

PRELIMINARY OFFICIAL STATEMENT DATED July __, 2017**NEW ISSUE – FULL BOOK ENTRY**

RATINGS: Fitch: “[AA-]”
S&P: “[AA]”
(See “RATINGS” herein)

In the opinion of Nixon Peabody LLP, Special Counsel, under existing law and assuming compliance with the tax covenants described herein, and the accuracy of certain representations and certifications made by the County described herein, the interest component of Base Rental Payments paid by the County under the Lease Agreement and received by the owners of the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”). Special Counsel is also of the opinion that such interest component is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Special Counsel is further of the opinion that such interest component is exempt from personal income taxes of the State of California (the “State”) under present State law. See “TAX MATTERS” herein regarding certain other tax considerations.

\$[_____]*

**COUNTY OF MONTEREY
 CERTIFICATES OF PARTICIPATION
 (2017 PUBLIC FACILITIES REFUNDING)**

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

The Certificates evidence direct, fractional undivided interests of the Owners thereof in the Base Rental Payments (which include principal components and interest components) to be made by the County of Monterey, California (the “County”) for the use of certain real property (the “Property”) pursuant to a Lease Agreement, dated as of August 1, 2017 (the “Lease Agreement”), by and between the County, as lessee, and the County of Monterey Public Improvement Corporation (the “Corporation”), as lessor. The proceeds of the Certificates will be used to (i) prepay all of the outstanding County of Monterey Certificates of Participation (2007 Refunding and Public Facilities Financing) and (ii) pay the costs incurred in connection with the execution and delivery of the Certificates. See “PLAN OF REFUNDING.” The County has covenanted under the Lease Agreement to make all Base Rental Payments and Additional Rental Payments (collectively, the “Rental Payments”) provided for therein, to include all such Rental Payments as a separate line item in its annual budgets, and to make the necessary annual appropriations for all such Rental Payments. See “SECURITY AND SOURCES OF PAYMENT.”

The County’s obligation to make Rental Payments is subject to abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the County’s right to use and occupy any portion of the Property. See “RISK FACTORS – Abatement.”

Interest represented by the Certificates is payable semiannually on April 1 and October 1 of each year, commencing on October 1, 2017. See “THE CERTIFICATES” herein. The Certificates will be initially delivered only in book-entry form and will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of Certificates will not receive certificates representing their ownership interests in the Certificates purchased. The Certificates will be delivered in denominations of \$5,000 and any integral multiple thereof. Principal and interest payments evidenced by the Certificates are payable directly to DTC by U.S. Bank National Association, as trustee (the “Trustee”). Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See APPENDIX E – “BOOK-ENTRY ONLY SYSTEM.”

The Certificates are subject to prepayment prior to maturity as described herein. See “THE CERTIFICATES – Prepayment Provisions.”

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

MATURITY SCHEDULE
 See Inside Cover Page

This cover page contains information for reference only. Investors must read the entire Official Statement to obtain information essential in making an informed investment decision. See “RISK FACTORS” for a discussion of factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

The Certificates will be offered when, as and if executed and delivered and received by the Underwriter, subject to the approval by Nixon Peabody LLP, Los Angeles, California, Special Counsel to the County. Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, San Francisco, California. Certain legal matters will be passed upon for the County by Nixon Peabody LLP, Los Angeles, California, as Disclosure Counsel to the County, and for the County and the Corporation by County Counsel. It is anticipated that the Certificates in definitive form will be available for delivery to DTC in New York, New York on or about August __, 2017.

BARCLAYS

Dated: August __, 2017

* Preliminary, subject to change.

MATURITY SCHEDULE

\$_____ Serial Certificates

| <u>Maturity Date (August 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Yield</u> | <u>CUSIP No.[†]</u> |
|-------------------------------------|-----------------------------|--------------------------|--------------|------------------------------|
| | \$ | % | % | |

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\$_____ % Term Certificates Due August 1, 20__ – Price: _____% * CUSIP[†] 612448____

\$_____ % Term Certificates Due August 1, 20__ – Price: _____% * CUSIP[†] 612448____

* Priced to the first optional call date on August 1, 20__ at par.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the County, the Underwriter or their respective agents or counsel assumes responsibility for the accuracy of such numbers.

COUNTY OF MONTEREY, CALIFORNIA

BOARD OF SUPERVISORS

Mary L. Adams, *Chair, District Five*
Luis Alejo, *Vice Chair, District One*
John Phillips, *District Two*
Simón Salinas, *District Three*
Jane Parker, *District Four*

COUNTY OFFICIALS

Lew C. Bauman, *County Administrative Officer*
Mary Zeeb, *Treasurer – Tax Collector*
Michael J. Miller, *Auditor – Controller*
Charles J. McKee, *County Counsel*
Steve Vagnini, *Assessor – Clerk Recorder*

COUNTY OF MONTEREY PUBLIC IMPROVEMENT CORPORATION

BOARD OF DIRECTORS

Michael J. Miller, *President*
Mary Zeeb, *Vice-President*
Dewayne Woods, *Secretary/Treasurer*

SPECIAL SERVICES

Special Counsel and Disclosure Counsel
Nixon Peabody LLP
Los Angeles, California

Trustee
U.S. Bank National Association
San Francisco, California

Municipal Advisor
KNN Public Finance, LLC
Oakland, California

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

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. 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 facts.

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

The information set forth herein has been obtained from the County and from other sources and is believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof. This Official Statement is submitted in connection with the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE CERTIFICATES TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SUCH PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "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. No assurance is given that actual results will meet the County's forecasts in any way. Neither the County nor the Corporation is obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur or do not occur.

The County maintains a website, however, the information presented therein is not a part of this Official Statement and should not be relied on in making an investment decision with respect to the Certificates.

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OFFICIAL STATEMENT
\$[_____]*
COUNTY OF MONTEREY
CERTIFICATES OF PARTICIPATION
(2017 Public Facilities Refunding)

INTRODUCTION

This Official Statement (which includes the cover page, inside cover page and appendices hereto) (this “Official Statement”), provides certain information concerning the sale and delivery of County of Monterey Certificates of Participation (2017 Public Facilities Refunding) evidencing direct, fractional undivided interests of the owners thereof in base rental payments to be made by the County of Monterey, California. This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and in the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Certificates (as defined herein) to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Trust Agreement or the Lease Agreement shall have the same meanings assigned to such terms therein. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS.”

General

This Official Statement is provided to furnish information in connection with the execution, sale and delivery of \$[_____]* aggregate principal amount of Certificates of Participation (2017 Public Facilities Refunding) (the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of August 1, 2017 (the “Trust Agreement”), by and among the County of Monterey (the “County”), the County of Monterey Public Improvement Corporation (the “Corporation”) and U.S. Bank National Association, as trustee (the “Trustee”).

Proceeds of the Certificates will be used to (i) prepay all of the County of Monterey Certificates of Participation (2007 Refunding and Public Facilities Financing) outstanding in the principal amount of \$103,600,000 (the “Prepaid Certificates”) and (ii) pay the costs incurred in connection with the execution and delivery of the Certificates. See “PLAN OF REFUNDING” and “ESTIMATED SOURCES AND USES OF FUNDS.” The County will lease certain County owned facilities (the “Property”) to the Corporation pursuant to a Ground Lease, dated as of August 1, 2017 (the “Ground Lease”). The Corporation will sublease the Property back to the County pursuant to a Lease Agreement, dated as of August 1, 2017 (the “Lease Agreement”). See “THE PROPERTY” herein. The Certificates are payable solely from and secured by certain lease payments (“Base Rental Payments”) to be made by the County to the Corporation pursuant to the Lease Agreement. The County has covenanted under the Lease Agreement to make all Base Rental Payments and Additional Rental Payments (collectively, the “Rental Payments”)

* Preliminary, subject to change.

provided for therein, to include all such Rental Payments as a separate line item in its annual budgets, and to make the necessary annual appropriations for all such Rental Payments. See “SECURITY AND SOURCES OF PAYMENT” and “THE PROPERTY.”

Interest with respect to the Certificates is payable on April 1 and October 1 of each year, commencing on October 1, 2017. The Certificates will mature in the amounts and on the dates and bear interest at the rates shown on the inside cover page of this Official Statement. See “THE CERTIFICATES.”

The County

The County borders the Pacific Ocean almost at the midpoint of the California coastline, approximately 100 miles south of San Francisco and 240 miles north of Los Angeles. It covers an area of approximately 3,771 square miles, with a population of approximately [442,365] as of January 1, 2017. Agriculture, tourism, and government are major contributors to the County’s economy. The County’s General Fund budget for Fiscal Year 2016-17 included revenues of approximately \$[621.1] million and a beginning available unassigned fund balance of approximately \$[6.0] million. The General Fund budget for Fiscal Year 2017-18 includes revenues of approximately \$[636.3] million and a beginning available unassigned fund balance of approximately \$[6.6] million. See “THE COUNTY,” “COUNTY FINANCIAL INFORMATION” and APPENDIX A – “GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE COUNTY.”

Security and Sources of Payment

The Certificates will be executed and delivered pursuant to the Trust Agreement and will evidence direct, fractional undivided interests in the Base Rental Payments to be made by the County under the Lease Agreement for the use of the Property. See “THE PROPERTY.” The Trustee and the Corporation will enter into an Assignment Agreement, dated as of August 1, 2017 (the “Assignment Agreement”), pursuant to which the Corporation will assign to the Trustee for the benefit of the Certificate Owners all of the Corporation’s right, title and interest in and to the Ground Lease and the Lease Agreement, including its right to receive the Base Rental Payments due under the Lease Agreement.

The County will covenant under the Lease Agreement to take such action as may be necessary to include all Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. See “SECURITY AND SOURCES OF PAYMENT – Sources of Funds for Rental Payments; Covenant to Appropriate Funds.” Rental Payments are subject to complete or partial abatement during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the County’s right to use and occupy any portion of the Property. See “RISK FACTORS.”

THE OBLIGATION OF THE COUNTY TO MAKE THE BASE RENTAL PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE COUNTY OR OF THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT

CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

For more complete and detailed information, see “SECURITY AND SOURCES OF PAYMENT.” For a discussion of certain risks associated with the County’s ability to make Base Rental Payments for the Property, see “RISK FACTORS.”

No Reserve Fund

The County will not fund a reserve fund for the Certificates. Amounts held or to be held in a reserve fund or account established for any other series of bonds or certificates or any reserve fund credit policy for any other series of bonds or certificates will not be used or drawn upon to pay principal or interest evidenced by the Certificates.

Description of the Certificates

The Certificates will be executed and delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive certificates representing their ownership interests in the Certificates purchased. The Certificates will be delivered in denominations of \$5,000 and any integral multiple thereof. Principal and interest payments evidenced by the Certificates are payable directly to DTC by the Trustee. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the Certificates. See “THE CERTIFICATES – General” and APPENDIX E – “BOOK-ENTRY ONLY SYSTEM.”

The Certificates are subject to prepayment as described herein. See “THE CERTIFICATES – Prepayment Provisions.”

For a more complete description of the Certificates and the basic documentation pursuant to which they are being sold and delivered, see “THE CERTIFICATES,” “SECURITY AND SOURCES OF PAYMENT” and APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” The summaries and descriptions in this Official Statement of the Trust Agreement, the Lease Agreement, the Ground Lease, the Assignment Agreement, the Continuing Disclosure Agreement and other agreements relating to the Certificates are qualified in their entirety by the respective form thereof and the information with respect thereto included in such documents.

Offering and Delivery of the Certificates

The Certificates are offered when, as and if executed, delivered and received by the Underwriter, subject to approval by Special Counsel and the satisfaction of certain other conditions. It is anticipated that the Certificates will be available in book-entry form for delivery through DTC in New York, New York, on or about August ___, 2017.

Certificate Owners' Risks

Certain events could affect the ability of the County to make the Base Rental Payments when due. See "RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Certificates.

Abatement

Under the Lease Agreement, the obligation of the County to make Rental Payments is subject to abatement in whole or in part during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the County's right to use and occupy any portion of the Property or any portion thereof. The amount of the abatement will be such that the resulting Rental Payments do not exceed the fair rental value of the portions of the Property as to which there is no such substantial interference. See "SECURITY AND SOURCES OF PAYMENT – Abatement" and "RISK FACTORS – Abatement." Abatement of Rental Payments under the Lease Agreement, to the extent payment is not made from alternative sources as set forth below, would result in all Certificate Owners receiving less than the full amount of principal and interest evidenced by the Certificates. To the extent proceeds of insurance are available, Rental Payments (or a portion thereof) may be made during periods of abatement in amounts in excess of the annual fair rental value of that portion of the Property available for use and occupancy by the County.

Tax Matters

For a summary of the opinion of Nixon Peabody LLP, Los Angeles, California, Special Counsel, see "TAX MATTERS" herein and APPENDIX D – "PROPOSED FORM OF OPINION OF SPECIAL COUNSEL."

Continuing Disclosure

The County has agreed to provide through the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board ("MSRB") certain annual financial information and operating data and, in a timely manner, notice of certain enumerated events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934. See "CONTINUING DISCLOSURE" and APPENDIX F – "FORM OF CONTINUING DISCLOSURE AGREEMENT" herein for a description of the specific nature of the annual report and notices of enumerated events and a summary description of the terms of the disclosure agreement pursuant to which such reports are to be made.

Other Information

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement will, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof. The presentation of information, including tables of receipt of revenues, is intended to

show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the County. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future. The descriptions herein of the Trust Agreement, the Ground Lease, the Lease Agreement, the Assignment Agreement, and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” Copies of the documents are on file and available for inspection at the office of the Trustee at [_____], San Francisco, California.

THE CERTIFICATES

General

The Certificates evidence and represent direct, fractional undivided interests of the Owners thereof in the principal and interest components of Base Rental Payments to be made by the County pursuant to the Lease Agreement. The Certificates will be dated as of their initial date of delivery and will be executed and delivered in denominations of \$5,000 or integral multiples thereof. The interest components evidenced by the Certificates will be due and payable semiannually on April 1 and October 1 of each year, commencing on October 1, 2017.

Interest evidenced by the Certificates will be computed on the basis of a 360-day year consisting of twelve, 30-day months. The Base Rental Payments evidenced by the Certificates will be payable no later than the second Business Day next preceding each Interest Payment Date, the principal components of which will be payable in the amounts and at the times, and the interest components of which will be calculated at the rates per annum, all as set forth on the inside cover page of this Official Statement.

The Certificates will be subject to the DTC Book-Entry System of registration, transfer and payment, and each Certificate will initially be registered in the name of Cede & Co., as nominee. As part of such Book-Entry System, DTC has been appointed securities depository for the Certificates, and registered ownership may not thereafter be transferred except as provided in the Trust Agreement. The Certificates are being delivered in book-entry form only. Purchasers will not receive securities certificates representing their interests in the Certificates. Rather, in accordance with the Book-Entry System, purchasers of Certificates will have beneficial ownership interests in the purchased Certificates through DTC Participants. For more information concerning the Book-Entry System, see APPENDIX E – “BOOK-ENTRY ONLY SYSTEM” herein.

While the Certificates are subject to the Book-Entry System, payments of principal and interest evidenced by the Certificates will be made by the Trustee to DTC, which in turn is obligated to remit such principal and interest to its DTC Participants for subsequent disbursement to beneficial owners of the Certificates as described herein. See APPENDIX E – “BOOK-ENTRY ONLY SYSTEM” herein.

