment plans approved by the Bankruptcy Courts in connection with the bankruptcies of the cities of Vallejo, San Bernardino and Stockton resulted in significant reductions in the amounts payable by the cities under lease revenue obligations that were substantially identical or similar to the Bonds. The County can provide no assurances about the outcome of the bankruptcy cases of other California municipalities or the nature of any Adjustment Plan if it were to file for bankruptcy.

Under the Indenture, the Trustee holds a security interest in the revenues in the funds pledged thereunder, including Lease Payments, for the benefit of the Owners of the 2017 Bonds, but such security interest arises only when the Lease Payments are actually received by the Trustee following payment by the County. The Property itself is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of Owners. In the event of a bankruptcy filed by the County and the subsequent rejection of the Lease Agreement by the County, the Trustee would recover possession of the Property and would have a claim for damages against the County. The Trustee's claim would constitute a secured claim only to the extent of revenues in the possession of the Trustee; the balance of such claim would be unsecured.

In a bankruptcy of the County, if a material unpaid liability is owed to CalPERS or any other pension system (collectively the "Pension Systems") on the filing date, or accrues thereafter, such circumstances could create additional uncertainty as to the County's ability to make Lease Payments. Given that municipal pension systems in California are usually administered pursuant to State constitutional provisions and, as applicable, other state and/or city or county law, the Pension Systems may take the position, among other possible arguments, that their claims enjoy a higher priority than all other claims, that Pension Systems have the right to enforce payment by injunction or other proceedings outside of a County bankruptcy case, and that Pension System claims cannot be the subject of adjustment or other impairment under the Bankruptcy Code because that would purportedly constitute a violation of State statutory, constitutional and/or municipal law. It is uncertain how a bankruptcy judge in a County bankruptcy would rule on these matters. In addition, this area of law is presently very unsettled because issues of pension underfunding claim priority, pension contribution enforcement, and related bankruptcy plan treatment of such claims (among other pension-related matters) are presently the subject of litigation in the Chapter 9 cases of several California municipalities, including the cities of Stockton and San Bernardino.

The Authority is a public agency and, like the County, is not subject to the involuntary procedures of the Bankruptcy Code. The Authority may also seek voluntary protection under Chapter 9 of the Bankruptcy Code. In the event the Authority were to become a debtor under the Bankruptcy Code, the Authority would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Such a bankruptcy could adversely affect the payments under the Indenture. Among the adverse effects might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the Authority or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the Authority; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have priority of payment superior to that of the Owners of the 2017 Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the Authority's debt without the consent of the Trustee or all of the Owners of the 2017 Bonds, which plan may restructure, delay, compromise or reduce the amount of any claim of the Owners of the 2017 Bonds if the Bankruptcy Court finds that the plan is fair and equitable. In a bankruptcy the Authority could challenge the assignment of the Site Lease and the Lease Agreement, and the Trustee and/or the Owners of the 2017 Bonds could be required to litigate these issues to protect their interests.

Constitutional Limitation on Taxes and Expenditures

State Initiative Measures Generally. Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Voters have exercised this power through the adoption of Proposition 13 ("Article XIIIA") and similar measures, such as Propositions 22 and 26 approved in the general election held on November 2, 2010.

Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the County. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the Lease Agreement.

Article XIIIA. Article XIIIA of the California Constitution limits the taxing powers of California public agencies. Article XIIIA provides that the maximum ad valorem tax on real property cannot exceed 1% of the "full cash value" of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. "Full cash value" is defined as "the County assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The "full cash value" is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data. Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by substantial damage, destruction or other factors, and to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other special circumstances. There may also be declines in valuations if the California Consumer Price Index is negative.

The foregoing limitation does not apply to ad valorem taxes or special assessments to pay the interest and prepayment charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of votes cast by the voters voting on the proposition.

In the general election held November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amend the terms "purchase" and "change of ownership," for purposes of determining full cash value of property under Article XIIIA, to not include the purchase or transfer of (1) real property between spouses, and (2) the principal residence and the first $1,000,000 of other property between parents and children. Proposition 60 amends Article XIIIA to permit the Legislature to allow persons over age 55 who sell their residence and buy or build another of equal or lesser value within two years in the same city, to transfer the old residence's assessed value to the new residence. In the March 26, 1996 general election, voters approved Proposition 193, which extends the parents-children exception to the reappraisal of assessed value. Proposition 193 amended Article XIIIA so that grandparents may transfer to their grandchildren whose parents are deceased, their principal residences, and the first $1,000,000 of other property without a reappraisal of assessed value.

