

**NEW ISSUE
BOOK-ENTRY ONLY****RATING
S&P: _____**

(See “CONCLUDING INFORMATION - Rating on the 2025A Bonds” herein)

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the 2025A Bonds and requirements of the Internal Revenue Code of 1986, as described herein, interest on the 2025A Bonds is not included in the gross income of the owners thereof for federal income tax purposes. It should be noted, however, that such interest is an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals. Bond Counsel is also of the opinion that, under existing law, interest on the 2025A Bonds is exempt from personal income taxes of the State of California. See “TAX MATTERS” herein.

SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY
\$12,005,000*
LEASE REVENUE BONDS
2025 SERIES A

Dated: Date of Delivery**Due: As shown on the inside front cover page**

The Santa Cruz County Capital Financing Authority Lease Revenue Bonds, 2025 Series A (the “2025A Bonds”) are being issued to finance the acquisition of and improvements to certain facilities and to pay the costs incurred in connection with the issuance of the 2025A Bonds. See “INTRODUCTION - Purpose” and “THE FINANCING PLAN” herein. The 2025A Bonds are payable from the revenues pledged under the Indenture, as defined herein, consisting primarily of base rental payments (the “Base Rental Payments”) to be made by the County of Santa Cruz (the “County”) to the Santa Cruz County Capital Financing Authority (the “Authority”) for rental of certain property (the “Leased Property”) pursuant to a Lease, as defined herein, and from certain funds held under the Indenture and insurance or condemnation awards. The County is required under the Lease to make Base Rental Payments in each fiscal year in consideration of the use and possession of the Leased Property from any source of available funds in an amount sufficient to pay the annual principal and interest due with respect to the 2025A Bonds, subject to abatement, as described herein. See “SOURCES OF PAYMENT FOR THE 2025A BONDS” and “RISK FACTORS” herein.

Interest on the 2025A Bonds is payable semiannually on December 1 and June 1 of each year, commencing December 1, 2025, until maturity or earlier optional, sinking account or extraordinary redemption. See “THE 2025A Bonds - General Provisions” and “THE 2025A Bonds - Redemption” herein.

THE 2025A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED BY A PLEDGE OF REVENUES AND CERTAIN FUNDS AND ACCOUNTS HELD UNDER THE INDENTURE. THE AUTHORITY HAS NO TAXING POWER. THE OBLIGATION OF THE COUNTY TO PAY BASE RENTAL PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE COUNTY TO PAY BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE COUNTY, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

The cover page contains certain information for quick reference only. It is not a summary of the issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See “RISK FACTORS” herein for a discussion of special risk factors that should be considered in evaluating the investment quality of the 2025A Bonds.

The 2025A Bonds 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. Certain legal matters will be passed on for the County and the Authority by Jason M. Heath, County Counsel, and by Best Best & Krieger LLP, Riverside, California, as Disclosure Counsel, and for the Underwriter by its counsel, [Kutak Rock LLP, Irvine, California]. It is anticipated that the 2025A Bonds, in book-entry form, will be available for delivery on or about August 7, 2025 through the facilities of The Depository Trust Company.

The date of the Official Statement is __, 2025.

* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful under the securities laws of such jurisdiction.

SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY

\$12,005,000*

LEASE REVENUE BONDS

2025 SERIES A

MATURITY SCHEDULE

Base CUSIP®† 80181P

Maturity Date	Principal	Interest	Reoffering	Reoffering	
<u>June 1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP®†</u>

* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. Copyright (c) 2025 CUSIP Global Services. All rights reserved. CUSIP numbers have been assigned by an independent company not affiliated with the Authority, the County, the Municipal Advisor or the Underwriter and are included solely for the convenience of the holders of the 2025A Bonds. None of the Authority, the County, the Municipal Advisor, the Underwriter or their agents or counsel is responsible for the selection or use of these CUSIP numbers, and no representation is made as to their correctness on the 2025A Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the 2025A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2025A Bonds.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Investment in the 2025A Bonds 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 Authority and the County. No dealer, broker, salesperson or other person has been authorized by the Authority, the County or the Municipal Advisor to give any information or to make any representations in connection with the offer or sale of the 2025A Bonds 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 Authority, 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 2025A Bonds 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 or the Authority. This Official Statement is not to be construed as a contract with the purchasers or Owners of the 2025A Bonds. 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 Authority, the County or any other parties described herein since the date hereof. All summaries of the Indenture, Lease 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 and certain social media accounts for various purposes, none of the information on that website or those accounts 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 2025A Bonds or any other bonds or obligations of the Authority or the County. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

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

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. Neither the Authority nor the County 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 2025A BONDS, 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 2025A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE 2025A BONDS 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 AND 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*

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

Trustee

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

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OFFICIAL STATEMENT
SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY
\$12,005,000*
LEASE REVENUE BONDS
2025 SERIES A

This Official Statement which includes the cover page and appendices (the “Official Statement”), is provided to furnish certain information concerning the sale of the Santa Cruz County Capital Financing Authority Lease Revenue Bonds, 2025 Series A (the “2025A Bonds”), in the aggregate principal amount of \$12,005,000*.

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. This Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the 2025A Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision (see “RISK FACTORS” herein). For definitions of certain capitalized terms used herein and not otherwise defined, and the terms relating to the 2025A Bonds, see the summary included in “APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein.

The County and the Authority

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).

The Authority is a joint exercise of powers authority organized and existing under and by virtue of the Joint Exercise of Powers Act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the “Joint Powers Act”). The County and the Santa Cruz County Flood Control and Water Conservation District formed the Authority by the execution of a joint exercise of powers agreement (as amended, the “JPA Agreement”) dated February 25, 2014. Under the JPA Agreement, the Authority is authorized to provide funds to acquire or construct public capital improvements, and to finance public capital improvements through the issuance of bonds in accordance with the Joint Powers Act.

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

* Preliminary, subject to change.

Purpose

The 2025A Bonds are being issued to finance the acquisition of and improvements to certain facilities and to pay the costs incurred in connection with the issuance of the 2025A Bonds.

See “THE FINANCING PLAN” herein.

Security and Sources of Repayment

The 2025A Bonds are secured under an Indenture of Trust, dated as of June 1, 2024, as amended and supplemented by a First Supplemental Indenture, dated as of August 1, 2025 (as amended and supplemented, the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, as trustee (the “Trustee”) (see “APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein).

The 2025A Bonds, together with the Authority’s outstanding Lease Revenue Bonds, 2024 Series C (the “2024C Bonds”) and any Additional Bonds, as defined herein, are payable from the revenues pledged under the Indenture. The revenues consist primarily of Base Rental Payments (the “Base Rental Payments”) to be made by the County to the Authority for the rental of real property and improvements thereon (the “Leased Property”) and from certain funds held under the Indenture and investment earnings thereon (collectively with the Base Rental Payments, the “Revenues”), and from net proceeds of insurance or condemnation awards with respect to the Leased Property. See “THE LEASED PROPERTY” herein.

The current outstanding amount of 2024C Bonds is \$27,175,000 and the 2024C Bonds mature June 1, 2054.

Pursuant to a Site and Facility Lease, dated as of June 1, 2024, as amended and supplemented by a First Amendment to Site and Facility Lease, dated as of August 1, 2025 (as amended and supplemented the “Site Lease”), by and between the Authority and the County, the County has leased the Leased Property to the Authority. The Authority has subleased the Leased Property back to the County under a Lease Agreement dated as of June 1, 2024 as amended and supplemented by a First Amendment to Lease Agreement, dated as of August 1, 2025 (as amended and supplemented, the “Lease”), by and between the County and the Authority. The Base Rental Payments are to be made by the County pursuant to the Lease.

Under the Lease and, subject to abatement, the County is required to make the Base Rental Payments from legally available funds in amounts calculated to be sufficient to pay principal of and interest on the 2024C Bonds, the 2025A Bonds and any Additional Bonds when due. The County has covenanted in the Lease to take such actions as may be necessary to include all Base Rental Payments in its annual budgets and to make the necessary annual appropriations for all such Base Rental Payments subject to complete or partial abatement of such Base Rental Payments resulting from a taking of the Leased Property (either in whole or in part) under the powers of eminent domain or resulting from damage or loss of all or any portion of the Leased Property. All of the Authority’s right, title and interest in and to the Lease (apart from certain rights to receive Additional Payments, as defined therein, to the extent payable to the Authority, and to indemnification), including the right to receive Base Rental Payments under the Lease Agreement, are assigned to the Trustee for the benefit of Bondholders, under the Assignment Agreement, dated as of June 1, 2024 as amended by an Amended and Restated Assignment Agreement, dated as of August 1, 2025 (as amended and restated, the “Assignment Agreement”) between the Authority and the Trustee.

For a summary of the Indenture, the Lease, the Site Lease and the Assignment Agreement, see “APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein. Certain capitalized terms used in this Official Statement and not otherwise defined have the meanings given them in “APPENDIX D.”

In general, the County is required under the Lease to pay to the Authority specified amounts for use and possession of the Leased Property which are calculated to be sufficient in both time and amount to pay, when due, the principal of and interest on the 2024C Bonds, the 2025A Bonds and any Additional Bonds.

The County is also required to pay any taxes and assessments levied on the Leased Property and all costs of maintenance and repair of the Leased Property. Except for the Authority's right, title and interest in and to the Base Rental Payments and otherwise to the Lease which have been assigned to the Trustee, no funds or properties of the Authority or the County are pledged to or otherwise liable for the 2025A Bonds (see "RISK FACTORS" herein).

Limited Obligation

THE OBLIGATION OF THE COUNTY TO PAY BASE RENTAL PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS PLEDGED ANY FORM OF TAXATION. THE OBLIGATION OF THE COUNTY TO PAY BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

No Reserve Fund

The Authority will not fund a reserve fund for the 2025A Bonds.

Offering of the 2025A Bonds

Authority for Issuance and Delivery. The 2025A Bonds are to be issued in accordance with applicable provisions of the California Government Code, the Indenture, and by Resolution No. ____ of the Authority and by Resolution No. ____ of the County, each adopted on ____, 2025.

Offering and Delivery of the 2025A Bonds. The 2025A Bonds 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. It is anticipated that the 2025A Bonds, in book-entry form, will be available for delivery on or about August 7, 2025 through the facilities of The Depository Trust Company ("DTC"). See "APPENDIX G - THE BOOK-ENTRY SYSTEM."

Summaries Not Definitive

The summaries and references contained herein with respect to the Indenture, the Site Lease, the Lease, the Assignment Agreement, the 2025A Bonds and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the 2025A Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of these documents may be obtained after delivery of the 2025A Bonds from the County at the County Government Center, 701 Ocean Street, Santa Cruz, California 95060, telephone (831) 454-2500.

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THE FINANCING PLAN

The Project

The Project (the “Project”) consists of the upgrade or renovation of certain facilities at the County’s transfer station located in Ben Lomond (the “Transfer Station”) and the acquisition of two buildings currently leased to the County and providing office space for the Office of the Public Defender (the “Property Acquisition”).