Exchange and Transfer

The following provisions regarding the exchange and transfer of the Certificates apply only during any period in which the Certificates are not subject to the Book-Entry System. While the Certificates are subject to the Book-Entry System, their exchange and transfer will be effected through DTC and the DTC Participants and will be subject to the procedures, rules and requirements established by DTC.

Each Certificate is transferable by the Owner thereof, in person or by such Owner's attorney duly authorized in writing, at the Principal Office of the Trustee on the Registration Books, upon surrender of such Certificate for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Whenever any Certificate shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates evidencing principal in the same aggregate amount and having the same stated Principal Payment Date. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

Each Certificate may be exchanged at the Principal Office of the Trustee for Certificates evidencing principal in a like aggregate amount and having the same stated Principal Payment Date in such Authorized Denominations as the Owner thereof may request. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange. The Trustee shall not be required to transfer or exchange any Certificate during the period commencing on the date five days before the date of selection of Certificates for prepayment and ending on the date of mailing notice of such prepayment, nor shall the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

Prepayment Provisions

Optional Prepayment. The Certificates maturing on or before October 1, 20__ are not subject to optional prepayment prior to their stated Principal Payment Dates. The Certificates maturing on and after October 1, 20__ are subject to optional prepayment prior to their stated Principal Payment Dates on any date on or after October 1, 20__, in whole or in part, in Authorized Denominations, from and to the extent of prepaid Base Rental Payments paid pursuant to the Lease Agreement from any source of available funds, any such prepayment to be at a price equal to the principal evidenced by the Certificates to be prepaid, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium.

Extraordinary Prepayment. The Certificates are subject to extraordinary prepayment on any date prior to their stated Principal Payment Dates, in whole or in part, in Authorized Denominations, from and to the extent of any insurance proceeds or condemnation award paid with respect to all or a portion of the Property remaining after payment therefrom of all reasonable expenses incurred in the collection thereof (the "Net Proceeds") received with respect to all or a portion of the Property and deposited by the Trustee in the Prepayment Fund in accordance with the Trust Agreement, at a prepayment price equal to the principal evidenced by

the Certificates to be prepaid, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium.

Mandatory Sinking Account Prepayment. The Certificates with a stated Principal Payment Date of October 1, 20__ are subject to prepayment prior to their stated Principal Payment Date, in part, from Mandatory Sinking Account Payments, on each October 1 specified below, at a prepayment price equal to the principal evidenced thereby, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium. The principal evidenced by such Certificates to be so prepaid and the dates therefor will be as follows:

| Sinking Fund Prepayment Date (October) | Principal Amount to be Prepaid |
|--|-----------------------------------|
| <hr/> | <hr/> |
| | \$ |

* Maturity

In each case, the amount of such mandatory sinking account prepayment will be reduced proportionately in the event and to the extent of any and all prepayments of Certificates with a stated Principal Payment Date of October 1, 20[____] other than mandatory sinking account prepayments.

Selection of Certificates for Prepayment. Whenever less than all the Outstanding Certificates are to be prepaid on any one date, the Trustee will select the Certificates to be prepaid (a) with respect to any extraordinary prepayment of Certificates, among Certificates with different stated Principal Payment Dates in proportion to the amount by which the principal components of the Base Rental Payments evidenced by such Certificates are abated pursuant to the Lease Agreement, and (b) with respect to any optional prepayment of Certificates, as directed in a Written Request of the County, and by lot among Certificates with the same stated Principal Payment Date in any manner that the Trustee deems fair and appropriate, which decision will be final and binding upon the County, the Corporation and the Owners.

Notice of Prepayment. The Trustee will mail (by first class mail) notice of any prepayment to the respective Owners of any Certificates designated for prepayment at their respective addresses appearing on the Registration Books at least 20 but not more than 60 days prior to the date fixed for prepayment. Such notice will state the date of the notice, the prepayment date, the prepayment place and the prepayment price and will designate the CUSIP numbers, if any, the Certificate numbers and the stated Principal Payment Date or Principal Payment Dates of the Certificates to be prepaid (except in the event of prepayment of all of the Certificates in whole), and will require that such Certificates be then surrendered at the Principal Office of the Trustee for prepayment at the prepayment price, giving notice also that further interest evidenced by such Certificates will not accrue from and after the date fixed for prepayment. Neither the failure to receive any notice so mailed, nor any defect in such notice,

will affect the validity of the proceedings for the prepayment of the Certificates or the cessation of accrual of interest evidenced thereby from and after the date fixed for prepayment.

While the Certificates are subject to the Book-Entry System, the Trustee will be required to give notice of prepayment only to DTC as provided in the letter of representations, and the Trustee will not be required to give any such notice of prepayment to any other person or entity. DTC and the DTC Participants will have sole responsibility for providing any such notice of prepayment to the beneficial owners of the Certificates to be prepaid. Any failure at DTC to notify any DTC Participant, or any failure of a DTC Participant to notify the beneficial owner of any Certificates to be prepaid, of a notice of prepayment or its content or effect will not affect the validity of the notice of prepayment, or alter the effect of prepayment described below under “Effect of Prepayment.”

With respect to any notice of any optional prepayment of Certificates, unless at the time such notice is given the Certificates to be prepaid will be deemed to have been paid within the meaning of and effect of the Trust Agreement regarding defeasance of Certificates, such notice will state that such prepayment is conditional upon receipt by the Trustee, on or prior to the date fixed for such prepayment, of moneys that, together with other available amounts held by the Trustee, are sufficient to pay the prepayment price of, and accrued interest evidenced by, the Certificates to be prepaid, and that if such moneys will not have been so received said notice will be of no force and effect and such Certificates will not be required to be prepaid. In the event a notice of prepayment of Certificates contains such a condition and such moneys are not so received, the prepayment of Certificates as described in the conditional notice of prepayment will not be made and the Trustee will, within a reasonable time after the date on which such prepayment was to occur, give notice to the Persons and in the manner in which the notice of prepayment was given, that such moneys were not so received and that there will be no prepayment of Certificates pursuant to such notice of prepayment.

Partial Prepayment of Certificates. Upon surrender of any Certificate prepaid in part only, the Trustee will execute and deliver to the Owner thereof a new Certificate or Certificates evidencing the unprepaid principal evidenced by the Certificate surrendered.

Effect of Prepayment. If notice of prepayment has been duly given as aforesaid and moneys for the payment of the prepayment price of the Certificates to be prepaid are held by the Trustee, then on the prepayment date designated in such notice, the Certificates so called for prepayment will become payable at the prepayment price specified in such notice; and from and after the date so designated, interest evidenced by the Certificates so called for prepayment will cease to accrue, such Certificates will cease to be entitled to any benefit or security under the Trust Agreement and the Owners of such Certificates will have no rights in respect thereof except to receive payment of the prepayment price thereof, and such moneys will be pledged to such prepayment. The Trustee will, upon surrender for payment of any of the Certificates to be prepaid, pay such Certificates at the prepayment price thereof.

All Certificates prepaid as provided above will be canceled by the Trustee and will not be redelivered.

SECURITY AND SOURCES OF PAYMENT

Nature of the Certificates

Each Certificate evidences a direct, fractional undivided interest in the principal component of the Base Rental Payment due under the Lease Agreement on the payment date or prepayment date of such Certificate, and the interest component of all Base Rental Payments.

The Corporation, pursuant to the Assignment Agreement, will assign to the Trustee for the benefit of the Certificate Owners all of the Corporation's right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, its right to receive Base Rental Payments to be paid by the County under and pursuant to the Lease Agreement. The County will pay Base Rental Payments directly to the Trustee, as assignee of the Corporation. See "Base Rental Payments" below.

Base Rental Payments

For the use and possession of the Property, the Lease Agreement requires the County to make Base Rental Payments. The County is required to pay to the Trustee, for deposit into the Base Rental Payment Fund, not later than the second Business Day next preceding each Interest Payment Date, an amount sufficient to pay the Base Rental Payment then due.

Pursuant to the Trust Agreement, the Trustee will (i) on each Interest Payment Date, deposit in the Interest Fund that amount of moneys representing the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date; and (ii) on each Principal Payment Date and each Mandatory Sinking Account Payment Date, deposit in the Principal Fund that amount of moneys representing the portion of the Base Rental Payments designated as the principal component coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. Moneys in the Principal Fund will be used by the Trustee for the purpose of paying the principal evidenced by the Certificates when due and payable at their stated Principal Payment Date or upon earlier prepayment from Mandatory Sinking Account Payments to provide for the payment of the interest and principal evidenced by the Certificates.

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

Sources of Funds for Rental Payments; Covenant to Appropriate Funds

The County has covenanted under the Lease Agreement to take such action as may be necessary to include all Base Rental Payments and Additional Rental Payments (which include taxes and assessments affecting the Property, administrative costs of the Corporation relating to the Property, fees and expenses of the Trustee, insurance premiums and other amounts payable

under the Lease Agreement or the Trust Agreement), due under the Lease Agreement as a separate line item in its annual budgets and to make the necessary annual appropriations therefor.

Abatement

Base Rental Payments are paid by the County in each Rental Period for the County's right to use and occupy the Property for such Rental Period. The obligation of the County to pay Rental Payments will be abated, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the County's right to use and occupy any portion of the Property, Rental Payments will be abated proportionately, and the County waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement will continue in full force and effect. The County and the Corporation will, in a reasonable manner and in good faith, determine the amount of such abatement; provided, however, that the Rental Payments due for any Rental Period will not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the County during such Rental Period. The County and the Corporation will provide the Trustee with a certificate setting forth the amount of abatement and the basis therefor. 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 Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed. Notwithstanding the foregoing, to the extent that Net Proceeds of rental interruption insurance are available for the payment of Rental Payments, Rental Payments will not be abated as provided in above but, rather, will be payable by the County as a special obligation payable solely from such Net Proceeds.

The Trustee cannot terminate the Lease Agreement in the event of such substantial interference. Abatement of Rental Payments is not an event of default under the Lease Agreement and does not permit the Trustee to take any action or avail itself of any remedy against the County. For a description of abatement resulting from condemnation of all or part of the Property, see APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – LEASE AGREEMENT – *Rental Abatement*."

It is not possible to predict the circumstances under which such an 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, it may be that the value of the Property is substantially higher or lower than its value at the time of the execution and delivery of the Certificates. Abatement, therefore, could have an uncertain and material adverse effect on the security for and payment of the Certificates.

If damage, destruction, title defect or eminent domain proceedings with respect to the Property result in abatement of the Rental Payments related to such Property and if such abated Rental Payments, if any, together with moneys from rental interruption or use and occupancy insurance (in the event of any insured loss due to damage or destruction), and eminent domain

proceeds, if any, are insufficient to make all payments of principal and interest evidenced by the Certificates during the period that the Property is being replaced, repaired or reconstructed, then all or a portion of such payments of principal and interest may not be made. Under the Lease Agreement and the Trust Agreement, no remedy is available to the Certificate Owners for nonpayment under such circumstances.

Action on Default

Should the County default under the Lease Agreement, the Trustee, as assignee of the Corporation under the Lease Agreement, may terminate the Lease Agreement and recover certain damages from the County, or may retain the Lease Agreement and hold the County liable for all Rental Payments thereunder on an annual basis. Rental Payments may not be accelerated upon a default under the Lease Agreement. See “RISK FACTORS.”

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Corporation) contained in the Lease Agreement and the Trust Agreement, see APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – LEASE AGREEMENT – *Events of Default and Remedies*” and “– TRUST AGREEMENT – *Events of Default and Remedies*.”

Additional Rental Payments

The Lease Agreement requires the County to pay, as Additional Rental Payments thereunder in addition to the Base Rental Payments, such amounts as will be required for the payment of the following: (i) all taxes and assessments of any type or nature charged to the Corporation or the County with respect to or affecting the Property or the respective interests or estates of the Corporation or the County therein; (ii) insurance premiums for all insurance required under the Lease Agreement; and (iii) all other payments not constituting Base Rental Payments required to be paid by the County pursuant to the provisions of the Lease Agreement including all expenses, compensation and indemnification of the Trustee payable by the County under the Trust Agreement and any amounts with respect to the Lease Agreement or the Certificates required to be rebated to the federal government, and all other payments required to be paid by the County under the Lease Agreement or the Trust Agreement.

Insurance

The Lease Agreement requires the County to cause to be maintained casualty insurance insuring the Property against fire, lightning and all other risks covered by an extended coverage endorsement (excluding earthquake and flood), subject to a \$100,000 loss deductible provision, in an amount equal to the full insurable value of the Property. The casualty insurance required by the Lease Agreement may be maintained in the form of self-insurance by the County, in compliance with the terms of the Lease Agreement.

The Lease Agreement requires the County to cause to be maintained, throughout the term of the Lease Agreement, rental interruption insurance to cover the Corporation’s (or its assignee’s) loss of rental income from the Property caused by perils covered by the casualty insurance described above, in an amount not less than two times the maximum remaining

scheduled Base Rental Payments in any Rental Period. The County's obligation to maintain such rental interruption insurance may not be satisfied by self-insurance.

The County is also required to obtain certain public liability and property damage insurance coverage in protection of the County and worker's compensation insurance as described under APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – LEASE AGREEMENT – Insurance."

The County is required under the Lease Agreement to obtain title insurance on the Property, in an aggregate amount of not less than the aggregate principal evidenced by the Certificates, subject only to Permitted Encumbrances, as defined in the Lease Agreement.

No Reserve Fund

The County will not fund a reserve fund for the Certificates. Amounts held or to be held in a reserve fund or account established for any other series of bonds or certificates or any reserve fund credit policy for any other series of bonds or certificates will not be used or drawn upon to pay principal of or interest on the Certificates.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds with respect to the Certificates are shown below.

Sources

| | |
|----------------------------------|-----------|
| Principal Amount of Certificates | \$ |
| Net Original Issue Premium | |
| Release of 2007 Reserve Fund | |
| Total Sources | <u>\$</u> |

Uses

| | |
|--|-----------|
| Prepayment Fund for Prepaid Certificates | \$ |
| Costs of Issuance Fund ⁽¹⁾ | |
| Total Uses | <u>\$</u> |

⁽¹⁾ Includes legal, rating agency, printing costs, underwriter's discount, and other miscellaneous costs of issuance.

PLAN OF REFUNDING

Net proceeds from the sale of the Certificates will be used to (i) prepay all of the County of Monterey Certificates of Participation (2007 Refunding and Public Facilities Financing) outstanding in the principal amount of \$103,600,000 and (ii) pay the costs incurred in connection with the execution and delivery of the Certificates. The County will achieve debt service savings through refunding and prepaying the Prepaid Certificates.

THE PROPERTY

Description

The Property consists of the following County-owned facilities:

| <u>Facility</u> | <u>Address</u> | <u>Size (Approx. Square Feet)</u> | <u>Year Built</u> |
|--|---|---------------------------------------|-------------------|
| County Administration Building | 168 West Alisal Street Salinas, California | 130,680 | |
| Sheriff Facility | 1414 Natividad Road Salinas, California | 85,125 | |
| Salinas Courthouse (North Wing Only) | 240 Church Street Salinas, California | 22,272 | |
| Monterey Courthouse | 1200 Aquajito Road Monterey, California | 57,291 | |
| County Jail and surrounding area | 1410-1412 Natividad Road Salinas, California | 205,955 | |
| County Health Administration Building | 1270 Natividad Road Salinas, California | [_____] | |

The recently completed County Administration Building houses the Board of Supervisors, the County Administrative Officer, the Treasurer-Tax Collector, the Auditor Controller and _____. The Sheriff Facility houses the Sheriff and _____ Deputies [and is the central office of the Sheriff Department]. The North Wing of the Salinas Courthouse houses _____ trial court courtrooms. The Monterey Courthouse houses _____ courtrooms. The County Jail has _____ beds and more are being added. The [recently completed] County Health Administration Building holds [to come].