Because the Revenue and Taxation Code does not distinguish between positive and negative changes in the California Consumer Price Index used for purposes of the inflation factor, there was a decrease of 0.237% in 2009-10 – applied to the 2010-11 tax roll – reflecting the actual change in the California Consumer Price Index, as reported by the State Department of Finance. For each fiscal year since Article XIIIA has become effective (the 1978-79 Fiscal Year), the annual increase for inflation has been at least 2% except in ten fiscal years as shown below:

Tax Roll	Percentage	Tax Roll	Percentage
1981-82	1.000%	2010-11	(0.237)%
1996-96	1.190	2011-12	0.753
1996-97	1.110	2014-15	0.454
1998-99	1.853	2015-16	1.998
2004-05	1.867	2016-17	1.525

Proposition 8 Adjustments. Proposition 8, approved in 1978, provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions based on Proposition 8 do not establish new base year values, and the property may be reassessed as of the following

lien date up to the lower of the then-current fair market value or the factored base year value. The State Board of Equalization has approved this reassessment formula and such formula has been used by county assessors statewide. The County has seen Proposition 8 reductions from the maximum amount that could be assessed on property since 2009. See "FINANCIAL INFORMATION - Taxable Property and Assessed Valuation" herein.

Article XIIIB. On November 6, 1979, California voters approved Proposition 4, or the Gann Initiative, which added Article XIIIB to the California Constitution. Article XIIIB limits the annual appropriations of the State and any city, county, city and county, school district, authority or other political subdivision of the State. The "base year" for establishing such appropriations limit is the 1978/79 Fiscal Year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by public agencies.

Appropriations subject to Article XIIIB include generally the proceeds of taxes levied by or for the entity and the proceeds of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues, certain State subventions, and the proceeds to an entity of government, from (1) regulatory licenses, user charges and user fees, to the extent that such charges and fees exceed the costs reasonably borne in providing the regulation, product or service, and (2) the investment of tax revenues. Article XIIIB includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules within the next two subsequent fiscal years.

In the June 1990 election, the voters approved Proposition 111 amending the method of calculation of State and local appropriations limits. Proposition 111 made several changes to Article XIIIB. First, the term "change in the cost of living" was redefined as the change in the California per capita personal income ("CPCPI") for the preceding year. Previously, the lower of the CPCPI or the United States Consumer Price Index was used. Second, the appropriations limit for the fiscal year was recomputed by adjusting the 1986/87 limit by the CPCPI for the three subsequent years. Third and lastly, Proposition 111 excluded appropriations for "qualified capital outlay for fiscal 1990/91 as defined by the legislature" from proceeds of taxes.

Section 7910 of the Government Code requires the County to adopt a formal appropriations limit for each fiscal year. The County's appropriations limit for 2017/18 is $499,750,513. The County's appropriations subject to the limit for 2017/18 are $150,909,452. Based on this, the appropriations limit is not expected to have any impact on the ability of the County to continue to budget and appropriate the Lease Payments as required by the Lease Agreement.

Proposition 62. Proposition 62 was a statutory initiative adopted in the November 1986 general election. Proposition 62 added Sections 53720 to 53730, inclusive, to the California Government Code. It confirmed the distinction between a general tax and special tax, established by the State Supreme Court in 1982 in *City and County of San Francisco v. Farrell*, by defining a general tax as one imposed for general governmental purposes and a special tax as one imposed for specific purposes. Proposition 62 further provided that no local government or district may impose (i) a general tax without prior approval of the electorate by majority vote or (ii) a special tax without such prior approval by two-thirds vote. It further provided that if any such tax is imposed without such prior written approval, the amount thereof must be withheld from the levying entity's allocation of annual property taxes for each year that the tax is collected. By its terms, Proposition 62 applies only to general and special taxes imposed on or after December 1, 1985. Proposition 62 was generally upheld in *Santa Clara County Local Transportation Authority v. Guardino*, a California Supreme Court decision filed September 28, 1995.