The Transfer Station includes a facility for the hauling and disposal of solid waste (“Transfer Facility”), with a separate facility for household hazardous waste (“HHW Facility”) as well as a recycling area (“Recycling Area”), and a scale house with scales (the “Scale House”).

The Property Acquisition is comprised of two buildings with approximately 12,500 square feet of office space on 0.9 acres in the City of Santa Cruz. The County has leased the buildings since 1988.

In addition to the Property Acquisition, proceeds of the 2025A Bonds are expected to be used to make any necessary repairs to the buildings, and to upgrade the HHW Facility canopy and containment area, replace the Recycling Area canopy, seismically retrofit the Transfer Facility, upgrade the electrical system at the Transfer Station, and other miscellaneous improvements. The estimated costs are shown below:

	Transfer Station	Property Acquisition
Project Costs		
Soft Costs		
Total		

Construction bids for the Project were received on June 11, 2025 and are expected to be awarded in August 2025. In May 2025, the County made a non-binding offer for the office space used by the Office of the Public Defender. The County expects to purchase the property within 90 days.

Estimated Sources and Uses of Funds

The estimated sources and uses of funds related to the sale and issuance of the 2025A Bonds is set forth below:

Sources of Funds

Par Amount of Bonds
Net Original Issue Premium (Discount)
Total Sources

Uses of Funds

Acquisition and Construction Fund
Underwriter’s Discount
Costs of Issuance Fund ⁽¹⁾
Total Uses

⁽¹⁾ Expenses include fees and expenses of Bond Counsel, Municipal Advisor, Disclosure Counsel and Trustee and rating fees, costs of printing the Official Statement, and other costs of issuance of the 2025A Bonds.

THE LEASED PROPERTY

The Leased Property consist of:

- Live Oak Library
- Aptos Library
- Behavioral Health Center
- South County Health Services Administration Building
- Transfer Station

The County has the right, from time to time, to substitute facilities, add additional facilities or remove facilities from the Leased Property, subject to certain requirements as described below.

Live Oak Library. The Live Oak Library is a 13,500 square foot, 2-story facility constructed in 2005 on approximately 4 acres along Portola Drive in the unincorporated area of the County. A remodel was completed in 2022. It is located just outside Flood Zone AE, known as a 100-year flood plain.

Aptos Library. The Aptos Library is a newly constructed 12,400 square foot facility located on approximately 1 acre along Soquel Avenue, near Highway 1, a major north-south transportation corridor in the County.

Behavioral Health Center. The Behavioral Health Center was built in 2013 to support the County's Crisis Stabilization Program and the Psychiatric Health Facility, which had previously been housed at a local hospital. The one-story facility is 16,400 square feet and located on approximately 1.5 acres on the border of the Live Oak community and the City of Santa Cruz.

South County Health Services Administration Building. This building provides office space for administrative staff of the Health Services Agency and other government functions. It is a single story, 13,776 square foot facility built in 2004. The facility is located in Watsonville on approximately 2 acres with 48 parking spaces, in the Westridge Business Park near other buildings providing County services in the southern area of the County.

Transfer Station. An approximate __ acre site located in Ben Lomond, developed with the Transfer Facility, the HHW Facility, the Recycling Area and the Scale House. The Transfer Facility is comprised of a drive through - drop off area with canopy and is approximately 40,320 square feet. The HHW Facility is a 2,200 square foot drive through - drop off area with canopy. The Scale House is a 250 square foot building alongside the scales for incoming and outgoing trucks and other vehicles. A pump house located adjacent to the Transfer Station is not a part of the Leased Property.

The buildings are currently insured for an estimated replacement value as follows:

Live Oak Library	6,545,214
Aptos Library	15,316,290
Behavioral Health Center	12,288,887
South County Health Services Administration Building	4,100,000
Transfer Facility	7,811,000 ⁽¹⁾
Total insured value	\$46,061,391

⁽¹⁾ Excluding the HHW Facility and Recycling Area facilities to be renovated.

Public Defender's Office. The County anticipates amending the Lease subsequent to Closing to include the newly-acquired Public Defender's Office.

Casualty insurance on the Leased Property currently includes earthquake damage and flood damage. However, earthquake coverage is only required in the future if such coverage is available at reasonable cost from reputable insurers in the judgment of the County (see “SOURCES OF PAYMENT FOR THE 2025A BONDS - Insurance Relating to the Leased Property” herein).

The County has the right under the Lease to delete or substitute portions of the Leased Property with alternate Property, as well as add additional property to the Lease, subject to the satisfaction of certain requirements (see “APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - THE LEASE AGREEMENT” herein).

THE 2025A BONDS

General Provisions

The 2025A Bonds will be dated their date of original delivery, will be issued in fully registered form, in denominations of \$5,000 and any integral multiple thereof and will mature on the dates and in the principal amounts and bear interest at the rates as set forth on the inside cover page of this Official Statement.

Interest on the 2025A Bonds shall be payable semiannually on December 1 and June 1 of each year commencing December 1, 2025 (each, an “Interest Payment Date”). Interest on the 2025A Bonds will be paid on each Interest Payment Date to the persons in whose name the ownership of the 2025A Bonds is registered on the registration books maintained by the Trustee for the registration of ownership and registration of transfer of the 2025A Bonds as of the close of business on the immediately preceding Record Date, such interest to be paid by check of the Trustee mailed by first-class mail, postage prepaid, on each Interest Payment Date to the Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date; or by wire transfer made on such Interest Payment Date to any Owner of \$1,000,000 or more in aggregate principal amount of 2025A Bonds who has requested such transfer pursuant to written notice filed with the Trustee prior to the preceding Record Date.

Payments of Principal and Interest; Book-Entry System. The Depository Trust Company, New York, New York (“DTC”) will act as securities depository for the 2025A Bonds. The 2025A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. Interest on and principal of the 2025A Bonds will be payable when due by wire of the Trustee to DTC which will in turn remit such interest and principal to participants in DTC’s book-entry only system, which will in turn remit such interest and principal to Beneficial Owners (as defined herein) of the 2025A Bonds (see “APPENDIX G - THE BOOK-ENTRY SYSTEM” herein). As long as DTC is the registered owner of the 2025A Bonds and DTC’s book-entry method is used for the 2025A Bonds, the Trustee will send any notices to Bond Owners only to DTC.

Redemption

Extraordinary Redemption From Insurance or Condemnation Proceeds. The 2025A Bonds are subject to extraordinary redemption prior to their respective maturity dates, upon notice as provided in the Indenture, as a whole or in part on any date, from prepayments of the Base Rental Payments made by the County on a *pro rata* basis with the 2024C Bonds pursuant to the Lease from funds received by the County due to a taking of the Leased Property or any portion thereof under the power of eminent domain or from insurance proceeds received by the County due to damage to or destruction of, or title defect with respect to, the Leased Property or any portion thereof, under the circumstances and upon the conditions and terms prescribed in the Indenture and in the Lease. See “SOURCES OF PAYMENT FOR THE 2025A BONDS - Insurance Relating to the Leased Property.” The 2025C Bonds are issued as “Additional Bonds,” as defined herein. In the event that the Authority issues future series of Additional Bonds, any such Additional Bonds would also be subject to redemption as described above on a *pro rata* basis. There can be no assurance that such proceeds will be adequate to redeem all of the 2024C Bonds and 2025A Bonds, and if issued, any

Additional Bonds (see “RISK FACTORS - The Base Rental Payments – Insurance,” “THE 2025A BONDS - Additional Bonds” and “APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS–The Indenture” herein).

Optional Redemption from Prepayments of Base Rental Payments. The 2025A Bonds maturing on or after June 1, 2036 are subject to redemption prior to their respective maturity dates as a whole or in part on any date, by such maturities as may be designated by the Authority to the Trustee at least 30 days (or such lesser number of days acceptable to the Trustee, in the sole discretion of the Trustee) prior to the date fixed for redemption, or, if the Authority fails to so designate, in inverse order of maturity, and by lot within a maturity, from prepayments of Base Rental Payments made at the option of the County pursuant to the Lease, on or after June 1, 2035, at a redemption price equal to the principal amount of the 2025A Bonds to be redeemed, plus accrued but unpaid interest to the date fixed for redemption, without premium.

Mandatory Sinking Account Redemption. The 2025A Bonds maturing June 1, ____ and June 1, ____ (the “Term Bonds”) are subject to mandatory redemption, in part by lot, from Sinking Account payments set forth in the following schedule on June 1, ____ and on June 1, ____, respectively, at a redemption price equal to the principal amount thereof to be redeemed (without premium), together with interest accrued thereon to the date fixed for redemption as follows.

**SINKING ACCOUNT SCHEDULE FOR
TERM BONDS MATURING JUNE 1, ____**

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

**SINKING ACCOUNT SCHEDULE FOR
TERM BONDS MATURING JUNE 1, ____**

Sinking Account Redemption Date (June 1)	Principal Amount To Be Redeemed
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If some but not all of the Term Bonds have been redeemed pursuant to extraordinary or optional redemptions, the total amount of sinking account payments to be made subsequent to such redemption will be reduced in an amount equal to the principal amount of the Term Bonds so redeemed by reducing each such future sinking account payment on a pro rata basis (as nearly as practicable) in integral multiples of \$5,000 (for extraordinary redemptions) or as determined by the Authority (for optional redemptions), in each case as shall be designated pursuant to written notice filed by the Authority with the Trustee.

Notice of Redemption; Rescission. The Trustee on behalf and at the expense of the Authority is required to mail (by first class mail) notice of any redemption to the respective Owners of any 2025A Bonds designated for redemption at their respective addresses appearing on the Registration Books, to the Securities Depositories and to one or more Information Services, at least 20 but not more than 60 days prior to the date fixed for redemption; *provided, however*, that neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such 2025A Bonds or the cessation of the accrual of interest thereon. Such notice is required to state the date of the notice, the redemption date, the redemption place and the redemption price and shall designate the CUSIP numbers,

the 2025 Bond numbers and the maturity or maturities (in the event of redemption of all of the 2025A Bonds of such maturity or maturities in whole) of the 2025A Bonds to be redeemed, and require that such 2025A Bonds be then surrendered at the Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such 2025A Bonds will not accrue from and after the redemption date. In the event that funds required to pay the redemption price are not on deposit under the Indenture at the time the notice of redemption for 2025A Bonds is sent, the redemption notice shall include a statement to the effect that the redemption is conditioned upon the receipt of the appropriate funds required to pay the redemption price by the Trustee on or prior to the redemption date. Such notice is also required to state, if so determined by the Authority, that such notice may be rescinded at any time prior to the redemption date. Any notice of redemption may be rescinded at any time prior to the redemption date by written notice given to the Trustee by the Authority and the Trustee shall provide notice of such rescission as soon thereafter as practicable in the same manner, and to the same recipients, as notice of such redemption was given. As long as the 2025A Bonds remain in a book-entry system, the Trustee will send such notice only to DTC. See APPENDIX G—"THE BOOK-ENTRY SYSTEM."