The County and the Corporation will agree and determine in the Lease Agreement that the annual fair rental value of the Property is not less than \$[_____] as of the delivery date of the Certificates. For a description of certain terms of the Lease Agreement see “SECURITY AND SOURCES OF PAYMENT” and APPENDIX E – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – LEASE AGREEMENT.”

Substitution or Release

The Lease Agreement provides that, upon compliance with certain conditions specified therein, the County may release from the Lease Agreement any portion of the Property or substitute alternate real property for all or any portion of the Property, subject to the following conditions, among others, precedent to such substitution or release: (a) an independent certified

real estate appraiser selected by the County shall have found that the Property, as constituted after such substitution or release, (i) has an annual fair rental value greater than or equal to 105% of the maximum amount of Base Rental Payments payable by the County in any Rental Period, (ii) has a replacement value at least equal to the aggregate amount of principal evidenced by the Certificates then outstanding, and (iii) has a remaining useful life equal to or greater than the remaining term of the Certificates; (b) the County shall have provided the Trustee with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest evidenced by the Certificates to be included in gross income for federal income tax purposes; and (c) the County shall have certified to the Corporation that the substituted real property is of approximately the same degree of essentiality to the County as the portion of the Property for which it is being substituted. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – LEASE AGREEMENT – *Substitution or Release of the Property.*”

The County has not granted any security interest in the Property for the benefit of the Certificates, and there is no remedy of foreclosure on the Property upon the occurrence of an Event of Default under the Trust Agreement or the Lease Agreement. For a discussion of remedies upon an Event of Default under the Trust Agreement or the Lease Agreement, see “RISK FACTORS – Limited Recourse on Default” and “– Limitations on Remedies.”

BASE RENTAL PAYMENTS

The Lease Agreement requires that Base Rental Payments be made on or before each Base Rental Deposit Date, which is the second Business Day next preceding each of the following Interest Payment Dates:

Base Rental Payment Schedule

| <u>Period Ending</u> | <u>Principal (Assuming No Optional Prepayments)</u> | <u>Interest Component</u> | <u>Semi-Annual Base Rental Payment</u> | <u>Fiscal Year Base Rental Payment</u> |
|----------------------|---|-------------------------------|--|--|
| | \$ | \$ | \$ | \$ |

| <u>Period Ending</u> | <u>Principal (Assuming No Optional Prepayments)</u> | <u>Interest Component</u> | <u>Semi-Annual Base Rental Payment</u> | <u>Fiscal Year Base Rental Payment</u> |
|----------------------|---|-------------------------------|--|--|
|----------------------|---|-------------------------------|--|--|

| Period Ending | Principal (Assuming No Optional Prepayments) | Interest Component | Semi-Annual Base Rental Payment | Fiscal Year Base Rental Payment |
|---------------|---|-----------------------|---------------------------------------|---------------------------------------|
| | \$ | \$ | \$ | \$ |

Introduction

Approximately 98% of the 3,771 square miles in the County are outside of a municipality, with approximately 25% of the residents living in these unincorporated areas. The City of Salinas is the County's largest city with approximately 162,470 residents as of January 1, 2017 and serves as the County seat. The eleven other incorporated cities are Carmel-by-the Sea, Del Rey Oaks, Gonzales, Greenfield, King City, Marina, Monterey, Sand City, Seaside, Soledad and Pacific Grove.

the entire length of the County and is one of the world's most fertile major vegetable producing areas. Agriculture, tourism, and government are major contributors to the County's economy.

The County also benefits from two wilderness areas set aside for recreational enjoyment, consisting of 468,538 total acres. The Los Padres National Forest has 304,035 acres and the Ventana Wilderness totals 164,503 acres.

See APPENDIX A – “GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE COUNTY.”

Government and Administration

The County was incorporated in 1850 as one of the State's original 27 counties. The City of Monterey was California's first capital. The City of Salinas is the County seat. The County is a general law county, and is governed by a five-member Board of Supervisors (the “Board”) elected to serve four-year terms. Other elected officials include the Assessor-Clerk-Recorder, District Attorney, Sheriff, Auditor-Controller and Treasurer-Tax Collector. The County Administrative Officer is appointed by the Board and administers the day-to-day business of the County. Averaging 4,524 full-time equivalent employees, the County government provides a full range of public services including public safety, roads and facilities, social services, administrative services, health services, sanitation services and leisure services. Typically, the department heads that run these operations, other than the elected department heads, are appointed by the County Administrative Officer.

The Treasurer-Tax Collector is an elected officer of the County. Operating under State of California statutes found in the Revenue and Taxation Code and Government Code, the Treasurer-Tax Collector performs a variety of functions which collectively contribute to the financial management network of the County, the County's school districts, and many of the County's special districts.

The Auditor-Controller is the chief fiscal officer of the County. The Auditor-Controller is elected by County voters to provide accounting, budgeting, and financial services to the public, county agencies, school districts, special districts, and cities as defined under Government Code.

Financial and Accounting Information

The governmental activities of the County are: general government, public safety and protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and cultural services. The County has two business-type activities: Natividad Medical Center and the Parks and Lake Resort, which provides an assortment of outdoor and recreational activities associated with, and on the lands surrounding, Lake San Antonio and Lake Nacimiento.

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the

means by which the spending activities are controlled. The various funds are grouped into fund and account categories as described below under the caption “COUNTY FINANCIAL INFORMATION” and in APPENDIX B – “COUNTY COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2016.”

COUNTY FINANCIAL INFORMATION

Financial Statements

The County’s Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016, which has been audited by CliftonLarsonAllen LLP, Certified Public Accountants, Roseville, California, is included in this Official Statement as APPENDIX B – “COUNTY COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2016.” The County has not requested nor has CliftonLarsonAllen given consent to the inclusion in such appendix of its report on such financial statements, nor have such accountants reviewed or performed any audit procedures in connection with the preparation of this Official Statement. The County reports that there has been no material adverse change in the County’s financial position since June 30, 2016.

The financial information presented herein was compiled from the County’s Comprehensive Annual Financial Report and from the office of the Auditor-Controller. The financial and statistical information set forth herein does not purport to be a summary of the County’s Comprehensive Annual Financial Report. The County’s Comprehensive Annual Financial Report should be read in its entirety. The Comprehensive Annual Financial Report of the County for the year ended June 30, 2016, is attached to this Official Statement as APPENDIX B – “COUNTY COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2016.” The financial information summarized herein is for information purposes only and does not constitute the complete financial statements of the County.

The Government Finance Officers Association of the United States and Canada (“GFOA”) has awarded the County with its Certificate of Achievement for Excellence in Financial Reporting for the County’s Comprehensive Annual Financial Reports for the Fiscal Years ended June 30, 2013, 2014 and 2015. The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. The GFOA is a nonprofit professional association serving approximately 16,000 government finance professionals.

Table 1
County of Monterey
General Fund Balance Sheet
Years Ended June 30, 2012 through June 30, 2016⁽¹⁾

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| ASSETS | | | | | |
| Cash and investments: | | | | | |
| Held in County Treasury | \$113,788,837 | \$119,919,869 | \$129,267,529 | \$167,219,616 | \$166,024,085 |
| Held with Trustee | — | — | — | — | — |
| Imprest cash | 23,550 | 22,626 | 23,572 | 15,830 | 14,530 |
| Restricted cash | 2,075,883 | 2,078,434 | 2,162,161 | 2,101,801 | 1,910,328 |
| Other bank accounts | — | — | 635,950 | 845,003 | 823,577 |
| Receivables | 50,376,383 | 45,211,824 | 51,381,058 | 48,860,648 | 50,080,472 |
| Due from other funds | 580,000 | 580,667 | — | 1,271,143 | 1,271,143 |
| Inventories | 195,828 | 252,782 | 251,198 | 371,000 | 328,167 |
| Property held for resale | — | — | — | — | — |
| Prepaid items and other assets | — | 9,065 | — | — | — |
| Notes receivable | — | — | — | 9,225 | — |
| Total Assets | \$167,040,481 | \$168,075,267 | \$183,721,468 | \$220,694,266 | \$220,452,302 |
| LIABILITIES | | | | | |
| Vouchers and accounts payable | \$ 10,778,036 | \$ 9,121,689 | \$ 11,697,962 | \$9,307,015 | 11,063,766 |
| Accrued salaries and benefits | 12,120,597 | 11,908,019 | 14,214,544 | 15,839,626 | 8,864,617 |
| Deposits from others | 5,990,332 | 6,658,211 | 6,942,047 | 8,933,718 | 14,351,071 |
| Deferred/unearned revenues | 46,211,445 | 18,568,316 | 15,691,772 | 22,356,951 | 14,628,494 |
| Total Liabilities | \$ 75,100,410 | \$ 46,256,235 | \$ 48,546,325 | \$ 56,437,310 | \$ 48,907,948 |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Unavailable revenues | \$ — | \$ 16,967,239 | \$ 17,269,685 | \$ 23,467,394 | \$ 22,661,336 |
| FUND BALANCES | | | | | |
| Nonspendable | \$ 195,828 | \$ 261,847 | \$ 251,198 | \$ 371,000 | \$ 328,167 |
| Restricted | — | 448,314 | 534,301 | 912,759 | 12,463,001 |
| Committed | 52,292,695 | 60,292,695 | 60,292,695 | 70,292,695 | 73,892,695 |
| Assigned | 37,065,415 | 38,328,924 | 39,275,328 | 62,597,695 | 56,180,885 |
| Unassigned | 2,386,133 | 5,520,013 | 17,551,936 | 6,615,413 | 6,018,270 |
| Total Fund Balance | \$ 91,940,071 | \$104,851,793 | \$117,905,458 | \$140,789,562 | \$148,883,018 |
| Total Liabilities and Fund Balance | \$167,040,481 | \$168,075,267 | \$183,721,468 | \$220,694,266 | \$220,452,302 |

⁽¹⁾ This statement is a summary statement only. The complete audited financial statements of the County, including the notes to the audited financial statements, are an integral part of and necessary to a complete understanding of this statement. The County of Monterey audited financial statements appear in Appendix B attached hereto. Audited financial statements for prior years can be found on the County's website or on the Electronic Municipal Market Access ("EMMA") portal maintained by the Municipal Securities Regulatory Board ("MSRB") at www.emma.msrb.org.

Source: County of Monterey Audited Financial Reports.

Table 2
County of Monterey
General Fund Statement of Actual Revenues, Expenditures
and Changes in Fund Balance
Fiscal Years Ended June 30, 2012 through June 30, 2016⁽¹⁾

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Revenues: | | | | | |
| Taxes | \$143,370,485 | \$148,497,061 | \$155,843,546 | \$162,603,935 | \$178,797,070 |
| Licenses, permits and franchises | 13,585,887 | 16,473,883 | 18,359,999 | 20,642,903 | 20,274,966 |
| Fines, forfeitures and penalties | 8,873,773 | 8,396,400 | 7,427,744 | 8,363,590 | 8,639,792 |
| Revenue from use of money and property | 2,678,849 | 3,442,461 | 3,502,579 | 4,420,843 | 7,425,172 |
| Aid from other governmental agencies | 269,422,428 | 194,085,133 | 198,090,903 | 208,518,343 | 191,816,222 |
| Charges for services | 59,275,567 | 52,098,093 | 55,475,155 | 61,958,507 | 70,296,656 |
| Tobacco settlement and other revenue | 5,685,539 | 9,850,959 | 10,681,134 | — | — |
| Miscellaneous revenue | — | — | — | 8,271,546 | 5,590,035 |
| Total Revenues | \$502,892,528 | \$432,843,990 | \$449,381,060 | \$474,779,667 | \$482,839,913 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | \$ 43,282,818 | \$ 45,505,231 | \$ 48,764,714 | \$ 51,531,855 | \$ 57,696,542 |
| Public safety and protection | 187,022,440 | 184,769,982 | 199,854,904 | 209,609,666 | 217,102,098 |
| Public ways and facilities | — | — | — | — | — |
| Health and sanitation | 121,835,061 | 58,779,143 | 61,247,488 | 64,388,364 | 69,491,575 |
| Public assistance | 148,674,747 | 153,364,552 | 158,659,347 | 162,484,589 | 172,735,116 |
| Education | 529,549 | 523,130 | 500,089 | 485,582 | 498,239 |
| Recreation and cultural services | 4,783,388 | 4,155,293 | 4,801,432 | 5,249,036 | 5,865,547 |
| Debt service: | | | | | |
| Principal | — | 343,824 | — | — | — |
| Interest and debt service costs | 603,685 | 488,251 | 1,000 | — | — |
| Capital outlay | — | — | — | — | — |
| Total Expenditures | \$506,731,688 | \$447,929,406 | \$473,828,974 | \$493,749,092 | \$523,389,117 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (3,839,160) | (15,085,416) | (24,447,914) | (18,969,425) | (40,549,204) |
| Other Financing Sources (Uses): | | | | | |
| Transfers in | \$ 23,386,903 | \$ 56,083,906 | \$ 72,656,669 | \$ 97,534,157 | \$ 86,055,797 |
| Transfers out | (13,158,425) | (28,160,622) | (34,321,244) | (54,541,213) | (37,591,839) |
| Sale of capital assets | 211,930 | 73,854 | 44,004 | 75,201 | 178,702 |
| Total Other Financing Sources (Uses) | \$ 10,440,408 | \$ 27,997,138 | \$ 38,379,429 | \$ 43,068,145 | \$ 48,642,660 |
| Net Changes in Fund Balance | \$ 6,601,248 | \$ 12,911,722 | \$ 13,931,515 | \$ 24,098,720 | \$ 8,093,456 |
| Fund Balance, Beginning of Year, as restated | 85,338,823 | 91,940,071 | 103,973,943 | 116,690,842 | 140,789,562 |
| Fund Balance, End of Year | \$ 91,940,071 | \$104,851,793 | \$117,905,458 | \$140,789,562 | \$148,883,018 |

(See footnotes on following page.)

⁽¹⁾ This statement is a summary statement only. The complete audited financial statements of the County, including the notes to the audited financial statements, are an integral part of and necessary to a complete understanding of this statement. The County of Monterey audited financial statements appear in Appendix B attached hereto. Audited financial statements for prior years can be found on the County's website or on EMMA, maintained by the MSRB at www.emma.msrb.org.

Source: County of Monterey Audited Financial Reports.

Budgetary Process

The County is required by State law to adopt a balanced budget by October 2 of each fiscal year, while the County of Monterey procedure is to adopt the budget by July 1st. The process begins in January with budget instructions issued to departments by the County Administrative Officer. The various departments develop departmental budget requests by early March. After the County Administrative Officer reviews the various departmental requests, the County Administrative Officer prepares the County recommended budget, which is summarized by department, and submits it to the Board prior to budget hearings in June. The County Auditor-Controller is responsible for monitoring and reporting expenditures within budgeted appropriations. The Board has established a Budget Committee with two members of the Board. This committee meets monthly to review financial and program issues of the County. Semiannually, the Board receives a summary review of the County's operating results as compared to the budget, with an analysis by the County Administrative Officer.