Proposition 218. On November 5, 1996, California voters approved Proposition 218 – Voter Approval for Local Government Taxes – Limitation on Fees, Assessments, and Charges – Initiative Constitutional Amendment. Proposition 218 added Articles XIIIC and XIIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIIIA of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIIIA the California Constitution, and (iii) assessments, fees, and charges for property related services as provided in Article XIIID. Proposition 218 added voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such provisions will presumably be to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairment of contracts. In fact, the County began levying a utility tax in 1991 and pursuant to Proposition 218, voters in the County qualified a measure to be placed on the March 2002 ballot to eliminate the utility tax. This measure was approved by the voters and the County stopped levying the utility tax in April 2002.

Proposition 218 provides that, effective July 1, 1997, fees that are charged "as an incident of property ownership" may not "exceed the funds required to provide the property related services" and may only be charged for services that are "immediately available to the owner of the property."

The County does not expect the application of Proposition 218 will have a material adverse impact on its ability to pay Lease Payments.

Voter-Approved Taxes.

In November 2012, voters in the County approved an increase in the transient occupancy tax rate from 9.5% to 11%.

In June 2014, voters in the County approved Measure F, a parcel tax of $8.50 on all improved parcels within the unincorporated area of the County outside of recreation and park districts.

In November 2014, voters in the County approved Measure K, the imposition of a tax on the gross sales of medical marijuana businesses in the unincorporated County of up to 10%, with 7% being levied in the initial year. In November 2016, voters in the County approved Measure E, expanding the tax to apply to all cannabis-related businesses.

There is no time limit established for the collection of the transient occupancy tax, or taxes levied pursuant to Measure F or Measure K.

In November 2016, voters in the County also approved Measure D, the imposition of a sales and use tax of one-half cent, for a period of 30 years for transportation related expenditures. Local jurisdictions, such as the County, will share in 30% of the sales tax for local transportation purposes, with the remainder allocated for regional transportation projects.

Proposition 1A. Proposition 1A ("Proposition 1A"), proposed by the Legislature in connection with the 2004/05 Budget Act and approved by the voters in November 2004, restricts State authority to reduce major local tax revenues such as the tax shifts permitted to take place in Fiscal Years 2004/05 and 2005/06. Proposition 1A provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the Legislature.

Proposition 1A provides, however, that beginning in Fiscal Year 2008/09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses and certain other conditions are met. Such a shift may not occur more than twice in any 10-year period. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. For Fiscal Year 2009/10, 8% of the County's property tax revenues were diverted to the State as a result of a Proposition 1A suspension. See "State Budget" above.

Proposition 1A also provides that if the State reduces the vehicle license fee rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 22. On November 2, 2010, voters in the State approved Proposition 22. Proposition 22, known as the "Local Taxpayer, Public Safety, and Transportation Protection Act of 2010," eliminates or reduces the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

Proposition 26. On November 2, 2010, voters in the State also approved Proposition 26. Proposition 26 amends Article XIIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity. The County does not expect the provisions of Proposition 26 to materially impede its ability to pay Lease Payments when due.

Future Initiatives. From time to time other initiative measures could be adopted, affecting the ability of the County to increase revenues and appropriations.

Seismic Considerations

According to the Public Safety and Noise Element of the County's General Plan, the County is located in a seismically active region and could be impacted by a major earthquake originating from the numerous faults in the area. Surface rupture, ground shaking and liquefaction are the primary seismic risk to Santa Cruz County from a major earthquake along the San Andreas fault or within the Butano, Sargent, Zayante and Corralitos fault zones. Slope instability could result in landslides during ground shaking in some portions of the County. The epicenter of the 7.1 magnitude Loma Prieta earthquake, which struck in 1989, was located approximately 10 miles east-northeast of the City of Santa Cruz. In Santa Cruz County, 674 dwelling units, 32 mobile homes and 310 businesses were destroyed in the earthquake, with an estimate of $274 million in damages. By January 1991, the County had issued 7,460 building permits for reconstruction or repair of damaged structures. Repair of infrastructure was financed in part by a voter-approved one-half cent sales tax levied over six years.