Without limiting the foregoing, in the event that funds required to pay the redemption price are not on deposit under the Indenture at the time the notice of redemption for 2025A Bonds is sent, the redemption notice is required to include a statement to the effect that the redemption is conditioned upon the receipt of the appropriate funds required to pay the redemption price by the Trustee on or prior to the redemption date.

Selection of 2025A Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all of the 2025A Bonds, the Trustee is required to select the 2025A Bonds to be redeemed from all 2025A Bonds not previously called for redemption, in such maturities as the Authority designates (and by lot within any maturity); provided, however, that in connection with an extraordinary redemption of less than all of the 2025A Bonds pursuant to the Indenture, such 2025A Bonds shall be redeemed on a *pro rata* basis (as nearly as practicable) among maturities and series as shall be designated pursuant to written notice filed by the Authority to the Trustee. For purposes of such selection, all 2025A Bonds shall be deemed to be comprised of separate \$5,000 portions and such portions shall be treated as separate 2025A Bonds, which may be separately redeemed.

Partial Redemption of 2025A Bonds. If only a portion of any 2025 Bond is called for redemption, then upon surrender of such 2025 Bond the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new 2025 Bond or 2025A Bonds of the same series, interest rate and maturity date, in aggregate principal amount equal to the unredeemed portion of the 2025 Bond being redeemed.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the principal of, premium, if any, and interest on the 2025A Bonds so called for redemption shall have been duly provided, such 2025A Bonds so called shall cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest shall accrue thereon from and after the redemption date. All 2025A Bonds redeemed pursuant to the Indenture shall be canceled by the Trustee. All moneys held by or on behalf of the Trustee for the payment of principal of or interest or premium on 2025A Bonds, whether at redemption or maturity, shall be held in trust for the account of the Owners thereof and the Trustee shall not be required to pay Owners any interest on, or be liable to Owners for any interest earned on, moneys so held.

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Scheduled Base Rental Payments and Debt Service on the 2025A Bonds

The following is the scheduled debt service on the 2025A Bonds assuming no special or optional prepayment prior to maturity.

Period Ending			
<u>June 1</u>	<u>Principal</u>	<u>Interest</u>	<u>Annual Total</u>
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
2050			
2051			
2052			
2053			
2054			
2055			
Total			

The following is the schedule of annual Base Rental Payments assuming no special or optional prepayment prior to maturity.

Period Ending			
<u>June 1</u>	<u>2024C Bonds</u>	<u>2025A Bonds</u>	<u>Annual Total</u>
2026	\$1,486,969		
2027	1,487,969		
2028	2,113,469		
2029	2,112,219		
2030	2,108,969		
2031	2,108,719		
2032	2,111,219		
2033	2,106,219		
2034	2,108,969		
2035	2,113,969		
2036	2,105,969		
2037	2,115,469		
2038	2,111,469		
2039	2,109,469		
2040	2,109,219		
2041	2,110,469		
2042	2,112,969		
2043	2,111,469		
2044	2,110,969		
2045	686,219		
2046	692,819		
2047	688,419		
2048	688,419		
2049	687,619		
2050	691,019		
2051	687,713		
2052	688,581		
2053	688,419		
2054	687,225		
2055	-		
Total	\$45,742,613		

Additional Bonds

In addition to the 2025A Bonds, the Authority and the Trustee may by execution of a Supplemental Indenture, without the consent of the Owners, provide for the issuance and delivery of Additional Bonds in one or more series. The proceeds of such Additional Bonds may be used for any purpose, including for the purpose of refunding Outstanding Bonds.” See “APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS -THE INDENTURE – Additional Bonds.”

SOURCES OF PAYMENT FOR THE 2025A BONDS

General

The 2024C Bonds and 2025A Bonds are payable from and secured by a pledge of Revenues and certain funds and accounts established and held by the Trustee under the Indenture. Revenues, as defined in the Indenture, means:

- (a) all Base Rental Payments paid or payable by the County pursuant to the Lease (including prepayments) and
- (b) any insurance proceeds or condemnation awards received by or payable to the Trustee under the Lease and any amounts received by the Trustee as a result of or in connection with the pursuit of remedies by the Trustee pursuant to the Lease.

Revenues will include Net Proceeds not used to rebuild or replace the Leased Property that are required to be applied to the payment or redemption of Bonds under the Lease and the Indenture. See “Insurance Relating to the Leased Property” below.

As security for the 2024C Bonds and 2025A Bonds, the Authority has assigned to the Trustee the Authority’s rights, title and interest in the Lease (with certain exceptions), including the right to receive Base Rental Payments to be made by the County under the Lease Agreement.

The 2025A Bonds are limited obligations of the Authority payable solely from and secured by a pledge of Revenues and certain funds and accounts held under the Indenture. The Authority has no taxing power.

Base Rental Payments; Abatement

The County is required to pay the Base Rental Payments to the Authority for use of the Leased Property, which are equal to the principal of and interest due with respect to the 2024C Bonds and 2025A Bonds. The Lease requires the County to make Base Rental Payments to the Authority on the November 25 or May 25 preceding each Interest Payment Date. Base Rental Payments to be paid by the County are assigned to the Trustee under the Assignment Agreement and are to be transmitted by the County directly to the Trustee. The Indenture provides that the Base Rental Payments will be deposited in the Revenue Fund maintained by the Trustee under the Indenture and applied to pay the principal of and interest on the 2024C Bonds and 2025A Bonds.

The County has covenanted in the Lease to take such action as may be necessary to include all Base Rental Payments in its annual budgets and to make annual appropriations for all such Base Rental Payments. The Lease provides that the several actions required by such covenants are deemed to be and shall be construed to be duties imposed by law and that it is the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such official to enable the County to carry out and perform the covenants in the Lease agreed to be carried out and performed by the County.

California law requires, and the Lease provides, the obligation of the County to pay Base Rental Payments and Additional Rental Payments will be abated during any period in which by reason of any damage, destruction, condemnation or title defect there is substantial interference with the use by the County of the Leased Property or any portion thereof. Such abatement will be in an amount such that the resulting Base Rental Payments in any year during which such interference continues does not exceed the fair rental value of the portions of the Leased Property as to which such damage, destruction, taking or title defect does not substantially interfere with the County’s use and right of possession, as evidenced by a Certificate of the County. Such abatement will continue for the period commencing with the date of interference resulting

from such damage, destruction, condemnation or title defect and, with respect to damage to or destruction of the Leased Property, and ending with the substantial completion of the work of repair or replacement of the Leased Property, or the portion thereof so damaged or destroyed, and the term of this Lease shall be extended as provided in the Lease.

Notwithstanding the foregoing, to the extent that moneys are available for the payment of Rental Payments in any of the funds and accounts established under the Indenture, Rental Payments will not be abated as provided above but, rather, will be payable by the County as a special obligation payable solely from said funds and accounts.

The term of the Lease will terminate on June 1, 2055, or such earlier or later date on which the Base Rental Payments are paid in full or provisions made for such payment, but in no event later than June 1, 2065, being ten years after the stated maturity date of the 2025A Bonds.

The Authority has no taxing power. The obligation of the County to pay Base Rental Payments does not constitute an obligation for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. The obligation of the County to pay Base Rental Payments does not constitute a debt of the County, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

The County has other obligations payable from its General Fund and may enter into other obligations payable from its General Fund without the consent of the Bond Owners. To the extent the County issues such obligations, funds available to pay Base Rental Payments may be reduced. See “APPENDIX B - COUNTY OF SANTA CRUZ FINANCIAL INFORMATION - Long-Term Obligations” and “RISK FACTORS - The Base Rental Payments - Base Rental Payments are Limited Obligations of the County” herein.

No Reserve Fund

The Authority will not fund a reserve fund for the 2025A Bonds.

Insurance Relating to the Leased Property

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

Such insurance shall be in an amount at least equal to the lesser of (a) 100% of the replacement cost of all of the insured improvements, or (b) the aggregate principal amount of the outstanding 2024C Bonds, 2025ABonds, and Additional Bonds, if any. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the County and may be maintained in whole or in part in the form of the participation by the County in a joint powers agency or other program providing pooled insurance; provided however, that such insurance may not be maintained by the County in the form of self-insurance.

Rental Interruption Insurance. The Lease requires the County to procure and maintain or cause to be procured and maintained, rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the Leased Property as a result of certain hazards, in an amount at least equal to the maximum Base Rental Payments coming due and payable during any future 24-month period. Such insurance may be maintained as part of or in conjunction with any other property insurance coverage carried by the County,

and may be maintained in whole or in part in the form of the participation by the County in a joint powers agency or other program providing pooled insurance; provided that such insurance may not be maintained in the form of self-insurance. The proceeds of such insurance, if any, will be paid to the Trustee and deposited in the Revenue Fund, and will be credited towards the payment of the Base Rental Payments as the same become due and payable.

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

If there are not sufficient insurance proceeds to complete repair of the Leased Property, the Lease Payment schedule will be proportionally reduced in accordance with the Lease Agreement. Such reduced Base Rental Payments may not be sufficient to pay principal and interest with respect to the 2024C Bonds and 2025A Bonds. Such reduction would not constitute a default under either the Indenture or the Lease Agreement.

Title Insurance. The County is required to obtain upon the execution and delivery of the First Amendment to the Lease Agreement, additional title insurance on the Leased Property, in an amount not less than the aggregate principal amount of 2024C Bonds and 2025A Bonds issued, subject only to Permitted Encumbrances.

If all or any part of the Leased Property shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund and shall be applied and disbursed by the Trustee as follows: (i) if the County has not given written notice to the Trustee, within 45 days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for the replacement of the Leased Property or such portion thereof, the Trustee shall transfer such Net Proceeds to the Redemption Fund to be applied towards the redemption of the 2024C Bonds and any Additional Bonds on a pro rata basis, or (ii) if the County has given written notice to the Trustee, within 45 days following the date on which such Net Proceeds are deposited with the Trustee, of its determination that such Net Proceeds are needed for replacement of the Leased Property or such portion thereof, the Trustee shall pay to the County, or to its order, from said proceeds such amounts as the County may expend for such repair or rehabilitation, upon the filing of Written Requisitions of the County as agent for the Authority.

No assurance can be given that the proceeds of any insurance or condemnation award will be sufficient under all circumstances to repair or replace any damaged or taken Property or to prepay all Base Rental Payments with respect to the Leased Property. Also, the County makes no representation as to the sufficiency of any insurance awards or the adequacy of any self-insurance to pay, when and as due, amounts payable under the Lease or the 2024C Bonds and 2025A Bonds. See “RISK FACTORS - The Base Rental Payments - Abatement” herein.

See “APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE - Insurance” and “RISK FACTORS - The Base Rental Payments - Insurance” herein.

Remedies on Default

If an event of default occurs and is continuing under the Lease Agreement, there is no remedy of acceleration of any Base Rental Payments which have not come due and payable in accordance with the Lease. If the County defaults in performance of its obligations under the Lease, the Trustee, as assignee of the Authority, may elect not to terminate the Lease and may re-enter and relet the Leased Property and may enforce the Lease and hold the County liable for all Base Rental Payments on an annual basis while re-entering and reletting the Leased Property. Such re-entry and reletting shall not effect a surrender of the Lease. Alternatively, the Trustee may elect to terminate the Lease and may re-enter and re-let the Leased Property and seek to recover all costs, losses or damages caused by the County’s default. See “APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE - Events of Default.”

