PRELIMINARY OFFICIAL STATEMENT DATED MAY 12, 2025

NEW ISSUE – BOOK-ENTRY

RATINGS

S&P: ___

Moody's: ___

(See "CONCLUDING INFORMATION - Ratings" herein)

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

$42,000,000
COUNTY OF SANTA CRUZ, CALIFORNIA
2025-26 TAX AND REVENUE ANTICIPATION NOTES

Dated: June 26, 2025 **Due: June 25, 2026**

The cover page contains certain information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Notes are not subject to prepayment prior to their maturity date.

Interest Rate	Yield	CUSIP

The Notes are by statute a general obligation of the County of Santa Cruz (the "County") payable from unrestricted taxes, income, revenue, cash receipts and other moneys of the County received or accrued to the Fiscal Year 2025-26 and legally available for payment thereof pursuant to the Resolution (as defined herein). The Notes and interest thereon are secured by a pledge of Unrestricted Revenues received by the County during certain periods in Fiscal Year 2025-26 ("Unrestricted Revenues") and, if such amounts are insufficient to permit the deposit into the Repayment Fund of the full amount of the Unrestricted Revenues required to be deposited therein in any such period, available Unrestricted Revenues that have not been deposited previously into the Note Repayment Fund, as more particularly described herein. As provided in Article 7.6, Chapter 4, Part 1, Division 2, Title 5, Sections 53850 *et seq.* of the California Government Code (the "Act"), the Notes and the interest thereon will be a lien and charge against, and will be payable from, the first moneys received by the County constituting Pledged Moneys. See "SOURCES OF PAYMENT FOR THE NOTES" and "RISK FACTORS" herein.

The Notes are offered when, as and if issued and received by the Underwriter, subject to the approval as to their legality by Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel. Certain legal matters will be passed upon for the County by its Disclosure Counsel, Best Best & Krieger LLP, Riverside, California and by Jason M. Heath, County Counsel. It is anticipated that the Notes, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company, New York, New York on or about June 26, 2025 (see "APPENDIX G - THE BOOK-ENTRY SYSTEM" herein).

The date of the Official Statement is ___, 2025.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Investment in the Notes involves risks which are not appropriate for certain investors. Therefore, only persons with substantial financial resources (in net worth or income) who understand (either alone or with competent investment advice) those risks should consider such an investment.

Except where otherwise indicated, all information contained in this Official Statement has been provided by the County. No dealer, broker, salesperson or other person has been authorized by the County or the Municipal Advisor to give any information or to make any representations in connection with the offer or sale of the Notes other than those contained herein; and, if given or made, such other information or representations must not be relied upon as having been authorized by the County or the Municipal Advisor. 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 Notes by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

The information set forth herein which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the County. This Official Statement is not to be construed as a contract with the purchasers or Owners of the Notes. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County or any other parties described herein since the date hereof. All summaries of the Resolution or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the County for further information in connection therewith. While the County maintains an internet website for various purposes, none of the information on that website is incorporated by reference herein or intended to assist investors in making any investment decision or to provide any continuing information with respect to the Notes or any other bonds or obligations of the County. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "project," "budget" or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The County does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement. The County is obligated to provide continuing disclosure for certain historical information only. See the caption "CONCLUDING INFORMATION - Continuing Disclosure" herein.

IN CONNECTION WITH THE OFFERING OF THE NOTES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 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 NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE NOTES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

COUNTY OF SANTA CRUZ, CALIFORNIA

BOARD OF SUPERVISORS

Manu Koenig, *Supervisor, 1st District*
Kimberly De Serpa, *Supervisor, 2nd District*
Justin Cummings, *Supervisor, 3rd District*
Felipe Hernandez, *Supervisor, 4th District*
Monica Martinez, *Supervisor, 5th District*

COUNTY KEY ADMINISTRATIVE PERSONNEL

Carlos Palacios, *County Executive Officer*
Edith Driscoll, *Auditor-Controller-Treasurer-Tax Collector*
Sheri Thomas, *Assessor-Recorder*
Jason M. Heath, *County Counsel*
Elissa Benson, *Assistant County Executive Officer*
Nicole Coburn, *Assistant County Executive Officer*
Melodye Serino, *Deputy County Executive Officer*
Matt Machado, *Deputy County Executive Officer/Director of Community Development and Infrastructure*
Marcus Pimentel, *County Budget Manager*

PROFESSIONAL SERVICES

Bond Counsel
Norton Rose Fulbright US LLP
Los Angeles, California

Disclosure Counsel
Best Best & Krieger LLP
Riverside, California

Municipal Advisor
Harrell & Company Advisors, LLC
Tustin, California

Paying Agent
County of Santa Cruz
Auditor-Controller-Treasurer-Tax Collector

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OFFICIAL STATEMENT

$42,000,000
COUNTY OF SANTA CRUZ, CALIFORNIA
2025-26 TAX AND REVENUE ANTICIPATION NOTES

This Official Statement, which includes the cover page and appendices (the "Official Statement"), is provided to furnish certain information concerning the County of Santa Cruz, California (the "County") 2025-26 Tax and Revenue Anticipation Notes (the "Notes") issued in the aggregate principal amount of $42,000,000.

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 Notes 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.

The County

The County 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, 73 miles south of San Francisco. See "APPENDIX A- CERTAIN GENERAL, DEMOGRAPHIC AND ECONOMIC INFORMATION CONCERNING THE COUNTY OF SANTA CRUZ" herein.

Security and Sources of Repayment

The Notes are authorized by and being issued in accordance with the Act and a Resolution adopted by the County Board of Supervisors on May 20, 2025 (the "Resolution"). Pursuant to California Law, the Notes and the interest thereon are general obligations of the County payable from unrestricted taxes, income, revenue, cash receipts and other moneys of the County received or attributable to the 2025-26 Fiscal Year and lawfully available therefor (see "SOURCES OF PAYMENT FOR THE NOTES" herein).

The obligation of the County to pay the Notes and interest thereon does not constitute an obligation for which the County is obligated to levy or pledge any specific or special tax. The Notes are general obligations of the County that do not exceed any constitutional or statutory debt limitation or restriction.

Purpose

The Notes are being issued to provide funds to help meet current County General Fund expenditures for the Fiscal Year of the County ending June 30, 2026, including current expenses, capital expenditures and the discharge of other obligations or indebtedness of the County.

Offering of the Notes

The Notes are offered, when, as and if issued, subject to the approval as to their legality by Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel. Such opinion, and certain tax consequences incident to the ownership of the Notes, including certain exceptions to the tax treatment of interest, are described more fully under the heading "TAX MATTERS" herein. It is anticipated that the Notes will be available in book-entry form for delivery through the facilities of The Depository Trust Company ("DTC") on or about June 26, 2025.

Summaries Not Definitive

The summaries and references contained herein with respect to the Resolution, the Notes 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 Notes are qualified in their entirety by reference to the form thereof included in the Resolution. Copies of these documents described herein may be obtained 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 NOTES

General

Registration. The Notes will be issued in the aggregate principal amount of $42,000,000 and mature on June 25, 2026. When issued, the Notes will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Notes. Purchasers will not receive certificates representing their ownership interest in the Notes (see "Book-Entry System" below). Beneficial ownership interests in any Notes which are held in book-entry form on the records of a securities depository may be transferred only in accordance with the rules and procedure of such securities depository.

Denominations. Ownership interest in the Notes may be purchased in the minimum denomination of $5,000 each or any integral multiple thereof.

Repayment of the Notes. The Notes will be dated their delivery date. The Notes will bear interest at the rate per annum set forth on the cover page hereof. Interest on the Notes will be payable at maturity and will be computed on the basis of twelve 30-day months and a 360-day year. The Notes are not subject to prepayment prior to their maturity.

Book-Entry System. DTC will act as securities depository for the Notes. The Notes 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 Notes will be payable when due by wire of the Paying Agent to DTC which will in turn remit such interest and principal to DTC Participants, which will in turn remit such interest and principal to Beneficial Owners of the Notes (see "APPENDIX G - THE BOOK-ENTRY SYSTEM" herein). As long as DTC is the registered owner of the Notes and DTC's book-entry method is used for the Notes, the Trustee will send any notices to Note Owners 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 any action premised on such notice. Beneficial Owners may desire to make arrangements with a Participant so that all notices or other communications to DTC which affect such Beneficial Owners, and notification of all interest payments, will be forwarded in writing by such Participant.

Investment of Funds

The proceeds of the Notes will be deposited in the County's General Fund and be invested until expended in any investment authorized pursuant to the County's Investment Policy. All moneys in the Repayment Fund (see "SOURCES OF PAYMENT FOR THE NOTES - Repayment of the Notes") established by the Resolution will also be invested in any investment authorized pursuant to the County's Investment Policy. The County expects that the Note proceeds and amounts deposited in the Repayment Fund will be invested in the County Treasurer's investment pool. See "APPENDIX B- COUNTY OF SANTA CRUZ FINANCIAL INFORMATION - County Treasurer's Investment Pool" herein.

SOURCES OF PAYMENT FOR THE NOTES

General

The Notes, in accordance with California Law, are general obligations of the County payable from the taxes, income, revenue, cash receipts and other moneys of the County attributable solely to Fiscal Year 2025-26 and legally available for payment thereof. Pursuant to the Government Code, the principal of and interest on the Notes may not exceed 85 percent of the estimated amount of the then-uncollected taxes, income, revenue, cash receipts and other moneys which will be available for the payment of such principal and interest.

The obligation of the County to pay the Notes and interest thereon does not constitute an obligation for which the County is obligated to levy or pledge any specific or special tax. The Notes are general obligations of the County that do not exceed any constitutional or statutory debt limitation or restriction.

Repayment of the Notes

In accordance with the terms of the Resolution, the County will create a special fund, the Note Repayment Fund (the "Repayment Fund"). The County is required to deposit moneys pledged for the payment of the Notes into the Repayment Fund. Moneys in the Repayment Fund will be retained therein until applied to the payment of the principal and interest on the Notes; provided once the Repayment Fund is fully funded, any additional interest earned on amounts in the Repayment Fund shall be periodically transferred to the County's General Fund. The Resolution provides that such amounts may not be used for any other purposes. Any balance in the Repayment Fund after the Notes and the interest thereon have been paid, or provision for such payment has been made, will used to rebate arbitrage, if any, and be transferred to the County's General Fund.

Payment of the principal and interest on the Notes is secured by a pledge of taxes, income, revenues, cash receipts and other moneys received by the County for deposit and allocation to the General Fund for the Fiscal Year of the County ending June 30, 2026, and which are lawfully available for the payment of the Notes and the interest thereon (the "Unrestricted Revenues"). Accordingly, pursuant to the Act, the Notes and the interest thereon are a lien and charge against, and are payable from, such Unrestricted Revenues. In addition to such Unrestricted Revenues, pursuant to the Act, the Notes and the interest thereon are general obligations of the County payable from other moneys of the County attributable to Fiscal Year 2025-26 and legally available for the payment thereof.

The County has pledged the first Unrestricted Revenues to be received in the months and in the amounts described below to repayment of the Notes and the interest thereon:

(i) $21,000,000 from the first Unrestricted Revenues received by the County during the period commencing on January 1, 2026 and ending January 31, 2026;

(ii) $21,000,000 plus interest due on the Notes from the first Unrestricted Revenues received by the County during the period commencing on April 1, 2026 and ending April 30, 2026, together with an amount sufficient (net of earnings on moneys in the Repayment Fund) to satisfy and make up any deficiency in the Repayment Fund with respect to the prior period set forth in (i);

(iii) from the first Unrestricted Revenues received by the County during the period commencing on May 1, 2026 and ending May 31, 2026, an amount sufficient (net of earnings on moneys in the

Repayment Fund) to satisfy and make up any deficiency in the Repayment Fund with respect to the prior periods set forth in (i) and (ii); and

(iv) from the first Unrestricted Revenues received by the County during the period commencing on June 1, 2026 and ending June 25, 2026 (also a "Pledge Period"), an amount sufficient (net of earnings on moneys in the Repayment Fund) to satisfy and make up any deficiency in the Repayment Fund with respect to any of the prior periods.

RISK FACTORS

The purchase of the Notes involves investment risk. If a risk factor materializes to a sufficient degree, it could delay or prevent payment of principal of and/or interest on the Notes. Such risk factors include, but are not limited to, the following matters.

County's Note Payments and Other Payments

The Notes, in accordance with the Act, are general obligations of the County payable from the taxes, income, revenue, cash receipts and other moneys of the County attributable to Fiscal Year 2025-26 and legally available for payment thereof. Pursuant to the Act, the principal of and interest on the Notes may not exceed 85 percent of the estimated amount of the then uncollected taxes, income, revenue, cash receipts and other moneys which will be available for the payment of such principal and interest.

Constitutional Limitations on Taxes and Appropriations

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 Notes.

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 (such as in the case of property destroyed or damaged by the CZU Lightning Complex Fire described under the heading "Natural Hazards") 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 county, 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.

On November 3, 2020, voters in the State approved Proposition 19 providing for intergenerational exclusions and base year value transfers. Proposition 19 allows:

- transfers of a family home or family farm between parents and their children without causing a change in ownership for property tax purposes;
- transfers of a family home or family farm between grandparents and their grandchildren under limited conditions without causing a change in ownership for property tax purposes;
- allows homeowners who are age 55 or older, or severely and permanently disabled of any age, to transfer the "taxable value" of their principal residence to a replacement property up to three times anywhere in the State; and
- victims of a wildfire or natural disaster to transfer the taxable value of their primary residence to a replacement residence anywhere in the State, if the original property was substantially damaged or destroyed from a wildfire or Governor-declared disaster, with over half of the market or improvement value diminished, to be considered "substantially damaged."

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 fiscal years as shown below:

Tax Roll	Percentage	Tax Roll	Percentage
1981-82	1.000%	2011-12	0.753%
1995-96	1.190	2014-15	0.454
1996-97	1.110	2015-16	1.998
1998-99	1.853	2016-17	1.525
2004-05	1.867	2021-22	1.036
2010-11	(0.237)		

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. Currently, the aggregate Proposition 8 reduction is a minor amount. However, changes in the national, State or local economy may impact future property values and increase Proposition 8

reductions. See “APPENDIX B - COUNTY OF SANTA CRUZ FINANCIAL INFORMATION - Ad Valorem Property Taxes -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 Year 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 2023-24 was $669,822,454. The County’s appropriations subject to the limit for 2023-24 were $298,084,573.

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 August 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 of 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.

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."

Voter-Approved Taxes. Voters in the County have approved the following 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. The Board reduced the rate applicable to manufacturers and cultivators from 7% to 5% for periods beginning January 1, 2018, with future incremental increases to achieve 7% by January 1, 2022.

- In November 2016, voters in the County 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.

- In November 2018, voters in the County approved Measure G, the imposition of an additional one-half cent sales tax for a 12-year term. Collection of the additional sales tax began in April 2019.

- In June 2022, voters in the County approved an increase in the transient occupancy tax rate for hotels by 1% and for vacation rentals by 3%.

- In June 2022, voters in the County also approved that one-half of the County's single use cup fee be converted to a tax and allocated to the County beginning January 1, 2023.

- In March 2024, voters in the County approved Measure K, the imposition of an additional one-half cent sales tax. Collection of the additional sales tax began July 2024.
- In November 2024, voters in the County approved Measure Q, the collection of a special tax in the amount of $87 per parcel for land management, and cleanup and conservation projects in forests streams, beaches and other open spaces.

The County does not expect that the application of Proposition 218 will have a material adverse impact on its ability to pay the Notes when due.

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.

The last time Proposition 1A was used to shift property taxes was in Fiscal Year 2009-10, when 8% of the County's property tax revenues were diverted to the State.

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 the Notes when due.

Future Initiatives. From time to time other initiative measures could be adopted, limiting or otherwise affecting the ability of the County to increase revenues and appropriations. For example, an initiative measure qualified for the November 2024 ballot (Initiative 1935) that would have further limited the authority of local governments, and electors via the initiative process, to adopt and impose taxes and fees. Initiative 1935 was ultimately removed from the ballot by the California Supreme Court, on the grounds that the initiative was an amendment to the State Constitution that cannot be enacted via the voter-initiative process.

Enforceability of Remedies

In addition to the limitations on remedies contained in the Resolution, the rights of the owners of the Notes are subject to the limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Notes, and the obligations incurred by the County, may become subject to bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equitable 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 counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Notes 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 Note proceeds and the amounts to be set aside in the Repayment Fund are expected to be invested in the County Treasurer's investment pool. Should the County file for Chapter 9 bankruptcy, a court might hold that the Owners do not have a valid and prior lien on the Unrestricted Revenues or on amounts set aside in the Repayment Fund held in the County Treasurer's investment pool. While the County Treasurer's practice is to maintain separate records for Unrestricted Revenues and amounts set aside in the Repayment Fund held in the investment pool, if the Owners cannot "trace" such funds, they may not be available in a bankruptcy for payment of principal and interest on the Notes. There can be no assurance that the Owners will be able to successfully "trace" such funds in the County Treasurer's investment pool in the future.

Natural Hazards

The County, like all California communities, may be subject to unpredictable seismic activity, fires or floods. In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the County. The County coordinates an emergency network to handle floods, fires, earthquakes and other major disasters through the Office of Response, Recovery and Resilience ("OR3").

In order to improve emergency response, elevate disaster awareness and prepare for increases in extreme weather due to climate change, the Board created the OR3 in December 2020. The OR3 goes beyond traditional emergency operations to create a full-service division to help the community prepare for disasters, respond during emergencies and assist with recovery.

The OR3 mission is threefold:

- build the County's resilience for future disasters,
- serve as the emergency management office for responding to ongoing disasters, and
- coordinate recovery efforts for disasters that have occurred.