The Property is located in an area classified as Seismic Risk Zone 4 by the Uniform Building Code. Seismic Risk Zone 4 includes the greater San Francisco Bay Area and all of coastal California. It is the highest risk zone classification of the Uniform Building Code. If there were to be an occurrence of severe seismic activity in the County, there could be substantial damage to and interference with the County's right to use and occupy all or a portion of the Property, which could result in Lease Payments being subject to abatement. See "The Lease Payments - Abatement" above. However, there was no structural damage to the Property as a result of the Loma Prieta earthquake in 1989. The most recent seismic review of the Property was completed in 2005, and the engineer reported no retrofitting was required. Under the Lease Agreement, the County is required to obtain earthquake coverage only if it is available at reasonable cost from reputable insurers in the reasonable opinion of the County. The County currently maintains earthquake insurance on the Property but may not in future years (see "THE PROPERTY" and "SOURCES OF PAYMENT FOR THE BONDS - Insurance Relating to the Property" herein).

A major earthquake could cause widespread destruction and significant loss of life in a populated area such as the County. If an earthquake were to substantially damage or destroy taxable property within the County, a reduction in taxable values of property in the County and a reduction in revenues available to the General Fund to make Lease Payments would be likely to occur. Seismic activity may also reduce or eliminate the use and occupancy of the Property by the County. There is no assurance that, in the event of a natural disaster, sufficient County reserves or Federal Emergency Management Agency assistance would be available for the repair or replacement of any Property.

Other Natural Hazards

The County has adopted a Natural Hazards Mitigation Plan. This plan includes a hazard analysis for earthquake, flood, landslide, fire and other risk, and is required to comply with Federal Emergency Management Agency ("FEMA") requirements for disaster relief funding. If such events described under the caption "Seismic Considerations" or the events described below occur, the County's emergency response to such an event may add unanticipated expenditures to the General Fund budget in such Fiscal Year or over multiple Fiscal Years, some or all of which may not be reimbursed by federal or state disaster funding, and, if reimbursed, may not be received by the County in a timely manner. This could lead to reduced ability by the County to make Lease Payments. For example, during winter 2017, the County experienced significant storm damage due to fallen trees and failed roads as a result of above-average, prolonged rainfall. The County declared an emergency on February 7, 2017 and is eligible for disaster relief funding from the State and FEMA. Repair cost of the damage is estimated to be in excess of $100 million and the repair effort will be over a period of several years. The County expects its share of the damage repair cost will be funded by the increased State-wide gas tax and Measure D funding, with no expected impact on the General Fund budget at this time.

Landslides. There are areas of the County that are mountainous and prone to localized landslides during periods of heavy or prolonged rain. Several such landslides occurred during winter 2017 as a result of above-average rainfall. For a time, these slides impacted travel on State Highways 9, 152, and 126 and various local roads, but most notably impacted travel on State Highway 17, the primary transportation corridor between the County and the San Francisco Bay Area.

Wildfire Conditions. The County includes areas where there is high or extreme danger of wildfires during dry months and during periods of prolonged drought. In May 2008, 35 residences and several outbuildings were lost and 4,270 acres were burned in the Summit fire. In June 2008, 3 residences and several outbuildings were lost and 520 acres were burned in the Martin fire. In October 2017, a fire in the northern portion of the County destroyed 4 homes.

Flooding and Tsunamis. Portions of the County are located in a 100-year flood plain. A flood occurred in 1995 when storm water breached the protective levees of the Pajaro River, and flooded approximately 3,280 acres adjacent to the river. Portions of the County are located along the Pacific Ocean. The County could be subject to impacts from tsunamis in the event of an earthquake occurring off-shore.

Early Redemption Risk

Early payment of the Lease Payments and early redemption of the 2017 Bonds may occur in whole or in part without premium, (1) if the Property or a portion thereof is lost, destroyed or damaged beyond repair or taken by eminent domain and from the proceeds of title insurance (2) from unexpended 2017 Bond proceeds or (3) in the event of a Loss of Refundable Credit Payments and the County exercising its option to prepay Lease Payments relating to the 2017 Bonds, or (4) if the County exercises its right to prepay Lease Payments in whole or in part pursuant to the provisions of the Lease Agreement and the Indenture. See "THE BONDS - Redemption."

Secondary Market Risk

There can be no assurance that there will be a secondary market for purchase or sale of the 2017 Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market, the availability of continuing disclosure from the County and the financial condition of the County.