Budget data is prepared on the modified accrual basis consistent with comparable actual amounts. Budget appropriations represent original amounts adjusted by budget transfers and appropriation amendments. Encumbrance accounting is utilized during the year for budget control purposes. However, encumbrances outstanding at year-end do not constitute expenditures or liabilities, but rather reserves of fund balances. The County does, however, honor the contracts represented by year-end encumbrances. Unencumbered budget appropriations lapse at the end of the fiscal year. Board policy requires re-appropriation of carryover capital improvement projects on an annual basis after review of each project status.

Supplemental appropriations necessary and normally financed by unanticipated revenues during the year must also be approved by the Board. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances or unanticipated revenue as provided for in the County Budget Act.

The County's budget process takes place within a dynamic reporting cycle that includes continual monitoring of the County's fiscal condition to assure adjustment as needed to maintain budgetary balance throughout the fiscal year. The reporting cycle subsequently leads to and facilitates development of the budget for the next fiscal year. Key components in the process include the following:

The first quarter report provides an early indication of how closely departmental budgets are being managed within Board-approved operating plans, and highlights fiscal issues that may need closer monitoring and potential corrective action.

Assumptions for year-end estimates and a three-year forecast are developed based on a number of factors that impact future year budget funding sources and expenditures, such as negotiated salary and benefit changes, and anticipated changes in various ongoing costs for

health insurance, unemployment insurance, workers' compensation, general liability, and other costs. The three-year forecast provides a mid-year examination of year-end estimates as well as anticipated future year funding sources and expenditure needs, and identifies potential opportunities or need for corrective adjustments in the current and future year budgets.

Fiscal uncertainties related to state budget actions may also be quantified and steps are identified to additionally assure the County budget remains balanced.

Factors such as increasing costs and anticipated increases or decreases in funding sources, identified through quarterly reports, the three-year forecast, analysis of state budget impacts, and ongoing review of departmental budgets guide development of a Recommended Budget that represents a sustainable operating plan and maintains fiscal integrity.

County departments began financial planning for the Fiscal Year 2017-18 in January 2017 with development of detailed financial forecasts. Departments use the financial forecasts to estimate future levels of services that can be afforded with their program revenue and general fund contributions ("GFC"). General fund contributions are "non-departmental" monies allocated at the discretion of the Board to supplement a department's "program-specific" revenues (federal or State allotments, service charges, etc.). For forecasting purposes, departments assume their share of GFC will remain constant for the budget year. The majority of departments rely on GFC at some level to provide services and use their forecasts to plan capacity for funding future years' services.

General Fund Budgets

The Fiscal Year 2016-17 Adopted Budget included appropriations totaling \$633.7 million for all funds, representing an increase of \$500,000. The following are highlights of the Fiscal Year 2016-17 Budget and year end projections for the County's largest fund (the General Fund):

- The General Fund outperformed expectations, ending the Fiscal Year 2015-16 with an unassigned fund balance of \$6.0 million. This improvement can be attributed to conservative fiscal management and continuing efforts of department heads to tightly manage their budgets and adjust operations to match revenue flows.
- The General Fund is expected to outperform expectations by \$0.6 million for Fiscal Year 2016-17 based on preliminary (unaudited) financial data. Departments expect to end Fiscal Year 2016-17 with expenditures \$32.8 million below budget as a result of continued expenditure containment efforts. The estimated expenditure savings results in an unassigned fund balance of \$6.6 million, after making important one-time investments.
- A number of significant and unplanned events required unprecedented steps to protect residents and county services. Natural disasters caused by the Soberanes Fire and subsequent winter storms have caused an estimated \$34.0 million in damages. In addition, the *Hernandez v. County of Monterey* legal settlement of a suit alleging unfit conditions in the County Jail requires \$9.5 million in unplanned

expenditures to improve safety and security in the jail. Funding is also needed to defend the County and Measure Z, which prohibits oil and natural gas extraction through fracking, against lawsuits by oil and gas concerns. These unbudgeted events, combined with recent bargaining agreements and other needs, add \$28.3 million in current year costs beyond the adopted budget.

- Since the recession, the Board has strengthened financial policies to restore balance between ongoing revenues and expenditures, ending the practice of using one-time gains in fund balance to finance ongoing operations. Under these policies, the County has invested year-end surpluses into shoring up its strategic reserve and other key investments. These investments have added to the County's ending fund balances each year, growing from \$76.5 million in 2009-10 to an estimated \$[____] million at the end of Fiscal Year 2016-17.

Table 3
Budgeted Amounts Final
County of Monterey
General Fund Budget for the Fiscal Years Ended June 30, 2016

| | FY 2016 Budgeted Amounts Original | FY 2017 Budgeted Amounts Original | FY 2016 Budgeted Amounts Final | FY 2016 Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|--|--|---|------------------------------|---|
| Revenues: | | | | | |
| Taxes | \$165,937,782 | \$ | \$165,937,782 | \$178,797,070 | \$12,859,288 |
| Licenses, permits, and franchises | 19,336,929 | | 19,653,905 | 20,274,966 | 621,061 |
| Fines, forfeitures, and penalties | 9,237,018 | | 9,237,018 | 8,639,792 | (597,226) |
| Revenue from use of money and property | 3,225,980 | | 3,423,864 | 7,425,172 | 4,001,308 |
| Aid from other governmental agencies | 206,584,814 | | 208,795,992 | 191,816,222 | (16,979,770) |
| Charges for services | 73,604,883 | | 77,404,414 | 70,296,656 | (7,107,758) |
| Miscellaneous revenues | 8,082,489 | | 5,228,996 | 5,590,035 | 361,039 |
| Total Revenues | <u>\$ 486,009,895</u> | <u>\$</u> | <u>\$ 489,681,971</u> | <u>\$ 482,839,913</u> | <u>\$ (6,842,058)</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | \$ 97,448,888 | \$ | \$ 94,916,738 | \$ 57,696,542 | \$ 37,220,196 |
| Public protection | 222,315,343 | | 226,344,906 | 217,102,098 | 9,242,808 |
| Health and sanitation | 79,876,520 | | 80,276,520 | 69,491,575 | 10,784,945 |
| Public assistance | 180,769,814 | | 182,267,037 | 172,735,116 | 9,531,921 |
| Education | 534,716 | | 534,716 | 498,239 | 36,477 |
| Recreation and cultural services | 5,412,545 | | 6,110,401 | 5,865,547 | 244,854 |
| Debt service | | | | | |
| Interest and debt service costs | 425,000 | | 425,000 | — | 425,000 |
| Total Expenditures | <u>\$ 586,782,826</u> | <u>\$</u> | <u>\$ 590,875,318</u> | <u>\$ 523,389,117</u> | <u>\$ 67,486,201</u> |
| Excess (deficiency) of revenues over (under) expenditures | (100,772,931) | | (101,193,347) | (40,549,204) | 60,644,143 |
| Other financing sources (uses): | | | | | |
| Transfers in | \$ 98,530,243 | \$ | \$ 98,947,759 | \$ 86,055,797 | \$ (12,891,962) |
| Transfers out | (15,720,069) | | (18,107,668) | (37,591,839) | (19,484,171) |
| Sale of capital assets | 44,528 | | 44,528 | 178,702 | 134,174 |
| Total other financing sources (uses) | <u>82,854,702</u> | | <u>80,884,619</u> | <u>48,642,660</u> | <u>(32,241,959)</u> |
| Net change in fund balance | (17,918,229) | | (20,308,728) | 8,093,456 | 28,402,184 |
| Fund balance, beginning | <u>140,789,562</u> | | <u>140,789,562</u> | <u>140,789,562</u> | <u>—</u> |
| Fund balance, ending | <u>\$122,871,333</u> | <u>\$</u> | <u>\$120,480,834</u> | <u>\$148,883,018</u> | <u>\$28,402,184</u> |

Source: County of Monterey 2016 Audited Financial Report.

Set forth in the following table is a summary statement of the final General Fund budgets for Fiscal Years 2011-12, 2012-13, 2013-14, 2014-15 and 2015-16.

Table 4
County of Monterey
General Fund Budgets
Fiscal Years Ended June 30, 2012 through June 30, 2016⁽¹⁾

| | 2012 Final Budget | 2013 Final Budget | 2014 Final Budget | 2015 Final Budget | 2016 Final Budget |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Revenues: | | | | | |
| Taxes | \$135,193,270 | \$142,776,325 | \$150,064,348 | \$155,390,140 | \$165,937,782 |
| Licenses, permits and franchises | 16,234,949 | 16,875,330 | 15,960,986 | 17,700,699 | 19,653,905 |
| Fines, forfeitures and penalties | 9,254,510 | 8,738,176 | 9,111,031 | 9,108,815 | 9,237,018 |
| Revenue from use of money and property | 2,045,870 | 1,221,247 | 1,331,289 | 2,108,430 | 3,423,864 |
| Aid from other governmental agencies | 296,530,630 | 203,828,493 | 207,310,490 | 211,294,678 | 208,795,992 |
| Charges for services | 65,752,166 | 65,341,739 | 68,334,358 | 71,399,535 | 77,404,414 |
| Tobacco settlement and miscellaneous | 5,813,526 | 4,786,421 | 5,924,181 | 6,603,219 | — |
| Miscellaneous revenues | — | — | — | — | 5,228,996 |
| Total Revenues | <u>\$530,824,921</u> | <u>\$443,567,731</u> | <u>\$458,036,683</u> | <u>\$473,605,516</u> | <u>\$489,681,971</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | \$ 59,813,135 | \$ 57,895,725 | \$ 62,932,615 | \$ 69,628,128 | \$ 94,916,738 |
| Public safety and protection | 192,938,166 | 191,717,515 | 204,504,107 | 218,564,323 | 226,344,906 |
| Health and sanitation | 119,889,917 | 63,210,217 | 67,795,286 | 70,716,796 | 80,276,520 |
| Public assistance | 153,832,820 | 159,258,639 | 169,922,737 | 176,990,504 | 182,267,037 |
| Education | 589,770 | 529,038 | 516,156 | 527,780 | 534,716 |
| Recreation and cultural services | 4,806,930 | 4,640,197 | 4,806,160 | 5,280,299 | 6,110,401 |
| Debt service | | | | | |
| Interest and debt service costs | 135,000 | 935,000 | 935,000 | 425,000 | 425,000 |
| Total Expenditures | <u>\$532,005,738</u> | <u>\$478,186,331</u> | <u>\$511,412,061</u> | <u>\$542,132,830</u> | <u>\$590,875,318</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (1,180,817) | (34,618,600) | (53,375,378) | (68,527,314) | (101,193,347) |
| Other Financing Sources (Uses): | | | | | |
| Transfers in | \$7,575,145 | \$52,244,528 | \$71,128,820 | \$81,099,725 | 98,947,759 |
| Transfers out | (17,084,800) | (26,213,428) | (27,330,008) | (40,595,092) | (18,107,668) |
| Premium/(discount) on debt issued | — | 500,000 | (500,000) | — | — |
| Sale of capital assets | 211,930 | — | 53,362 | 53,363 | 44,528 |
| Total Other Financing Sources (Uses) | <u>\$(9,297,725)</u> | <u>\$26,531,100</u> | <u>\$43,352,174</u> | <u>\$40,557,996</u> | <u>80,884,619</u> |
| Net change in budgetary fund balance | <u>(10,478,542)</u> | <u>(8,087,500)</u> | <u>(10,023,204)</u> | <u>(27,969,318)</u> | <u>(20,308,728)</u> |
| Budgetary fund balance, beginning | <u>85,338,823</u> | <u>91,940,071</u> | <u>103,973,943</u> | <u>93,950,739</u> | <u>\$140,789,562</u> |
| Budgetary fund balance, ending | <u>\$ 74,860,281</u> | <u>\$ 83,852,571</u> | <u>\$ 93,950,739</u> | <u>\$ 65,981,421</u> | <u>\$120,480,834</u> |

⁽¹⁾ This statement is a summary statement only. The complete audited financial statements of the County, including the notes to the audited financial statements, are an integral part of and necessary to a complete understanding of this statement. The County of Monterey audited financial statements appear in Appendix B attached hereto. Audited financial statements for prior years can be found on the County's website or on EMMA, maintained by the MSRB at www.emma.msrb.org.

⁽²⁾ Unaudited; subject to adjustment and revision.

Source: County of Monterey 2016 Audited Financial Report.

Fiscal Year 2017-18 Budget Development. During the April 11, 2017 budget workshop with the Board of Supervisors, the County Administrative Office provided perspective on the fiscal context in which the budget is being built and offered information on requested augmentations. Departments submitted baseline budgets totaling \$651.3 million, representing a growth of \$17.6 million over the current year adopted budget. This growth represents planned capital projects and formulaic commitments. Baseline expenditures are supported by revenue of \$632.4 million and \$26.3 million in fund balance for one-time expenditures identified in the baseline budget, such as the release of restricted fund balance for the new Juvenile Hall construction, release of fund balance to cover fire and storm damage repair, and releases of designated reserves to cover capital projects and other appropriate onetime expenditures. The residual \$7.4 million in the baseline budget represents the growth in non-program revenue available to fund augmentation requests, net of formulaic increases for existing nondiscretionary funding commitments.

The County Administrative Office received augmentation requests for additional County contributions above baseline levels totaling \$74.5 million, supported by an estimated \$7.6 million in program revenue and requested increases in County contributions totaling \$66.9 million. These augmentations combined with requested baseline budgets totaled \$725.8 million, exceeding available financing by \$59.5 million.

By law, the County must adopt a balanced budget that aligns expenditures to available financing. To balance the budget, the County Administrative Office proposes a spending plan consisting of \$679.1 million in financing uses, financed by \$636.3 million in revenue and \$42.9 million in use of fund balance to support capital projects and other planned one-time needs. Discretionary financing available to fund augmentations of general fund contributions for next fiscal year total \$23.9 million including \$7.4 million of non-program revenue growth (net of formulaic increases), and \$16.5 million in fund balance, to support appropriate one-time expenditures in the recommended budget that would otherwise be drawn from operating budgets.

Recommended Budget – All Funds. Recommended appropriations for all funds, departments and programs total \$1.5 billion for Fiscal Year 2017-18, supporting a workforce of 5,278.4 authorized positions. The budget reflects an increase of \$117.1 million over the prior year adopted budget. Significant budget changes since adoption of the Fiscal Year 2016-17 budget include:

- Utilizes \$68.1 million in fund balance for capital projects and other planned, one-time needs. Of this amount, \$42.9 million is general fund balance (discussed below), and \$25.2 million represents fund balance in other funds, of which \$21.4 million is in the Facilities Master Plan fund, for planned capital projects.
- Revenue increases \$87.5 million. Much of the estimated revenue is in Natividad Medical Center (“NMC”), projecting a \$30.9 million improvement in revenue, primarily due to higher patient volume at the hospital and improvement in collection of fees as more patients are insured. NMC also expects \$21.6 million more in operating transfers in from the Facilities Master Plan fund for reimbursement of capital projects. Additional revenues of \$13.6 million are

included in the budget for the assumption of the Laguna Seca Track operations. The Health Department anticipates it will collect \$9.9 million more in federal and State aid, primarily for the implementation of the Whole Person Care program and expansion of clinics. Non-program revenue increases \$10.7 million over the current year budget, largely due to higher property tax revenue due to a continued positive outlook on home value assessments and an increase in sales and use tax revenue based on current economic trends.