While the County has reacted effectively to previous disasters, recognizing the challenges faced both now and in the future is critical. Therefore, the OR3 is working to prioritize and expand the County's capacity to respond effectively to the disasters represented by the 2022-23 Winter Storms, the 2020 CZU Lightning Complex Fire and the COVID-19 pandemic but also build the resilience necessary to minimize the impacts County-wide from disasters in the future.

The County has adopted a Natural Hazards Mitigation Plan. This plan includes a hazard analysis for earthquake, flood, landslide and fire risk, and is required to comply with Federal Emergency Management Agency ("FEMA") requirements for disaster relief funding. As with the CZU Lightning Complex Fire that ignited on August 16, 2020 and the 2022-23 Winter Storms, if such events described below occurred during Fiscal Year 2025-26, the County's emergency response to such an event may add unanticipated expenditures to the General Fund budget in Fiscal Year 2025-26, 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 of the County to make payments on the Notes.

The County currently includes a contingency in its budget to provide some funding for unanticipated expenditures, but such contingency may not be sufficient to cover disaster-related expenses, depending on the scope of any particular disaster. Unanticipated expenditures were incurred as a result of the 2022-23 Winter Storms, when the County experienced significant storm damage due to above-average prolonged rainfall which caused coastal and riverine flooding, fallen trees and landslides. The County declared local emergencies on January 3, January 6, March 8 and March 14, 2023. While significant damage caused by the 2022-23 Winter Storms was to private property, the County sustained road damage at approximately 80 locations and is responsible for road repairs. Some road repair costs are eligible for disaster relief funding from the State, FEMA and the Federal Highway Administration ("FHWA"). As of June 30, 2024, the County had spent over $78 million on repair of the damage to County roads and parks, and additional costs are expected.

The CZU Lightning Complex Fire was another recent disaster event. The fire destroyed or damaged over 900 homes in the County between August and September 2020. While the majority of the damage caused by the fire was to private property, the County is responsible for any needed road repairs, signage repairs and repair of a bridge in the impacted area. Other infrastructure repairs to the water system and sewer systems were the responsibility of other parties or are funded outside of the County's general fund.

The expenditures that the County made for both these recent disasters is currently funded from the County's Off Highway, Roads and Transportation Fund, not the General Fund.

In general, the County's matching share of costs for a disaster event is approximately 6% of total costs - and the County will usually anticipate that it will be reimbursed for 75% of eligible disaster-related costs by FEMA. The County further anticipates that California Office of Emergency Services ("CalOES") will reimburse the County for 75% of the remaining 25% of costs. However, recent events at the Federal level make the timing and amount of reimbursement in the future uncertain.

Seismic Conditions. The County, like most areas of California, is subject to unpredictable seismic activity. The occurrence of seismic activity in the County could result in substantial damage to properties in the County, which, in turn, could substantially reduce the value of such properties and could affect the ability or willingness of the property owners to pay their property taxes.

The County's General Plan notes that 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. In particular, 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. Repair of infrastructure was financed in part by a voter-approved one-half cent sales tax levied over six years.

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 and winter 2022-23 as a result of above-average rainfall. For a time, these slides impacted travel on State Highways 9, 152, and 129 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. During calendar years 2008 and 2009, there were 5 significant wildfires, resulting in a total of 327 structures or mobile homes destroyed. In October 2017, 29 structures or mobile homes were destroyed, and 391 acres burned in the Bear Fire. As noted, the CZU Lightning Complex Fire destroyed or damaged over 900 homes in the County and burned 86,000 acres in 2020.

A secondary impact of the CZU Lightning Complex Fire, or any future fire, could occur during following years if there is above-average or prolonged rainfall in the area burned and post-wildfire debris flows because the terrain, removed of vegetation and damaged by the fire, is more susceptible to runoff-generated debris flows.

There can be no assurances that further wildfires won't occur within the County. Property damage due to wildfire could result in a significant decrease in the market value of property in the County and in the ability or willingness of property owners to pay property taxes when due.

The County is served by Pacific Gas & Electric ("PG&E"). PG&E and other electric providers throughout the State may determine that for public safety it is necessary to turn off electricity ("PSPS"). PG&E has also begun installing their Enhanced Powerline Safety Shutoff ("EPSS") technology to reduce the risk of utility-initiated wildfires. The interruption of power for PSPS events and during EPSS activations happens when gusty winds and dry conditions, combined with a heightened fire risk, are forecasted. The County cannot forecast the impacts of frequent or prolonged power shutoff events on the market value of property in the County or on the County's economy.

Flooding and Tsunamis. Portions of the County are located in a 100-year flood plain and portions of the County are located along the Pacific Ocean.

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. The County was required to pay a portion of damages resulting from the levee breach. Another flood occurred in 2023 on the Monterey County side of the Pajaro River due to a 400-foot breach of the levee. Litigation related to damages resulting from the levee breach has been filed against various public agencies, including the County. See "LEGAL MATTERS - Litigation" herein. The Pajaro Regional Flood Management Agency, a joint powers authority of the County, the Santa Cruz County Flood Control and Water Conservation District Zone No. 7, the County of Monterey, the Monterey County Water Resources Agency, and the City of Watsonville was formed in 2021 to plan, finance and implement projects and programs to reduce flood risk from the lower Pajaro River and its tributaries in Santa Cruz and Monterey Counties.

The County could also be subject to impacts from tsunamis in the event of an earthquake occurring offshore.

Wind Impacts. In recent storms, the County has been subjected to straight-line high-velocity winds. These high-velocity winds can exert significant force on structures and trees. In some areas, wind has caused trees to be toppled where the ground was saturated by rain, resulting in landslides and blockage of roads.

Sea Level Rise and Risks Associated with Global Climate Change. The western boundary of the County is located along and inland from the Pacific Ocean coast of California. In recent years, concern has arisen regarding the impact of climate change on coastal communities like the County, including as a result of sea level rise. The County's 2013 Climate Action Strategy originally identified risks of potential damage to property in the County in the event of various climate change scenarios resulting from sea level rise as well as the actions current and future decision makers will need to take to protect the natural and built environments, residents, visitors, and the economic base and quality of life. The County has adopted a 2022 Climate Action and Adaption Plan to include adaptation and mitigation strategies, founded upon the principles of equity and actionable within the span of local government response.

Sea level rise is expected to gradually inundate low-lying areas, which includes the shoreline and beach areas along the coastline that are presently closest to sea level, and therefore some property in the County will be susceptible to direct impacts from rising sea levels, as will certain public facilities, operated by the City of Santa Cruz and shared by the County. The greatest uncertainty is the rate at which sea level rise will occur. Because sea level rise is a gradual process, affected public agencies can implement long-term policies designed to mitigate the impacts, but there is no guarantee that there will be funding to invest in adaptation strategies or what the net effect of those strategies will be.

The impacts of sea level rise can include physical damage to property and therefore reduced habitability, which could result in a significant decrease in the market value of the property and in the ability or willingness of property owners to pay property taxes. Other properties within the County are located along rivers that may be subject to more frequent or increased levels of flooding, again with a potential for impact on property value over time.

Other potential impacts of climate change, in addition to sea level rise, may include extreme temperatures becoming more common and extreme weather events becoming more frequent. Projections of the impacts of global climate change on the County are complex and depend on many factors that are outside the control of the County. The various scientific studies that forecast the amount and timing of adverse impacts of climate change are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the County is unable to forecast with certainty when adverse impacts of climate change will occur or the extent of such impacts on the operations, finances and market value of property in the County or on the County's economy.

Coastal Storm Waves. Sea level rise could also increase the frequency of coastal flooding from extreme waves. Extreme waves during storms have recently caused localized flooding and damage to structures along the Santa Cruz County coast.

Cybersecurity

The County, like many other public and private entities, relies on computer and other digital networks and systems to conduct its operations and finances and consequently faces the threat of cybersecurity incidents. As a recipient and provider of personal, private or other electronic sensitive information, the County faces cyber threats from time to time including, but not limited to, hacking, viruses, malware, ransomware and other attacks on computer and other sensitive digital networks and systems. Entities or individuals may attempt to gain unauthorized access to the County's systems for the purposes of misappropriating assets or information or causing operational disruption or damage.

The County has developed incident response plans for cyber events and has implemented cyber security training for all County employees. A cyber security committee has developed policies for end users around passwords, training, data destruction and handling as well as mobile device use. The County's Information Services Department actively participates and works with local and national cybersecurity groups such as the National Association of Counties, the Multi-State Information Sharing & Analysis Center and the Northern California Regional Incident Command. The County also engages the Department of Homeland Security's Cybersecurity & Infrastructure Security Agency yearly for vulnerability assessments and weekly scans of externally facing systems. The County conducts twice yearly tabletop exercises and also took part in a Bay Area tabletop exercise in March 2024 (a tabletop exercise is a structured and facilitated meeting to discuss a simulated emergency situation). As standards continue to change, the County too will continually update processes and priorities to meet these changes.

In 2023, the County experienced a cyber fraud incident, and is working with law enforcement and its insurance carrier to obtain restitution. The County has never had a major cyber breach that resulted in a significant financial loss, and the 2023 incident did not impact critical financial operations of the County. The County has since instituted certain procedural changes and continues to monitor its compliance with its policies. However, no assurances can be given that the security and operational control measures of the County will be successful in guarding against any and each cyber threat or breach. Although the County maintains insurance coverage for cyber security losses should a successful breach ever occur again, the cost of any such disruption or remedying damage caused by future attacks could be substantial and in excess of such insurance coverage.

The County is also reliant on other entities and service providers in connection with the administration of the Notes. No assurance can be given that the County and these other entities will not be affected by cyber threats and attacks in a manner that may affect the Note Owners.

TAX MATTERS

Federal Tax Exemption

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the Notes for interest thereon to be and remain excluded from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Notes to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Notes. The County has covenanted to maintain the exclusion of the interest on the Notes from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the County with certain covenants in the documents pertaining to the Notes and requirements of the Code, interest on the Notes is not included in the gross income of the owners thereof for federal income tax purposes. It is the further opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, that interest on the Notes is not treated as an item of tax preference for purposes of the federal alternative minimum tax.

Pursuant to the Resolution and the Tax Certificate to be delivered by the County in connection with the issuance of the Notes, the County will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the Notes from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described in the immediately preceding paragraph, Bond Counsel will assume the accuracy of such representations and the present and future compliance by the County with such covenants.

Except as stated in this section above, Bond Counsel expresses no opinion as to any federal or State tax consequence of the receipt or accrual of interest on, or the ownership or disposition of, the Notes. Furthermore, Bond Counsel expresses no opinion as to the effect of any modification to any document pertaining to the Notes or of any action taken or not taken where such modification is made or action is taken or not taken without the approval of Bond Counsel or in reliance upon the advice of counsel other than Bond Counsel with respect to the exclusion from gross income of the interest on the Notes for federal income tax purposes. Bond Counsel has not undertaken to advise in the future whether any event after the date of issuance of the Notes may affect the tax status of interest on the Notes or the tax consequences of the ownership of the Notes.

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

State Tax Exemption

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

Future Developments

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

A copy of the form of opinion of Bond Counsel relating to the Notes is included in APPENDIX F.

LEGAL MATTERS

Approval of Legal Proceedings

Norton Rose Fulbright US LLP, Los Angeles, California, as Bond Counsel, will render an opinion which states that the Notes are valid and binding obligations of the County and are enforceable in accordance with their terms. The legal opinion of Bond Counsel will be subject to the effect of bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights and to the exercise of judicial discretion in accordance with general principles of equity.

The County has no knowledge of any fact or other information which would indicate that the Resolution or the Notes are not so enforceable against the County, except to the extent such enforcement is limited by principles of equity and by State and federal laws relating to bankruptcy, reorganization, moratorium or creditors' rights generally.

Certain legal matters will be passed on for the County by the County Counsel and by Best Best & Krieger LLP, Riverside, California, as Disclosure Counsel.

Fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Notes.

Litigation

The County will furnish a certificate dated the date of delivery of the Notes that there is no pending or known threatened litigation restraining or enjoining the execution or delivery of the Resolution or the sale or delivery of the Notes or in any manner questioning the proceedings and authority under which the Notes are to be delivered or affecting the validity thereof.

As a result of the breach of the Pajaro River levee and flooding in Monterey County in March 2023, litigation relating to damages incurred has been filed by a number of parties against various public agencies, including the County. See "RISK FACTORS – Natural Hazards – Flooding and Tsunamis" herein. The litigation process is in its early stages and is expected to be lengthy and not suitable for early resolution.

There are a number of other lawsuits and claims pending against the County. The County does not believe that any of these proceedings will have a material adverse impact on the ability of the County to repay the Notes.

CONCLUDING INFORMATION

Ratings

S&P Global Ratings and Moody's have assigned the rating of "___" and "____" respectively to the Notes. Such ratings reflect only the views of the rating agencies and any desired explanation of the significance of such ratings should be obtained from the respective 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 the Notes 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 Notes. 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 Notes are being purchased by __________ (the "Underwriter") at competitive sale. The Underwriter has agreed to purchase the Notes at a price equal to $________, which amount represents the principal amount of the Notes, plus an original issue premium of $_________ and less an Underwriter's discount of $______. The Underwriter is offering the Notes at the initial offering price set forth on the cover page hereof. The initial offering price may be changed from time to time and concessions from the offering price may be allowed to dealers, banks and others. The Underwriter will pay certain of its expenses relating to the offering from the Underwriter's discount.

The Municipal Advisor

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

Continuing Disclosure

The County will covenant to file an annual report and notices of the occurrence of certain enumerated events in accordance with Rule 15c2-12 of the Securities Exchange Act of 1934. The annual report and notices will be filed by the County on the Electronic Municipal Market Access Website ("EMMA") operated by the Municipal Securities Rulemaking Board (www.emma.msrb.org). The specific nature of the annual report and notices of enumerated events and certain other terms of the continuing disclosure obligation are included in "APPENDIX B - FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants will be made in order to assist the Underwriter in complying with the Rule.

The County and certain other entities related to the County have entered into previous undertakings pursuant to the Rule. The County believes it has complied in all material respects with any undertaking made pursuant to the Rule. However, within the last five years, the County has failed to comply with its prior undertakings in the following respects: (i) with respect to the County's 2020-2021 Tax and Revenue Anticipation Notes, the County's final budget was posted on November 10, 2020, 10 days later than required and (ii) with respect to four land-secured financings, the Annual Report for Fiscal Year 2020-21 was filed timely; however, the County's audited financial statements were filed on April 11, 2022 for such issues, 42 days later than required and a notice of failure to timely file such audited financial statements for the four affected issues was filed on April 11, 2022.

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 County and the purchasers or Owners of any of the Notes.

Execution

The execution of this Official Statement by the Auditor-Controller-Treasurer-Tax Collector has been duly authorized by the County of Santa Cruz.

COUNTY OF SANTA CRUZ

By: ______________________________

Auditor-Controller-Treasurer-Tax Collector

APPENDIX A

CERTAIN GENERAL, DEMOGRAPHIC AND ECONOMIC INFORMATION CONCERNING THE COUNTY OF SANTA CRUZ

This Appendix A includes a brief description of the County of Santa Cruz (the "County"), together with current information concerning its governmental organization and economy.

GENERAL INFORMATION

The County is situated at the northern tip of Monterey Bay, 73 miles south of San Francisco, 42 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 445 square miles. There are four incorporated cities in the County: 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 of the City of Santa Cruz. It was incorporated in 1949 and is a tourist destination and regional retail center. 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 north of Capitola; Aptos, east 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; Corralitos, located east of Aptos and northwest of the City of Watsonville; Freedom, which is adjacent to and northwest 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 Executive Officer, County Counsel and Public Defender are appointed by the Board of Supervisors.

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The members of the Board of Supervisors (the "Board"), the expiration dates of their terms and key administrative personnel and other elected officials are set forth below.

BOARD OF SUPERVISORS

Board Member	**Term Expires**
Manu Koenig, *Supervisor, 1st District*	January 2029
Kimberly De Serpa, *Supervisor, 2nd District*	January 2029
Justin Cummings, *Supervisor, 3rd District*	January 2027
Felipe Hernandez, *Supervisor, 4th District*	January 2027
Monica Martinez, *Supervisor, 5th District*	January 2029

KEY ADMINISTRATIVE PERSONNEL AND OTHER ELECTED OFFICIALS

Carlos Palacios	County Executive Officer
Edith Driscoll	Auditor-Controller-Treasurer-Tax Collector
Sheri Thomas	Assessor-Recorder
Jason M. Heath	County Counsel
Elissa Benson	Assistant County Executive Officer
Nicole Coburn	Assistant County Executive Officer
Melodye Serino	Deputy County Executive Officer
Matt Machado	Deputy County Executive Officer/ Director of Community Development and Infrastructure
Marcus Pimentel	County Budget Manager

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 Executive 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 the Association of Monterey Bay Area Governments (AMBAG), the Local Agency Formation Commission of Santa Cruz County (LAFCO), and the Monterey Bay Air Resources District (MBARD).

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, environmental health, medical outpatient clinics, medical care for indigents and drug and alcohol treatment services. The County established a Housing for Health division in Fiscal Year 2020-21 with the aim to support and house chronically unhoused individuals in the County.

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 federal workforce development programs. The Patient Protection and 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 the Superior Court. Other Public Safety priorities are supported primarily through fees for service and include fire protection, flood control and water conservation, and 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 emergency network to handle floods, fires, earthquakes and other major disasters through the Office of Response, Recovery and Resilience, a division of the County Executive Office. 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, nine fire protection districts and the University of California, Santa Cruz. The Santa Cruz County Fire Department, operated through the California Department of Forestry and Fire Protection (CALFIRE), is responsible for fire protection and first responder emergency medical services in 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 Office, ambulance/paramedic services and most fire protection agencies operating within the County. The Santa Cruz County Animal Services Authority is a joint powers authority that includes the County and the cities of Santa Cruz, Watsonville, Capitola and Scotts Valley to provide animal control services to residents.