Notwithstanding the foregoing remedies which are granted under the Lease with respect to the Leased Property, since the Leased Property is used for essential governmental services of the County, no assurances can be given that a court would permit the Authority or the Trustee to re-enter and re-let the Leased Property.

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RISK FACTORS

The purchase of the 2025A Bonds 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 2025A Bonds. Such risk factors include, but are not limited to, the following matters and should be considered, along with other information in this Official Statement, by potential investors.

The Base Rental Payments

Base Rental Payments are Limited Obligations of the County. The Base Rental Payments and other payments due under the Lease (including a proportionate share of the costs of improvement, repair and maintenance of the Leased Property and taxes, and other governmental charges and assessments levied against the Leased Property) are not secured by any pledge of taxes or other revenues of the County but are payable from yearly appropriations of any funds lawfully available to the County.

In the event the County's revenue sources are less than its total obligations, the County could choose to fund other services before paying Base Rental Payments and other payments due under the Lease Agreement. The same result could occur if, because of State Constitutional limits on expenditures, the County is not permitted to appropriate and spend all of its available revenues (see "Constitutional Limitation on Taxes and Expenditures" below). To the extent these types of events or other events adversely affecting the funds available to the County occur in any year, the funds available to pay Base Rental Payments may be decreased.

The County has unfunded liabilities relating to its employee retirement plans and to employee post-retirement health benefits and has also entered into other obligations which are payable from General Fund resources. The County may also enter into additional obligations in the future. To the extent that additional obligations are incurred by the County, the funds available to the County to pay debt service may be decreased (see "APPENDIX B - COUNTY OF SANTA CRUZ FINANCIAL INFORMATION – FINANCIAL INFORMATION - Retirement Program," "- Other Post Employment Benefits" and "- Long- Obligations" herein).

Potential Impact of State Budget and Federal Policy on County's Financial Condition. Federal policies involving taxation, appropriations, borrowing (including the debt ceiling), trade (including tariffs), immigration, climate, change, clean energy, and other topics can shift, sometimes dramatically, from one presidential administration or Congress to another. From time to time, such shifts can result in reductions to the level of federal funding for a variety of policy priorities, including transportation, housing, healthcare, social services, and other federally funded programs. Recently, several such policy shifts, including delays in grants and other appropriations, have been proposed or promulgated through presidential executive orders, and other official and unofficial actions at the federal level. The County cannot predict the outcome of such proposals and other actions, nor the potential impacts of any future changes in federal policy. However, such changes could in the future have adverse effects on revenues, operations or capital funding requirements. See "APPENDIX B – Fiscal Year 2025-26 Overview."

In addition, in its May Revision to the Proposed 2025-26 Budget, the State did not incorporate any effect of federal cuts that are currently under consideration in Congress, any of which may have implications for the State budget and the County's budget, particularly in the areas of health, housing and transportation. See "APPENDIX B - State of California Budget" herein.

The County staff expects to return to the Board at such a time when a response is required in alignment with development of the Federal budget or any subsequent changes in the State budget.

Abatement. Except to the extent that amounts are available (i) in the Rental Fund under the Indenture, (ii) from proceeds of rental interruption insurance, or (iii) as payments due from third parties due to a delay in reconstructing the Leased Property, the amount of Base Rental Payments and Additional Rental Payments shall be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation of the Leased Property or defects in the title with respect to the Leased Property there is substantial interference with the use and possession of all or a portion of the Leased Property by the County. The amount of such abatement shall be such that the resulting Base Rental Payments, exclusive of the amounts described above, do not exceed the fair rental value (as determined by the County) for the use and possession of the portion of the Leased Property not damaged, destroyed, interfered with or taken. Such abatement shall continue for the period commencing with such damage, destruction, interference or taking and ending with the substantial completion of the replacement or work of repair or the removal of the title defect causing such interference with use. The Lease shall continue in full force and effect following an event of abatement and the County waives any right to terminate the Lease by virtue of an abatement event.

In the event that such funds are insufficient to make all payments due on the 2024C Bonds and 2025A Bonds during the period that the Leased Property, or portion thereof, is being restored, then all or a portion of such payments may not be made and no remedy is available to the Trustee or the Owners under the Lease or Indenture for nonpayment under such circumstances. Failure to pay principal or interest with respect to the 2025A Bonds as a result of abatement of the County's obligation to make Base Rental Payments under the Lease is not an event of default under the Indenture or the Lease Agreement. In the event that Base Rental Payments are abated due to damage caused by earthquake or flood, such abatement may continue indefinitely - since the Lease does not require earthquake or flood insurance - and the County cannot be compelled to repair or replace the damaged Property or to redeem the 2025A Bonds but has covenanted in the Lease to use its best efforts to repair or replace the Leased Property from other lawfully available funds to the extent that the Net Proceeds are insufficient. See "APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE - Abatement of Base Rental Payments."

It is not always possible to predict the circumstances under which abatement of rental may occur. In addition, there is no statute, case or other law specifying how such an abatement of rental should be measured. For example, it is not clear whether fair rental value is established as of commencement of the lease or at the time of the abatement. If the latter, the value of the Leased Property could be substantially higher or lower than its value at the time of the issuance of the 2025A Bonds. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the 2025A Bonds.

Notwithstanding the provisions of the Lease and the Indenture specifying the extent of abatement of Base Rental Payments and the application of other funds in the event of the County's failure to have use and occupancy of the Leased Property, such provisions may be superseded by operation of law, and, in such event, the resulting Base Rental Payments of the County may not be sufficient to pay all of the remaining principal and interest on the 2025A Bonds.

Insurance. The Lease obligates the County to obtain and keep in force various forms of insurance to ensure repair or replacement of the Leased Property in the event of damage or destruction to the Leased Property and to maintain rental interruption insurance in an amount equal to maximum annual Base Rental Payments in any future 24-month period (see "APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE - Insurance" herein). The Lease does not require earthquake or flood insurance if earthquake coverage is not available at reasonable cost from reputable insurers in the reasonable opinion of the County. The County currently maintains earthquake insurance for the buildings and maintains flood insurance for all of the Leased Property. See "Natural Hazards" below. The County makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Lease Agreement. In addition, certain risks may not be covered by such property insurance (see "SOURCES OF PAYMENT FOR THE 2025A BONDS - Insurance Relating to the Leased Property" herein).

In the event the Leased Property is partially or completely damaged or destroyed due to any uninsured or underinsured event, it is likely that Base Rental Payments will be partially or completely abated. If any

Property so damaged or destroyed is not repaired or replaced within the period during which the proceeds of rental interruption insurance are available, any such abatement could prevent the County from timely paying Base Rental Payments after rental interruption insurance proceeds are exhausted.

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

Natural Hazards

General. 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 current disasters represented by the 2022-23 Winter Storms, the 2020 CZU Lightning Complex Fire (both described below) and the COVID-19 pandemic (the “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. If such events described below occur, the County’s emergency response to such an event may add unanticipated expenditures to the General Fund budget in such year or future years, some or all of which may not be reimbursed by federal or state disaster funding, and, if reimbursed, may not be received by the County in a timely manner. This could lead to reduced ability of the County to make Base Rental Payments.

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.

A secondary impact of the CZU Lightning Complex Fire could occur during future years if there is above-average or prolonged rainfall in the area burned by the fire. Wildfires are commonly followed by runoff-generated debris flows because wildfires remove vegetation and ground cover, which reduces soil infiltration capacity and increases soil erodibility.

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.

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 2024, due to the delays in Federal and State reimbursements, the Authority issued several series of bonds to fund current unreimbursed and/or matching costs expended on the repairs from the 2022-23 Winter Storms or the CZU Lightning Complex Fire.

The County currently includes a contingency in its budget to provide some funding for unanticipated expenditures, but such contingency may not be budgeted in the future, or if budgeted, may not be sufficient to cover disaster-related expenses, depending on the scope of any particular disaster.

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 the 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.

As described above, 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 by the fire because of runoff-generated debris flows.

There can be no assurances that further wildfires will not 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 levee 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 when 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 in the County 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. Additionally, 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, which was covered by its cyber security insurance policy. 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 continues to maintain 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 2025A Bonds, including the Trustee, and the dissemination agent. 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 Bond Owners.

Limited Recourse on Default; No Acceleration

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

The Lease permits the Trustee to take possession of and re-lease the Leased Property in the event of a default by the County under the Lease Agreement. Even if the Trustee could readily re-lease the Leased Property, the rents may not be sufficient to enable it to pay principal of and interest on the 2025A Bonds in full when due. Any such re-leasing of the Leased Property would be subject to existing encumbrances thereon. In addition, the Leased Property is used for essential governmental services of the County, and no assurances can be given that a court would permit the Authority or the Trustee to exercise the remedies which are granted under the Lease to re-enter and re-let the Leased Property. See "THE LEASED PROPERTY" herein.

Enforcement of Remedies

The enforcement of any remedies provided in the Lease and the Indenture could prove both expensive and time consuming. The rights and remedies provided in the Lease and the Indenture may be limited by and are subject to the limitations on legal remedies against counties, including State constitutional limits on expenditures, and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest; by federal bankruptcy laws, as now or hereafter enacted; applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect (see "Bankruptcy" below); equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose; and the limitations on remedies against municipal entities in the State. Bankruptcy proceedings or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the 2025A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

The legal opinions to be delivered concurrently with the delivery of the 2025A Bonds (including Bond Counsel's legal opinion) will be qualified, as to the enforceability of the 2025A Bonds, the Indenture, the Lease Agreement, the Assignment Agreement and other related documents, by bankruptcy, insolvency, reorganization, moratorium, arrangement, fraudulent conveyance and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in

appropriate cases, and to the limitation on legal remedies against cities and counties in the State. See “Bankruptcy” below.

Hazardous Substances

An additional environmental condition that may result in the reduction in the assessed value of property, and therefore property tax revenue available to make Base Rental Payments, would be the discovery of a hazardous substance that would limit the beneficial use of taxable property within the County. In general, the owners and operators of a property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but State laws with regard to hazardous substances are also stringent and similar in effect. Under many of these laws, the owner or operator may be required to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the Leased Property within the County be affected by a hazardous substance, could be to reduce the marketability and value of such property by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

Hazardous substance liabilities may arise in the future with respect to any of the Leased Property in the County resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise from the method of handling such substance. These possibilities could significantly affect the value of a parcel and could result in substantial delays in completing planned development on parcels that are currently undeveloped.