- Increased labor costs. Costs to support the County's workforce grow \$30.3 million in the recommended budget. Of this growth, about half or an estimated \$15.6 million is attributed to salary growth resulting from bargaining agreements between the County and employee bargaining units that took effect in Fiscal Year 2016-17. The increase can also be attributed to a \$4.3 million increase in pension contributions on behalf of employees' pensions, and an increase in employee health insurance rates, which adds \$4.0 million over the current year budget. The County added 64.7 positions over the current year adopted budget. The largest increase in staffing is in NMC, with a recommended increase of 67.4 positions due to a larger volume of patients and the Health Department added 36.8 positions, primarily to expand primary care clinics. These two departments account for nearly all the year-over-year increase in positions, partially offset with reductions in other departments. Nearly half of the \$30.3 million growth in salary and benefit expenditures is attributed to NMC alone.
- Expansion of primary care and behavioral health services. The recommended Health Department budget includes overall growth of \$16.8 million. Growth of \$8.0 million in expenditures is due to the implementation of the Whole Person Care program, a five-year pilot program which coordinates physical health, behavioral health, and social services for Medi-Cal beneficiaries who are high users of multiple systems. Growth of \$7.7 million is attributed to the expanded capacity in clinic services and public health. A growth in insured residents has stemmed from the implementation of the Affordable Care Act ("ACA"). Approximately 40% of County residents are eligible for Medi-Cal, of which approximately 130,000 are enrolled in Medi-Cal Managed Care. Additional residents are insured through Covered California, and as of May 2016, all remaining uninsured up to 18 years of age (approximately 6,000-8,000) are eligible for full scope Medi-Cal. Clinic services have approximately 45,000 Medi-Cal patients, but is expected to increase further due to expansion of clinics in Salinas and a new clinic in Seaside, as well as extended hours to serve more patients. The recommended budget authorizes new positions, primarily to augment staffing for primary care clinics and to coordinate the Whole Person Care program.
- Capital projects construction. The recommended budget for the Resource Management Agency ("RMA") increases \$28.1 million over the current year adopted budget. The increase is primarily due to increased construction costs of \$34.2 million, of which the East and West Wing renovation accounts for \$27.3 million. The remaining increases are due to construction costs for the New

Juvenile Hall and Jail Housing Addition project. Major construction progress for the three projects occurs in Fiscal Year 2017-18.

- Responding to extraordinary events. The recommended budget includes funding of \$7.3 million to address potential cash flow needs pending federal and State reimbursements in the RMA for critical repairs of damaged infrastructure caused by the Soberanes Fire and the winter storms. The \$7.3 million represents the estimated residual of the \$16.8 million previously authorized by the Board. This funding allows the County to continue repair work to restore infrastructure and services for County residents.
- Information technology infrastructure replacement. The recommended budget provides an additional \$4.2 million to replace end-of-life hardware and software for voice, data, video, and radio services. Additionally, the recommended budget includes \$10.9 million for the Enterprise Resource Planning (“ERP”) project, which upgrades the obsolete system with a new version of the built-for-government software that integrates financial management, human resources, payroll, budgets, procurement, and vendor self-service functionality.
- Other increased County costs. The County assumed operations of the Laguna Seca Track from the concessionaire, which added \$13.6 million in expenditures and offsetting revenue in the recommended budget. Additionally, operating transfers between funds increased \$52.0 million. The increase can be attributed to transfers from the general fund to other funds to cover capital projects such as the Juvenile Hall and East and West Wing renovation, transfers from NMC for hospital related capital projects, and transfers from health realignment funds to the general fund to reimburse for staffing and services.

Recommended Budget – General Fund. Recommended appropriations for the general fund total \$679.1 million next fiscal year, supporting a workforce of 3,441.1 authorized positions. The general fund supports 23 departments which encompass most County services and basic governmental functions including public safety and criminal justice, health, social services, land use, recreation, environment, administration and finance. Appropriations increase by \$45.4 million over the current year adopted budget. Following is an overview and highlights of the recommended budget for the general fund:

- Utilizes \$42.9 million in fund balance for infrastructure projects and other planned one-time needs. The recommended budget uses special purpose fund balance reserves to pay for planned, onetime expenditures, including next year’s costs related to construction of the new Juvenile Hall, costs for repair of damage caused by the Soberanes Fire and the winter storms, replacement of aging technology, funding to cover increased construction costs for the East and West Wing, support of a remodel in the 2nd Floor of the Government Center for relocated staff, new funding commitments including the Salinas Valley Basin Groundwater Sustainability Agency and the Monterey Bay Community Power agreement, and to fund the contingencies appropriation. Fund balance is also used

to cover the general fund portion of the Fiscal Year 2016-17 ERP charges, to minimize impact to departmental budgets.

- Estimated revenue increases \$15.2 million. Non-program revenue, the source of discretionary revenue, is estimated to grow \$10.7 million as assessed home values drive property tax revenues higher. Additionally, the Health Department anticipates revenue will increase by \$7.9 million, derived primarily from federal and State reimbursements as well as increased patient fees for the expansion of clinic services. The County Administrative Office anticipates increased revenues of \$13.6 million from the Laguna Seca Track function. Gains in these revenue sources are partially offset with technical adjustments including a \$9.4 million decrease in revenue and expenditures for indigent health care that was budgeted in the general fund in the Fiscal Year 2016-17 adopted budget, but is budgeted in a health realignment fund effective Fiscal Year 2017-18 and a \$6.5 million technical adjustment on the way RMA accounts for its cost plan credits and charges.
- Labor cost increase an estimated \$15.2 million. The bargaining agreements added the bulk (\$9.6 million) of the increased labor cost for next fiscal year. The authorized pay raises were not included in the current year adopted budget, as negotiations were still in progress during budget development. Other sources of increased labor costs include higher pension contributions, increased health insurance premiums, and scheduled step advances. Public safety departments such as the Sheriff's Office and the Probation Department account for \$5.1 million (33%) of the increased labor costs and are mostly supported with increases in general fund contributions. The Health Department accounts for \$4.2 million of the increase (28%), supported primarily with federal and State reimbursements.
- Provides funding for the new Juvenile Hall. The recommended budget appropriates \$15.1 million as operating transfers from the general fund to capital project funds for the Juvenile Hall to cover the County's share of construction costs.
- Includes funding to respond to extraordinary events. Significant natural events including the Soberanes Fire and the winter storms have caused major damage to County roads, and, and infrastructure. The recommended budget includes funding for the most critical repairs during Fiscal Year 2017-18. The Board authorized \$16.8 million for these repairs, including \$8.5 million for the County's estimated share of cost and \$8.3 million to "cash flow" the estimated federal and State share of costs for immediate (Fiscal Year 2016-17) work.
- Supports expansion of County primary care clinics. The Health Department has seen increased demand for primary care services in County clinics due to a higher insured population stemming from the Affordable Care Act. Primary care clinic expansion has been underway to meet increased demand for services, including growth in Salinas and the new Seaside clinic. The Health Department's general fund budget increases \$10.1 million mostly due to the increased capacity of

clinics, which is supported by federal and State reimbursements as well as patient fees.

- Includes \$6.4 million for operational contingencies. In compliance with the County's financial policies, the budget appropriates \$6.4 million (1% of estimated general fund revenue) for critical unanticipated needs that emerge next fiscal year and cannot be funded within departments' appropriated resources. The \$6.4 million appropriation represents an increase of \$1.7 million over the current year adopted budget.
- Provides funding for replacement of systems and information technology infrastructure. The County is in the process of finalizing upgrade implementation of a countywide enterprise software system. The general fund recommended budget includes an estimated \$7.8 million in charges for the upgrade, including \$5.1 million in deferred charges from Fiscal Year 2016-17. The Fiscal Year 2016-17 deferred charges will be funded by release of fund balance to minimize impacts to departmental operations. The recommended budget also includes \$4.2 million to replace core technology, especially hardware at risk of failure to avoid work disruptions.
- Increased funding to the Road Fund. The recommended budget includes a contribution of \$5.5 million to the Road Fund, an increase of \$539,880 over the current year. Board policy directs a portion of transient occupancy tax (discretionary revenue) to the Road Fund, in recognition that well maintained roads contribute to the value and overall economic vitality of the County.
- Increased funding for existing and new commitments. Funding is included for increased utility costs to operate the Schilling Complex. Funding is also included to continue new programs that serve homeless populations, to form the Salinas Valley Groundwater Sustainability Agency, and fund the County's share to participate in the Monterey Bay Community Power regional project.

General Fund Revenues. Estimated general fund revenues total \$636.3 million for Fiscal Year 2017- 18. Revenue from federal and State sources is the largest revenue source estimated at \$209.6 million, a decrease of \$10.1 million, primarily due to a \$9.4 million technical adjustment transferring indigent health care monies to a realignment fund. The County's social services and health programs are the largest recipients of these revenues and rely on these monies as the primary means of supporting their programs. Revenue from Taxes total an estimated \$192.2 million and represent the bulk of the County's discretionary monies. Other sources of funding include: charges for services (\$80.4 million); other revenues (\$123.6 million), which mostly include operating transfers received from the three realignment funds mentioned earlier; revenue from license, permit, and franchise fees (\$22.0 million); and fines, forfeitures, and penalties (\$8.5 million).

Program and Non-Program Revenues. General fund revenues are further categorized as "program" and "non-program" based on the source of and purpose for the funding. Program revenues account for two-thirds of general fund revenue. Program revenues are primarily from

State and federal sources and are typically provided for a statutory purpose and by law must be spent on designated activities. The recommended budget includes estimated program revenues of \$428.8 million, an increase of \$13.9 million from the current year budget.

Non-Program Revenues grow \$10.7 million and account for one-third of general fund revenue. Non-program revenues total an estimated \$207.5 million, and are distributed to departments in the form of General Fund Contributions (“GFC”). This revenue source allows the County a level of flexibility to address local needs and priorities. Historically, the County uses its discretionary revenues to support public safety, County finance and other administrative functions, meet maintenance of effort requirements, and to provide matching funds as a condition for receiving federal and State assistance. The largest sources of non-program revenues include property taxes (70%), transient occupancy tax (10%), and sales and use tax (7%). The remaining (13%) is derived from franchise fees, tobacco settlement, investment income, and other miscellaneous revenue. The current year general fund adopted budget includes \$9.4 million of Vehicle License Fee (“VLF”) monies, which are now deposited directly into a health realignment fund for use on indigent medical care (no longer received in general fund). Excluding this technical change, the non-program revenue increases by \$10.7 million over the Fiscal Year 2016-17 adopted budget.

The increase in non-program revenue is attributed to growth in property tax due to a positive outlook in assessed values, which is projected to increase 5.5% next fiscal year, and continued improvement in sales and use tax based on current economic trends. Transient occupancy tax (“TOT”) revenues have historically contributed to the improvement in non-program revenue. However, due to the recent damage caused by the fire events and winter storms to high tourism areas, the TOT is anticipated to decrease by \$1.9 million below the current year adopted budget. Estimates for commercial cannabis tax pending. In November 2016, Monterey County residents approved an ordinance imposing a business tax on commercial cannabis businesses in the unincorporated area of Monterey County, beginning January 2017. The recommended budget includes \$376,929 in cannabis tax revenue to support critical positions to launch the program. However, at the time of this writing, there isn’t sufficient revenue data available for an accurate projection. The Treasurer-Tax Collector is implementing the tax collection for the cannabis program. Staff anticipates that sufficient data will be available to project revenue in the first quarter of next fiscal year.

Cost Drivers Shaping the Recommended Budget. The County’s revenue growth has not kept pace with escalating costs. Departments that operate on a cost-reimbursement basis, such as Social Services and Health, can pass along much of the increased cost to the federal and State government or other sources. Other departments cannot, and rely on augmentations of GFC to meet increased costs. Over the last several budget cycles, departments have eroded operational flexibility as they have eliminated vacant positions and other savings opportunities to absorb rising costs and keep their budgets balanced. Following is a discussion of ongoing cost drivers that are affecting the budget.

Increased expenditures due to salary growth. During Fiscal Year 2016-17, the County authorized three-year bargaining agreements with most employee organizations. Miscellaneous (non-safety) bargaining units received a 1.5% increase in salary in the first year, 2.5% increase in the second year, and 3.0% increase in the third year. Safety units in the Probation Department

received a 2.5% wage increase in year one, a 2.0% increase in year two, and a 2.5% increase in year three. Other safety units also signed three-year agreements, with most employees receiving a 2.5% wage increase in the first year, followed by increases of 2.5% in the second year, and 3.0% in the third year. These agreements add \$4.3 million in County costs the first year, an additional \$6.7 million in the second year, and an another \$8.3 million in the third year. This cost is based on filled staffing levels using Fiscal Year 2015-16 as a base year. The bargaining agreements will add an estimated \$19.3 million over the three-year period independent of position growth or the rise of PERS retirement rates. The increasing cost in wages and benefits has been ongoing, as prior year wage increases, pension rate increases, and health insurance premium hikes have accumulated over the years and increased cost of salaries and benefits from \$307.3 million in Fiscal Year 2012-13 to \$407.8 million in the F Fiscal Year Y 2017-18 recommended budget, an increase of \$100.5 million over the last five fiscal years.

Pension contributions are expected to increase dramatically in future years. Since Fiscal Year 2014-15, the County's contributions toward employee pensions have increased due to changes in CalPERS' actuarial methodology. These changes include:

- Changes in amortization and rate smoothing policies to accelerate paying down large unfunded liabilities.
- Adoption of new demographic assumptions that show retirees are living longer, and thus requiring higher lifetime payout of benefits.
- Approval of a new funding risk mitigation policy to incrementally lower the "discount rate," which represents CalPERS' expected annual rate of return on investments.

Based on actuarial data, the County's contributions to CalPERS increase \$4.2 million in Fiscal Year 2017-18. Future years are expected to increase at a much higher rate, due to the implementation of a discount rate reduction from 7.5% to 7.0%, to be phased in over three years, effective July 1, 2018. CalPERS' decision to lower the discount rate is due to changes in market conditions, including lower rates of return, greater volatility, and a desire to close the cash flow funding gap. CalPERS has provided public agencies with estimates of potential cost increases.

On January 19, 2017, CalPERS released a Circular Letter regarding discount rate changes. The letter provided information to public agency employers to calculate projected pension cost increases in future years which included low and high ranges.

Rates increased by 0.26% for the Miscellaneous Plan and 1.93% of salary for the Safety Plan in Fiscal Year 2017-18. The following year, will increase an estimated 1.7% to 2.2% for the Miscellaneous Plan, and 4.3% to 5.1% for the Safety Plan, adding an estimated \$8.5 million in the general fund for Fiscal Year 2018-19. Lowering the discount rate and other recent changes will gradually add \$40 to \$50 million more to the County's annual general fund contributions to the pension fund.

Employee health insurance continues to consume a greater share of the budget. A significant expenditure in the general fund is employee health insurance. Although the most

recent premium information provided by CalPERS in January 2017 increases PERS Choice by a historically modest 3.1%, prior year increases have been significant and have exerted pressure on the County budget, consuming a larger share each year. Health insurance cost to the County increases \$2.0 million in the general fund for Fiscal Year 2017-18, however, over the last five years, cost for this benefit has increased \$25.5 million, from Fiscal Year 2012-13 to the Fiscal Year 2017-18 recommended budget. The increase for January 2018 is still unknown and is not included in projected growth for next year.