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Trustee and the Owners of the Bonds upon an event of default under the Indenture, the Lease Agreement, the Site Lease, or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. In the case of any bankruptcy proceeding involving the County, the rights of the Owners could be modified at the direction of the court. The various legal opinions to be delivered concurrently with the delivery of the 2017 Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Indenture, the Lease Agreement, the Site Lease and other pertinent documents is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Approval of Legal Proceedings

Jones Hall, A Professional Law Corporation, San Francisco, California, as Bond Counsel, will render an opinion which states that the Lease Agreement represents a valid and binding obligation of the Authority and the County, enforceable against the Authority and the County, as applicable, in accordance with its terms except as limited by bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights, by equitable principles, by the exercise of judicial discretion and by limitations on legal remedies against municipalities in the State. See "APPENDIX D" hereto for the proposed form of Bond Counsel's opinions.

The Authority and the County have no knowledge of any fact or other information which would indicate that the Indenture, the Lease Agreement, the Site Lease or the 2017 Bonds are not so enforceable against the Authority and the County, as applicable, except to the extent such enforcement is limited by principles of equity, by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors' rights generally and by limitations on legal remedies against municipalities in the State.

Certain legal matters will be passed on for the Authority and the County by Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel and by the County Counsel and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Underwriter's Counsel. Fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the 2017 Bonds.

Absence of Litigation

The Authority and the County will each furnish a certificate dated as of the date of delivery of the 2017 Bonds that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Indenture, the Site Lease, the Lease Agreement or the sale or delivery of the 2017 Bonds or in any manner questioning the proceedings and authority under which the Indenture, the Site Lease and the Lease Agreement are to be executed or delivered or the 2017 Bonds are to be delivered or affecting the validity thereof.

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the 2017 Bonds constitute "New Clean Renewable Energy Bonds" within the meaning of Section 54C(a)(3) of the Internal Revenue Code of 1986, as amended (the "Tax Code"). The County has irrevocably elected to apply the provisions of Section 6431(f) of the Tax Code to the Bonds are Specified Tax Credit Bonds ("Specified Tax Credit Bonds") which are eligible for the credit payable by the federal government under Section 6431(f) of the Tax Code (the "Refundable Credit Payments").

The opinions set forth in the preceding paragraph are subject to the condition that the County and the Authority comply with all requirements of the Tax Code that must be satisfied subsequent to the issuance of the 2017 Bonds in order for the 2017 Bonds to be treated as Specified Tax Credit Bonds and continue to be eligible for the Refundable Credit Payments. The County and the Authority have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may result in a delay or forfeiture of all or a portion of the Refundable Credit Payments and may cause the 2017 Bonds to cease to be treated as Specified Tax Credit Bonds either prospectively from the date of determination of a failure to comply with the requirements or retroactively to the date of issuance of the 2017 Bonds. Bond Counsel expresses no opinion regarding the procedures regarding, and availability of funds with respect to, the payment of the Refundable Credit Payments by the federal government, nor does Bond Counsel express any opinion regarding other federal tax consequences arising with respect to the 2017 Bonds.

Interest on the 2017 Bonds is <u>not</u> intended to be excluded from gross income for federal income tax purposes.

California Tax Status. In the opinion of Bond Counsel, interest on the 2017 Bonds is exempt from personal income taxation imposed by the State of California.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a 2017 Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each 2017 Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded. Owners of 2017 Bonds with original issue discount or original issue premium, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to federal income tax and State of California personal income tax consequences of owning such 2017 Bonds.

Expenditure Period. In the event and to the extent that the County fails to expend proceeds of the Bonds for a qualified purpose with respect to the Renewable Energy Projects within the period ending three years after the date of issue of the 2017 Bonds or such later date if extended by the IRS (referred to herein as the "Expenditure Period"), the Authority is required to use said unexpended proceeds to redeem all or a portion of the 2017 Bonds in accordance with the requirements of Section 54A(d)(2)(B) of the Tax Code in the time and manner prescribed by the Tax Code. See "THE BONDS - Redemption."

Other Tax Considerations. Owners of the 2017 Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the 2017 Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the 2017 Bonds other than as expressly described above.

Form of Opinion. A copy of the proposed form of opinion of Bond Counsel is attached hereto as "APPENDIX D."