Bankruptcy

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

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

Under the Indenture, the Trustee holds a security interest in the revenues in the funds pledged thereunder, including Base Rental Payments, for the benefit of the Owners of the 2024C Bonds and 2025A Bonds, but such security interest arises only when the Base Rental Payments are actually received by the Trustee following payment by the County. The Leased Property itself is not subject to a security interest, mortgage or any other lien in favor of the Trustee for the benefit of the Owners of the 2024C Bonds and 2025A Bonds. In the event of a bankruptcy filed by the County and the subsequent rejection of the Lease by the County, the Trustee is entitled to recover possession of the Leased Property, although as discussed above no assurances can be given that a Court would permit such action to be taken by the Trustee due to the

essential governmental purposes served by the Leased Property. In addition, the Trustee would have a claim for damages against the County, although such claim would constitute a secured claim only to the extent of revenues in the possession of the Trustee; the balance of such claim would be unsecured.

Such a bankruptcy could adversely affect the payments under the Indenture. Among the adverse effects might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the County or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the County and could prevent the Trustee from making payments from funds in its possession; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or secured debt which may have priority of payment superior to that of the Owners of the 2024C Bonds and 2025A Bonds; and (iv) the possibility of the adoption of a plan (the “Plan of Adjustment”) for the adjustment of the County’s debt without the consent of the Trustee or all of the Owners of the 2024C Bonds and 2025A Bonds, which Plan of Adjustment may restructure, delay, compromise or reduce the amount of any claim of the Owners of the 2024C Bonds and 2025A Bonds if the Bankruptcy Court finds that the Plan of Adjustment is fair and equitable and in the best interests of creditors.

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

The Authority is a public agency and, like the County, is not subject to the involuntary procedures of the Bankruptcy Code. The Authority may also seek voluntary protection under Chapter 9 of the Bankruptcy Code. In the event the Authority were to become a debtor under the Bankruptcy Code, the Authority would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 proceeding. Such a bankruptcy could adversely affect the payments under the Indenture. Among the adverse effects might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the Authority or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the Authority; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or court-approved secured debt which may have priority of payment superior to that of the Owners of the 2024C Bonds and 2025A Bonds; and (iv) the possibility of the adoption of a plan for the adjustment of the Authority’s debt without the consent of the Trustee or all of the Owners of the 2024C Bonds and 2025A Bonds, which plan may restructure, delay, compromise or reduce the amount of any claim of the Owners of the 2024C Bonds and 2025A Bonds if the Bankruptcy Court finds that the Plan is fair and equitable. In a bankruptcy the Authority could challenge the assignment of the Site Lease and the Lease, and the Trustee and/or the Owners of the 2024C Bonds and 2025A Bonds could be required to litigate these issues to protect their interests.

Constitutional Limitation on Taxes and Expenditures

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

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

Article XIII A. Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the “full cash value” of the Leased 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 XIII A 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) 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 XIII A, 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 XIII A 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 XIII A 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 XIII A 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.

<u>Tax Roll</u>	<u>Percentage</u>	<u>Tax Roll</u>	<u>Percentage</u>
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 - FINANCIAL INFORMATION - Ad Valorem Property Taxes -Taxable Property and Assessed Valuation” herein.

Article XIII B. On November 6, 1979, California voters approved Proposition 4, or the Gann Initiative, which added Article XIII B to the California Constitution. Article XIII B 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 XIII B 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 XIII B 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 XIII B. 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 2024-25 was \$693,306,550. The County’s appropriations subject to the limit for 2024-25 were \$291,623,570.

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 XIII C and XIII D 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 XIII A of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIII A of the California Constitution, and (iii) assessments, fees, and charges for property related services as provided in Article XIII D. 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 Base Rental Payments 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 XIIC 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 XIID. 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 Base Rental Payments 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 but was ultimately removed from the ballot by the California Supreme Court, citing that the initiative was an amendment to the State Constitution that cannot be enacted via the voter-initiative process.

Early Redemption Risk

Early payment of the Base Rental Payments and early redemption of the 2025A Bonds may occur in whole or in part without premium, on any date if the Leased Property or a portion thereof is lost, destroyed or damaged beyond repair or taken by eminent domain and from the proceeds of title insurance. Early payment of the Base Rental Payments and early redemption of the 2025A Bonds may also occur in whole or in part without premium, on any date on or after June 1, 2035 if the County exercises its right to prepay Base Rental Payments in whole or in part. See “THE 2025A BONDS - Redemption.”

Loss of Tax Exemption on the 2025A Bonds

As discussed under the heading “TAX MATTERS,” interest on the 2025A Bonds might become includable in gross income for purposes of federal income taxation retroactive to the date the 2025A Bonds were issued as a result of future acts or omissions of the Authority or the County in violation of the covenants in the Indenture and the Lease Agreement.

The Indenture does not contain a special redemption feature triggered by the occurrence of an event of taxability. As a result, if interest on the 2025A Bonds were to be includable in gross income for purposes of federal income taxation, the 2025A Bonds would continue to remain outstanding until maturity unless earlier redeemed pursuant to the redemption provisions of the Indenture. See “THE 2025A BONDS - Redemption.”

In addition, Congress has considered in the past, is currently considering and may consider in the future, legislative proposals, including some that carry retroactive effective dates that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the 2025A Bonds. Prospective purchasers of the 2025A Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service (“IRS”) has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the 2025A Bonds, as the case may be, is commenced, under current procedures, the IRS is likely to treat the Authority or the County as the “taxpayer,” and the owners of the 2025A Bonds, as the case may be, would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the 2025A Bonds, as the case may be, the Authority or the County may have different or conflicting interests from the owners of the 2025A Bonds. Public awareness of any future audit of the 2025A Bonds, as the case may be, could adversely affect the value and liquidity of the 2025A Bonds, as the case may be, during the pendency of the audit, regardless of its ultimate outcome.

Secondary Market Risk

There can be no assurance that there will be a secondary market for purchase or sale of the 2025A Bonds, and from time to time there may be no market for them, depending upon prevailing market conditions, the financial condition or market position of firms who may make the secondary market and the financial condition of the County.

Substitution or Removal of Property

The Lease provides that, upon the satisfaction of the conditions specified therein, the County may substitute real property for all or any portion of the Leased Property, and may release all or a portion of the Leased Property from the Lease Agreement. The Lease also provides that the County may add real property to the Lease Agreement. The County expects to add the Public Defender’s Office property once acquired. See

“THE LEASED PROPERTY” and “APPENDIX D - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - LEASE - Substitution of Property, Release of Property or Addition of Property.” Such a substitution, removal or addition could have an adverse impact on the security for the 2025A Bonds, particularly if an event requiring abatement of Base Rental Payments were to occur subsequent to such substitution, removal or addition.

LEGAL MATTERS

Enforceability of Remedies

The remedies available to the Trustee and the Owners of the 2025A Bonds upon an event of default under the Indenture, the Lease Agreement, the Site Lease, or any other document described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. In the case of any bankruptcy proceeding involving the County, the rights of the Owners could be modified at the direction of the court. The various legal opinions to be delivered concurrently with the delivery of the 2025A Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Indenture, the Lease Agreement, the Site Lease and other pertinent documents is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Approval of Legal Proceedings

Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, as Bond Counsel, will render an opinion with respect to the validity and enforceability of the Indenture and the Lease Agreement, and as to the validity of the 2025A Bonds. See “APPENDIX F” hereto for the proposed form of Bond Counsel’s opinions.

The Authority and the County have no knowledge of any fact or other information which would indicate that the Indenture, the Lease Agreement, the Site Lease or the 2025A Bonds are not enforceable against the Authority and the County, as applicable, except to the extent such enforcement is limited by principles of equity, by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors’ rights generally and by limitations on legal remedies against municipalities in the State.

Certain legal matters will be passed on for the County and the Authority by Best Best & Krieger LLP, Riverside, California, as Disclosure Counsel, and by the County Counsel. Additionally, certain matters will be passed on for the Underwriter by its Counsel, [Kutak Rock LLP, Irvine, California]. Fees payable to Bond Counsel, Disclosure Counsel and Underwriter’s Counsel are contingent upon the sale and delivery of the 2025A Bonds.

Litigation

The Authority and the County will each furnish a certificate dated as of the date of delivery of the 2025A Bonds that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Indenture, the Lease or the sale or delivery of the 2025A Bonds or in any manner questioning the proceedings and authority under which the Indenture, the Site Lease and the Lease are to be executed or delivered or the 2025A Bonds 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 it is expected to be lengthy and not suitable for early resolution.

Other lawsuits and claims against the County exist that are incidental to the ordinary course of the County's operations. In the view of the County's management and County Counsel, there is no litigation, present or pending against the County, that will individually or in the aggregate impair the County's ability to make Base Rental Payments when due.

TAX MATTERS

Federal Tax Exemption

In the opinion of Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel to the Authority and the County (the "Issuer"), under existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the Issuer with certain covenants in the Indenture, the Tax Certificate and other documents pertaining to the 2025A Bonds and requirements of the Internal Revenue Code of 1986 (the "Code") regarding the use, expenditure and investment of proceeds of the 2025A Bonds and the timely payment of certain investment earnings to the United States, interest on the 2025A Bonds is not included in the gross income of the owners of the 2025A Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the 2025A Bonds to be included in gross income retroactive to the date of issuance of the 2025A Bonds.

In the further opinion of Bond Counsel, interest on the 2025A Bonds is treated as an item of tax preference for purposes of the federal alternative minimum tax on individuals. Bond Counsel expresses no opinion regarding the applicability of the federal corporate alternative minimum tax to the adjusted financial statement income of certain corporations.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Bond Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the 2025A Bonds should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Indenture, the Tax Certificate or other documents pertaining to the 2025A Bonds may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Bond Counsel expresses no opinion as to the effect of any change to any document pertaining to the 2025A Bonds or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Norton Rose Fulbright US LLP or in reliance upon the advice of counsel other than Norton Rose Fulbright US LLP with respect to the exclusion from gross income of the interest on the 2025A Bonds for federal income tax purposes.

Bond Counsel's opinion is not a guarantee of result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and judicial decisions and the representations and covenants of the Issuer 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 2025A Bonds is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the 2025A Bonds would have no right to participate in the examination process. In responding to or defending an examination of the tax-exempt status of the interest on the 2025A Bonds, the Issuer may have different or conflicting interests from the owners. Additionally, public awareness of any future examination of the 2025A Bonds

could adversely affect the value and liquidity of the 2025A Bonds during the pendency of the examination, regardless of its ultimate outcome.

Tax Accounting Treatment of Bond Premium and Original Issue Discount

Bond Premium. To the extent a purchaser acquires a 2025A Bond at a price in excess of the amount payable at its maturity, such excess will constitute “bond premium” under the Code. The Code and applicable Treasury Regulations provide generally that bond premium on a tax-exempt obligation is amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations) based on the obligation's yield to maturity (or shorter period in the case of certain callable obligations). The amount of premium so amortized reduces the owner's basis in such obligation for federal income tax purposes, though such amortized premium is not deductible for federal income tax purposes. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. Bond Counsel is not opining on the accounting for bond premium or the consequence to a 2025A Bond purchaser of purchasing a 2025A Bond with bond premium. Accordingly, persons considering the purchase of 2025A Bonds with bond premium should consult their own tax advisors with respect to the determination of bond premium on such 2025A Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such 2025A Bonds.