Collectively, salary and benefits is a key driver for expenditure growth. Through Fiscal Year 2022-23, salaries and benefits expenditures are projected to grow \$156.0 million from Fiscal Year 2010-11. The growth is comprised of \$43.8 million (133%) for employee for rate increases for health benefits, \$47.2 million (116%) in increased pension contributions, and \$48.5 million (22%) in increased salary expenditures. For comparison, discretionary revenues grow much slower over the same time-period, increasing \$61.6 million or 37%. This means departments that rely on discretionary revenue are having difficulty keeping up with rising payroll costs.

Other cost pressures add \$10.3 million to the recommended budget. The County continues investing in its information technology infrastructure. The Auditor-Controller is finalizing the upgrade of the County's ERP system. Charges to general fund departments for the ERP upgrade were deferred in Fiscal Year 2016-17. Charges resume in Fiscal Year 2017-18, and together with deferred charges from the prior year total \$7.8 million in the general fund. Further impacting departmental budgets are significant increases in charges from internal service departments for general liability insurance and workers' compensation, which increase \$1.2 million and \$1.3 million fiscal year, respectively.

Estimated changes in major sources of non-program revenues compared to Fiscal Year 2016-17 are summarized below:

- *Property Tax Revenue.* Property Tax Revenue totals from property taxes sustained steep reductions through the economic downturn and its aftermath, declining \$15.6 million from peak to trough. This decline was a defining factor behind four years of budget reductions following the onset of the recession. Since that time, assessed values have recovered to pre-2008 levels. While the County's Assessor originally estimated a 5-6% overall increase in assessed values for secured properties, the estimate has been reduced to 3.9% in the current year due to the decline in oil prices and related devaluation of oil properties resulting in a loss of approximately \$1.0 million compared to budgeted assumptions. For forecasting purposes, the County Administrative Office assumes 5.5% increase in assessed values for Fiscal Year 2017-18, which would yield approximately \$7.4 million in increased revenue. Annual growth of 2.5% is projected for the two out years of the forecast, which produce annual revenue gains of approximately \$3.6 million.
- *Fund Balance.* Beyond any growth in annual revenue, the County also has funding held in reserve. The County established these reserves in prior budgets and by redirecting one-time operating surpluses to meet specific future purposes.

By far the largest reserve is the Strategic Reserve of \$73.9 million for responding to natural disasters or other local emergencies. The \$73.9 million includes \$17.8 million for Natividad Medical Center, with the balance set aside for General Fund emergencies.

- *Augmentation Requests.* Departments submitted augmentation requests totaling \$74.5 million in appropriations, supported by \$7.6 million in program revenue and \$66.9 million in requested General Fund contributions. These augmentation requests exceed available funding by \$59.5 million. The County proposes a spending plan consisting of \$679.1 million in financing uses, financed by \$636.3 million in revenue and \$42.9 million in use of fund balance to support capital projects and other planned one-time needs.

Discretionary financing available to fund augmentations of general fund contributions for next fiscal year total \$23.9 million including \$7.4 million of non-program revenue growth (net of formulaic increases), and \$16.5 million in fund balance, to support appropriate one-time expenditures in the recommended budget that would otherwise be drawn from operating budgets.

Fund Balance Policy

The County's goal is to use unrestricted fund balance as a source to finance one-time investments, reserves and/or commitments. Committed, assigned and unassigned fund balances are considered unrestricted. The County's general financial guidelines permit the Board to use unbudgeted unassigned fund balance in the following manner as recommended by the County Administrative Officer:

1. A capital project fund
2. Productivity investment assignment
3. Strategic reserve equal to 10 percent of current General Fund revenues
4. One-time investments or assignments

Strategic Reserve Policy

The County has established a strategic reserve reported as a separate committed fund balance constraint. Beginning in Fiscal Year 2005-06, General Fund reserves were to be funded over eight years to equal ten percent of General Fund budgeted revenues. The reserve was established for use in legal judgment settlements against the County, economic downturns, natural disasters and for one-time State budget reductions that could not be addressed through the annual appropriations for contingencies. The target funding level is equal to ten percent of the total General Fund final budgeted estimated revenues. Funding for the strategic reserve is appropriated annually by the Board as part of the budget approval.

The purpose of the County's General Fund strategic reserve is to:

1. Fund settlement of legal judgments against the County in excess of reserves normally designated for litigation.
2. Cover short-term revenue reductions due to economic downturns, to address natural disasters as determined by the County Administrative Officer or the Board.

Since the recession, the County has invested year-end operating surpluses to build up the strategic reserve, which grew from \$37.3 million in Fiscal Year 2009-10 to \$73.9 million at fiscal year end June 30, 2016. Included in this amount was \$56.1 million for the general fund and \$17.8 million for NMC.

In Fiscal Year 2016-17, the Board authorized transfers from the strategic reserves to fund events for which the reserve was established. On March 14, 2017, the Board approved transfers totaling \$30.9 million from the strategic reserve including \$16.8 million to address critical repairs resulting from the *Soberanes Fire* and winter storms, \$9.5 million to cover capital improvements and legal costs to comply with *Hernandez v. County of Monterey* settlement, and \$3.9 million to cover costs for legal defense of Measure Z. As a result of these transfers, the strategic reserve for the general fund decreased from \$56.1 million to \$25.2 million, below the existing policy of 10%.

[The County's strategic reserve policy ordinance was amended to allow establishing a sub-commitment within the General Fund strategic reserve commitment for Natividad Medical Center ("NMC"), an Enterprise Fund of the County. A transfer of \$14.2 million was made from NMC's unrestricted Net Assets to NMC's sub-commitment under the strategic reserve commitment. The use of this sub-commitment is limited only for the purposes of NMC as determined by the Board.]

State of California Budget

Counties are the principal agents for providing services on behalf of the State, particularly in the areas of public health, welfare, judicial and corrections programs, as well as providers of local services in a variety of areas, including law enforcement, roads, parks, libraries, agriculture and various social service programs. Substantial portions of many of these services are implementations of State mandated programs and State administered federal programs supported by State and federal revenues. The tension between counties and the State is often due to the adequacy of State provided revenue for State mandated programs. Historically, the County has been able to reduce expenditures when necessary to match available funding sources, as required by law.

Currently, approximately 33% of the County's 2016-17 General Fund Budget consists of payments from other government agencies including the State of California. The financial condition of the State has an impact on the level of these revenues. In the past the State has turned to counties to help solve the State's budget problems. The federal government provides approximately [__]% of the County's 2016-17 General Fund Budget. The human services departments receive substantial funds for assistance payments and social services programs.

On June 27, 2017, the Governor signed the Final 2017-18 Budget into law (the “Final 2017-18 State Budget”). The Final 2017-18 State Budget includes a total general fund spending of \$125 billion, with a funding increase of more than \$3 billion for K-14 education (approximately \$1 billion more than the Governor proposed in the Final 2017-18 Proposed State Budget) and an expanded tax credit for low-wage workers. The Final 2017-18 State Budget allocates the \$2.8 billion (expected from increases in the gas tax and vehicle registration fees) to be applied to road repairs, transit and other transportation infrastructure projects and proposes to spend portions of the more than \$1 billion the State expects to receive each year from the tobacco tax (approved by California voters in November of 2016) to raise rates for doctors and dentists (\$465 million) and for other providers, including those working in women’s health (\$81 million). While the Final 2017-18 State Budget also includes \$1.8 billion to the State’s reserve fund, it does not include an extension of the State’s program for the regulation of climate-warming greenhouse gases known as “cap and trade,” which is set to expire in 2020.

Significant features of the Final 2017-18 State Budget affecting public agencies in California include:

- *Transportation and Local Road Maintenance* — The Final 2017-18 State Budget includes: \$446 million for highway repair and maintenance; \$400 million for bridge and culvert repairs; \$250 million for congested corridor program to address urgent regional traffic congestion; \$150 million Trade Corridor Enhancement Program to fund major trade corridors; \$25 million for expanded freeway service patrols; \$330 million for Transit and Intercity Rail Capital Program; and \$200 million in matching funds for local and regional transportation projects in jurisdictions which contribute new locally generated revenues.
- *Community Infrastructure Grants* — The Final 2017-18 State Budget includes \$67.5 million General Fund for one-time community infrastructure grants to promote public safety diversion programs and services by increasing the number of mental health, substance use disorder, and trauma-related services facilities. Grants will be awarded by the California Health Facilities Financing Authority on a competitive basis to cities and/or counties to expand local resources for facility acquisition or renovation, equipment purchases, and applicable program startup or expansion costs to increase the availability of these programs.
- *Department of Forestry and Fire Protection* — The Final 2017-18 State Budget includes \$38.7 million General Fund and \$3 million State Responsibility Area Fire Prevention Fund for expanded fire protection in the 2017 fire season in recognition of continuing tree mortality. The Final 2017-18 State Budget also includes additional ongoing firefighting resources for CAL FIRE to respond to the changes brought on by climate change, demographics, invasive species and forest health conditions.
- *In-Home Supportive Services County Mitigation* — The Final 2017-18 State Budget includes \$400 million General Fund in 2017-18 to mitigate the increase in counties’ costs for the In-Home Supportive Services program associated with the end of the Coordinated Care Initiative. The amount of General Fund relief provided to counties will be phased

down over time, decreasing to \$330 million in 2018-19, \$200 million in 2019-20, and \$150 million annually thereafter.

- *CalWORKs Single Allocation* — The Final 2017-18 State Budget provides a one-time augmentation of \$108.9 million in 2017-18 to the single allocation for counties whereby the Administration will work with representatives of counties and the County Welfare Directors Association of California to develop recommendations for revising the single allocation budgeting methodology to address the cyclical nature of caseload changes and impacts to county services.
- *Immigration Services* — The Final 2017-18 State Budget includes \$45 million General Fund in 2017-18 to expand the availability of legal services for people seeking naturalization services, deportation defense, or assistance in securing other immigration services and remedies. Funding will be evaluated on an annual basis.
- *Housing and Disability Advocacy Program* — The Final 2017-18 State Budget includes one-time funding of \$45 million General Fund for a county matching grant program designed to provide outreach to homeless persons with disabilities who may be eligible for disability benefits.

Information about the State budget and State spending is available at various State maintained websites. Text of the Final 2017-18 State Budget and other documents related to the State budget may be found at the website of the Department of Finance, www.dof.ca.gov. A nonpartisan analysis of the budget is posted by the Legislative Analyst's Office 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. The information referred to is prepared by the respective State agency maintaining each website and not by the County or the Underwriter, and the County and the Underwriter take no responsibility for the continued accuracy of the internet addresses or for the accuracy or timeliness of information posted there, and such information is not incorporated herein by these references.

The County Administrative Officer anticipates that the Final 2017-18 State Budget will affect the County in the following ways.

[To come.]

Property Taxes

The County collects property taxes against all property on the secured roll in two annual installments. Property taxes are derived on the basis of an ad valorem tax levied against the current assessed valuation of property in the County. Ad valorem property taxes contributed approximately \$133.9 million to General Fund revenues, equating to approximately 67% of total General Fund non-program revenues for the 2016-17 fiscal year. Preliminary estimates for Fiscal Year 2017-18 indicate property taxes to the General Fund totaling \$138.8 million.

Out of the \$133.9 million, \$2.8 million pertains to property tax in lieu of sales tax. The assessed valuation of property in the County is established by the County Assessor except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property as defined in Article XIII A of the California Constitution. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of the California Constitution” in the forepart of this Official Statement.

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. Real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

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 property the taxes on which are a lien on real property sufficient in the opinion of the County 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 each fiscal year and, if unpaid, become delinquent on December 10 and April 10 respectively. A penalty of 10% attaches immediately to all delinquent payments. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of a penalty of one and one-half percent per month to the time of redemption plus costs and a redemption fee. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent if unpaid on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5:00 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) bringing 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 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) seizing and selling personal property improvements or possessory interests belonging or assessed to the delinquent taxpayer.

Assessed Valuation

The following table represents a ten year history of assessed valuation in the County. The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full cash value of the property, as defined in Article XIII A of the California Constitution.

Table 5
County of Monterey
Assessed Values of Taxable Property
Last Ten Fiscal Years
(In Thousands of Dollars)

| Fiscal Year Ended June 30 | Secured Roll ⁽¹⁾ | Unsecured Roll ⁽²⁾ | Exemptions ⁽³⁾ | Net Assessed Valuations | Total Direct Tax Rate ⁽⁴⁾ |
|------------------------------|--------------------------------|----------------------------------|---------------------------|-------------------------------|--|
| 2007 | 47,388,757 | 1,999,660 | (1,471,788) | 47,916,629 | 1.00 |
| 2008 | 51,334,367 | 2,035,086 | (1,525,258) | 51,844,195 | 1.00 |
| 2009 | 52,454,129 | 2,234,086 | (1,608,033) | 53,080,182 | 1.00 |
| 2010 | 50,655,874 | 2,254,022 | (1,679,121) | 51,230,775 | 1.00 |
| 2011 | 48,774,186 | 2,116,423 | (1,770,929) | 49,119,680 | 1.00 |
| 2012 | 48,980,011 | 2,103,408 | (1,856,776) | 49,226,643 | 1.00 |
| 2013 | 49,595,091 | 2,122,678 | (1,914,519) | 49,803,250 | 1.00 |
| 2014 | 51,396,835 | 2,159,991 | (2,009,761) | 51,547,065 | 1.00 |
| 2015 | 54,354,520 | 2,231,717 | (2,119,791) | 54,466,446 | 1.00 |
| 2016 | 57,571,743 | 2,333,413 | (2,196,512) | 57,708,644 | 1.00 |
| 2017 | | | | | |

⁽¹⁾ Secured property is generally the real property, which is defined as land, mineral, timber, and improvements such as buildings, structures, crops, trees and vines. Also included in secured roll are unitary properties, including railroads and utilities, which cross the country and are assessed by the State Board of Equalization.

⁽²⁾ Unsecured property is generally personal property, including machinery, equipment, office tools, supplies, mobile homes, and aircraft.

⁽³⁾ Exempt properties include numerous full and partial exclusions/exemptions provided.

⁽⁴⁾ Article XIII A, added to the California Constitution by Proposition 13 in 1978, fixed the based for valuation of property subject to taxes at the full cash value. Additionally, Proposition 13 limits the property tax rate to 1% of assessed value, plus the rate necessary to fund local voter approved bonds and special assessments.

Source: County of Monterey Administrative Office and California State Board of Equalization

Tax Levies, Collections and Delinquencies

The County levies and collects all property taxes for property falling within its taxing boundaries. The County has not adopted the alternative method of secured property tax apportionment known as the Teeter Plan, which provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year-end. The table below sets forth the levies, collections and percent of collections and levies for property taxes in the County for the last five fiscal years.