Land Use and Community Services

The County departments responsible for Land Use and Community Services include the Agricultural Commissioner, Agricultural Extension, Parks, Open Space and Cultural Services, Community Development and Infrastructure and the Redevelopment Successor Agency. The Agricultural Commissioner provides for the protection of agriculture, enforcement of weights and measures and vector control. Parks, Open Space and Cultural Services manages the Santa Cruz County Water and Wildfire Protection Act approved by the voters in 2024 that provides funding for land management, cleanup and conservation projects in forests, streams, beaches and other open spaces.

The Department of Community Development and Infrastructure ("CDI") oversees two divisions. The Planning division of CDI develops, implements and enforces land use policies and ordinances, administers environmental review and protection programs, processes and issues building, zoning, and other developmental permits, handles code compliance and oversees affordable housing and community development efforts. The Public Works division of CDI provides for the maintenance of public infrastructure for services associated with transportation, solid waste, sanitation, parking, drainage, and solid waste/recycling.

Education and Community Services

Public school education is available through 36 elementary schools, 20 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 career technical education. Cabrillo is located in the community of Aptos.

The County also hosts the Seymour Marine Discovery Center, the Joseph M. Long Marine Laboratory, the National Oceanic and Atmospheric Administration (NOAA) Fisheries, the Marine 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. The Watsonville Community Hospital was purchased in 2022 by the Pajaro Valley Health Care District. A maternity and outpatient surgery center, Sutter Hospital, is also located in the County.

There are two library systems in the County – Watsonville City Library and the Santa Cruz Public Library system, with 10 branches serving the cities of Santa Cruz, Capitola and Scotts Valley and all unincorporated communities 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 Museum of Art and History, the University of California Performing Arts Center, the Henry J. Mello Performing Arts Center and the Cabrillo College Visual, Applied & 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 San José Mineta International Airport, 32 miles northeast; Monterey Regional 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 provides service to other local areas and additional transcontinental service with connections to Amtrak.

DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

The following table shows the January 1 State of California Department of Finance estimates of total population in the County of Santa Cruz and the State of California for each year since 2020, and the change from the previous year.

January 1 Year	COUNTY OF SANTA CRUZ Population	COUNTY OF SANTA CRUZ Percentage Change	STATE OF CALIFORNIA Population	STATE OF CALIFORNIA Percentage Change
2020[1]	271,259		39,535,623	
2021[2]	265,533	(2.1)%	39,327,868	(0.5)%
2022[2]	264,495	(0.4)	39,114,785	(0.5)
2023[2]	263,338	(0.4)	39,061,058	(0.1)
2024[2]	262,572	(0.3)	39,128,162	(0.2)

Source: (1) *State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties and the State, 2011-2020, with 2010 Census Benchmark"* Sacramento, California, May 2021.
(2) *State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties and the State, 2021-2024, with 2020 Census Benchmark"* Sacramento, California, May 2024.

Employment and Industry

Analysis prepared by the Santa Cruz County Workforce Development Board identified five major economic clusters that contribute significantly to the regional economy: education and knowledge creation; tourism, recreation, and hospitality; healthcare; retail; and agriculture and food.

Services

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 repair services, amusement and recreation, and health services. The sector includes the Santa Cruz Beach Boardwalk (employing 1,600 in the high season) and Dignity Health 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.

According to the County's Agricultural Commissioner, the largest crops produced (by sales volume) are strawberries, raspberries, nursery stock, miscellaneous vegetables and blackberries. There are approximately 160 registered organic growers in the County.

Tourism

The County continues to be an important vacation and recreation area. Miles of coastline and accessible beaches border one of the nation's largest marine sanctuaries, 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 San Francisco Bay Area.

Commercial

In addition to traditional commercial and retail businesses, the County has been 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 Guitar Company, Santa Cruz Bicycles, Blix Electric Bikes, Martinelli's and Joby Aviation.

The Arts

The County also has a diverse and productive arts community anchored by the Tannery Arts Center in Santa Cruz, the Visual, Applied & Performing Arts Division at Cabrillo College, and the Digital Arts and New Media Program at the University.

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Civilian labor force, employment and unemployment statistics for the County and the State and the nation, for the years 2020 through 2024 are shown in the following table.

TABLE A-2
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
ANNUAL AVERAGES

Year	Civilian Labor Force	Employment	Unemployment	Unemployment Rate
2020				
Santa Cruz County	133,600	120,900	12,700	9.5%
California	18,821,200	16,913,100	1,908,100	10.1
United States	160,742,000	147,795,000	12,947,000	8.1
2021				
Santa Cruz County	133,400	124,200	9,200	6.9%
California	18,923,200	17,541,900	1,381,200	7.3
United States	161,204,000	152,581,000	8,623,000	5.3
2022				
Santa Cruz County	134,200	127,800	6,400	4.8%
California	19,252,000	18,440,900	811,100	4.2
United States	164,278,000	158,291,000	5,996,000	3.6
2023				
Santa Cruz County	133,200	125,600	7,600	5.7%
California	19,308,300	18,388,300	920,000	4.8
United States	167,116,000	161,037,000	6,080,000	3.6
2024				
Santa Cruz County	136,100	128,000	8,100	5.9%
California	19,644,100	18,600,900	1,043,100	5.3
United States	168,106,000	161,346,000	6,761,000	4.0

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

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

The County is located in the Santa Cruz-Watsonville Metropolitan Statistical Area ("MSA"). Wage and salary workers by industry statistics for the Metropolitan Division annual averages for the years 2020 through 2024 are shown in the following table.

SANTA CRUZ-WATSONVILLE MSA
WAGE AND SALARY WORKERS BY INDUSTRY [(1)]

	Calendar Year				
Industry	**2020**	**2021**	**2022**	**2023**	**2024**
Government	21,100	20,200	18,800	19,300	19,100
Other Services	4,400	4,300	4,700	4,700	4,700
Leisure and Hospitality	10,300	11,800	14,000	14,500	14,400
Educational and Health Services	17,100	17,200	17,700	18,500	19,400
Professional and Business Services	10,400	10,600	10,700	9,900	9,500
Financial Activities	3,200	3,200	3,300	3,300	3,400
Information	600	600	600	600	700
Transportation, Warehousing and Utilities	1,700	2,000	2,200	2,100	2,100
Service Producing					
Retail Trade	10,800	11,000	11,000	10,800	10,600
Wholesale Trade	3,300	3,300	3,500	3,300	2,900
Manufacturing					
Nondurable Goods	3,100	3,300	3,700	3,500	3,400
Durable Goods	3,700	4,200	4,300	4,400	4,900
Natural Resources, Mining and Construction	4,400	4,800	5,000	5,100	5,100
Total Nonfarm	93,900	96,500	99,300	99,800	100,200
Farm	8,000	7,200	7,100	6,700	7,400
Total (all industries)	101,900	103,700	106,400	106,500	107,600

(1) Annual average.

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 Annual Average.*"

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Principal Employers

The principal employers operating within the County as of June 30, 2024 are shown in Table A-4.

TABLE A-4
COUNTY OF SANTA CRUZ
MAJOR EMPLOYERS

University of California at Santa Cruz	1,000-4,999	Education
Santa Cruz Government Center	1,000-4,999	County Services
Dominican Hospital	1,000-4,999	Hospital
Santa Cruz Health Center	500-999	County Services
Granite Rock	500-999	Excavating Contractors
Plantronics	500-999	(2)
Watsonville City Sewer Department	500-999	City Services
Source Naturals	500-999	Vitamin Manufacturer
Cabrillo Sesnon House 1	500-999	Education
Monterey Mushrooms (3)	500-999	Agriculture
Larse Farms	500-999	Agriculture
Ameri-Kleen	500-999	Services

(1) Number of Employees reflects an average range based on California Employment Development Department data.
(2) Facility sold to Joby Aviation in November 2022. Joby Aviation specializes in electric vertical takeoff and landing aircraft. The company headquarters are located in Santa Cruz and the facility houses offices and workshops, with approximately 365 employees
(3) Monterey Mushrooms closed its Watsonville facility in December 2024.

Source: County of Santa Cruz Annual Comprehensive Financial Report

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 A-5
PER CAPITA PERSONAL INCOME
COUNTY OF SANTA CRUZ, STATE OF CALIFORNIA AND UNITED STATES
2019 - 2023

Year	County of Santa Cruz	State of California	United States
2019	$69,402	$64,219	$55,566
2020	77,231	70,098	59,123
2021	88,329	76,882	64,460
2022	83,277	76,941	66,244
2023	88,581	81,255	69,810

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

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

Commercial Activity

Taxable transactions by type of business for the County are summarized below for 2020 through 2024 (the most recent year for which full-year statistics are available).

TABLE A-6
COUNTY OF SANTA CRUZ
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
(in thousands)
2020 – 2024

	Calendar Year				
	2020	**2021**	**2022**	**2023**	**2024**
Retail and Food Services					
Motor Vehicle and Parts Dealers	$ 411,407	$ 493,363	$ 488,190	$ 613,350	$ 646,498
Home Furnishings and Appliance Stores	106,194	124,045	122,849	106,198	104,922
Building Material, Garden Supplies	405,904	435,731	440,552	428,878	413,520
Food and Beverage Stores	292,589	294,159	298,904	296,050	297,237
Gasoline Stations	210,315	295,589	374,213	328,980	307,864
Clothing and Accessories Stores	129,587	180,481	181,654	181,085	179,808
General Merchandise	278,370	315,253	336,312	327,438	333,200
Food Services and Drinking Places	404,323	569,320	637,266	650,931	660,393
Other Retail Group	749,876	725,819	712,377	694,430	657,285
Total Retail and Food Services	**2,988,564**	**3,433,759**	**3,592,319**	**3,627,341**	**3,600,727**
All Other Outlets	977,196	1,142,227	1,253,953	1,239,195	1,266,831
Total All Outlets	**$3,965,760**	**$4,575,986**	**$4,846,272**	**$4,866,536**	**$4,867,558**

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

Source: California Department of Tax and Fee Administration, *"Taxable Sales - Counties by Type of Business."*

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Building Activity

The following table summarizes building activity and valuations for the County unincorporated area for the five calendar years from 2019 through 2023.

TABLE A-7
COUNTY OF SANTA CRUZ
UNINCORPORATED AREA
BUILDING ACTIVITY AND VALUATION
(in $ thousands)
2019 – 2023

	Calendar Year				
	2019	**2020**	**2021**	**2022**	**2023**
Residential [1]	$14,743	$16,076	$29,332	$56,450	$19,230
Non-Residential	6,736	2,909	8,144	3,677	1,412
Total Valuation	**$21,789**	**$18,985**	**$37,416**	**$60,127**	**$20,642**
No. of New Dwelling Units:					
Single-Family Units	62	79	141	212	50
Multi-Family Units	13	8	0	137	7
Total New Units	**75**	**87**	**141**	**349**	**57**

(1) New construction only, excludes remodels, additions, etc.

Source: Construction Industry Research Board.

The County's recently updated Housing Element is one of the 10 State-mandated "elements" or chapters of a local jurisdiction's General Plan. It identifies policies and programs to meet existing and projected housing needs for all segments of the community, including various household types, special needs populations, and all income levels of the jurisdiction. For the period 2023 to 2031, the County has been allocated 4,634 housing units at specific affordability levels to accommodate the County's projected housing needs. This allocation is the County's Regional Housing Needs Assessment. The Housing Element must identify "adequate sites" to accommodate this estimated growth. The County is also required to provide the programs, policies, and appropriate zoning to incentivize this growth.

It is important to note that, while the County may assist with the development of affordable housing through various programs and funding sources, it is not the direct role of the County to construct housing. Rather, the County is responsible for ensuring that adequate opportunities exist for housing development through zoning and by removing regulatory impediments to housing production.

APPENDIX B
COUNTY OF SANTA CRUZ FINANCIAL INFORMATION

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FINANCIAL INFORMATION

The Board of Supervisors (the "Board") has established the fiscal policies and planning documents described below.

Strategic Planning

The Santa Cruz County Strategic Plan for 2018-2024 was approved by the Board on June 26, 2018. In developing the plan, the County Administrative Office and the Strategic Plan Steering Committee engaged with thousands of County residents and staff to develop a vision, mission, values, focus areas and goals. The strategic plan has six focus areas:

- Comprehensive Health & Safety
- Attainable Housing
- Reliable Transportation
- Sustainable Environment
- Dynamic Economy
- Operational Excellence

Each of the six focus areas has four individual goals.

The County Executive Office developed a two-year operational plan with assistance of an Operational Plan Steering Committee and subcommittees. This first of three operational plans in the current strategic plan cycle was approved by the Board in June 2019 and was an important step in changing the County culture and collaborating with departments to achieve the vision of the strategic plan. Adoption of the second of the three operational plans was put on hold as a result of the COVID-19 pandemic (the "Pandemic"). The current two-year operational plan was approved by the Board in June 2023.

The Strategic Plan for the next six-year period is being developed and is likely to be adopted in Fiscal Year 2025-26.

Long-Range Facilities Plan

In February 2021, the County approved a Long-Range Facilities Plan ("LRFP") for all County facilities and campus master plans for the County's Government Center located in the City of Santa Cruz and the Freedom Boulevard Campus located in the City of Watsonville. The LRFP supports and implements Strategic Plan goals and provides policy direction for future capital facility management and development. A Master Plan for the Freedom Campus was adopted by the Board in December 2022. Master plans for the County Government Center and Emeline Campus within the City of Santa Cruz have not been prepared at this time.

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 Executive Officer is required to submit to 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.

Budgetary control is maintained at the character level, except for capital assets and other charges which are controlled by line item. Character levels are appropriation totals for salaries and employee benefits, and services and supplies. The Board approves all transfers of budgeted appropriation amounts between budget units within any fund or between expenditures outside of budgetary control limits. Unencumbered appropriations at year-end lapse into fund balance.

Budget Principles

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

Public Input -

- Proposed budget documents should be made available to the Board and the public as early as possible.
- Public comment is encouraged.

General Budget Principles -

- The County shall adopt a balanced budget.
- The County budget shall conform to all applicable requirements.
- Employees are the most valuable resource in providing public services.
- The budget shall be based on realistic revenue and expenditure projections.
- The County shall target the use of Fund Balances.
- The County should regularly monitor budget conformity.
- The County shall endeavor to maintain a diversified revenue base sufficient to meet priority service needs.

Reserves and Contingencies -

- The County shall maintain prudent reserves for cash flow, designated purposes and unforeseen or emergency events.

Use of Resources -

- The County shall endeavor to maintain a budget which prioritizes the health, safety and welfare of the residents of the County and the preservation of the quality of life in the County and its environment.
- The County shall prioritize funding decisions based on legal requirements, the essential services of the County and discretionary services, as finances allow.
- The County should protect direct services to the public as a priority.
- Protect services that comprise the safety net in our community.
- Identify community services that might be cut early enough for the community to develop new strategies to fund them.

- The budget must be responsive to changing conditions.
- One-time funds should be allocated to one-time expenses.
- Leverage federal and State resources wherever possible.
- The County shall minimize the allocation of local resources to overmatch or replace lost funding from outside revenue sources.
- Resources should be maximized within and across departments, other jurisdictions, and community partners.
- Scale back instead of cutting out when appropriate.
- Programs should be regularly evaluated by departments and audits shall be conducted in accordance with generally accepted audit standards.
- The County shall develop strategic approaches to address unfunded future liabilities.
- The County shall maintain a Five-Year Capital Improvement Program.

Cost Recovery -

- When fees for service are appropriate, the County shall seek to recover the cost for providing the services.

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 Fund Balance Reserves") 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 County's fund balance policy targets committed and assigned fund balance categories at 10% of the upcoming year's estimated General Fund budgetary expenditures, with a minimum balance of 7%. The Fiscal Year 2025-26 Proposed Budget ("Proposed Budget") plans for committed and assigned fund balances to be $98.1 million at June 30, 2026, or 12.7% of Fiscal Year 2025-26 General Fund expenditures.

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Other Financial Policies

The County has adopted other financial policies and procedures as follows:

Debt Management Policy - The Board's formally established Debt Management Policy was originally adopted in 2016 and was last amended on March 12, 2024. This policy includes guidelines for the issuance of debt, including the types of debt that may be issued, responsibilities for debt management activities, maintenance of appropriate internal controls, post-issuance compliance, and other related issues. It established a Debt Oversight Committee that will review any financing undertaken by the County.

Continuing Disclosure and Compliance Procedures - The Board adopted Continuing Disclosure and Compliance Procedures, which were most recently updated on June 20, 2016. These procedures identify the staff member of the County with the responsibility for reviewing all reporting requirements for all bond issues, for being familiar with the listed events that require notice and preparation and timely filing of reports and notices.

Investment Policy - The County's current Investment Policy was most recently approved on December 10, 2024. This policy is updated at least annually to reflect current best practices and changes to the law. The Investment Policy imposes certain restrictions on the County's investment management that are consistent with those authorized under State law.

Pension Management Policy. On August 24, 2021, the Board adopted a Pension Management Policy. The policy is designed to maintain the County's sound financial position; ensure the County has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenditures; protect the County's creditworthiness; ensure that all pension funding decisions are structured to protect both current and future taxpayers, ratepayers, employees and residents of the County; and ensure that the structure of the County's pension obligation bonds and future unfunded liability amortization is consistent with the County's strategic planning goals, objectives, capital improvement program, budget, and/or debt policy. The policy allows for the creation of a liability management fund to capture funds, if any, that the County annually budgets toward managing its unfunded liability and ongoing pension costs.