Original Issue Discount. The excess, if any, of the stated redemption price at maturity of 2025A Bonds of a particular maturity over the initial offering price to the public of the 2025A Bonds of that maturity at which a substantial amount of the 2025A Bonds of that maturity is sold to the public is “original issue discount.” Original issue discount accruing on a 2025A Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes under the same conditions and limitations as are applicable to interest payable on such 2025A Bond. Original issue discount on a 2025A Bond of a particular maturity purchased pursuant to the initial public offering at the initial public offering price at which a substantial amount of the 2025A Bonds of that maturity is sold to the public accrues on a semiannual basis over the term of the 2025A Bond on the basis of a constant yield; and within each semiannual period accrues on a ratable daily basis. The amount of original issue discount on a 2025A Bond accruing during each period is added to the adjusted basis of such 2025A Bond, which will affect the amount of taxable gain upon disposition (including sale, redemption or payment on maturity) of such 2025A Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers that purchase 2025A Bonds other than at the initial offering price. Bond Counsel is not opining on the accounting for or consequence to a 2025A Bond purchaser of purchasing a 2025A Bond with original issue discount. Accordingly, persons considering the purchase of 2025A Bonds with original issue discount should consult their own tax advisors with respect to the determination of original issue discount on such 2025A Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such 2025A Bonds.

Information Reporting and Backup Withholding

Interest paid on the 2025A Bonds will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, such reporting requirement causes the payment of interest on the 2025A Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not “exempt recipients,” and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

State Tax Exemption

In the further opinion of Bond Counsel, interest on the 2025A Bonds is exempt from personal income taxes imposed by the State of California.

Future Developments

Existing law may change to reduce or eliminate the benefit to owners of the 2025A Bonds of the exclusion of the interest on the 2025A Bonds from gross income for federal income tax purposes or of the exemption of interest on the 2025A Bonds from State of California personal income taxation. Any proposed legislation, whether or not enacted, or administrative action, whether or not taken, could also affect the value and marketability of the 2025A Bonds. Prospective purchasers of the 2025A Bonds should consult their own tax advisors with respect to any proposed or future change in tax law.

A copy of the form of opinion of Bond Counsel relating to the 2025A Bonds is included in APPENDIX F hereto.

CONCLUDING INFORMATION

Rating on the 2025A Bonds

S&P Global Ratings has assigned its rating of “__” to the 2025A Bonds. Such rating reflects only the views of the rating agency and any desired explanation of the significance of such rating, and any outlook associated with such rating, should be obtained from the rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

Except as otherwise required in the Continuing Disclosure Certificate, the County undertakes no responsibility either to bring to the attention of the owners of any 2025A Bonds any downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of the 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 2025A Bonds. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Underwriting

The 2025A Bonds [are being purchased by _____ (the “Underwriter”) at competitive sale.] [were sold to Stifel, Nicolaus & Company, Incorporated (the “Underwriter”) pursuant to a Bond Purchase Agreement dated _____, 2025]. The Underwriter is offering the 2025A Bonds at the initial offering prices set forth on the inside front cover page hereof. The initial offering prices may be changed from time to time and concessions from the offering prices may be allowed to dealers, banks and others. The Underwriter will purchase the 2025A Bonds at a price equal to \$_____, which amount represents the principal amount of the 2025A Bonds, plus a net original issue premium of \$_____ and less an Underwriter’s discount of \$_____. 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 Authority and the County with the assistance of the Municipal Advisor who advised the Authority and the County as to the financial structure and certain other financial matters relating to the 2025A Bonds. The information set forth herein received from sources other than the County has been obtained by the Authority from sources which are believed to be reliable, but such information is not guaranteed by the Municipal Advisor as to accuracy or completeness, nor has it been independently verified. Fees paid to the Municipal Advisor are contingent upon the sale and delivery of the 2025A Bonds.

Continuing Disclosure

The County will provide annually certain financial information and data relating to the County by not later than February 15 in each year commencing February 15, 2026 (the “Annual Report”), and will provide notices of the occurrence of certain other enumerated events in accordance with Rule 15c2-12 of the Securities Exchange Act of 1934 as amended (the “Rule”). The Municipal Advisor will act as Dissemination Agent. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events and certain other terms of the continuing disclosure obligation are found in the form of the County’s Disclosure Certificate attached in “APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

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.

Additional Information

The summaries and references contained herein with respect to the Indenture, the Site Lease, the Lease Agreement, the 2025A Bonds, statutes and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute and references to the 2025A Bonds are qualified in their entirety by reference to the form hereof included in the Indenture. Copies of the Indenture, the Site Lease and the Lease may be obtained after delivery of the 2025A Bonds from the County at 701 Ocean Street, Santa Cruz, California 95060, telephone (831) 454-2500.

References

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or Owners of any of the 2025A Bonds.

Execution

The execution of this Official Statement by the Assistant Executive Director of the Authority and the Assistant County Executive Officer of the County has been duly authorized by the Authority and by the County, respectively.

SANTA CRUZ COUNTY CAPITAL FINANCING AUTHORITY

By: _____
Assistant Executive Director

COUNTY OF SANTA CRUZ

By: _____
Assistant County Executive Officer

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

<u>Board Member</u>	<u>Term Expires</u>
Manu Koenig, <i>Supervisor, 1st District</i>	January 2029
Kimberly De Serpa, <i>Supervisor, 2nd District</i>	January 2029
Justin Cummings, <i>Supervisor, 3rd District</i>	January 2027
Felipe Hernandez, <i>Supervisor, 4th District</i>	January 2027
Monica Martinez, <i>Supervisor, 5th District</i>	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 <u>Year</u>	<u>COUNTY OF SANTA CRUZ</u>		<u>STATE OF CALIFORNIA</u>	
	<u>Population</u>	<u>Percentage Change</u>	<u>Population</u>	<u>Percentage Change</u>
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**

<u>Year</u>	<u>Civilian Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
<u>2020</u>				
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
<u>2021</u>				
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
<u>2022</u>				
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
<u>2023</u>				
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
<u>2024</u>				
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⁾**

<u>Industry</u>	Calendar Year				
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
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	<u>4,400</u>	<u>4,800</u>	<u>5,000</u>	<u>5,100</u>	<u>5,100</u>
Total Nonfarm	93,900	96,500	99,300	99,800	100,200
Farm	<u>8,000</u>	<u>7,200</u>	<u>7,100</u>	<u>6,700</u>	<u>7,400</u>
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

<u>Year</u>	<u>County of Santa Cruz</u>	<u>State of California</u>	<u>United States</u>
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				
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
<i>Retail and Food Services</i>					
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	<u>749,876</u>	<u>725,819</u>	<u>712,377</u>	<u>694,430</u>	<u>657,285</u>
Total Retail and Food Services	2,988,564	3,433,759	3,592,319	3,627,341	3,600,727
All Other Outlets	<u>977,196</u>	<u>1,142,227</u>	<u>1,253,953</u>	<u>1,239,195</u>	<u>1,266,831</u>
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				
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Residential ⁽¹⁾	\$14,743	\$16,076	\$29,332	\$56,450	\$19,230
Non-Residential	<u>6,736</u>	<u>2,909</u>	<u>8,144</u>	<u>3,677</u>	<u>1,412</u>
Total Valuation	<u>\$21,789</u>	<u>\$18,985</u>	<u>\$37,416</u>	<u>\$60,127</u>	<u>\$20,642</u>
No. of New Dwelling Units:					
Single-Family Units	62	79	141	212	50
Multi-Family Units	<u>13</u>	<u>8</u>	<u>0</u>	<u>137</u>	<u>7</u>
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 Executive 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 then developed a two-year operational plan with assistance of an Operational Plan Steering Committee and subcommittees. This first of three operational plans in the first 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 and the first two-year operational plan for this second six-year Strategic Plan is being developed and will 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 Measure 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 Revenues and Expenditures

The County's General Fund Budget includes programs which are provided on a largely countywide basis. The programs and services are financed primarily by the County's share of property tax, sales tax, revenues from the State and federal government, and charges for services provided, as described below.

Budget and Actual Comparisons

A comparison of the General Fund actual revenues and expenditures for Fiscal Years 2023-24, estimated revenues and expenditures for Fiscal Year 2024-25, and the Fiscal Year 2025-26 Proposed Budget is shown in Table B-1. During budget hearings, the Board may make supplemental or other changes to the Fiscal Year 2025-26 Proposed Budget to include additional expenditures and the source of funding for such additional expenditures. The County does not expect to update the estimates contained in the Official Statement to reflect any additional supplemental items added to the Proposed Budget.

The revenues in Table B-1 are categorized as:

- Taxes, detailed in Table B-5 "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-6 "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 expenditures in Table B-1 are categorized by governmental function, such as public protection and public assistance. Each function generally includes salaries and benefits, services and supplies and other charges.

- Salaries and Benefits include direct personnel costs, pension and post-retirement benefits, health insurance costs and workers' compensation and unemployment insurance costs. 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.
- Operating transfers reflected in the financial statements consist primarily of debt service payments.

Historical General Fund activity is shown in Tables B-15 and B-16.

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TABLE NO. B-1
GENERAL FUND REVENUES AND EXPENDITURES

	2023-24	2024-25	2025-26
	<u>Actual</u>	<u>Estimated</u>	<u>Proposed Budget</u>
Revenues:			
Taxes	\$172,926,545	\$187,797,546	\$ 198,273,000
Licenses and Permits	16,915,955	16,877,321	17,483,757
Fines, Forfeits and Penalties	6,625,072	6,481,014	8,552,597
Use of Money and Property	11,623,116	11,985,710	12,509,360
Aid from Other Governments ⁽¹⁾	455,653,741	439,306,363	447,989,297
Charges for Services	79,286,489	98,998,845	100,473,370
Other	<u>10,182,802</u>	<u>7,439,978</u>	<u>3,994,193</u>
Total Revenues	753,213,720	768,886,777	789,275,574
Expenditures:			
General Government	54,670,060	\$ 57,554,242	\$ 26,497,656
Public Protection	197,536,684	229,770,678	227,718,826
Health and Sanitation	241,190,651	262,736,580	274,973,039
Public Assistance	182,640,611	197,030,728	198,994,083
Education	142,984	177,480	167,992
Recreation and Cultural Services	12,777,891	16,873,182	14,732,324
Debt Service	<u>5,144,948</u>	<u>3,982,002</u>	<u>4,408,459</u>
Total Expenditures	<u>694,103,829</u>	<u>768,124,892</u>	<u>747,492,379</u>
Excess of Revenue Over (Under) Expenditures	\$59,109,891	761,885	41,783,195
Transfers In	3,255,930	4,796,482	4,195,887
Transfers Out ⁽²⁾	(20,127,888)	(64,992,904)	(45,979,082)
Capital Lease Inception	<u>547,281</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>42,785,214</u>	<u>(59,434,537)</u>	<u>-</u>
Beginning Fund Balance	<u>139,412,197</u>	<u>182,197,411</u>	<u>122,762,874</u>
Ending Fund Balance ⁽³⁾	<u>\$182,197,411</u>	<u>\$122,762,874</u>	<u>\$122,762,874</u>

⁽¹⁾ See Table B-6 for a description of Aid from Other Governments. Significant amounts that qualified for FEMA reimbursement for Pandemic-related expenditures were incurred in Fiscal Year 2020-21, but due to the lengthy reimbursement process, were paid in subsequent years, with the largest amount received in Fiscal Year 2023-24.