Table 6
County of Monterey
Secured Tax Levies and Delinquencies
Last Ten Years
(In Thousands of Dollars)

| Fiscal Year Ended June 30 | Taxes Levied for the Fiscal Year ⁽¹⁾ | Collected within the Fiscal Year of the Levy ⁽²⁾ | | Collections in Subsequent Years ⁽³⁾ | Taxes Levied Current and Delinquent | Total Collections to Date ⁽⁴⁾ | |
|------------------------------------|---|---|-----------------------|---|---|---|-----------------------|
| | | Amount | Percentage of Levy | | | Amount | Percentage of Levy |
| 2007 | 541,741 | 522,686 | 96.48 | 7,930 | 555,437 | 530,616 | 95.53 |
| 2008 | 588,831 | 556,021 | 94.43 | 15,065 | 613,523 | 571,086 | 93.08 |
| 2009 | 603,438 | 576,924 | 95.61 | 29,000 | 646,268 | 605,924 | 93.76 |
| 2010 | 585,686 | 565,453 | 96.55 | 24,288 | 619,428 | 589,741 | 95.21 |
| 2011 | 566,445 | 552,997 | 97.63 | 22,076 | 603,021 | 575,073 | 95.37 |
| 2012 | 573,255 | 561,891 | 98.02 | 12,842 | 601,215 | 574,733 | 95.60 |
| 2013 | 582,546 | 572,426 | 98.26 | 11,742 | 608,897 | 584,168 | 95.94 |
| 2014 | 602,945 | 595,209 | 98.72 | 11,067 | 627,324 | 606,276 | 96.64 |
| 2015 | 638,813 | 631,178 | 98.80 | 9,701 | 660,406 | 640,879 | 97.04 |
| 2016 | 679,997 | 672,613 | 98.91 | 10,070 | 700,507 | 682,683 | 97.46 |

⁽¹⁾ Includes Secured, Unsecured, and Unitary Taxes levied for the county itself, school districts, cities and special districts under the supervision of their own governing boards. Includes adjustments to the tax rolls from the levy date to delinquency date.

⁽²⁾ Includes amounts collected by the County on behalf of itself, school districts, cities and special districts under the supervision of their own governing boards.

⁽³⁾ Includes adjustments to the levy. Taxes levied less collections to date equal the delinquent taxes receivable.

⁽⁴⁾ Includes taxes levied (current and delinquent) related to collections for the year.

Source: County of Monterey Property Tax Records.

The following table represents the ten largest taxpayers of local secured property taxes within the County as of June 30, 2016.

Table 7
County of Monterey
Ten Largest Taxpayers
For The Year Ended June 30, 2016

| Taxpayer | Type of Business | Taxable Assessed Value (\$'000) | Rank | Percentage of Total County Assessed Value |
|-----------------------------------|------------------|---------------------------------|------|---|
| Pebble Beach Company | Tourism | \$ 739,718 | 1 | 1.28% |
| Pacific Gas & Electric Company | Utility | 550,188 | 2 | 0.95 |
| Chevron USA Inc | Petroleum | 464,349 | 3 | 0.80 |
| Dynergy Moss Landing LLC | Utility | 351,373 | 4 | 0.61 |
| Aera Energy LLC | Utility | 276,200 | 5 | 0.48 |
| Northridge Owner LP | Retail | 123,436 | 6 | 0.21 |
| AAT Del Monte LLC | Real Estate | 118,500 | 7 | 0.21 |
| California-American Water Company | Utility | 114,497 | 8 | 0.20 |
| Pacific Bell Telephone Company | Utility | 101,738 | 9 | 0.18 |
| Scheid Vineyards California Inc | Agriculture | 96,676 | 10 | 0.17 |
| Ten Largest Taxpayers' Total | | 2,936,675 | | 5.09 |
| All Other Taxpayers' Total | | 54,771,969 | | 94.91 |
| Total | | <u>\$57,708,644</u> | | <u>100.00%</u> |

Note: For Total Taxable Assessed Value refer to Schedule 5 "Assessed Value and Actual Value of Taxable Property."
Source: County of Monterey Property Tax Records.

Transient Occupancy Tax

Tourism is second only to Agribusiness in Monterey County generating \$2.7 billion in spending in 2016. Often referred to as the "hotel tax," the County collects Transient Occupancy Tax ("TOT") revenues from hotel operators for the privilege of occupancy in any hotel as a percentage of the rent charged by the operator. The tax constitutes a debt owed by the transient to the County which is extinguished only by payment to the operator or to the County. The rate for Monterey County is 10.5%. Monterey County is a destination of choice for many travelers from not only the U.S., but countries across the globe. For this reason, economic conditions both in the U.S. and abroad influence these revenues. In 2016, of the 252 lodging properties throughout the County, the occupancy rate increased by 3.0% over the previous year to 71.0%. Revenue Per Available Room (RevPAR) was up 8.0% over the previous year. These increases are due largely to the increased number of international travelers to Monterey County. TOT revenues reached an all-time high of \$22.8 million in the last full year of reporting. In addition to local tax revenues, tourism contributes 24,500 full time jobs to the local economy, 13.0% of the county's total industry employment.

Table 8
County of Monterey
Transient Occupancy Tax Receipts
Fiscal Years 2007-2016 (Ending June 30)

| <u>Fiscal Year</u> | <u>TOT Tax Receipts</u> | <u>Growth Rate</u> |
|---------------------|-------------------------|--------------------|
| 2007 | \$16,912,274 | 8.63% |
| 2008 | 16,441,176 | (0.05) |
| 2009 | 14,553,941 | (11.60) |
| 2010 | 13,312,712 | (8.40) |
| 2011 | 14,249,048 | 7.03 |
| 2012 | 16,722,512 | 17.36 |
| 2013 | 17,945,479 | 7.31 |
| 2014 | 19,881,258 | 10.79 |
| 2015 | 21,479,344 | 8.04 |
| 2016 ⁽¹⁾ | 22,834,344 | 6.31 |

⁽¹⁾ From Monterey County Audited Financial Statements for Fiscal Year Ended June 30, 2016.
Source: County of Monterey Auditor-Controller

Sales Taxes

The State collects a tax on retail transactions within the County and rebates 1% to the County. The allocation is in addition to the half-cent sales tax allocated for public safety purposes pursuant to Proposition 172. Sales and use taxes contributed approximately \$5.4 million to the County's General Fund revenues in the fiscal year ended June 30, 2016, equating to approximately 1.1% of total General Fund revenues for that fiscal year. The County receives a share of sales tax revenues from unincorporated areas in the County. The following table illustrates, for unincorporated areas of the County only, the historical sales tax receipts to the General Fund for the past five years as well as computed annual rate of change for such periods.

Table 9
County of Monterey
Historical Taxable Sales and Sales Tax Receipts for Unincorporated Areas
Fiscal Years Ending 2012-2018

| <u>Fiscal Year</u> | <u>Taxable Sales⁽¹⁾</u> | <u>Sales Tax Receipts⁽¹⁾</u> | <u>Growth Rate of Sales Tax Receipts⁽²⁾</u> |
|------------------------|------------------------------------|---|--|
| 2011-12 | \$782,603,500 | \$7,826,035 | 0.7% |
| 2012-13 | 812,514,500 | 8,125,145 | 3.8 |
| 2013-14 | 866,661,600 | 8,666,616 | 6.7 |
| 2014-15 ⁽²⁾ | 947,801,600 | 11,378,016 | 31.3 |
| 2015-16 | 937,931,300 | 9,379,313 | (17.6) |
| 2016-17 | 922,937,600 | 9,229,376 | (-1.6) |
| 2017-18 ⁽³⁾ | 924,883,000 | 9,248,830 | 0.2 |

⁽¹⁾ Taxable sales and sales tax receipts reflect point-of-sale transactions only for the unincorporated county area.

⁽²⁾ 2014-15 receipts include a one-time audit recovery for the period spanning 2001 to 2006 in the amount of \$1.9 million.

⁽³⁾ 2017-18 taxable sales and sales tax receipt amounts are estimated.

Source: County of Monterey Auditor-Controller

Among the information set forth in APPENDIX A – “GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE COUNTY” is a profile of total taxable sales within the County for the past five years on a calendar year basis as reported by the State Board of Equalization. The Taxpayer Transparency and Fairness Act of 2017 restructured the State Board of Equalization into three separate entities: the State Board of Equalization, the California Department of Tax and Fee Administration (“CDTFA”) and the Office of Tax Appeals. The CDTFA handles most of the taxes and fees previously collected by the Board of Equalization, including sales and use tax as of July 1, 2017.

Outstanding General Fund Debt

As of June 30, 2016, the County was obligated to make payments for debt service on approximately \$[_____] million of then currently outstanding aggregate principal amount of long-term bond, note, and loan obligations, which includes \$23.6 million payable to the Bureau of Reclamation. This was a decrease of \$[_____] million prior year of \$[_____] million.

The following table summarizes the County's long-term debt outstanding for the fiscal year ended June 30, 2016.

Table 10
County of Monterey
Long-Term Debt Outstanding
For the Year Ended June 30, 2016

Summary of Long-Term Liabilities

| | <u>Maturity</u> | <u>Interest Rates</u> | <u>Principal Installments</u> | <u>Date of Issue</u> | <u>Amount Authorized</u> | <u>Outstanding June 30, 2016</u> |
|---|-----------------|-----------------------|-------------------------------|----------------------|--------------------------|----------------------------------|
| <u>Governmental activities</u> | | | | | | |
| Certificates of participation | | | | | | |
| 2015 Public Facilities Issue <i>(finance capital improvements at the Schilling Place Complex, and fund renovations of the east and west wings of the courthouse)</i> | 2046 | 3.0% - 5.0% | \$750,000 - \$2,870,000 | 2015 | \$48,440,000 | \$48,440,000 |
| 2007 issue <i>(defeased the 1993 sheriff facility and the 2001 issue master plan financing issue plus new moneys for completion of public health and court related facilities)</i> | 2038 | 4.0% - 5.0% | \$2,785,000 - \$6,845,000 | 2007 | 144,400,000 | 108,285,000 |
| NGEN Issue <i>(finance acquisition, construction and installation of communications system)</i> | 2023 | 3.95% | \$508,887 - \$818,645 | 2010 | 8,518,628 | 5,741,287 |
| Revenue bonds - Special Districts Agencies under Board of Supervisors | 2036 | 5.0% | \$5,400 - \$37,000 | 1981-96 | 1,244,700 | 421,000 |
| Revenue bonds - Water Resources Agencies under Board of Supervisors <i>(finance Salinas Valley water project)</i> | 2038 | 4.0% - %0.0% | \$550,000 - \$2,085,000 | 2008 | 32,855,000 | 29,215,000 |
| Notes payable - Parks & Recreation <i>(acquire recreational properties)</i> | | | | | | |
| San Antonio Lakes Resort | 2023 | 5.0% | \$33,095 | 2007 | 4,185,000 | 2,152,031 |
| Lake Nacimiento Resort | 2023 | 5.0% | \$89,478 | 2007 | 11,315,000 | 5,818,530 |
| Loans payable - Bureau of Reclamation Agencies under Board of Supervisors <i>(infrastructure and facility improvements)</i> | 2037 | 1.65% - 7.63% | \$16,847 - \$1,207,699 | 1995 | 35,035,790 | 23,476,434 |
| Special assessment bonds with governmental commitment: General County-Chualar Water District <i>(infrastructure and facility improvements)</i> | 2025 | 4.25% - 7.2% | \$4,000 - \$26,000 | 1984-93 | 257,000 | 104,000 |
| | | | | | <u>\$286,251,118</u> | <u>\$223,653,282</u> |
| <u>Business-type activities</u> | | | | | | |
| Loan payable | 2015 | 2.13% (average) | \$237,000 - \$263,000 | 2010 | 15,000,000 | |
| Certificates of Participation <i>(NMC Improvements)</i> | | | | | | |
| 2007 COP Refunding | 2029 | 4% - 5% | \$230,000 - \$575,000 | 2007 | 8,280,000 | 5,800,000 |
| 2009 Refunding | 2024 | 2% - 5.25% | \$2,175,000 - \$4,225,000 | 2009 | 43,700,000 | 28,530,000 |
| 2010 Refunding | 2027 | 2% - 4% | \$65,000 - \$4,920,000 | 2010 | 17,845,000 | 17,505,000 |
| | | | | | <u>\$ 84,825,000</u> | <u>\$ 51,835,000</u> |

Source: The County.

The County is a party to capital equipment leases and operating leases requiring annual lease payments by the County. See APPENDIX B – “COUNTY COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2016.”

Dissolution of Redevelopment

In 2011, the State adopted legislation to dissolve all redevelopment agencies in the State. The dissolution was effective on February 1, 2012. The County had established a redevelopment agency and adopted three redevelopment project areas. Two of those redevelopment project areas had completed permissible activities by December 31, 2015, and, as such, the County has received increased tax revenues from these and other, city-based redevelopment project areas in the County, due to the cessation of redevelopment activities and the diversion of tax revenues from these projects. The remaining redevelopment activity, the East Garrison Project, is currently collecting tax revenue to complete the approved development. The East Garrison Project was designed to be physically and economically self-sufficient and no County General Funds (other than those generated by the Project itself) are anticipated to be used for the Project. At the end of the Fiscal Year 2013-14, the General Fund unassigned fund balance increased \$12.9 to \$17.6 from the prior year unassigned fund balance. The increase is a result of both the Redevelopment Dissolution Act, which infused fund balance with one-time transfers and additional tax increment, and also the economic recovery, which produced favorable results in General Fund revenues. For the same period, the County’s governmental funds reported total fund balances of \$241.1 million, an increase of \$22.7 million from the prior year total fund balances. The increase is mainly attributed to the recovery in property tax revenue, growth in transient occupancy tax receipts, and receipt of tax increment authorized under the Redevelopment Dissolution Act.

Natividad Medical Center

The Natividad Medical Center (“NMC”) is owned and operated by the County and governed by the Board with the assistance of a separate Board of Trustees (the “NMC Board of Trustees”). Founded in 1886, the NMC is a 172-bed, acute-care teaching hospital specializing in family medicine and affiliated with the University of California at San Francisco Medical School. NMC currently operates hospital based specialty clinics and provides medical/surgical hospital services as part of its medical office complex. NMC also networks with a variety of community providers and County primary care clinics. In January 2015, NMC was designated as a Level II Trauma Center. As a County entity, NMC is mandated to treat patients, regardless of ability to pay.

The mission of NMC is to provide high-quality, cost-effective health care to all residents of the community. NMC is one of 11 California County operated “safety net” hospitals providing basic health care services, regardless of ability to pay. In this respect, counties fill a critical niche left by private hospitals, which are not legally bound to provide services except for emergency services. However, this role can impose a financial burden on county hospitals.

NMC accounts for hospital operations involved in providing health services to County residents. Revenues are principally fees for patient services, payments from federal and state

programs such as Medicare, Medi-Cal and Short-Doyle, realignment revenues and subsidies from the General Fund.

The County has also established a strategic reserve reported as a separate committed fund balance constraint, designated as the Natividad Medical Center Strategic Reserve. The Natividad Medical Center Strategic Reserve is funded from unrestricted NMC net position moneys and can be used only for NMC purposes, as determined by the Board based on recommendations of the NMC Board of Trustees.

The support provided by the Affordable Care Act of 2010 (the “ACA”) has contributed to the net operating gains of NMC. If the ACA were repealed or modified, the County is unable to predict the full impact on NMC’s financial position. The County predicts that such changes currently under consideration by Congress would have a material adverse effect on NMC’s financial position.

NMC receives several sources of support payments from federal and State sources. See Note 15 to the Comprehensive Annual Financial Report included in APPENDIX B hereto.

NMC experienced a net operating gain of \$25.0 million and a net non-operating loss of \$0.4 million in Fiscal Year 2015-16. NMC’s had an ending net position balance of \$59.7 million for Fiscal Year 2015-16, which is 20.5 million, or 52%, higher than Fiscal Year 2014-15 balance of \$39.2 million.