Fiscal Year 2024-25

In Fiscal Year 2024-25, the County continued to deal with lingering unreimbursed disaster costs relating to numerous presidentially declared disasters since 2017. This includes winter storms in 2017 ("2017 Storms"), the Pandemic, the 2020 CZU Complex Lightning Fire and winter storms in Fiscal Year 2022-23 ("2022-23 Winter Storms"). In June 2024, the County issued $71.5 million in lease revenue bonds ("2024 Disaster Recovery Bonds") to reimburse its Off Highway, Road and Transportation Fund (the "Road Fund") for $58.7 million of unreimbursed repair costs or repair costs not expected to be reimbursed (i.e. the County's matching share) for the 2020 CZU Complex Lightning Fire and the 2022-23 Winter Storms funded by the County through June 30, 2024 and to fund additional repair and recovery capital expenditures.

Of these amounts, the County anticipates it will ultimately receive at least $35 million in federal reimbursements from the Federal Emergency Management Agency ("FEMA") and the Federal Highway Administration ("FHWA"). Reimbursements from FEMA and FHWA are expected to redeem up to $35 million of the 2024 Disaster Recovery Bonds prior to their maturity date. The County issued an additional $11 million in lease revenue bonds to fund acquisition of a building office space for administrative staff of the Health Services Agency and other government functions, and to refinance outstanding debt. Since the issuance of the 2024 Disaster Recovery Bonds, the County has received $12.3 million in FEMA and FHWA funding, and will use the funds to redeem $5.9 million of the 2024 Disaster Recovery Bonds on June 1, 2025 and to repay a $6.4 million internal service fund loan used as interim financing of a portion of the unreimbursed disaster costs.

The County's Pandemic response costs were funded by the General Fund. As of July 1, 2024, the County had received only $15.7 million reimbursement of $61.3 million in claims submitted for all eligible costs from FEMA Public Assistance for the County's Pandemic response. The County received funding of another $35.6 million in claims in Fiscal Year 2024-25. As of June 30, 2025, the County expects $10.7 million of the total $61.3 million in claims to remain outstanding.

The South County Government Center opened in June 2024, marking one of the largest investments in equitable services in County history. This center establishes a second headquarters building to serve South County residents and will improve the delivery of services while reducing travel generating greenhouse gases for both County staff and the clients the County serves. The County also reopened the Recovery Center, which provides a safe space and point of connection for residents who may be struggling with substance use disorder, while freeing up valuable public safety resources. Construction of the Sheriff's DNA Laboratory is also nearing completion and once accredited will help speed the delivery of justice for sexual assault survivors and others impacted by crime.

The County made progress addressing homelessness in the community, with a 22 percent overall reduction in those experiencing homelessness according to the most recent Point-In-Time Count. The County is implementing a planned shelter expansion that greatly enhances its ability to deliver results to the community and those experiencing homelessness. Under development are three low-barrier navigation shelters in South County, Mid-County and in the City of Santa Cruz. The County is also increasing permanent supportive housing with 62 new units by 2026.

Construction is nearing completion on a new 24-bed Children's Crisis Residential Program & Stabilization Unit that will provide a local option for the County's youth in distress and divert youth from traveling to out-of-county psychiatric hospitalization.

In March 2024, voters approved Me asure K, an additional one-half cent sales tax to be collected in the unincorporated area of the County. Collection of Measure K sales tax commenced July 1, 2024 and is expected to generate over $10 million annually. See "Other Local Taxes" herein.

Fiscal Year 2025-26 Overview

The Proposed Budget includes a $793.5 million General Fund balanced expenditure plan that prioritizes sustaining existing commitments and capacity, with an increase of $6 million in investments in infrastructure and capital, and modest growth only where it could be financed by new revenue sources.

Financial challenges in the Health Services Agency and Human Services Department result from lower reimbursement rates, new mandates, low health center medical visits, restrictions on billable activities under the CalAIM program, rising personnel costs and inflationary pressure on the cost of supplies and services. Along with Fiscal Year 2024-25 targeted solutions, the Proposed 2025-26 Budget will include structural solutions that reduce non-mandated County health programs and services to maintain mandated service levels. The balanced budget includes the loss of 74.40 full-time equivalent positions in the Health Services Agency and reduction of $8.98 million in spending, which will impact community behavioral health, health care, and public health services and resources.

The Proposed Budget was guided by an updated forecast of revenues and expenditures in February 2025 as part of the County's mid-year budget review and is able to maintain the County's commitment to sound financial management, with modest projected reserves at 12.7%, and supports the continuation of policies that have helped the County achieve and maintain its bond rating.

The County is facing headwinds in the form of reduced health care funding, delayed disaster reimbursements, state budget uncertainty stemming from larger worldwide economic uncertainty, and uncertainty over shifting priorities in Washington, D.C. and threats to federal funding.

In response, the Proposed Budget prioritizes mandated services, protects essential programs, and makes strategic investments in the County's future. And although it is presented amid the headwinds described, it does not yet reflect any budget impacts from changes in federal policy. The County's exposure to federal funding and policy risk is significant. Continued engagement with State and federal partners, local scenario planning, and strategic reserve management will be critical to navigating this uncertain environment. Absent action, federal policy changes could result in multi-million dollar funding losses, operational disruptions, and negative impacts on the health, safety, well-being, and civic participation of tens of thousands of County residents. The County staff would return to the Board at such a time when a response is required in alignment with development of the Federal budget, and possibly as soon as July or August 2025.

General Fund Cash Flow

The General Fund County Budget includes programs which are provided on a largely countywide basis (health care, welfare, courts and detention facilities) and municipal services to the unincorporated areas not otherwise included in a special district. The programs and services are financed primarily by the County's share of property taxes, revenues from the State and federal government, and charges for services provided. (See "STATE OF CALIFORNIA BUDGET" herein).

General Fund expenditures of the County tend to occur in equal amounts throughout the fiscal year. Conversely, receipts follow an uneven pattern primarily as a result of secured property tax installment payment dates in December and April and as a result of delays in payments from other governmental agencies, two of the largest sources of General Fund revenues.

The County's Auditor-Controller-Treasurer-Tax Collector has prepared a detailed analysis of the Fiscal Year 2024-25 General Fund cash flow (which includes actual figures through March 2025) and of the projected cash flow for Fiscal Year 2025-26. The cash flow projections are based on the County's Proposed Budget, submitted to the Board on April 24, 2025. During budget hearings, the Board may make supplemental or other changes to the Proposed Budget to include additional expenditures and the source of funding for such additional expenditures. The County does not expect to update the cash flow projections contained in the Official Statement to reflect any additional supplemental items added to the Proposed Budget.

General Fund Revenues and Expenditures

The receipts in Table B-1 and in "APPENDIX C – COUNTY OF SANTA CRUZ CASH FLOW STATEMENTS" are categorized as:

- Taxes, detailed in Table B-6 "Tax Revenues by Source," which includes general property tax, property tax in-lieu of motor vehicle license fees, sales tax, cannabis business taxes and transient occupancy taxes;

- Licenses and Permits, which includes construction and grading permits, franchise fees (cable, utility, trash) and food vendor permits;

- Fines, Forfeits and Penalties, which includes delinquent property tax penalties, delinquent property tax redemption penalties transferred from the tax loss reserve fund, municipal and vehicle code violations and criminal fines;

- Use of Money and Property, which includes interest income and rent and concessions;

- Aid From Other Governments, detailed in Table B-7 "Intergovernmental Revenues" which includes Proposition 172 sales tax, motor vehicle license fees (health realignment portion), and State and federal reimbursements for health and welfare services, including federal, FEMA and State funding relating to COVID-19 emergency response costs;

- Charges for Services, comprised of outpatient clinic fees and patient revenue, 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, recording fees, plan checking, building inspection, park and recreation fees and other municipal services;

- Other Revenue;

- Other Financing Sources, comprised of sale of assets, bond issuance and inception of capital leases; and

- Transfers In, which historically have included funds from the Flood Control District and other funds for allocated debt service and mosquito abatement operations.

The disbursements in Table B-1 and in "APPENDIX C – COUNTY OF SANTA CRUZ CASH FLOW STATEMENTS" are categorized as Salaries and Benefits, Services and Supplies, Other Charges, Other Financing Uses and an Interdepartment Cost Allocation to offset the cost of services provided by various General Fund departments to other General Fund functions.

- Salaries and Benefits include direct personnel costs, pension and post-retirement benefits, health insurance costs and workers' compensation and unemployment insurance costs. Approximately half of these costs relate to health and social services personnel, a large portion of which are reimbursed with federal and State funding.

- Services and Supplies include non-personnel operating costs and contract professional services. Approximately two-thirds of these costs relate to health and social services programs, a large portion of which are reimbursed by federal and State funding.

- Other Charges primarily consist of non-personnel related costs, of which nearly 85% relate to health and social services programs, a large portion of which are also reimbursed by federal and State funding.
- Other Financing Uses are comprised of debt service, including interest on the Notes, and operating transfers.

Fiscal Year 2024-25 Estimated Results

Table B-1 compares the Fiscal Year 2024-25 proposed budget projections with estimated actual results for Fiscal Year 2024-25 (which includes actual results through March 2025, with projections for April, May and June 2025). Table C-1 presents the monthly estimated actual receipts and disbursements for Fiscal Year 2024-25. See "APPENDIX C – COUNTY OF SANTA CRUZ CASH FLOW STATEMENTS."

The largest increases or decreases between adopted budget and estimated actual cash receipts and disbursements for Fiscal Year 2024-25 are as follows:

- Aid from Other Governments – The largest decreases include a $12 million reduction in Short/Doyle Medical reimbursements from budgeted amounts and another $12 million reduction in disaster relief compared to budgeted amounts. The balance of the reduction relates to a variety of other federal and State reimbursement that were received in amounts lower than budgeted, including public assistance programs and grants.
- Charges for Services –Outpatient clinic fees are expected to be $6 million lower than budgeted.

- Service and Supplies – The net decrease results from $12 million of reduced expenditures for professional and medical services, generally associated with health services, offset by $3 million increased utility costs.
- Other Charges – Reductions from budgeted amounts generally occurred in social services such as the Aid to Families with Dependent Children and foster care programs.
- Contingency – The only portion of the $10.5 million budgeted contingency that was encumbered for Fiscal Year 2024-25 was $1 million additional funding of the Road Fund and $1 million associated with housing.

Table No. B-2 compares the Fiscal Year 2024-25 proposed budget projections with estimated actual results for Fiscal Year 2024-25 (which includes actual results through March 2025, with projections for April, May and June 2025).

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TABLE NO. B-1
GENERAL FUND CASH FLOW SUMMARY
COMPARISON OF FISCAL YEAR 2024-25 ESTIMATED ACTUAL RECEIPTS AND DISBURSEMENTS WITH FISCAL YEAR 2024-25 BUDGET

	2024-25 FINAL BUDGET	2024-25 ESTIMATED ACTUAL	CHANGE FROM BUDGET
BEGINNING CASH BALANCE	$51,752,521	$ 51,752,521	$ -
RECEIPTS:			
Taxes	$190,914,830	$187,797,546	$ (3,117,284)
Licenses and Permits	18,024,988	16,877,321	(1,147,667)
Fines, Forfeits and Penalties	6,405,016	6,481,014	75,998
Use of Money and Property	11,787,922	11,985,710	197,788
Aid from Other Governments	478,640,339	439,306,363	(39,333,976)
Charges for Services	106,165,421	98,998,845	(7,166,576)
Other	6,052,059	7,439,978	1,387,919
Transfers In	3,285,017	4,796,482	1,511,465
TOTAL RECEIPTS	$821,275,592	$773,683,259	$(47,592,333)
DISBURSEMENTS:			
Salaries and Benefits	$ 413,688,606	$ 410,153,427	$ (3,535,179)
Services and Supplies	246,939,280	237,888,139	(9,051,141)
Other Charges	126,272,789	120,325,415	(5,947,374)
Other Financing Uses	71,562,672	68,426,613	(3,136,059)
Cost Applied	(3,935,721)	(14,067,233)	(10,131,512)
Contingency	10,466,653	2,000,000	(8,466,653)
TOTAL DISBURSEMENTS	$ 864,994,279	$ 824,726,361	$ (40,267,918)
NET RECEIPTS/DISBURSEMENTS	$ (43,718,687)	$ (51,043,102)	$ (7,324,415)
CHANGE IN RESTRICTED CASH	$ -	$ 30,823,181	$ 30,823,181
ENDING CASH BALANCE	$ 8,033,834	$ 31,532,600	$ 23,498,766

Source: County of Santa Cruz.

Fiscal Year 2025-26 Proposed Budget Assumptions

The new federal administration is considering federal changes to eligibility requirements for Medi-Cal (medical, dental, vision, drug and behavioral health coverage for individuals and families), CalWORKs (monthly cash aid for families with children), and CalFresh (nutrition program for individuals and families), which would have significant negative impacts on Santa Cruz County residents. Nearly 90,000 County residents are on Medi-Cal, and the County estimates at least a third of these individuals, many of whom are unhoused, could lose coverage.

In response to these threats, the Proposed Budget prioritizes mandated services, protects essential programs, and makes strategic investments in our future. As noted above, federal policy changes could result in multi-million dollar funding losses. The County would return to the Board at such a time when a response is required in alignment with development of the Federal budget.

The County's health and mental health programs are largely paid for with State and federal funding or by charging for services. Financial challenges result from Behavioral Health's lower reimbursement rates, new mandates, low health center medical visits and other cost factors. Along with Fiscal Year 2025-26 targeted solutions, the Proposed 2025-26 Budget will include structural solutions that reduce non-mandated County health programs and services to maintain mandated service levels

The County's Health Services Agency budget for Fiscal Year 2025-26 is funded by federal and State revenue (68%), charges for services (22%) and other revenues (2%) with only 8% funded with other General Fund resources. Social services provided by the Human Services Department require approximately 15% funding by the General Fund, with the balance funded through federal and State revenue. Typically, an increase in the cost to provide particular programs or an increase in services provided will result in an offsetting increase in "Aid from Governmental Agencies" 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.

Some key assumptions incorporated into the Proposed Budget, and related variances from Fiscal Year 2024-25 estimates, are as follows:

- Property Taxes – The County projects a moderate 4.0% growth in property tax, with a corresponding increase in property taxes in lieu of motor vehicle fees.
- Sales Taxes – The County projects a minor increase in sales tax revenues, except to reflect a full year of Measure K sales tax compared to the prior year.
- Transient Occupancy Tax – The County anticipates a 7.9% increase in transient occupancy tax.
- Fines and Forfeitures – The County has budgeted a $2 million increase in transfers from the Teeter Fund.
- Aid from Other Governments – The Proposed Budget includes an overall $4 million increase in various State revenues for realignment, housing and law enforcement, an overall $5 million increase in State funding for mental health programs, and an increase in disaster relief funding of $3 million, offset by a $3 million decrease in grant funding.
- Miscellaneous Revenue – The County has budgeted a reduction in tobacco settlement revenue.
- Salaries and Benefits – The County has budgeted for contract salary increases, partially offset by the elimination of vacant and filled positions in the Health Services Agency.
- Other Charges – Other Charges are reduced to correspond to the projected lower service provided by the Health Services Agency due to staffing reductions.

- Other Financing Uses – The County expects to reduce transfers in Fiscal Year 2025-26, following one-time transfers of $10 million to the Liability and Property Insurance Fund and $11 million to the Debt Service Fund in Fiscal Year 2024-25.

The following Table B-2 compares the annual estimated receipts and disbursements for Fiscal Year 2024-25 with the annual proposed budgeted receipts and disbursements for Fiscal Year 2025-26. Table B-2 also includes the audited receipts and disbursements for Fiscal Year 2023-24 for comparison. Table C-2 presents the monthly projected receipts and disbursements for Fiscal Year 2025-26. See "APPENDIX C – COUNTY OF SANTA CRUZ CASH FLOW STATEMENTS."

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TABLE NO. B-2
GENERAL FUND CASH FLOW SUMMARY
COMPARISON OF RECEIPTS AND DISBURSEMENTS FOR FISCAL YEAR 2023-24 ACTUAL, FISCAL YEAR 2024-25 ESTIMATED ACTUAL AND FISCAL YEAR 2025-26 PROPOSED BUDGET

	2023-24 ACTUAL	2024-25 ESTIMATED ACTUAL	2025-26 PROPOSED BUDGET	CHANGE [1]	% CHANGE [1]
BEGINNING BALANCE	$ 67,217,891	$ 51,752,521	$ 23,141,165	$ (28,611,356)	
RECEIPTS:					
Taxes	$175,915,164	$187,797,546	$ 198,273,000	$ 10,475,454	5.6%
Licenses and Permits	17,886,556	16,877,321	17,483,757	606,436	3.6%
Fines, Forfeits and Penalties	6,146,909	6,481,014	8,552,597	2,071,583	32.0%
Use of Money and Property	11,521,206	11,985,710	12,509,360	523,650	4.4%
Aid from Other Governments	488,329,447	439,306,363	447,989,297	8,682,934	2.0%
Charges for Services	87,342,447	98,998,845	100,473,370	1,474,525	1.5%
Other	10,910,005	7,439,978	3,994,193	(3,445,785)	(46.3)%
Transfers In	4,380,632	4,796,482	4,195,887	(600,595)	(12.5)%
TOTAL RECEIPTS	$802,432,367	$773,683,259	$793,471,461	$19,788,202	2.6%
DISBURSEMENTS:					
Salaries and Benefits	$ 392,922,635	$410,153,427	$ 412,907,080	$ 2,753,653	0.7%
Services and Supplies	245,977,120	237,888,139	237,707,906	(180,233)	(0.1)%
Other Charges	103,151,388	120,325,415	114,338,110	(5,987,305)	(5.0)%
Other Financing Uses	13,978,273	68,426,613	45,979,082	(22,447,531)	(32.8)%
Cost Applied	(2,068,382)	(14,067,233)	(24,146,448)	(10,079,215)	71.7%
Contingency	-	2,000,000	6,685,731	4,685,731	234.3%
TOTAL DISBURSEMENTS	$ 753,961,034	$824,726,361	$ 793,471,461	$ (31,254,900)	(3.8)%
NET RECEIPTS/DISBURSEMENTS	$ 48,471,333	$ (51,043,102)	$ -	$ (11,466,698)	
CHANGE IN RESTRICTED CASH	$ (63,936,702)	$ 30,823,181	$ -	$ (30,823,181)	
ENDING CASH BALANCE	$ 51,752,521	$ 31,532,600	$ 31,532,600	$ -	
ALTERNATIVE LIQUIDITY [2]					

(1) Change between 2025-26 Proposed Budget and 2024-25 Estimated Actual.
(2) The County has alternative liquidity sources that are available for short-term borrowing. See “FINANCIAL INFORMATION - Alternative Liquidity” herein.