CONCLUDING INFORMATION

Rating on the 2017 Bonds

Standard & Poor's and Moody's have assigned their ratings of "___" and "___" respectively, to the 2017 Bonds. Such rating reflects only the views of the rating agency and any desired explanation of the significance of such rating should be obtained from the rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

Except as otherwise required in the Continuing Disclosure Certificate, the County undertakes no responsibility either to bring to the attention of the owners of any 2017 Bonds any downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the 2017 Bonds. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Underwriting

The 2017 Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter") pursuant to a Bond Purchase Agreement by and among the Underwriter, the County and the Authority. The Underwriter purchased the 2017 Bonds at a price equal to $___________, which amount represents the principal amount of the 2017 Bonds less an Underwriter's discount of $________. The Underwriter will pay certain of its expenses relating to the offering from the Underwriter's discount.

The Underwriter is offering the 2017 Bonds at the prices set forth on the inside cover page pages hereof. The Underwriter may offer and sell the 2017 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

The Municipal Advisor

The material contained in this Official Statement was prepared by the Authority and the County with the assistance of the Municipal Advisor who advised the Authority and the County as to the financial structure and certain other financial matters relating to the 2017 Bonds. The information set forth herein received from sources other than the County has been obtained from sources which are believed to be reliable, but such information is not guaranteed by the Authority, the County or the Municipal Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Municipal Advisor are contingent upon the sale and delivery of the 2017 Bonds.

Continuing Disclosure

The County will covenant to provide certain annual financial information by not later than February 15 in each year (the "Annual Reports") and notices of the occurrence of certain listed events in accordance with Rule 15c2-12 of the Securities Exchange Act of 1934 as amended (the "Rule"). Harrell & Company Advisors, LLC will act as Dissemination Agent. The specific nature of the information to be contained in the Annual Reports or the notices of listed events and certain other terms of the continuing disclosure obligation are found in the form of the County's Continuing Disclosure Certificate attached in "APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE."

References

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority or the County and the purchasers or Owners of any of the 2017 Bonds.

Execution

The execution of this Official Statement by the Executive Director of the Authority and the County Administrative Officer of the County has been duly authorized by the Santa Cruz County Capital Financing Authority and by the County of Santa Cruz, respectively.

SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY

By: ______________________________

Executive Director

COUNTY OF SANTA CRUZ

By: ______________________________

County Administrative Officer

APPENDIX A
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

[to be provided by Bond Counsel]

APPENDIX B

COUNTY AUDITED FINANCIAL STATEMENTS

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the COUNTY OF SANTA CRUZ (the "County") in connection with the issuance by the SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY (the "Authority") of its Santa Cruz County Capital Financing Authority $_________ Taxable Lease Revenue Bonds, 2017 Series A (Direct Pay Subsidy New Clean Renewable Energy Bonds) (the "2017 Bonds"). The 2017 Bonds are being issued pursuant to an Indenture of Trust, dated as of June 1, 2015, as supplemented by a First Supplemental Indenture of Trust, dated as of December 1, 2017, each by and between The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee") and the Authority (the "Indenture"). The County covenants and agrees as follows:

Section 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the County for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (defined below).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"*Annual Report*" shall mean any Annual Report provided by the County pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"*Beneficial Owner*" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2017 Bonds (including persons holding 2017 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2017 Bonds for federal income tax purposes.

"*Dissemination Agent*" shall mean Harrell & Company Advisors, LLC or any successor Dissemination Agent designated in writing by the County and which has filed with the County a written acceptance of such designation. In the absence of such a designation, the County shall act as the Dissemination Agent.

"*EMMA*" or "*Electronic Municipal Market Access*" means the Electronic Municipal Market Access system of the MSRB.

"*Listed Events*" shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Certificate.

"*MSRB*" means shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

"*Official Statement*" shall mean the Official Statement relating to the 2017 Bonds, dated _______, 2017.

"*Participating Underwriter*" shall mean the original underwriter of the 2017 Bonds.

"*Repository*" shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the EMMA website of the MSRB, currently located at http://emma.msrb.org.

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"*State*" shall mean the State of California.

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report to MSRB.* The County shall, or shall cause the Dissemination Agent to, not later than February 15 in each year, commencing with the report for the 2016-17 Fiscal Year, which is due not later than February 15, 2018 and to file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the County may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year*. If the County's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(c) *Delivery of Annual Report to Dissemination Agent*. Not later than fifteen days prior to the date specified in subsection (a) for providing the Annual Report to EMMA, the County shall provide the Annual Report to the Dissemination Agent (if other than the County). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the County.