⁽²⁾ In Fiscal Year 2024-25, one-time transfers of \$10 million to Internal Service Funds and \$11 million to the Debt Service Fund were made.

⁽³⁾ Includes (i) \$1,725,408 nonspendable fund balance and (ii) 43,056,742 restricted fund balance as of June 30, 2024 (see "Financial Statements – Table B-15" below).

Source: County of Santa Cruz.

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 in 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:

<u>Fiscal Year</u>	<u>Current Year’s Delinquency Rate</u>	<u>Total Delinquency Rate</u>
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-2.

TABLE B-2
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 XIII A 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-3
COUNTY OF SANTA CRUZ
GROSS ASSESSED VALUE OF ALL TAXABLE PROPERTY⁽¹⁾
(INCORPORATED CITIES AND UNINCORPORATED COUNTY AREAS)

<u>Fiscal Year</u>	<u>Secured⁽²⁾</u>	<u>Unsecured</u>	<u>Total</u>	<u>Change</u>
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-4
COUNTY OF SANTA CRUZ
LARGEST TAXPAYERS**

<u>Taxpayers</u>	<u>Type of Business</u>	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	<u>57,943,670</u>	<u>0.10</u>
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-5, together with estimated amounts for Fiscal Year 2024-25 and budgeted amounts for Fiscal Year 2025-26.

**TABLE B-5
COUNTY OF SANTA CRUZ
TAX REVENUES BY SOURCE**

<u>Source</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	Estimated <u>2024-25</u>	Budget <u>2025-26</u>
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	12,810,683	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	<u>71,573</u>	<u>62,595</u>	<u>450,891</u>	<u>508,297</u>	<u>508,000</u>
Total Tax Revenues	<u>\$161,100,815</u>	<u>\$163,997,300</u>	<u>\$172,926,545</u>	<u>\$187,797,546</u>	<u>\$198,273,000</u>

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-6
COUNTY OF SANTA CRUZ
INTERGOVERNMENTAL REVENUES**

<u>Source</u>	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>Estimated 2024-25</u>	<u>Budget 2025-26</u>
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	<u>78,702,293</u>	<u>125,612,993</u>	<u>116,206,930</u>	<u>140,005,786</u>	<u>136,712,751</u>
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	<u>95,482,976</u>	<u>90,809,295</u>	<u>89,145,562</u>	<u>98,426,946</u>	<u>102,717,372</u>
Total	124,532,291	94,496,417	89,707,179	98,677,044	106,222,325
Total All Gov't Agencies	<u>\$385,381,658</u>	<u>\$405,016,614</u>	<u>\$455,653,741</u>	<u>\$439,306,363</u>	<u>\$447,989,297</u>

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.

Short-Term Obligations

The County regularly issues tax and revenue anticipation notes. The County's 2025-26 tax and revenue anticipation notes were issued in the amount of \$42,000,000 and mature June 25, 2026.

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-7 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-7.

Table B-7 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.

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-7
SUMMARY OF LONG- AND INTERMEDIATE-TERM OBLIGATIONS
EXCLUDING PENSION AND OTHER POST-EMPLOYMENT BENEFITS
(in \$ millions)

	Principal to be		
	Outstanding	2024-25	Final
	as of 6/30/25	Payments	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⁾	<u>27.175</u>	<u>0.478</u>	2054
	\$257.713	\$16.380	
Capital Leases	3.871	0.803	2031
Leases and Subscription-based Information Technology Arrangements	<u>8.485</u>	<u>3.515</u>	2067
TOTAL LONG- AND INTERMEDIATE-TERM OBLIGATIONS	\$270.069	\$20.698	

- (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:

	<u>Miscellaneous Plan</u>		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA Tier 3</u>
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%

	<u>Safety Plan</u>		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA Tier 3</u>
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%

	<u>Safety Sheriff Plan</u>		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPRA Tier 3</u>
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

⁽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-8 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-8
ACTUAL AND PROJECTED EMPLOYER RETIREMENT CONTRIBUTIONS ⁽¹⁾

<u>Fiscal Year</u>	<u>Miscellaneous</u>		<u>Safety Plan</u>		<u>Sheriff Safety Plan</u>	
	<u>Normal Cost</u>	<u>Amortize UAL</u>	<u>Normal Cost</u>	<u>Amortize UAL</u>	<u>Normal Cost</u>	<u>Amortize UAL</u>
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-8. 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-9. 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-9
FIVE-YEAR TREND INFORMATION FOR ANNUAL PENSION CONTRIBUTIONS

<u>Fiscal Year</u>	<u>ADC for Miscellaneous Plan</u>	<u>ADC for Safety Plan</u>	<u>ADC for Safety Sheriff Plan</u>	<u>Total ADC</u>
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-10, 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-10.

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TABLE B-10
CHANGES IN NET PENSION LIABILITY BY PLAN ⁽¹⁾
ALL PLANS

	Measurement Date Fiscal Year Ended June 30			
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
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	<u>(106,579,499)</u>	<u>(99,551,466)</u>	<u>(93,562,725)</u>	<u>(86,335,503)</u>
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	<u>2,028,450,709</u>	<u>1,902,656,859</u>	<u>1,824,151,207</u>	<u>1,684,174,026</u>
Total pension liability - ending (A)	<u>\$ 2,116,466,860</u>	<u>\$2,028,450,790</u>	<u>\$1,902,656,859</u>	<u>\$1,824,151,207</u>
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	<u>(1,093,947)</u>	<u>(939,248)</u>	<u>(1,244,141)</u>	<u>(1,680,627)</u>
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)	<u>1,476,590,592</u>	<u>1,499,605,258</u>	<u>1,246,014,643</u>	<u>1,200,947,902</u>
Net pension liability - ending (A) - (B)	<u>\$1,541,418,259</u>	<u>\$1,476,590,592</u>	<u>\$1,499,605,258</u>	<u>\$1,246,014,643</u>
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:

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>	<u>Safety Sheriff Plan</u>	<u>Total</u>
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-11
CHANGES IN TOTAL OPEB LIABILITY**

	<u>Measurement Date</u>			
	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
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	<u>(7,839,062)</u>	<u>(7,752,833)</u>	<u>(7,774,781)</u>	<u>(7,502,010)</u>
Net change in total OPEB liability	(9,309,298)	(34,012,375)	(1,094,426)	23,794,998
Total OPEB liability - beginning	<u>164,055,184</u>	<u>198,067,559</u>	<u>199,161,983</u>	<u>175,366,985</u>
Total OPEB liability - ending	<u>\$154,745,886</u>	<u>\$164,055,184</u>	<u>\$198,067,559</u>	<u>\$199,161,983</u>
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-12
TREND INFORMATION FOR ANNUAL OPEB CONTRIBUTIONS**

<u>Fiscal Year</u>	<u>ADC</u>	<u>ADC as a % of Covered Payroll</u>
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.

<u>Bargaining Unit</u>	<u>Expiration Date</u>
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 2024-25.

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 2025-26.

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:

	<u>2022</u>	<u>2023</u>	<u>2024</u>
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	<u>(10,929,584)</u>	<u>(11,912,103)</u>	<u>(14,522,677)</u>
Unpaid claims and claim adjustment expenses, end of the fiscal year	<u>\$52,706,649</u>	<u>\$57,647,829</u>	<u>\$59,987,968</u>

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-13
COUNTY OF SANTA CRUZ
SELF-INSURANCE FUNDS

	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>
Operating Revenues:			
Charges for Services	\$ 24,084,225	\$32,084,135	\$40,075,259
Other Revenues	<u>2,065,079</u>	<u>3,402</u>	<u>293</u>
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	<u>1,038</u>	<u>-</u>	<u>-</u>
Total Operating Expenses	<u>35,576,485</u>	<u>36,346,417</u>	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	<u>3,900</u>	<u>135,290</u>	<u>4,907,174</u>
Total Non-Operating Revenues	<u>(448,744)</u>	<u>823,501</u>	<u>6,263,007</u>
Net Income (Loss)	(9,875,925)	(3,435,379)	4,045,916
Transfers In	4,000,000	8,347,110	-
Transfers Out	<u>-</u>	<u>(3,397,166)</u>	<u>-</u>
Change in Net Position	(5,875,925)	1,514,565	-
Beginning net position	<u>(23,469,171)</u>	<u>(29,345,096)</u>	<u>(27,830,531)</u>
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-14
COUNTY OF SANTA CRUZ
TREASURER'S PORTFOLIO
as of March 31, 2025

<u>Type of Investment</u>	<u>% of Combined Pool</u>
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	<u>4.4</u>
	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-15 and B-16 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	<u>2,997,367</u>
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	<u>3,530,930</u>
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-15
COUNTY OF SANTA CRUZ
GENERAL FUND
BALANCE SHEET
As of June 30

	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2023</u>	<u>2024</u>
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
Prepays	1,387,970	1,669,110	1,402,075	1,974,189	1,655,408
Advances to other entities	<u>128,000</u>	<u>28,247</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$173,472,350</u>	<u>\$240,235,494</u>	<u>\$271,339,870</u>	<u>\$291,380,389</u>	<u>\$359,064,217</u>
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	<u>38,982,671</u>	<u>24,174,166</u>	<u>27,009,235</u>	<u>23,867,850</u>	<u>22,514,855</u>
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	<u>-</u>	<u>-</u>	<u>78,742</u>	<u>45,074</u>	<u>16,479</u>
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	<u>36,389,874</u>	<u>63,583,349</u>	<u>80,169,108</u>	<u>81,700,073</u>	<u>116,417,894</u>
Total fund balance	<u>57,693,017</u>	<u>111,718,711</u>	<u>135,549,142</u>	<u>139,412,197</u>	<u>182,197,411</u>
Total liabilities and fund balances	<u>\$173,472,350</u>	<u>\$240,235,494</u>	<u>\$271,339,870</u>	<u>\$291,380,389</u>	<u>\$359,064,217</u>

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

Source: County of Santa Cruz Annual Comprehensive Financial Reports.