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 1½% 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 1½% 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.

Due to the financial impact of the Pandemic, the County announced a waiver of any penalties associated with non-payment of the installment of property taxes that became delinquent if not paid by April 10, 2020 or December 10, 2020. See "The Teeter Plan" below.

The CZU Lightning Complex Fire ignited in the Santa Cruz County mountains on August 16, 2020 as a result of dry lightning strikes (the "CZU Lightning Complex Fire"). The CZU Lightning Complex Fire destroyed or damaged over 900 homes in the mountainous area of the County. An affected property owner could file an Application for Calamity Relief and/or Deferral of Regular Secured Taxes with the County Assessor by December 10, 2020, allowing current property taxes to be reduced for that portion of the property damaged or destroyed. The County initiated calamity reductions on 798 of the affected parcels.

The State backfilled property taxes lost in Fiscal Years 2020-21 and 2021-22 as a result of the CZU Lightning Complex Fire. For the County General Fund, this resulted in $620,771 backfilled property tax revenue for each of the two fiscal years.

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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.

The County adopted Resolution 541-93 on October 5, 1993 to implement 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. Most taxing agencies within the County are participating in the Teeter Plan. The County anticipates property taxes to be apportioned within each Fiscal Year during December, April and June, with the balance of the levy to be apportioned on or before June 30.

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
2018-19	1.0%	2.10%
2019-20	1.1	2.11
2020-21	0.9	1.86
2021-22	0.9	1.57
2022-23	1.3	1.89
2023-24	1.1	2.10
2024-25	1.2	2.50 (Estimate)

The total delinquency rates represent the current year delinquencies (see "Table B-3" 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.

Delinquency rates are generally higher during a recession, and the County anticipates that the delinquency rates may be higher than current rates in future years depending on changing national and regional economic conditions.

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 is governed by the second alternative in accordance with its election made October 29, 2013. On June 30, 2024, the County's tax losses reserve fund balance was $6,444,754, in excess of the minimum required balance on that date of $3,261,007. 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. The County makes transfers from the tax losses reserve fund to the General Fund from time to time. When transfers are made, the County recognizes the revenue under the category of Fines, Forfeits and Penalties.

Tax Collections. The County reports tax collection data on a County-wide basis for secured taxes only as set forth in Table B-3.

TABLE B-3
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			
2020	$587,578	$580,758	98.8%	$5,046	$585,804	99.7%
2021	615,206	609,436	99.1	5,997	615,433	100.0
2022	638,000	631,953	99.1	6,554	638,507	100.1
2023	683,093	675,077	98.8	5,932	681,008	99.7
2024	719,922	710,649	98.7	4,989	715,638	99.4

(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 Annual Comprehensive Financial Report.

Taxable Property and Assessed Valuation

Set forth in the table below are assessed valuations for secured and unsecured property 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.

TABLE B-4
COUNTY OF SANTA CRUZ
GROSS ASSESSED VALUE OF ALL TAXABLE PROPERTY(1)
(INCORPORATED CITIES AND UNINCORPORATED COUNTY AREAS)

Fiscal Year	Secured(2)	Unsecured	Total	Change
2019-20	$47,193,435,563	$1,021,495,990	$48,214,931,553	5.2%
2020-21	49,411,429,654	1,032,834,114	50,444,263,768	4.6
2021-22	51,167,425,927(3)	1,035,947,483	52,203,373,410	3.5
2022-23	54,371,265,069	1,138,887,635	55,510,152,704	6.3
2023-24	57,213,435,772	1,291,488,388	58,522,924,160	5.4
2024-25	59,748,541,596	1,352,066,076	61,100,607,671	4.4

(1) The assessed values in the statistical section of the County's Annual Comprehensive Financial Report may be different than the equalized tax roll values above, due to adjustments to the tax roll during the fiscal year.

(2) Including homeowners' exemption values.

(3) As a result of the CZU Lightning Complex Fire's destruction of, or damage to, homes and structures in the County, the Fiscal Year 2021-22 assessed valuation reflects the approximate $220 million reduction in assessed value of improvements for affected properties.

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

Proposition 8 Adjustments. Proposition 8 (see "RISK FACTORS - Constitutional Limitation on Taxes and Appropriations - Proposition 8 Adjustments") provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by an 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. There are approximately 100,000 taxable secured parcels and 11,000 taxable unsecured parcels in the County. The current number of parcels subject to Proposition 8 adjustments is a minor amount. In general, such parcels do not represent a significant portion of the County's assessed values in 2024-25.

In future years, the number of Proposition 8 adjustments may increase as a result of the impact of economic conditions on the housing market.

Largest Taxpayers. The largest taxpayers in the County for the 2023-24 Fiscal Year are shown below.

TABLE B-5
COUNTY OF SANTA CRUZ
LARGEST TAXPAYERS

Taxpayers	Type of Business	2023-24 Assessed Valuation	% of Total Assessed Valuation 2023-24
Pacific Gas & Electric Company	Gas & Electric Utility	$ 543,388,965	0.92%
Dignity Health	Hospital	167,475,127	0.28
Santa Cruz Seaside Company	Amusement Park	138,123,742	0.23
Regency Hilltop LLC	Property management	122,514,600	0.21
MGP XI Capitola LLC	Property management	122,310,468	0.21
LHO Santa Cruz Hotel One LP	Property management	69,968,496	0.12
Anton Santa Cruz LLC	Property management	69,909,901	0.12
S Martinelli & Co	Consumer Goods	69,603,085	0.12
Mt. Hermon Road Association Inc.	Property management	69,334,048	0.12
Rancho Del Mar Center LLC	Property management	62,687,659	0.11
1440 Devco LLC	Real estate investment	57,943,670	0.10
Total		$ 1,493,259,761	2.54%

Source: County of Santa Cruz Annual Comprehensive Financial Report, Fiscal Year ended June 30, 2024.

Redevelopment Agencies. The California Redevelopment Law (Part 1 of Division 24 of the California Health & Safety Code) 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 by agreement or in some cases, pursuant to a statutory formula. There were numerous redevelopment projects formed in the County.

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 is 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. As a result of redevelopment dissolution, the County currently receives approximately $6.8 million in residual taxes. Residual taxes will continue to increase over time as obligations payable by former redevelopment agencies in the County are paid down or paid in full.

Other Local Taxes

In addition to ad valorem taxes on real property, the County receives other local taxes described below. A history of actual tax revenue by source is shown in Table B-6, together with estimated amounts for Fiscal Year 2024-25 and budgeted amounts for Fiscal Year 2025-26.

TABLE B-6
COUNTY OF SANTA CRUZ
TAX REVENUES BY SOURCE

Source	2021-22	2022-23	2023-24	Estimated 2024-25	Budget 2025-26
Regular Property Taxes	$ 77,481,958	$82,654,064	87,215,239	91,861,499	95,539,000
Property Tax In Lieu of VLF	38,333,300	40,762,252	42,974,939	44,860,000	46,701,000
Sales Tax	14,495,818	14,068,904	14,120,856	13,740,000	13,932,000
Sales Tax - Measure G	9,784,275	9,881,255	10,141,572	10,614,298	10,723,000
Sales Tax – Measure K	-	-	-	7,425,702	10,702,000
Transient Occupancy Tax	14,137,276	11,528,137	14,178,848	13,567,750	14,636,000
Cannabis Business Tax	3,014,301	2,583,072	2,764,013	2,380,000	2,380,000
Property Transfer Tax	3,782,314	2,457,021	2,448,352	2,840,000	3,152,000
Other Taxes	71,573	62,595	450,891	508,297	508,000
Total Tax Revenues	**$161,100,815**	**$163,997,300**	**$174,294,710**	**$187,797,546**	**$198,273,000**

Source: County of Santa Cruz.

Property Tax In Lieu of Vehicle License Fees. The payments of property tax in lieu of vehicle license fees ("VLF") are a State backfill from property tax revenues for a portion of the VLF fees collected statewide. The change in these property taxes from year to year is now tied to the change in assessed value.

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 as well as a share of a countywide sales tax pool from online taxable sales.

In November 2018, voters in the County approved "Measure G," the levy of an additional one-half cent sales tax for a 12-year term, commencing April 1, 2019.

In March 2024, voters in the County approved "Measure K," the levy of an additional one-half cent sales tax, commencing July 1, 2024. This tax is expected to generate in excess of $10 million per year, with a partial year starting in Fiscal Year 2024-25 of $7.425 million.

Transient Occupancy Taxes. The County levies a transient occupancy tax on hotel and motel bills of 12%. The County placed "Measure B" on the June 7, 2022 ballot, which was approved by voters. Measure B increased the transient occupancy tax on hotel and motel bills from 11% to 12% and raised the tax on vacation-rental stays from 11% to 14%.

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. The Board later reduced the rate applicable to manufacturers and cultivators to 5% for periods beginning January 1, 2018, with future incremental increases to achieve 7% by January 1, 2022.

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

State, Federal and Other Local Agency 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 "aid from other governments."

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

As noted above, the County has not received full reimbursement for all eligible costs from FEMA Public Assistance for the County's COVID-19 response.

Other State and federal aid will be realized to the extent that the County has reimbursable expenditures that qualify for the reimbursements (reduced services will result in reduced revenues) and to the extent that the State includes the programs in its budget.

The table on the following page sets forth the State, federal and other local governmental agencies' funds received by the County.

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TABLE B-7
COUNTY OF SANTA CRUZ
INTERGOVERNMENTAL REVENUES

Source	2021-22	2022-23	2023-24	Estimated 2024-25	Budget 2025-26
Local Governmental Agency Funds	$ 1,674,601	$ 2,784,897	$ 2,887,836	$ 3,053,241	$ 2,624,154
State Funds:					
Proposition 172	22,975,337	24,208,212	23,269,879	24,108,148	24,191,150
Medi-Cal	20,672,691	20,109,675	22,864,064	22,112,624	22,027,304
Short/Doyle Reimbursements	61,016,557	62,385,093	87,428,326	75,518,301	80,998,723
Disaster Assistance	2,882,750	1,394,616	39,542,389	1,677,087	300,000
Realignment Revenues	72,925,138	74,019,292	73,747,138	74,154,132	74,912,890
All Other	78,702,293	125,612,993	116,206,930	140,005,786	136,712,751
Total	**259,174,766**	**307,735,300**	**363,058,726**	**337,576,078**	**339,142,818**
Federal Funds:					
CARES Act Revenue	13,656	-	-	-	-
ARPA Revenue	26,534,211	(303,919)	23,668	-	-
Disaster Cost Reimbursements	2,501,448	3,991,041	537,949	250,098	3,504,953
All Other	95,482,976	90,809,295	89,145,562	98,426,946	102,717,372
Total	**124,532,291**	**94,496,417**	**89,707,179**	**98,677,044**	**106,222,325**
Total All Gov't Agencies	**$385,381,658**	**$405,016,614**	**$455,653,741**	**$439,306,363**	**$447,989,297**

Source: County of Santa Cruz.

Other Revenue Sources

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

Fines, Forfeits and Penalties. These revenues include parking citations, municipal court fines, asset seizure proceeds and other fines for municipal code violations, in addition to delinquent property tax penalties. These revenues also include delinquent tax redemption penalty amounts transferred to the General Fund from the tax losses reserve fund. The amount of the transfer fluctuates from year to year (see "Teeter Plan" above).

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. Outpatient clinic fees are included in this revenue category. The County realized a significant increase in patient revenue for Fiscal Year 2024-25 due to planned use of clinic capacity.

Intrafund Borrowing and Cashflow

To the extent necessary, the County has used intrafund borrowing to cover cash needs at certain times during the year. "Intrafund borrowing" is borrowing for General Fund purposes against the County's own funds held in trust pending allocation. "Interfund borrowing" is borrowing from the funds of other governmental entities whose funds are held in the County Treasury. Should the County find it necessary to resort to interfund borrowing, then such borrowing, pursuant to the California Constitution, shall be repaid from revenues before any other obligation of the County is paid from such revenues.

The County has used intrafund borrowing during some fiscal years. The County did use intrafund borrowing during 2020-21, largely as a result of the timing in receipt of anticipated CARES Act and ARPA funds to reimburse COVID-related costs. The County has not used intrafund borrowing since that time.

Alternative Liquidity

The County also has alternative liquidity sources that are available for short-term borrowing. As shown in Table B-8, these funds include Internal Service Funds established for Information Services, Public Works, Vehicle Service Center, Central Duplicating, Employee Benefits, Dental/Health Self Insurance, Property Insurance, Risk Management, State Unemployment Insurance and Workers' Compensation Self Insurance, as well as the County's Committed Fund Balances for Natural Disasters, Economic Uncertainty and Mental Health Services Act Prudent Reserve, amounts in the Tax Losses Reserve Fund in excess of the minimum required balance and amounts in the Buena Vista Landfill Post Closure Fund. In the event that there are insufficient receipts to make any required deposit in the Repayment Fund, the internal service funds can be accessed immediately without Board approval. The Committed Fund Balances, the Tax Losses Reserve Fund and the Buena Vista Landfill Post Closure Fund require Board approval to use the moneys therein.

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TABLE B-8
COUNTY OF SANTA CRUZ
SCHEDULE OF ALTERNATIVE LIQUIDITY

The actual balance of the sources as of June 30, 2024 and the projected balance of these sources as of June 30, 2025 and June 30, 2026 are set forth below.

Fund	Actual June 30, 2024	Estimated June 30, 2025	Estimated June 30, 2026[1]
Internal Service Funds:			
Information Services	$ 7,617,694	$ 4,430,725	$ 5,705,226
Public Works	19,583,698	18,824,099	18,634,725
Vehicle Service Center	4,209,990	5,619,578	8,889,743
Employee Benefits – Staffing	799,075	798,542	841,350
Dental/Health Self Insurance	1,983,621	3,787,110	3,441,947
Liability & Property Insurance	12,826,597	16,515,342	11,252,237
Risk Management & Self Insurance	1,145,089	919,292	487,262
State Unemployment Insurance	609,696	754,571	581,928
Workers' Compensation Self Insurance [2]	14,728,858	15,270,373	11,668,958
Subtotal Internal Service Funds [3]	**63,504,318**	**66,919,632**	**61,503,376**
General Fund Committed Fund Balance [4]	14,997,367	14,997,367	14,997,367
Tax Losses Reserve Fund [5]	3,183,677	4,352,161	4,167,385
Buena Vista Landfill Post Closure Fund [6]	14,670,742	14,670,742	14,670,742
Total Alternative Liquidity	**$96,356,104**	**$100,939,902**	**$95,338,870**

(1) The June 30, 2025 estimated balances are adjusted for activities expected during 2025-26 to determine the estimated balances for June 30, 2026.

(2) The Workers' Compensation Self Insurance Internal Service Fund loaned $6.4 million to the Off Highway, Road and Transportation Fund to be applied to unreimbursed 2022-23 Storm costs as of June 30, 2024. The County will repay the loan by June 30, 2025 from federal reimbursements received during Fiscal Year 2024-25.

(3) Internal Service Funds - Available to be transferred to the General Fund and do not need to be repaid. The majority of Internal Service Fund users are General Fund Departments.

(4) Committed Fund Balance excluding amount of Committed Fund Balance for Working Capital (which amount was already included in General Fund cashflow in Tables B-1, B-2, C-1 and C-2).

(5) This represents the amount in the Tax Losses Reserve Fund in excess of the minimum required balance and does not need to be repaid.

(6) The Buena Vista Landfill Post Closure Fund is expected to be $14,670,742 at June 30, 2026 and is available for the General Fund to borrow on the maturity date of the Notes on June 25, 2026 (and will be available on the maturity date of previously issued tax and revenue anticipation notes maturing in July 2025). However, any funds borrowed for such purpose must be repaid by June 30, 2026.

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

Short-Term Obligations

The County regularly issues tax and revenue anticipation notes. The County's 2024-25 tax and revenue anticipation notes were issued in the amount of $48,000,000 and mature July 1, 2025.

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 certificates of participation, lease revenue bonds and long-term agreements aggregating $160.5 million in principal amount to be outstanding as of June 30, 2025. All issues are fixed rate obligations. The County also leases other assets under both operating and capital leases.

The County has pension obligation bonds with $103.1 million in principal amount to be outstanding as of June 30, 2025.

The County will have outstanding indebtedness shown in Table B-9 as of June 30, 2025 payable from the County's General Fund, exclusive of obligations to be paid from specifically pledged revenues, such as tax allocation bonds and assessment bonds. It includes obligations that the County allocates internally to other special revenue funds, as described in the footnotes to Table B-9.

Table B-9 also includes the 2024 Disaster Recovery Bonds. Of the total original aggregate par amount of all series of 2024 Bonds of $82.5 million, $64.3 million relates to the reimbursement for prior damage repair costs. Of the $64.3 million to fund damage repair, the County anticipates FEMA and FHWA reimbursements will be used to redeem $35 million of the 2024 Series A-1 Bonds prior to their scheduled maturity and on June 1, 2025, the County will redeem $5,885,000 of the 2024 Series A-1 Bonds from amounts received from FEMA and FHWA during Fiscal Year 2024-25. A significant portion of interest on the 2024 Bonds is capitalized for Fiscal Year 2025-26.