(d) *Report of Non-Compliance*. If the County is unable to provide an Annual Report by the date required in subsection (a), the Dissemination Agent shall send a notice to EMMA in the form required by the Repository stating that the Annual Report has not been filed.

(e) *Annual Compliance Certification*. The Dissemination Agent shall, if the Dissemination Agent is other than the County, file a report with the County certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

Section 4. Content of Annual Reports. The County's Annual Report shall contain or incorporate by reference the following:

(a) Audited financial statements of the County, prepared in accordance with generally accepted auditing standards for municipalities in the State of California. If the County's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) To the extent not included in the audited final statement of the County, the Annual Report shall also include the following information:

(i) Gross Assessed Value of All Taxable Property;

(ii) County-wide Secured Property Tax Levies and Collections;

(iii) Tax Revenues by Source;

(iv) General Fund Statement of Revenues, Expenditures and Changes in Fund Balance.

(c) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the County or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The County shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) *Reportable Events.* The County shall, or shall cause the Dissemination (if not the County) to, give notice of the occurrence of any of the following events with respect to the 2017 Bonds:

1. Principal and interest payment delinquencies.

2. Unscheduled draws on debt service reserves reflecting financial difficulties.

3. Unscheduled draws on credit enhancements reflecting financial difficulties.

4. Substitution of credit or liquidity providers, or their failure to perform.

5. Defeasances.

6. Rating changes.

7. Tender offers.

8. Bankruptcy, insolvency, receivership or similar event of the obligated person.

9. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(b) *Material Reportable Events.* The County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2017 Bonds, if material:

1. Non-payment related defaults.

2. Modifications to rights of security holders.

3. 2017 Bond calls.

4. The release, substitution, or sale of property securing repayment of the securities.

5. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

6. Appointment of a successor or additional paying agent, or the change of name of a paying agent.

(c) *Time to Disclose.* The County shall, or shall cause the Dissemination Agent (if not the County) to, file a notice of occurrence of a Listed Event with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected 2017 Bonds under the Indenture.

Section 6. Termination of Reporting Obligation. The County's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

Section 7. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the County, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the County pursuant to this Disclosure Certificate.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent, if not the County, shall be paid compensation by the County for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the County from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the County, Holders or Beneficial Owners, or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any direction from the County or an opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the County.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the County may amend this Disclosure Certificate (and the Dissemination Agent shall agree to any amendment so requested by the County that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) *Change in Circumstances*. If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2017 Bonds, or the type of business conducted;

(b) *Compliance as of Issue Date*. The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2017 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) *Consent of Holders; Non-impairment Opinion*. The amendment or waiver either (i) is approved by the 2017 Bond holders in the same manner as provided in the Indenture for amendments to the Indenture with the consent of 2017 Bond holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the 2017 Bond holders or Beneficial Owners.

If this Disclosure Certificate is amended or any provision of this Disclosure Certificate is waived, the County shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the County chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the County shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the County to comply with any provision of this Disclosure Certificate, any 2017 Bond holder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under this Disclosure Certificate. The sole remedy under this Disclosure Certificate in the event of any failure of the County to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. If the Dissemination Agent is not the County, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the County pursuant to this Disclosure Certificate. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by, or at the direction of, the County. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Certificate and has no liability to any person, including any 2017 Bond Owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary relationship with the County shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the County.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the County, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the 2017 Bonds, and shall create no rights in any other person or entity.

Date: December 7, 2017

COUNTY OF SANTA CRUZ

By: ___________________________________
Its: County Administrative Officer

ACKNOWLEDGED:

HARRELL & COMPANY ADVISORS, LLC,
as Dissemination Agent

By ________________________________
Authorized Officer

APPENDIX D

FORM OF BOND COUNSEL OPINION

[to be provided by Bond Counsel]

APPENDIX E
THE BOOK-ENTRY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the 2017 Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the 2017 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the 2017 Bonds (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the 2017 Bonds (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 2017 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 3028 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2017 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2017 Bonds (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange

Commission. More information about DTC can be found at www.dtcc.com. *The information contained on such Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment

of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

10. Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.