TABLE B-16
COUNTY OF SANTA CRUZ
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended June 30

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
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	<u>25,693,433</u>	<u>21,017,104</u>	<u>8,790,849</u>	<u>6,504,070</u>	<u>10,182,802</u>
Total Revenues	<u>527,225,564</u>	<u>624,152,435</u>	<u>648,841,720</u>	<u>694,200,309</u>	<u>753,183,720</u>
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	<u>1,235,408</u>	<u>917,880</u>	<u>11,425,099</u>	<u>7,260,307</u>	<u>5,144,948</u>
Total expenditures	<u>530,076,391</u>	<u>599,212,523</u>	<u>733,225,985</u>	<u>656,151,847</u>	<u>694,103,829</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,850,827)</u>	<u>24,939,912</u>	<u>(84,384,265)</u>	<u>38,048,462</u>	<u>59,109,891</u>
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	<u>894,471</u>	<u>-</u>	<u>863,259</u>	<u>308,901</u>	<u>547,281</u>
Total other financing uses	<u>(9,282,642)</u>	<u>(10,909,246)</u>	<u>108,214,696</u>	<u>(34,185,407)</u>	<u>(16,324,677)</u>
Net change in fund balance	<u>(12,133,469)</u>	<u>14,030,666</u>	<u>23,830,431</u>	<u>3,863,055</u>	<u>42,785,214</u>
Fund balance - beginning	69,826,486	57,693,017	111,718,711	135,549,142	139,412,197
Prior period adjustment ⁽²⁾	<u>-</u>	<u>39,995,028</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance as restated	<u>69,826,486</u>	<u>97,688,045</u>	<u>111,718,711</u>	<u>135,549,142</u>	<u>139,412,197</u>
Fund balance - ending	<u>\$ 57,693,017</u>	<u>\$111,718,711</u>	<u>\$135,549,142</u>	<u>\$139,412,197</u>	<u>\$182,197,411</u>

(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 14, 2025. The May Revision addresses an anticipated shortfall of approximately \$12 billion in fiscal year 2025-26 to balance the budget, considering downward revisions of key economic factors in the State’s forecast, including lower forecasted personal income tax revenues from capital gains and increased expenditures related to Medi-Cal. To address the \$12 billion anticipated shortfall in 2025-26, the May Revision includes spending reductions (\$5 billion), revenue increases/inter-fund borrowing (\$5.3 billion) and shifts of expenditures from the General Fund to other funds (\$1.7 billion). The May Revision maintains the planned withdrawal of approximately \$7.1 billion from the BSA and reflects total reserve balances of approximately \$15.7 billion at the end of fiscal year 2025-26. The May Revision does not incorporate any effect of federal cuts that are currently under consideration in Congress.

Significant features of the May Revision affecting counties and other local agencies in California include the following:

- *Natural Resources and Environment.* The May Revision maintains much of the status quo as the Proposed 2025-26 Budget with some exceptions for funding shifts and elimination of State-level projects that have not started. The May Revision does not include major cuts in the disaster and recovery space. However, as counties see reductions in federal funding, from cancellation of an infrastructure resiliency program to reductions in staffing at federal forest agencies, disaster preparedness losses may increase for local agencies.
- *Public Safety.* The May Revision reflects slightly more grant funding 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 May Revision includes \$127.9 million General Fund in fiscal year 2025-26 for probation departments, slightly higher than the Proposed 2025-26 Budget proposal of \$126.5 million General Fund.
- *Housing.* The May Revision did not include significant funding changes compared to the Proposed 2025-26 Budget.
- *Health and Human Services.* The May Revision includes \$302.4 billion (\$85.6 billion General Fund – over 35% of the State’s overall General Fund budget expenditures) for all health and human services programs in fiscal year 2025-26, slightly higher than the Proposed 2025-26 Budget. The May Revision maintains the \$93.5 million in fiscal year 2025-26 for counties to continue implementation efforts under the BHSA. However, \$55 million of the \$93.5 million total that had been funded with General Fund is now proposed to be swapped out with part of the State’s portion of Behavioral Health Services Fund dollars. The May Revision reduces slightly the IHSS program budget to \$28.3 billion for IHSS.
- *Homelessness.* The May Revision does not contain any new proposals related to homelessness funding.
- *Transportation.* The May Revision budget provides no significant new funding, and proposes no significant funding shifts to major transportation programs.

LAO's Comments on the May Revision

On May 17, 2025, the LAO offered initial comments on the May Revision. Overall, the LAO's assessment of the State's budget condition for fiscal year 2025-26 is very similar to that of the administration's assessment - namely, since January, when the budget was roughly balanced, a budget problem has emerged. The LAO estimated that the administration solved a \$14 billion budget problem (similar to the \$12 billion budget problem cited by the Governor). This budget problem is driven by two key factors: higher baseline spending, most notably in Medi-Cal, and lower revenues, reflecting diminished expectations for both the personal income tax and the corporation tax. The May Revision proposes \$9.5 billion in spending solutions, including about \$5 billion in spending reductions. A significant share of these spending solutions are ongoing and grow to \$17.5 billion by the last year of the administration's forecast—helping to address, but not fully solve, the State's persistent multiyear deficits. Notably, the administration does not propose using any more in reserves to address this new budget problem, which the LAO considers to be prudent. The LAO recommended that the Legislature address the budget shortfall with a similar approach that the administration took and avoiding committing to new activities. According to the LAO's comment, persistent fiscal imbalance and added downside risks - particularly from potential federal actions - suggests a need for a more proactive approach to persistent structure deficits. The LAO views the Governor's focus on reducing multiyear spending as a reasonable and appropriate step, but the Legislature could allocate the mix of solutions differently, for example, by changing the types of programs, types of reductions, or mix of spending and revenue solutions adopted.

Potential Impact of State Budget and Federal Policy 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. As noted, in its May Revision to the Proposed 2025-26 Budget, the State did not incorporate any effect of federal cuts that are currently under consideration in Congress, any of which may have implications for the State budget and the County's budget, particularly in the areas of health, housing and transportation.

Federal policies involving taxation, appropriations, borrowing (including the debt ceiling), trade (including tariffs), immigration, climate change, clean energy, and other topics can shift, sometimes dramatically, from one presidential administration or Congress to another. From time to time, such shifts can result in reductions to the level of federal funding for a variety of policy priorities, including transportation, housing, healthcare, social services, and other federally funded programs. Recently, several such policy shifts, including delays in grants and other appropriations, have been proposed or promulgated through presidential executive orders, and other official and unofficial actions at the federal level. The County cannot predict the outcome of such proposals and other actions, nor the potential impacts of any future changes in federal policy. However, such changes could in the future have adverse effects on revenues, operations or capital funding requirements. See "APPENDIX B – Fiscal Year 2025-26 Overview."

The County staff expects to return to the Board at such a time when a response is required in alignment with development of the Federal budget or any subsequent changes in the State budget.

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

APPENDIX D
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”), dated as of _____, 2025, is executed and delivered by the County of Santa Cruz (the “County”) in connection with the issuance of Santa Cruz County Capital Financing Authority (“the Authority”) Lease Revenue Bonds, 2024 Series C (the “2025A Bonds”) pursuant to an Indenture of Trust dated as of June 1, 2024, as amended and supplemented by a First Supplemental Indenture, dated as of August 1, 2025 (as amended and supplemented, the “Indenture”) by and between the Authority and The Bank of New York Mellon Trust Company, N.A.

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the County for the benefit of the holders and beneficial owners of the 2025A Bonds 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 above and in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section 2, the following capitalized terms shall have the following meanings:

“*Annual Report*” means any Annual Report provided by the County pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“*Beneficial Owner*” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any 2025 Bond (including persons holding any 2025A Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2025A Bond for federal income tax purposes.

“*Disclosure Representative*” means the Auditor-Controller-Treasurer-Tax Collector of the County, or such person’s designee, or such other officer or employee of the County as the County shall designate as the Disclosure Representative hereunder in writing to the Dissemination Agent from time to time.

“*Dissemination Agent*” means 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.

“*EMMA*” or “*Electronic Municipal Market Access*” means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

“*Listed Events*” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“*MSRB*” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“*Official Statement*” means the final official statement executed by the Authority and the County in connection with the issuance of the 2025A Bonds.

“*Participating Underwriter*” means the original underwriter of the 2025A Bonds required to comply with the Rule in connection with offering of the 2025A Bonds.

“*Rule*” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The County shall, or shall cause the Dissemination Agent to, not later than the February 15 occurring after the end of each fiscal year of the County, commencing with the report for the 2024-25 fiscal year, which is due not later than February 15, 2026, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that any audited financial statements of the County may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the County's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b), and subsequent Annual Report filings shall be made no later than six months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than 5 Business Days prior to the date specified in subsection (a) (or, if applicable, subsection (b) of this Section 3 for providing the Annual Report to EMMA), the County shall provide the Annual Report to the Dissemination Agent (if other than the County). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the County.

(d) *Report of Non-Compliance.* If the County is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the County shall in a timely manner send a notice to EMMA in an electronic format prescribed by the MSRB. If the County is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in a timely manner in an electronic format prescribed by the MSRB.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the County, file a report with the County certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Certificate, stating the date it was so provided and filed.

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

(a) *Financial Statements.* Audited financial statements of the County for the most recently completed fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the County's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* The Annual Report for each fiscal year shall also include the following information for the most recently completed fiscal year:

- (i) Gross Assessed Value of All Taxable Property;
- (ii) Largest Taxpayers;
- (iii) County-wide Secured Property Tax Levies and Collections;
- (iv) Tax Revenues by Source;
- (v) General Fund Balance Sheet; and

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

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the County or related public entities, which are available to the public on EMMA. The County shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the County shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Listed 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 2025A Bonds:

- (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) Bond 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 EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in 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 2025A Bonds under the Indenture.

(c) The County acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a 2025A Bond call), (a)(10), (a)(13), (a)(14) and (a)(15) of this Section 5 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 2025A Bonds. 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 County 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 agency, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental agency 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 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The County’s obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2025A Bonds.

Section 8. 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 Dissemination Agent, with or without appointing a successor Dissemination Agent. The

initial Dissemination Agent shall be Harrell & Company Advisors, LLC. Any Dissemination Agent may resign by providing 30 days' written notice to the County.

Section 9. Amendment; Waiver. 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, provided that the Dissemination Agent shall not be obligated to enter into any amendment increasing or affecting its duties or obligations and further provided that the following conditions are satisfied:

(a) *Change in Circumstances.* If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2025A Bonds, or type of business conducted;

(b) *Compliance as of Issue Date.* The undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2025A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) *Consent of Holders; Non-impairment Opinion.* The proposed amendment or waiver either (i) is approved by holders of the 2025A Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the 2025A Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the County to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(b).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the County chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the County shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the County fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the 2025A Bonds 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 Indenture, 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 12. Duties, Immunities and Liabilities of Dissemination Agent.

(a) The Dissemination Agent shall be entitled to the protections and limitations afforded to the Trustee under the Indenture. 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 they 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 Dissemination Agent shall have no duty or obligation to review any information provided to it by the County hereunder, and shall not be deemed to be acting in any fiduciary capacity for the County, the 2024 Bond holders or any other party. The obligations of the County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2025A Bonds.

(b) The Dissemination Agent shall be paid compensation by the County for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the County, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the 2025A Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2025

COUNTY OF SANTA CRUZ

By: _____

Auditor-Controller-Treasurer-Tax Collector

AGREED AND ACCEPTED:
HARRELL & COMPANY ADVISORS, LLC,
as Dissemination Agent

By: _____

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 2025A Bonds, payment of principal, interest and other payments on the 2025A Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the 2025A Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the 2025A Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the 2025A Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 2025A Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2025A Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2025A Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2025A Bonds (the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

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

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

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

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

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

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

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

8. Redemption proceeds 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 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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