The County anticipates it will issue approximately $13 million in lease revenue bonds in Fiscal Year 2025-26 to fund improvements to a transfer station and acquisition of a building for use by the Public Defender's Office.

Information on the County's pension and other post-employment benefits is found below under the captions "Retirement Program" and "Other Post-Employment Benefits."

The County's net pension liability as of June 30, 2023 was $575 million and the net OPEB liability as of June 30, 2023 was $155 million.

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TABLE NO. B-9
SUMMARY OF LONG- AND INTERMEDIATE-TERM OBLIGATIONS
EXCLUDING PENSION AND OTHER POST-EMPLOYMENT BENEFITS
(in $ millions)

	Principal to be Outstanding as of 6/30/25	2024-25 Payments	Final Maturity
1996 Certificates of Participation	$ 3.125	$ 1.662	2026
2012 Use Payments [1]	0.878	0.136	2034
2014 Refunding Certificates of Participation	3.025	0.496	2031
2015 Taxable Lease Revenue Refunding Bonds, Series A [2]	0.000	0.192	2025
2015 Lease Revenue Bonds, Series B [3]	7.360	0.591	2045
2016 Refunding Certificates of Participation	5.620	0.575	2036
2017 Taxable Lease Revenue Bonds (CREBs) [4]	4.755	0.641	2035
2020 Lease Revenue Bonds, Series A	8.585	0.573	2051
2020 Lease Revenue Bonds, Series B	3.240	0.352	2036
2021 Lease Revenue Bonds, Series A	21.625	1.271	2051
2021 Lease Revenue Bonds, Series B	3.530	0.196	2051
2021 Taxable Pension Obligation Bonds	103.085	7.639	2047
2023 Lease Revenue Bonds, Series A[5]	17.300	0.000	2051
2024 Lease Revenue Bonds, Series A-1 [6][7]	29.115	0.000	2039
2024 Lease Revenue Bonds, Series A-2 [8]	10.215	1.578	2035
2024 Lease Revenue Bonds, Series B [6]	9.080	0.000	2039
2024 Lease Revenue Bonds, Series C [6]	27.175	0.478	2054
	$257.713	$16.380	
Capital Leases	3.871	0.803	2031
Leases and Subscription-based Information Technology Arrangements	8.485	3.515	2067
TOTAL LONG- AND INTERMEDIATE-TERM OBLIGATIONS	**$270.069**	**$20.698**	

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(1) These payments are budgeted in the County's Santa Cruz Regional 9-1-1 Fund, relating to its share of debt obligations of a joint powers authority that operates a regional 9-1-1 communications facility ("911 Center"), in which the County participates.
(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 Drain Maintenance District.
(3) Approximately $65,000 of annual debt service is reimbursed by County Service Area 11.
(4) The County expects to receive interest payment subsidies to offset a portion of the interest cost on the 2017 Taxable Lease Revenue Bonds (CREBs).
(5) Interest on the 2023 Series A Lease Revenue Bonds is capitalized through the end of Fiscal Year 2024-25.
(6) Net of capitalized interest.
(7) The County redeemed $5,885,000 of the Series A-1 Bonds on June 1, 2025.
(8) Approximately $486,000 of annual debt service is reimbursed by County Service Area 9C.

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 and the Municipal Advisor have not independently verified the information provided by CalPERS and make no representations nor express any opinion as to the accuracy of the information provided by CalPERS.

The Annual Comprehensive 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 and the Municipal Advisor 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, and death benefits to all qualified permanent and probationary employees (and their beneficiaries as applicable) that are eligible to participate in the County's separate Safety (police and fire), Safety Sheriff and Miscellaneous (all other) retirement plans (collectively, the Plans), through agent multiple-employer defined benefit pension plans administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions are established by State statute and by County contracts with employee bargaining groups.

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 on June 30, 2023, 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% @ 63	2.418% @ 63	2.5% @ 67
Final Compensation	12 months	36 months	36 months
Required Employee Contribution Rates	7.0%	7.0%	7.75%
2023 Employer Contribution Rates	29.11%	29.11%	29.11%

	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%	13.25%
2023 Employer Contribution Rates	16.58%	16.58%	16.58%

	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%	13.5%
2023 Employer Contribution Rates	29.34%	29.34%	29.34%

Funding Policy. Active members in the Plans are required to contribute a percentage of their annual covered salary as shown in the charts above.

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 7.75% of annual covered salary up to $155,081. Also, as a result of labor negotiations, Sheriff Safety members in the PEPRA Tier 3 contribute 13.5% of annual covered salary, up to a $186,096 limit.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability. The County's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2023, using an annual actuarial valuation as of June 30, 2022, rolled forward to June 30, 2023, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Valuation Date	June 30, 2022
Measurement Date	June 30, 2023
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	6.90%
Inflation	2.30%
Payroll Growth	2.80%
Projected Salary Increase	Varies [1]
Mortality	[2]
Post Retirement Benefit Increase	Contract cost of living adjustment up to 2.30% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.30% thereafter

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

(2) The probabilities of mortality are based on CalPERS' 2017 Experience Study for the period from 1997 to 2015. Pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale MP - 2016 published by the Society of Actuaries.

Changes in Actuarial Assumptions. Changes in actuarial assumptions generally take two years to affect the County's contribution rate due to the time required by CalPERS to calculate and implement the change. For example, a change made effective July 1, 2023 will be reflected in the County's contribution rates (normal cost or unfunded liability) for Fiscal Year 2025-26.

The CalPERS Board of Administration has made numerous changes that are reflected in the calculation of the pension liability and the annual contribution toward the unfunded pension liability. The most significant change was a reduction between Fiscal Years 2011-12 and 2018-19 to reduce the discount rate from 7.5% to 7.0%, and then more recently in Fiscal Year 2021-22 to 6.8% as described below. Other assumption changes include a reduction in the payroll growth and inflation and, beginning with the June 30, 2019 calculation, changing the amortization of investment gains or losses to 20 years from 30 years. CalPERS' Chief Actuary 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 about future contribution rates. These changes accelerate the repayment of unfunded liabilities of the County's Plans in the near term.

In 2015, the CalPERS Board of Administration also adopted a funding risk mitigation policy (the "Policy") intended to incrementally lower its discount rate. It was first implemented in Fiscal Year 2021-22, resulting in a reduction of the discount rate from 7% to 6.8%. The County anticipates the Policy will ultimately result in a continued lowering of the discount rate, but cannot guarantee when the discount rate will be lowered and at what rate. More information about the Policy can be accessed through CalPERS' web site at the following website address: https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf. The reference to this Internet website is provided for reference and convenience only. The information contained within the website may not be current, has not been reviewed by the County and is not incorporated in this Official Statement by reference.

Contribution Rates. The contribution requirements of Plan members and the County are established by CalPERS and labor negotiations. The rates 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 B-10 are the CalPERS projections of the normal cost rate and amortization of the UAL. These rates do not include the employee's contribution rates.

The County issued pension obligation bonds in September 2021 to prepay a portion of the UAL for the Safety Plan and the Sheriff Safety Plan, which was first reflected in the 2023-24 contributions.

TABLE B-10
ACTUAL AND PROJECTED EMPLOYER RETIREMENT CONTRIBUTIONS [1]

	Miscellaneous		Safety Plan		Sheriff Safety Plan	
Fiscal Year	Normal Cost	Amortize UAL	Normal Cost	Amortize UAL	Normal Cost	Amortize UAL
2020-21 [2]	9.112%	$29,256,146	16.123%	$4,557,785	20.831%	$5,326,042
2021-22 [3]	8.850	34,579,181	15.650	5,259,294	20.230	6,037,900
2022-23 [4]	8.720	39,137,054	15.290	6,104,396	19.860	6,700,521
2023-24 [5]	9.570	38,206,346	16.580	-	22.460	1,393,451
2024-25 [6]	9.260	43,290,166	16.150	1,036,078	21.640	2,403,291
2025-26 [7]	9.110	45,077,446	15.920	2,363,909	21.000	3,183,680

(1) The County allocates a portion of its pension cost to the Superior Court and to the Santa Cruz County Animal Shelter joint powers authority, whose employees are included in the County's pension plans. However, the amounts shown in Table B-10 have not been adjusted for amounts allocated to these other agencies.

(2) Source: California Public Employees' Retirement System annual valuation report dated June 30, 2018.

(3) Source: California Public Employees' Retirement System annual valuation report dated June 30, 2019.

(4) Source: California Public Employees' Retirement System annual valuation report dated June 30, 2020.

(5) Source: California Public Employees' Retirement System annual valuation report dated June 30, 2021.

(6) Source: California Public Employees' Retirement System annual valuation report dated June 30, 2022.

(7) Source: California Public Employees' Retirement System annual valuation report dated June 30, 2023.

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The CalPERS rate of return for its investment portfolio for the Fiscal Year 2021-22 was negative 6.1%. These investment losses (below 6.8%) create a loss that increased future liabilities and began affecting the County's UAL costs starting in Fiscal Year 2024-25. The CalPERS rate of return for its investment portfolio for the Fiscal Year 2022-23 was 5.8%. This investment underperformance (below 6.8%) created a loss that will increase future liabilities and begin affecting the County's UAL costs starting in Fiscal Year 2025-26. The CalPERS rate of return for its investment portfolio for the Fiscal Year 2023-24 was 9.3%. This investment overperformance (above 6.8%) created a gain that will reduce future liabilities and begin affecting the County's UAL costs starting in Fiscal Year 2026-27. The 2023-24 investment result is not reflected in Table B-10. Pursuant to CalPERS methodology, the net investment gain credits or losses will increase annually during the first five years and then level out for the remaining 15 years over which to amortize any net investment gains or losses. The new unfunded liability created by the reduction in the discount rate will be amortized in level payments over 20 years.

Annual Pension Contributions. A five-year history of the County's required annual pension contributions is shown in Table B-11. The required contribution was determined as part of an annual actuarial valuation. The County has funded 100% of the actuarially determined contribution ("ADC"). The most recent actuarial assumptions are described under the caption "Actuarial Methods and Assumptions Used to Determine Total Pension Liability."

TABLE B-11
FIVE-YEAR TREND INFORMATION FOR ANNUAL PENSION CONTRIBUTIONS

Fiscal Year	ADC for Miscellaneous Plan	ADC for Safety Plan	ADC for Safety Sheriff Plan	Total ADC
2019-20	$38,999,757	$6,670,471	$7,753,959	$53,424,187
2020-21	42,429,388	7,599,933	8,762,077	58,791,398
2021-22	45,370,797	8,624,596	9,959,735	63,955,128
2022-23	49,660,268	6,720,634	6,418,679	62,799,581
2023-24	56,030,307	4,247,435	6,247,504	66,525,246

Source: County of Santa Cruz.

CalPERS recently reported that the UAL as of June 30, 2023 for all of the County's plans was $657 million. This amount is somewhat different from the net pension liability calculated for the purpose of the County's financial statements, due to a slightly different methodology and measurement focus in the calculation. As noted in Table B-12, the County allocates a portion of its pension liability and cost to the Superior Court and to the Santa Cruz County Animal Shelter joint powers authority, whose employees are included in the County's pension plans.

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 County's changes in net pension liability for the Plans (combined) between July 1, 2020 and June 30, 2023 are shown in Table B-12.

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TABLE B-12
CHANGES IN NET PENSION LIABILITY BY PLAN [1]
ALL PLANS

	Measurement Date Fiscal Year Ended June 30			
	2023	**2022**	**2021**	**2020**
Total pension liability				
Service cost	$ 41,397,260	$ 40,918,415	$ 37,683,949	$ 35,399,318
Interest on the total pension liability	139,489,454	133,401,929	129,153,211	122,582,421
Changes in benefits	2,193,712	-	-	-
Changes in assumptions	-	58,296,501	-	-
Differences between expected and actual experience	11,515,224	(7,271,529)	5,231,217	10,584,015
Benefit payments, including refunds of employee contributions	(106,579,499)	(99,551,466)	(93,562,725)	(86,335,503)
Net change in total pension liability	88,016,151	125,793,850	78,505,652	82,230,251
Prior Period Adjustment	-	-	-	57,746,930
Total pension liability - beginning	2,028,450,709	1,902,656,859	1,824,151,207	1,684,174,026
Total pension liability - ending (A)	$ 2,116,466,860	$2,028,450,790	$1,902,656,859	$1,824,151,207
Plan fiduciary net position				
Contributions from the employer	$ 65,069,947	$ 181,375,430	$ 60,298,896	$ 54,587,924
Contributions from employees	18,072,350	16,197,418	16,115,090	15,848,201
Net investment income	89,358,816	(120,096,800)	271,983,495	62,646,746
Benefit payments, including refunds of employee contributions	(106,579,499)	(99,551,466)	(93,562,725)	(86,335,503)
Administrative expense	(1,093,947)	(939,248)	(1,244,141)	(1,680,627)
Net change in plan fiduciary net position	64,827,667	(23,014,666)	253,590,615	45,066,741
Plan fiduciary net position - beginning	1,476,590,592	1,499,605,258	1,246,014,643	1,160,912,525
Prior Period Adjustment	-	-	-	40,035,377
Plan fiduciary net position - ending (B)	1,476,590,592	1,499,605,258	1,246,014,643	1,200,947,902
Net pension liability - ending (A) - (B)	$1,541,418,259	$1,476,590,592	$1,499,605,258	$1,246,014,643
Plan fiduciary net position as a % of the total pension liability	72.83%	72.79%	78.82%	68.31%
Covered payroll	$241,034,857	$216,317,127	$ 215,128,914	$ 202,152,155
Net pension liability as a % of covered payroll	238.57%	255.12%	187.35%	285.99%

(1) The County allocates a portion of its pension liability and cost to the Superior Court and to the Santa Cruz County Animal Shelter joint powers authority, whose employees are included in the County's pension plans. Therefore, the amounts shown in Table B-11 are net of approximately 5% of Miscellaneous Plan, Safety Plan and Safety Sheriff Plan total pension liability and Plan fiduciary net position.

See "Required Supplementary Information (Unaudited)" section in the County's Annual Comprehensive Financial Report included in "APPENDIX C" for a breakdown of the pension liabilities by individual Plan.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the County's UAL on June 30, 2021, calculated using the discount rate of 6.90%, as well as what the County's

UAL would be if it were calculated using a discount rate and price inflation that is 1% lower or 1% higher than the current rate:

	Miscellaneous Plan	Safety Plan	Safety Sheriff Plan	Total
1% Decrease in Discount Rate and Price Inflation	$691,254,924	$74,602,181	$85,379,812	$851,236,917
June 30, 2022 Discount Rate and Price Inflation	493,614,706	35,705,045	45,728,850	575,048,601
1% Increase in Discount Rate and Price Inflation	328,966,352	4,054,789	13,412,479	346,433,620

Source: California Public Employees' Retirement System; not adjusted for the portion of pension cost allocated to the Superior Court and to the Santa Cruz County Animal Shelter joint powers authority.

See Note 14 of the County's Annual Comprehensive Financial Report included in "APPENDIX C" 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 insignificant administrative duties.

As of June 30, 2024, the Deferred Compensation Plan's assets 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 ("OPEB Plan"). The OPEB 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 OPEB Plan to the County for each bargaining group will be determined through CalPERS' regulations and requirements. For the Physicians Bargaining Unit, the County contributes fixed dollar amounts that vary by coverage. For all other bargaining units, the County contributions are based on longevity schedules with fixed dollar scaling that varies by bargaining unit. The OPEB Plan does not issue a financial report. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

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 2023-24, the County contributed $7,746,808 to the OPEB Plan (of which $1,273,000 was implicit subsidy). The County's estimated contribution is $8,337,000 (including an implicit subsidy of $1,374,000) for Fiscal Year 2024-25.

Changes in OPEB Liability. The changes in OPEB liability as of June 30, 2023 and related ratios are shown in Table B-13. The schedule of changes in total OPEB liabilities and related ratios, included in the required supplementary information section of the County's Annual Comprehensive Financial Report, will present comparative year by year information about the total OPEB liability.

TABLE B-13
CHANGES IN TOTAL OPEB LIABILITY

	Measurement Date			
	June 30, 2023	**June 30, 2022**	**June 30, 2021**	**June 30, 2020**
Service cost	$ 7,315,290	$ 10,812,207	$ 10,755,256	$ 8,885,901
Interest on total OPEB liability	6,178,938	3,936,054	5,047,732	5,649,710
Changes in assumptions[1]	(4,569,300	(41,006,803)	3,569,076	16,761,397
Difference between actual and expected experience	(10,395,164)	-	(12,691,709)	-
Benefit payments	(7,839,062)	(7,752,833)	(7,774,781)	(7,502,010)
Net change in total OPEB liability	(9,309,298)	(34,012,375)	(1,094,426)	23,794,998
Total OPEB liability - beginning	164,055,184	198,067,559	199,161,983	175,366,985
Total OPEB liability - ending	$154,745,886	$164,055,184	$198,067,559	$199,161,983
Covered payroll	$261,656,768	$242,721,718	$230,823,941	$230,343,320
Net OPEB liability as a percentage of covered payroll	59.14%	67.59%	85.81%	86.46%

(1) The accounting discount rate increased to 3.69% in 2022 from 1.92% in 2021; decreased to 1.92% in 2021 from 2.45% in 2020; and decreased to 2.45% in 2020 from 3.13% in 2019.

Source: County of Santa Cruz Annual Comprehensive Financial Report.

Annual OPEB Contributions. The County's required annual OPEB contributions for the last five Fiscal Years are shown in the table below. The required ADC was determined as part of an annual actuarial valuation. The County has funded 100% of the ADC. The most recent actuarial assumptions are described below under the caption "Actuarial Methods and Assumptions."

TABLE B-14
TREND INFORMATION FOR ANNUAL OPEB CONTRIBUTIONS

Fiscal Year	ADC	ADC as a % of Covered Payroll
2019-20	$7,526,724	3.27%
2020-21	7,798,262	3.38
2021-22	7,778,586	3.20
2022-23	7,872,181	3.01
2023-24	7,746,808	2.96

Source: County of Santa Cruz Annual Comprehensive Financial Report.

Actuarial Methods and Assumptions. 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 health care cost trend. Amounts determined regarding the funded status of the plan and the ADC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

In the June 30, 2023 actuarial valuation, the entry age normal actuarial cost method was used to value liabilities. Under the entry age normal cost method, an average age at hire and average retirement age are determined for eligible employees. The actuarial assumptions included (1) a 3.86% discount rate, (2) inflation of 2.5%, (3) 2.75% payroll increases and (4) retirement and mortality probabilities based on the CalPERS 2000-2019 Experience Study.

See Note 15 in the County's Annual Comprehensive Financial Report included in "APPENDIX C" for further information about the OPEB 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	September 16, 2025
Government Attorneys Association	June 30, 2025
Sheriff's Correctional Officers	November 30, 2025
Law Enforcement Middle Management	June 30, 2026
Law Enforcement	June 30, 2026
Sheriff Supervisory	June 30, 2026
General Representation Unit (SEIU)	September 18, 2027
District Attorney Inspectors	June 30, 2027
Physicians' Representation Unit	November 11, 2026
Probation Association	December 31, 2024 (1)

(1) Under negotiation.

Risk Management

The County is self-insured for its general and auto liability, workers' compensation, property and employees' dental coverage as described below. Excess coverage is purchased through PRISM, a member-directed risk sharing pool of public agencies providing risk coverage programs.

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. As of June 30, 2024, this program had estimated future liabilities of $37.7 million. No significant changes are anticipated during Fiscal Year 2025-26.

Dental. The County's self-insurance dental program had estimated future liability for dental benefits of $369,733 as of June 30, 2024.

Liability and Property. The County has a $1 million self-insured retention per occurrence with excess insurance for the general liability program with excess liability insurance through PRISM. The County purchases commercial property insurance through PRISM with an all risk and flood limit of $600,000,000 and an earthquake limit of $565,000,000. As of June 30, 2024, the County had estimated future liabilities totaling $21.8 million which included estimates for known claims and losses incurred but not reported. No significant changes are anticipated during Fiscal Year 2024-25.

Unemployment Insurance. The estimated future liabilities as of June 30, 2024 were $59,235.

Cyber Liability Insurance. The County purchases cybersecurity insurance through PRISM, which provides protection against breach of protected confidential and sensitive information such as medical and social security information by a third party resulting from a systems breach or stolen laptop. The County has a $100,000 self-insured retention per breach with a limit in coverage of $16 million.

Claims Liabilities. The change in the balance of claims liabilities during the fiscal years ended June 30, 2024, and two prior years for all Self-Insurance Internal Service Funds combined is as follows:

	2022	2023	2024
Unpaid claims and claim adjustment expenses, beginning of the fiscal year	$52,745,464	$52,706,649	$57,647,829
Incurred claims and claim adjustment expenses	10,929,583	11,192,103	14,522,677
Increase (decrease) in provision of insured events for prior years	(38,814)	4,941,180	2,340,139
Claim payments	(10,929,584)	(11,912,103)	(14,522,677)
Unpaid claims and claim adjustment expenses, end of the fiscal year	$52,706,649	$57,647,829	$59,987,968

Source: County of Santa Cruz Annual Comprehensive Financial Report.

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Self-Insurance Funds. The County has established separate self-insurance funds for risk management, dental and health insurance, liability and property insurance, workers' compensation insurance, employee benefits staffing and the State unemployment insurance program. Summary financial information for the self-insurance funds is shown in Table B-15. The County's Workers' Compensation Self-Insurance Fund accounts for the negative fund balance shown in Table B-15. However, of the $34.9 million of estimated future liabilities in the Workers' 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, 2024, the self-insurance funds held a total of $29.8 million in cash. In Fiscal Year 2023-24, the County made a loan of approximately $6.4 million from the Workers' Compensation Self-Insurance Fund to the Road Fund to fund certain expenditures relating to the road repairs. The County repaid the loan from the Workers' Compensation Self-Insurance Fund from the receipts of federal reimbursements for damage repair costs in Fiscal Year 2024-25.

TABLE B-15
COUNTY OF SANTA CRUZ
SELF-INSURANCE FUNDS

	2021-22	2022-23	2023-24
Operating Revenues:			
Charges for Services	$ 24,084,225	$32,084,135	$40,075,259
Other Revenues	2,065,079	3,402	293
Total Operating Revenues	26,149,304	32,087,537	40,075,552
Operating Expenses:			
Salaries and Employee Benefits	1,448,334	1,318,792	1,839,055
Services and Supplies	23,158,715	23,835,522	25,930,911
Insurance and Compensation Claims	10,968,398	11,192,103	14,522,677
Depreciation and Amortization	1,038	-	-
Total Operating Expenses	35,576,485	36,346,417	42,292,643
Operating Income (Loss)	(9,427,181)	(4,258,880)	(2,217,091)
Non-Operating Revenues:			
Intergovernmental Revenue	-	48,221	77,225
Interest and Investment Income	(458,413)	639,990	1,278,608
Interest expense	(35)	-	-
Other	3,900	135,290	4,907,174
Total Non-Operating Revenues	(448,744)	823,501	6,263,007
Net Income (Loss)	(9,875,925)	(3,435,379)	4,045,916
Transfers In	4,000,000	8,347,110	-
Transfers Out	-	(3,397,166)	-
Change in Net Position	(5,875,925)	1,514,565	-
Beginning net position	(23,469,171)	(29,345,096)	(27,830,531)
Ending net position	$(29,345,096)	$(27,830,531)	$(23,784,615)

Source: County of Santa Cruz Annual Comprehensive Financial Reports.

County Treasurer's Investment Pool

As of March 31, 2025, the market value of the County Treasurer's investment pool was $1.55 billion. The diversification of the County Treasurer's investment pool's assets as of such date is shown in the following table.

TABLE B-16
COUNTY OF SANTA CRUZ
TREASURER'S PORTFOLIO
as of March 31, 2025

Type of Investment	% of Combined Pool
U.S. Government Agencies	11.7%
U.S. Treasuries	30.2
Money Market Mutual Funds	16.9
Medium-Term Notes	17.1
Supranationals	6.7
Negotiable CDs	13.0
Municipal Bonds	4.4
	100.0%

Source: County Auditor-Controller-Treasurer-Tax Collector.

The weighted average maturity of all County Treasurer's investment pool moneys was 427 days. The current yield of the County Treasurer's investment pool as of March 31, 2025 was 4.29% and the March 31, 2025 apportionment rate was 4.22%.

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.

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,

2024. The following Tables B-17 and B-18 summarize the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance of the County's General Fund for the last five fiscal years. The County received a Certificate of Achievement for Excellence in Financial Reporting for the Fiscal Year ended June 30, 2023.

GASB Statement No. 54 Fund Balance Reserves. 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) imposed by law through constitutional provisions or enabling legislation.

Committed - Committed fund balance includes amounts that can only be used for a specific purpose determined by formal action of the Board 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 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 appropriating the funds and a resolution of the Board declaring a Fiscal Emergency.

The Board 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 appropriating the funds.

The Board 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 appropriating the funds.

As of June 30, 2024, the County has Committed fund balances as follows:

Committed to:	
Natural Disasters	$ 2,000,000
Working Capital	6,000,000
Economic Uncertainty	10,000,000
MHSA Prudent Reserve	2,997,367
Total Committed fund balance	$20,997,367

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 has the authority to assign funds for a specific purpose, or change or remove an assignment, with a simple majority vote.

The County Executive 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 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 Executive Officer has established and the Board has approved establishment of Assigned fund balance for federally qualified health programs. 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, 2024, the County has Assigned fund balances as follows:

Assigned to:	
Federally qualified health programs	$ 51,231,211
Budgeted structural deficit	11,646,039
Eliminate projected budgetary deficit in subsequent year's budget	39,395,363
Unanticipated liabilities	2,000,000
Human services	7,440,174
Salary savings	1,174,177
Other	3,530,930
Total Assigned fund balance	$116,417,894

GASB Statement No. 84. GASB No. 84 establishes criteria for identifying fiduciary activities. It narrows the existing definition of a fiduciary fund and clarifies how these funds should be treated in the financial statements. The County determined that approximately $60 million of fiduciary fund balances at June 30, 2021 could no longer be accounted for separate and apart from the County's General Fund in connection with the implementation of GASB No. 84 for the Fiscal Year ending June 30, 2021.

The increase in the General Fund fund balance for the inclusion of the former fiduciary funds fund balances will be treated as a prior period adjustment in the County's audited financial statements for the Fiscal Year ending June 30, 2021. Some of these amounts will be classified as restricted, committed or assigned, as appropriate (see "GASB Statement No. 54 Fund Balance Reserves" above).

TABLE B-17
COUNTY OF SANTA CRUZ
GENERAL FUND
BALANCE SHEET
As of June 30

	2019	2020	2021	2023	2024
ASSETS					
Cash and investments	$105,100,778	167,107,613	$205,556,336	$200,829,393	$213,657,848
Receivables, net	63,733,509	65,845,879	64,231,579	88,460,364	143,663,800
Due from other funds	3,032,093	5,355,066	-	-	-
Due from other governments	-	2,451	-	-	-
Inventory	-	157,128	-	-	-
Leases receivable	-	-	79,880	46,443	17,161
Deposits with others	90,000	70,000	70,000	70,000	70,000
Prepaids	1,387,970	1,669,110	1,402,075	1,974,189	1,655,408
Advances to other entities	128,000	28,247	-	-	-
Total assets	$173,472,350	$240,235,494	$271,339,870	$291,380,389	$359,064,217
LIABILITIES					
Accounts payable	$ 29,389,338	$ 38,120,550	$ 40,092,126	$ 42,897,167	$ 49,533,812
Salaries and benefits payable	-	15,285,776	15,825,755	18,709,913	25,390,772
Deposits payable	-	1,622,674	1,743,883	1,928,920	1,968,681
Tax and revenue anticipation notes payable	46,795,000	47,581,124	49,467,305	50,353,333	64,041,528
Due to other governments	-	64,372	86,720	42,364	39,143
Due to other funds	612,324	-	-	-	-
Advances from other funds	-	1,668,121	1,486,962	1,341,821	1,165,546
Unearned revenues	38,982,671	24,174,166	27,009,235	23,867,850	22,514,855
Total liabilities	115,779,333	128,516,783	135,711,986	139,141,368	164,654,337
Deferred Inflow of Resources					
Opioid Settlement	-	-	-	12,781,750	12,195,990
Lease related	-	-	78,742	45,074	16,479
Total inflow of resources	-	-	78,742	12,826,824	12,212,469
FUND BALANCES [(1)]					
Nonspendable	1,547,245	1,695,653	1,402,075	1,974,189	1,725,408
Restricted	-	25,483,811	33,022,061	34,740,568	43,056,742
Committed	19,755,898	20,955,898	20,955,898	20,997,367	20,997,367
Assigned	36,389,874	63,583,349	80,169,108	81,700,073	116,417,894
Total fund balance	57,693,017	111,718,711	135,549,142	139,412,197	182,197,411
Total liabilities and fund balances	$173,472,350	$240,235,494	$271,339,870	$291,380,389	$359,064,217

(1) See "GASB Statement No. 54 Fund Balance Reserves" above.

Source: County of Santa Cruz Annual Comprehensive Financial Reports.

TABLE B-18
COUNTY OF SANTA CRUZ
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended June 30

	2020	2021	2022	2023	2024
REVENUES:					
Taxes	$135,762,874	$153,164,299	$161,100,815	$163,997,300	$172,926,545
Licenses and permits	12,797,928	13,745,928	16,724,487	16,152,951	16,915,955
Fines, forfeits and penalties	8,709,559	12,883,101	9,788,183	13,030,762	6,625,072
Use of money and property	4,378,270	2,430,342	(3,004,171)	7,934,806	11,623,116
Aid from other governments	275,261,391	355,005,187	385,381,658	405,016,614	455,623,741
Charges for services	64,622,109	65,906,474	70,059,899	81,563,806	79,286,489
Other	25,693,433	21,017,104	8,790,849	6,504,070	10,182,802
Total Revenues	527,225,564	624,152,435	648,841,720	694,200,309	753,183,720
EXPENDITURES:					
Current:					
General government	42,736,817	42,889,342	41,093,575	75,551,653	54,670,060
Public protection	167,631,772	177,449,162	297,393,244[1)]	182,058,696	197,536,684
Public ways and facilities	267,970	227,242	1,390	-	-
Health and sanitation	164,212,383	181,786,750	195,962,924	214,846,774	241,190,651
Public assistance	144,843,557	186,809,661	178,108,823	165,040,520	182,640,611
Education	138,940	122,647	140,467	150,857	142,984
Recreation and cultural services	9,009,544	9,009,839	9,100,463	11,243,040	12,777,891
Debt service	1,235,408	917,880	11,425,099	7,260,307	5,625,221
Total expenditures	530,076,391	599,212,523	733,225,985	656,151,847	694,584,102
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,850,827)	24,939,912	(84,384,265)	38,048,462	58,599,618
OTHER FINANCING SOURCES (USES):					
Loan proceeds	-	-	2,000,000	-	-
Bonds issued	-	-	124,195,000[(1)]	-	-
Operating transfers in	2,325,367	2,313,389	2,425,869	5,677,464	3,255,930
Operating transfers out	(12,502,480)	(13,222,635)	(21,269,432)	(40,171,772)	(20,127,888)
Inception of capital lease	894,471	-	863,259	308,901	547,281
Total other financing uses	(9,282,642)	(10,909,246)	108,214,696	(34,185,407)	(16,324,677)
Net change in fund balance	(12,133,469)	14,030,666	23,830,431	3,863,055	42,274,941
Fund balance - beginning	69,826,486	57,693,017	111,718,711	135,549,142	139,412,197
Prior period adjustment[(2)]	-	39,995,028	-	-	-
Fund balance as restated	69,826,486	97,688,045	111,718,711	135,549,142	139,412,197
Fund balance - ending	$ 57,693,017	$111,718,711	$135,549,142	$139,412,197	$181,687,138

(1) Pension obligation bond proceeds used to pay a portion of public safety retirement plans unfunded liability.

(2) See "GASB Statement No. 84" above.

Source: County of Santa Cruz Annual Comprehensive Financial Reports.

STATE OF CALIFORNIA BUDGET

Information about the State budget and State spending is available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the State 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 ("LAO") at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, www.treasurer.ca.gov. *None of the websites or webpages referenced above are in any way incorporated into this Official Statement. They are cited for informational purposes only. The County makes no representation whatsoever as to the accuracy or completeness of any of the information on such websites, and such information is not incorporated herein by these references.*

According to the State Constitution, 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.

The State budget must be adopted by a majority vote of each house of the Legislature. Voters of the State passed Proposition 25 in November 2010, which provides that there will 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.

Proposed State Budget for Fiscal Year 2025-26

Governor Newsom released his Proposed State 2025-26 Budget (the "Proposed 2025-26 Budget") on January 10, 2025. The Proposed 2025-26 Budget totals approximately $322.2 billion, led by stronger economic performances than those projected in the 2024-25 Budget that results in an upgraded revenue forecast of approximately $16.5 billion in the three-year budget window. The Proposed 2025-26 Budget is largely dependent on personal income taxes, and specifically, an increase in capital gains realizations. Although the Proposed 2025-26 Budget is balanced and provides for reserves in the coming fiscal year, it anticipated shortfalls in the subsequent fiscal years that are driven by expenditures exceeding revenues.

The Proposed 2025-26 Budget does maintain a planned withdrawal of approximately $7.1 billion from the Budget Stabilization Account as provided for in the 2024-25 Budget. In light of the withdrawal from the reserves, the State is projected to end Fiscal Year 2025-26 with available General Fund reserves that include: $10.9 billion in the Budget Stabilization Account (the General Fund's "rainy day" fund) for fiscal emergencies; $1.5 billion in the Public School System Stabilization Account (the Proposition 98 "rainy day" fund used to lessen the impact of State revenue volatility on TK-14 schools) ("PSSSA"); and $4.5 billion in the Special Fund for Economic Uncertainties, the State's operating reserve.

Significant features of the Proposed 2025-26 Budget affecting counties and other local agencies in California include the following:

- Natural Resources and Environment. The Proposed 2025-26 Budget proposes $2.7 billion for the first year of a multi-year expenditure plan to implement the $10 billion climate bond (Proposition 4) authorized by voters in November. Bond funding is proposed for forest health and local fire prevention projects; groundwater, water reuse and recycling projects; sea level rise, coastal flooding and resilience projects and other natural resources and environmental projects. Counties are eligible for certain programs to be funded from these bonds and other sources.

- Public Safety. The State has invested approximately $1.6 billion in public safety efforts since 2022-23—including $283.6 million proposed to be budgeted in 2025-26. The Proposed 2025-26 Budget estimates $88.3 million in grants to public agencies for various recidivism reduction programs such as mental health and substance use treatment services, truancy and dropout prevention, and victims' services. The Proposed 2025-26 Budget also includes $126.5 million in 2025-26 for probation departments.

- Housing. Since 2019, the State has invested approximately $5.2 billion of General Fund monies into affordable housing and homeownership programs. The Proposed 2025-26 Budget includes reductions of over $1.2 billion General Fund monies over the multiyear period for various housing programs that received recent investments, leaving the total General Fund investment in affordable housing and homeownership programs at approximately $4 billion since 2019. To address the projected budget shortfall, the Proposed 2025-26 Budget proposes General Fund solutions to achieve a balanced budget, including: reversion of $300 million for regional early action planning grants; reversion of $250 million for a multifamily housing program; and reduction of $247.5 million for a foreclosure intervention housing preservation program over the next three years.

- Health and Human Services. The Proposed 2025-26 Budget includes $296.1 billion ($83.7 billion General Fund – over 35% of the state's overall General Fund budget expenditures) for all health and human services programs in 2025-26. The 2024 Budget Act included $85 million ($50 million General Fund) for counties to begin administering the Behavioral Health Services Act ("BHSA") as passed by the voters under Proposition 1 in March 2024. The Proposed 2025-26 Budget maintains the $85 million for counties in 2025-26 and includes an additional $93.5 million ($55 million General Fund) in 2025-26 for counties to continue implementation efforts under the BHSA. The proposal also includes $47.1 million in 2025-26, and $51.1 million in 2026-27 and annually thereafter for county behavioral health agency activities. The In-Home Supportive Services ("IHSS") program provides assistance and services to eligible older or disabled individuals to help them remain safely in their homes. For 2025-26, the Proposed 2025-26 Budget includes $28.5 billion for IHSS. This is an increase of $3.3 billion from the 2024-25 Budget Act due to increased caseload, costs per hour, and number of hours. Child welfare services and foster care provide a range of services for children who are at risk of or have been victims of abuse and neglect. The Proposed 2025-26 Budget includes $1 billion from the General Fund for services to children and families. Total funding for children's programs is more than $10.8 billion when federal and certain other funding sources are included.

- Homelessness. The Proposed 2025-26 Budget does not contain any new homelessness funding proposals. It continues to include $100 million from the General Fund for encampment resolution fund grants as committed to in the 2024-25 Budget. The Proposed 2025-26 Budget proposal does outline several actions to improve statewide administration of homelessness programs and increase accountability for current and future funding.

- Transportation. The Proposed 2025-26 Budget proposes no new funding or significant changes to existing transportation programs. The main theme is the commitment to honor the $2 billion included in the 2024 Budget Act for the 2025-26 fiscal year. The Proposed 2025-26 Budget includes $1.6 billion General Fund resources and $393 million in greenhouse gas reduction fund resources for transportation programs.

Legislative Analyst's Comments on the Proposed 2025-26 Budget

On January 13, 2025, the Legislative Analyst's Office (the "LAO") offered initial comments on the Proposed 2025-26 Budget. The LAO observes that there are a handful of differences in revenue and expense estimates, but these changes are small enough that they do not change their assessment that the State's budget remains roughly balanced. The Proposed 2025-26 Budget revenue upgrade is reasonable in light of these recent tax collection trends, however, positive trends appear tied to the stock market, which situation can change rapidly and without warning. The volatility is further complicated with the tax deadline delay in response to the Los Angeles County wildfires, which will make it difficult to read tax collection trends over the next several months. The LAO observes that the previous budget's planned withdrawal from the Budget Stabilization Account remains reasonable. The LAO also observes that the State Legislature will have to increase revenues or reduce spending to balance the budget in the coming years.

Fiscal Year 2025-26 May Revision

Governor Newsom released the May Revision to the Proposed 2025-26 Budget (the "May Revision") on May 10, 2025. The May Revision (to be completed)

LAO's Comments on the May Revision

On May 17, 2025, the LAO offered initial comments on the May Revision. (to be completed)

Potential Impact of State Budget on County's Financial Condition

There can be no assurances regarding present or future State fiscal challenges or the effects State efforts to address such challenges might have on the County.

APPENDIX C

COUNTY OF SANTA CRUZ CASH FLOW STATEMENTS

TABLE C-1
GENERAL FUND CASH FLOW SUMMARY
ESTIMATED FISCAL YEAR 2024-25[1]

	July	August	September	October	November	December	January	February	March	April	May	June	Total
BEGINNING BALANCE	$51,752,521	$80,262,153	$65,468,804	$71,542,260	$48,442,286	$31,979,393	$89,092,965	$70,723,523	$46,891,094	$45,808,094	$54,001,982	$14,320,627	$ 51,752,521
RECEIPTS:													
Property Taxes	-	190,975	1,555,646	237,284	142,668	43,829,258	193,304	91,419	71,609	38,716,937	254,912	6,577,488	91,861,499
Property Tax In Lieu of VLF	-	-	-	-	-	22,433,900	-	-	-	22,426,100	-	-	44,860,000
Sales Tax	3,154,176	2,109,157	2,756,875	2,381,079	3,291,765	2,883,026	2,380,732	3,468,901	2,687,689	2,222,200	2,222,200	2,222,201	31,780,000
Other Taxes	1,572,314	1,087,398	1,058,131	3,271,876	1,296,599	680,858	1,842,210	1,002,138	1,134,132	1,827,274	1,827,274	2,695,842	19,296,047
Licenses and Permits	862,876	2,062,743	1,026,439	574,454	2,087,727	1,279,898	669,548	2,085,827	2,745,412	1,392,959	1,392,959	696,480	16,877,321
Fines, Forfeits and Penalties	53,995	369,728	300,448	210,938	174,719	233,817	567,926	414,345	325,130	528,838	1,057,677	2,243,454	6,481,014
Use of Money and Property	1,004,334	913,767	922,740	1,230,808	1,141,008	1,441,615	1,145,114	983,381	995,192	586,806	679,744	941,200	11,985,710
Aid from Other Governments	27,063,656	33,569,340	35,551,100	30,666,801	34,480,937	29,942,299	51,925,422	35,531,830	36,882,255	28,307,231	30,730,421	64,655,071	439,306,363
Charges for Services	4,499,051	6,998,653	6,966,332	9,855,158	8,952,519	4,433,467	6,649,346	4,694,440	8,857,904	9,402,727	8,909,183	18,780,066	98,998,845
Other	375,870	155,827	163,757	511,968	149,749	176,374	710,036	122,897	1,277,299	2,520,088	638,057	638,057	7,439,978
Transfers In	715,200	-	164,945	79,507	142,634	221,300	245,000	374,952	69,005	-	-	2,783,940	4,796,482
TOTAL RECEIPTS	39,301,470	47,457,588	50,466,414	49,019,873	51,860,324	107,555,811	66,328,637	48,770,129	55,045,627	107,931,159	47,712,427	102,233,799	773,683,259
DISBURSEMENTS:													
Salaries and Benefits	29,059,286	28,770,844	28,885,716	52,160,265	36,777,151	32,823,888	30,874,665	30,087,884	30,085,452	31,295,015	48,038,246	31,295,015	410,153,427
Services and Supplies	11,762,058	14,791,018	11,678,366	17,367,047	24,999,368	17,647,257	12,983,104	20,637,806	14,967,536	27,661,332	29,397,385	33,995,861	237,888,139
Other Charges	6,125,090	7,308,857	6,039,401	8,423,583	11,910,244	6,528,046	8,125,597	15,491,875	7,508,372	12,677,793	13,080,374	17,106,184	120,325,415
Other Financing Uses	1,861,639	1,762,646	2,476,258	255,573	1,620,105	3,007,300	3,127,810	2,510,213	732,151	19,267,278	20,766,110	11,039,530	68,426,613
Cost Applied	(44,391)	(4,984,693)	62,340	3,660,169	(85,316)	(463,391)	(3,004,886)	3,479,421	(1,244,661)	(3,813,942)	(3,813,942)	(3,813,942)	(14,067,233)
Contingency	-	-	-	-	-	-	-	-	-	-	-	2,000,000	2,000,000
TOTAL DISBURSEMENTS	48,763,683	47,648,672	49,142,081	81,866,637	75,221,552	59,543,101	52,106,290	72,207,199	52,048,850	87,087,475	107,468,173	91,622,648	824,726,361
Receipts Less Disbursements	(9,462,212)	(191,084)	1,324,332	(32,846,764)	(23,361,228)	48,012,710	14,222,348	(23,437,070)	2,996,777	20,843,685	(59,755,746)	10,611,152	(51,043,102)
Change in Restricted Cash	(10,028,156)	(14,602,265)	4,749,124	9,746,791	6,898,334	9,100,862	(8,591,789)	(395,359)	(4,079,777)	14,814,015	23,538,203	(326,802)	30,823,181
TRAN Proceeds	48,000,000	-	-	-	-	-	-	-	-	-	-	-	48,000,000
TRAN Repayment Fund[2]	-	-	-	-	-	-	(24,000,000)	-	-	(24,000,000)	-	-	(48,000,000)
ENDING CASH BALANCE	$80,262,153	$65,468,804	$71,542,260	$48,442,286	$31,979,393	$89,092,965	$70,723,523	$46,891,094	$45,808,094	$57,465,793	$21,248,250	$31,532,600	$ 31,532,600

(1) Includes actual figures through March 2025.

(2) Interest on the Notes is included in "Other Financing Uses."

TABLE C-2
GENERAL FUND CASH FLOW SUMMARY
PROJECTED FISCAL YEAR 2025-26

	July	August	September	October	November	December	January	February	March	April	May	June	Total
BEGINNING BALANCE	$31,532,600	$73,278,077	$70,821,607	$74,779,869	$54,273,642	$43,312,764	$77,744,578	$61,796,904	$44,485,302	$46,100,920	$41,313,910	$17,694,865	$31,532,600
RECEIPTS:													
Property Taxes	-	198,620	1,617,924	246,783	148,379	45,583,879	201,042	95,079	74,476	40,266,896	265,117	6,840,805	95,539,000
Property Tax In Lieu of VLF	-	-	-	-	-	23,354,560	-	-	-	23,346,440	-	-	46,701,000
Sales Tax	3,509,194	2,346,553	3,067,175	2,649,081	3,662,270	3,207,525	2,648,695	3,859,343	2,990,202	2,472,320	2,472,320	2,472,321	35,357,000
Other Taxes	1,684,758	1,165,164	1,133,803	3,505,864	1,389,325	729,549	1,973,955	1,073,806	1,215,239	1,957,951	1,957,951	2,888,635	20,676,000
Licenses and Permits	893,881	2,136,862	1,063,321	595,095	2,162,743	1,325,887	693,606	2,160,775	2,844,060	1,443,011	1,443,011	721,506	17,483,757
Fines, Forfeits and Penalties	71,254	487,908	396,483	278,362	230,566	308,554	749,457	546,786	429,054	697,875	1,395,751	2,960,549	8,552,597
Use of Money and Property	1,048,213	953,689	963,054	1,284,582	1,190,858	1,504,599	1,195,143	1,026,345	1,038,672	612,443	709,442	982,320	12,509,360
Aid from Other Governments	27,598,571	34,232,841	36,253,771	31,272,933	35,162,457	30,534,111	52,951,733	36,234,120	37,611,237	28,866,726	31,337,811	65,932,985	447,989,297
Charges for Services	4,566,061	7,102,894	7,070,091	10,001,945	9,085,861	4,499,501	6,748,384	4,764,360	8,989,836	9,542,774	9,041,880	19,059,783	100,473,370
Other	201,788	83,656	87,914	274,853	80,393	94,687	381,187	65,978	685,725	1,352,923	342,544	342,544	3,994,193
Transfers In	625,645	-	144,292	69,551	124,774	193,590	214,322	328,002	60,364	-	-	2,435,347	4,195,887
TOTAL RECEIPTS	40,199,365	48,708,186	51,797,827	50,179,048	53,237,626	111,336,442	67,757,525	50,154,593	55,938,866	110,559,360	48,965,827	104,636,796	793,471,461
DISBURSEMENTS:													
Salaries and Benefits	29,254,382	28,964,003	29,079,647	52,510,454	37,024,062	33,044,258	31,081,948	30,289,885	30,287,437	48,360,761	31,505,121	31,505,121	412,907,080
Services and Supplies	11,753,147	14,779,812	11,669,518	17,353,889	24,980,427	17,633,887	12,973,267	20,622,170	14,956,196	27,640,374	29,375,113	33,970,105	237,707,906
Other Charges	5,807,736	6,930,169	5,726,486	7,987,138	11,293,149	6,189,813	7,704,592	14,689,208	7,119,347	12,020,929	12,402,651	16,219,875	114,091,093
Other Financing Uses	1,292,096	1,164,967	1,751,823	134,170	1,027,664	1,936,667	2,186,338	1,629,769	405,511	13,630,592	14,690,937	6,375,565	46,226,099
Cost Applied	(76,197)	(8,556,240)	107,007	6,282,692	(146,445)	(795,411)	(5,157,895)	5,972,437	(2,136,464)	(6,546,643)	(6,546,643)	(6,546,643)	(24,146,448)
Contingency	-	-	-	-	-	-	-	-	-	2,228,577	2,228,577	2,228,577	6,685,731
TOTAL DISBURSEMENTS	48,031,164	43,282,711	48,334,481	84,268,344	74,178,857	58,009,214	48,788,250	73,203,469	50,632,027	97,334,589	83,655,755	83,752,599	793,471,461
Receipts Less Disbursements	(7,831,798)	5,425,475	3,463,346	(34,089,295)	(20,941,231)	53,327,228	18,969,275	(23,048,876)	5,306,838	13,224,770	(34,689,929)	20,884,197	-
Change in Restricted Cash	7,577,275	(7,881,945)	494,916	13,583,068	9,980,353	(18,895,414)	(13,916,949)	5,737,274	(3,691,220)	2,988,220	11,070,884	(7,046,462)	-
TRAN Proceeds	42,000,000	-	-	-	-	-	-	-	-	-	-	-	42,000,000
TRAN Repayment Fund [1]	-	-	-	-	-	-	(21,000,000)	-	-	(21,000,000)	-	-	(42,000,000)
ENDING CASH BALANCE	$73,278,077	$70,821,607	$74,779,869	$54,273,642	$43,312,764	$77,744,578	$61,796,904	$44,485,302	$46,100,920	$41,313,910	$17,694,865	$31,532,600	$31,532,600

(1) Interest on the Notes is included in "Other Financing Uses."

APPENDIX D

ANNUAL COMPREHENSIVE FINANCIAL REPORT OF THE COUNTY FOR THE FISCAL YEAR ENDED JUNE 30, 2024

APPENDIX E

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 of $48,000,000 County of Santa Cruz, California 2025-26 Tax and Revenue Anticipation Notes (the "Notes"). The Notes are being issued pursuant to a Resolution adopted by the County on May 20, 2025. The County covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the County for the benefit of the owners and beneficial owners of the Notes and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, 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:

"Disclosure Representative" shall mean the Auditor-Controller-Treasurer-Tax Collector of the County, such officer's designee, or such other officer or employee as the County shall designate in writing from time to time.

"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.

"Listed Events" shall mean any of the events listed in Section 4(a) and (b) of this Disclosure Certificate.

"Official Statement" shall mean the final Official Statement dated ____, 2025, relating to the Notes.

"Participating Underwriter" shall mean the original underwriter of the Notes.

"Repository" shall mean the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access ("EMMA") site or any other repository so designated by the MSRB or the SEC.

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

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of California.

SECTION 3. Provision and Content of Reports.

(a) Not later than February 15, 2026, the County shall provide to the Repository the audited financial statements of the County for the Fiscal Year 2024-25.

(b) If the County is unable to provide to the MSRB a report by the date required in subsection (a), the County shall send a notice to the MSRB, in a timely manner, in the form required by the MSRB.

SECTION 4. Reporting of Significant Events.

(a) The County shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Notes:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) 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.

(7) Modifications to rights of security holders, if material.

(8) Note calls, if material, and tender offers.

(9) Defeasances.

(10) Release, substitution, or sale of property securing repayment of the securities, if material.

(11) Rating changes.

(12) Bankruptcy, insolvency, receivership or similar event of the County or other obligated person.

(13) The consummation of a merger, consolidation, or acquisition involving the County or an obligated person, or the sale of all or substantially all of the assets of the County or an 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, if material.

(14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(15) Incurrence of a financial obligation of the County, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the County, any of which affect security holders, if material.

(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the County, any of which reflect financial difficulties.

(b) The County shall, or shall cause the Dissemination Agent (if not the County) to, file a notice of such occurrence with the MSRB, 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 subsection (a)(8) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Notes under the Resolution.

(c) The County acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), (a)(14) and (a)(15) of this Section 4 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Notes. The County shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the County obtains knowledge of the occurrence of any of these Listed Events, the County will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the County will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the County in a proceeding under the United States Bankruptcy Code or in any other proceeding under State or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the County, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the County.

(e) The term financial obligation means a (1) debt obligation; (2) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (3) guarantee of (e)(1) or (e)(2). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

SECTION 5. Termination of Reporting Obligation. The County's obligations under this Disclosure Certificate shall terminate upon the defeasance or payment in full of all of the Notes.

SECTION 6. 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 Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 7. Amendment. Notwithstanding any other provision of this Disclosure Certificate, the County may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, only if:

(a) the amendment or waiver is 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 the County, or type of business conducted;

(b) this Disclosure Certificate, as amended, would have complied with the requirements of the Rule at the time of award of the Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment does not materially impair the interests of owners or beneficial owners of the Notes, as determined by parties unaffiliated with the County (such as, but without limitation, the County's bond counsel).

SECTION 8. 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 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 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 notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the County to comply with any provision of this Disclosure Certificate any owner or beneficial owner of the Notes 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. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and 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 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the County agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the County, the Dissemination Agent, the Participating Underwriter and owners and beneficial owners of the Notes from time to time of the Notes, and shall create no rights in any other person or entity.

Date: ________

COUNTY OF SANTA CRUZ, CALIFORNIA

By: ________________________________
Auditor-Controller-Treasurer-Tax Collector

Accepted By:

____
Harrell & Company Advisors, LLC
As Dissemination Agent

APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINION

APPENDIX G

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 Notes, payment of principal, interest and other payments on the Notes to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Notes 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 Notes (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Notes (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 Notes, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Notes, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Notes, 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 Notes (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 this 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 and distributions 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-only 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.

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