Investments of County Funds; County Pool [UPDATE TO COME]

All funds in the County Treasurer’s Pooled Investments (the “County Pool”) are invested by the County Treasurer, according to Sections 53601 and 53635, *et seq.* of the California Government Code and the County’s Investment Policy (the “Investment Policy”), approved by the Board of Supervisors on July 26, 2016, prepared by the County Treasurer. The Investment Policy is submitted to the Board for review and approval on an annual basis, and the Treasurer presents a performance review of the County Pool to the Board on a quarterly basis. The County Pool represents moneys deposited by the County and school and special districts within the County. There are no voluntary depositors in the County Pool. The Investment Policy requires that all investments comply with the California Government Code, and provides that the County Treasurer will establish and define authorized investments as well as credit, marketability, maturity and diversification criteria for the investments. The stated goal of the Investment Policy, in order of priority, is to minimize risk to principal, provided that cash is available to meet anticipated needs, and maximize earnings. The County Treasurer or her designee reviews the investment records, the contents of the County Pool, and the specific financial institutions with whom investments have been made.

The total amortized book value of the County Pool as of June 30, 2017 was \$[_____] spread among [_____] separate investments of which [_____] % (approximately \$[_____]) represented the County’s share with the remaining balance belonging to school, community college and special districts. Of the County’s share, approximately [_____] %, or \$[_____] , was allocable to funds held for restricted purposes, including trust and agency funds held for the benefit of third parties. The market value was \$[_____] and was 100%

of the amortized cost basis. The County Pool's weighted average yield was [_____]%, and its earned income for the quarter ended June 30, 2017 was \$[_____]. The weighted average maturity of the portfolio was [_____] days. Approximately [_____]% (approximately \$[_____] par value) of the County Pool was in cash or invested in instruments with one-day maturities, including repurchase agreements with dealers and money market funds. Approximately [_____]% (approximately \$[_____] par value) was in Treasury Bills maturing within approximately [_____] days. Approximately [_____]% (approximately \$[_____] amortized book value) of the County Pool was invested in various U. S. Treasury and federal agency securities. Approximately [_____]% (approximately \$[_____] par value) of the County Pool consisted of corporate notes rated A3/A or better. The County Pool contains no reverse repurchase agreements; securities lending may be employed within any quarter but is restricted to a maximum of [_____]% of the portfolio. As of June 30, 2017, none of the portfolio's securities were lent out. The pool contains no inverse floating rate instruments.

Pension Benefits

Pension and Other Post-Employment Benefits. The County contributes to the State of California Public Employees' Retirement System ("CalPERS"), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State. CalPERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. Changes in actuarial assumptions and benefit levels in the recent past have significantly increased pension cost estimates. Current required contributions are determined by reference to the June 30, 2015, actuarial valuations provided by CalPERS in August 2016 (the "2016 CalPERS Report"), using the entry age normal actuarial cost method.

Funding Policy. Active plan members in CalPERS are required to contribute a percentage of their annual covered salary, which is 7% for miscellaneous employees and 12% for public safety employees. The County is required to contribute at an actuarially determined rate. For Fiscal Year 2016-17, the employer rate is 13.257% for miscellaneous members and 30.312% for safety members. The contribution requirements of the plan members are established by state statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost. For Fiscal Year 2016-17, the County's required and actual contribution was \$57,430,175.

Table 11
County of Monterey
Annual CalPERS Costs

| <u>Fiscal Year Ending</u> | <u>Annual Pension Cost (APC)</u> | <u>Percentage of APC Contributed</u> |
|---------------------------|----------------------------------|--------------------------------------|
| Safety Plan: | | |
| June 30, 2017 | \$17,955,292 | 100% |
| June 30, 2016 | 15,400,262 | 100 |
| June 30, 2015 | 14,609,498 | 100 |
| June 30, 2014 | 14,352,587 | 100 |
| June 30, 2013 | 12,974,125 | 100 |
| June 30, 2012 | 13,371,881 | 100 |
| Miscellaneous Plan: | | |
| June 30, 2017 | \$39,474,883 | 100% |
| June 30, 2016 | 35,734,555 | 100 |
| June 30, 2015 | 33,468,148 | 100 |
| June 30, 2014 | 27,507,468 | 100 |
| June 30, 2013 | 25,696,483 | 100 |
| June 30, 2012 | 25,869,754 | 100 |

Source: County of Monterey Auditor-Controller and 2014 CalPERS Report.

The required contribution for Fiscal Year 2016-17 was determined as part of the June 30, 2015 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included: (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.3% to 14.2% depending on age, service and type of employment; and (c) 3% cost of living adjustment. Both (a) and (b) include an inflation component of 2.75%. The actuarial value of plan assets was determined using a technique that smoothes the effect of the short-term volatility in the market value of investments over a two to five-year period depending on the size of investment gains and/or losses. The unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2011 was twenty-six years for the miscellaneous group and thirty-two years for the public safety group.

The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS. A current comparison of CalPERS costs for Fiscal Years 2012-13 through 2017-18 is shown below.

| Fiscal Year | Miscellaneous Plan | | | Safety Plan | | |
|-------------|---------------------------|--|----------------------------------|---------------------------|--|----------------------------------|
| | Employer Normal Cost Rate | Employer Payment of Unfunded Liability | Total Employer Contribution Rate | Employer Normal Cost Rate | Employer Payment of Unfunded Liability | Total Employer Contribution Rate |
| 2012-13 | 7.710% | 3.059% | 10.769% | 15.743% | 11.517% | 27.260% |
| 2013-14 | 7.907 | 3.019 | 10.926 | 16.530 | 12.432 | 28.962 |
| 2014-15 | 7.695 | 4.081 | 11.776 | 15.705 | 12.390 | 28.095 |
| 2015-16 | 7.892 | 4.954 | 12.846 | 15.678 | 14.502 | 30.180 |
| 2016-17 | 7.994 | 5.263 | 14.774 | 17.424 | 15.888 | 26.454 |
| 2017-18 | 7.783 | — | 14.520 | 16.959 | — | 26.072 |

Source: County of Monterey Auditor-Controller and 2016 CalPERS Report.

See also Note 10 to the Comprehensive Annual Financial Report included in APPENDIX B hereto.

Funded Status and Funding Progress. The following is the funded status information (in thousands) for each plan as of June 30, 2015, the most recent actuarial valuation date:

| | Entry Age Normal Accrued Liability | Market Value of Assets | Unfunded/ (Overfunded) Liability | Present Value of Projected Benefits | Funded Ratio |
|---------------|------------------------------------|------------------------|----------------------------------|-------------------------------------|--------------|
| Safety | \$ 567,901 | \$ 394,718 | \$173,183 | \$ 682,661 | 69.5% |
| Miscellaneous | 1,540,325 | 1,242,776 | 297,549 | 1,872,414 | 80.7 |

Source: County of Monterey Auditor-Controller and 2016 CalPERS Report.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The tables below show a 6-year analysis of the actuarial value of assets of the retirement plans as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30.

Table 12
Funded Status - Miscellaneous Plan
(dollars in thousands)

| Valuation Date (June 30) | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Market Value of Assets | Unfunded Liability (UAAL) | Actuarial Funded Ratio | Market Value Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Payroll |
|-------------------------------------|---|--|---------------------------------------|--|---------------------------------------|--|---------------------------------------|--|
| 2015 | \$1,540,326 | 1,242,776 | \$1,242,776 | \$297,549 | 80.7% | 80.7% | \$294,571 | — |
| 2014 | 1,449,315 | 1,226,205 | 1,226,206 | 223,110 | 84.6 | 84.6 | 272,494 | — |
| 2013* | 1,311,214 | 1,052,650 | 1,052,650 | 258,564 | 80.3 | 80.3 | 254,581 | — |
| 2012 | 1,257,304 | 1,112,195 | 937,183 | 145,110 | 88.5 | 74.5 | 260,100 | — |
| 2011 | 1,169,818 | 1,047,556 | 940,247 | 122,262 | 89.5 | 80.4 | 256,825 | — |
| 2010 | 1,092,491 | 978,403 | 773,367 | 114,088 | 89.6 | 70.8 | 257,248 | 44.3% |

* Beginning with the June 30, 2013 CalPERS valuation, Actuarial Value of Assets as reported by CalPERS equals Market Value of Assets as a result of CalPERS Direct Rate Smoothing Policy.

Source: County of Monterey Auditor-Controller and 2016 CalPERS Report.

Table 13
Funded Status - Safety Plan
(dollars in thousands)

| Valuation Date (June 30) | Entry Age Normal Accrued Liability | Actuarial Value of Assets | Market Value of Assets | Unfunded Liability (UAAL) | Actuarial Funded Ratio | Market Value Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Payroll |
|-------------------------------------|---|--|---------------------------------------|--|---------------------------------------|--|---------------------------------------|--|
| 2015 | \$567,901 | \$394,718 | \$394,718 | \$173,183 | 69.5% | 69.5% | \$50,549 | — |
| 2014 | 538,595 | 390,301 | 390,301 | 148,294 | 72.5 | 72.5 | 49,326 | — |
| 2013* | 482,245 | 335,018 | 335,018 | 147,227 | 69.5 | 69.5 | 46,698 | — |
| 2012 | 456,415 | 337,200 | 298,950 | 99,215 | 78.3 | 65.5 | 47,587 | — |
| 2011 | 444,376 | 336,316 | 299,767 | 108,060 | 75.7 | 67.5 | 48,544 | — |
| 2010 | 414,498 | 313,835 | 245,671 | 100,663 | 75.7 | 59.3 | 50,332 | 200.0% |
| 2009 | 395,268 | 293,618 | 212,756 | 101,650 | 74.3 | 53.8 | 49,244 | 206.4 |
| 2008 | 363,113 | 275,250 | 278,725 | 87,863 | 75.8 | 76.8 | 45,713 | 192.2 |

* Beginning with the June 30, 2013 CalPERS valuation, Actuarial Value of Assets as reported by CalPERS equals Market Value of Assets as a result of CalPERS Direct Rate Smoothing Policy.

Source: County of Monterey Auditor-Controller and 2016 CalPERS Report.

Actuarial Methods and Assumptions. On April 17, 2013, the CalPERS Board of Administration approved a recommendation to change the CalPERS amortization and rate smoothing policies. Beginning with the June 30, 2013 valuations that set the 2015-16 rates, CalPERS will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

On January 1, 2013, the Public Employees' Pension Reform Act of 2013 (PEPRA) took effect. In addition to creating new retirement formulas for newly hired members, PEPRA also effectively closed all existing active risk pools to new employees. As such it is no longer appropriate to assume that the payroll of the risk pools for the classic formulas will continue to

grow at 3 percent annually. Funding the promised pension benefits as a percentage of payroll would lead to the underfunding of the plans. In addition, the current allocation of the existing unfunded liabilities based on payroll would create equity issues for employers within the risk pools. Furthermore the declining payroll of the classic formula risk pools will lead to unacceptable levels of employer rate volatility.

In order to address these issues the CalPERS Board of Administration approved at their May 21, 2014 meeting structural changes to the risk pools. All pooled plans will be combined into two active pools, one for all miscellaneous groups and one for all safety groups, effective with the 2013 valuations.

By combining the pools this way the payroll of the risk pools and the employers within the pools can once again be expected to increase at the assumed 3 percent annual growth. However two important changes are being made which will affect employers.

1. Beginning with Fiscal Year 2015-16, CalPERS will collect employer contributions toward the unfunded liability and side fund as dollar amounts instead of the prior method of a contribution rate. This change will address the funding issue that would still arise from the declining population of classic formula members. Although employers will be invoiced at the beginning of the fiscal year for their unfunded liability and side fund payments the plan's normal cost contribution will continue to be collected as a percentage of payroll.

2. The pool's unfunded liability will be allocated to each individual plan based on the plan's total liability rather than by plan individual payroll. This will allow employers to track their own unfunded liability and pay it down faster if they choose. The change in the allocation of unfunded liabilities will result in some employers paying more towards their unfunded liability and some paying less.

The impact of the PEPRA changes are included in the rates and the benefit provision listings of the June 30, 2013 valuation for the 2015-16 rates.

In 2014 CalPERS completed a 2-year asset liability management study incorporating actuarial assumptions and strategic asset allocation. On February 19, 2014, the CalPERS Board of Administration adopted relatively modest changes to the current asset allocation that will reduce the expected volatility of returns. The adopted asset allocation is expected to have a long-term blended return that continues to support a discount rate assumption of 7.5 percent. The Board also approved several changes to the demographic assumptions that more closely align with actual experience. The most significant of these is mortality improvement to acknowledge the greater life expectancies seen in CalPERS membership and expected continued improvements. The new actuarial assumptions will be used to set the Fiscal Year 2016-17 contribution rates for public agency employers. The increase in liability due to new actuarial assumptions will be calculated in the 2014 actuarial valuation and will be amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board policy.

The projected future employer contribution rates for the County are as follows. Projected future employer contribution rates are shown based on the 2014 CalPERS Report for a June 30 fiscal year end.

| <u>Fiscal Year</u> | <u>Safety Plan Employer Normal Cost Rate</u> | <u>Miscellaneous Plan Employer Normal Cost Rate</u> |
|--------------------|--|---|
| 2017-18 | 16.959% | 7.783% |
| 2018-19 | 17.0 | 7.8 |

Source: Source: 2016 CalPERS Report.

See also Note 10 to the Comprehensive Annual Financial Report included in APPENDIX B hereto.

Other Post-Employment Benefits (“OPEB”). The County of Monterey Retiree Healthcare Plan (Plan) is a single employer defined benefit healthcare plan administered by the County. The Plan provides healthcare insurance benefits to eligible retirees. Benefit provisions are established and may be amended by the County.

The County provides retiree medical benefits through the California Public Employees’ Retirement System healthcare program. The County contributes the Public Employees’ Medical and Hospital Care Act (“PEMHCA”) minimum required employer contribution (\$125 per month in 2016) towards the retiree monthly premium for eligible retirees participating in PEMHCA.

Funding Policy. The contribution requirements of the plan members and the County are established and may be amended by the County. The County prefunds all or a portion of the plan through the California Employers’ Retiree Benefit Trust (“CERBT”) by contributing up to 100% of the annual required contribution.

The annual required contribution (“ARC”) is an amount actuarially determined in accordance with the parameters of GASB Statement 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension. The County’s ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial liability over a period of 20 years. The Fiscal Year 2015-16 ARC is \$5,720,000.

For Fiscal Year 2015-16, the County paid a total of \$4,711,000 to the CERBT. Of this amount, \$1,205,000 was paid for healthcare insurance benefits for eligible retirees, \$902,000 was an implicit rate subsidy and \$2,604,000 was paid to fund future retirees’ healthcare.

CERBT is a tax qualified irrevocable trust organized under Internal Revenue Code Section 115 and established to pre fund retiree healthcare benefits. CERBT issues a publicly available financial report including GASB 43 – Financial Reporting for Postemployment Benefit Plans Other than Pension Plans disclosure information in aggregate with the other CERBT participating employers. That report may be obtained by contacting CalPERS, Executive Office, 400 P Street, Sacramento, CA 95814.

The following are the components of the County's annual OPEB cost for the fiscal year ended June 30, 2016:

| | |
|--|-------------|
| Annual Required Contribution (ARC) | \$5,720,000 |
| Interest on net OPEB obligation actuarial estimate | 448,000 |
| Amortization of net OPEB obligation actuarial estimate | (726,000) |
| Annual OPEB cost (expense) | 5,442,000 |
| Contributions made | (4,711,000) |
| Increase (decrease) in net OPEB obligation | 731,000 |
| Net OPEB obligation, beginning of year | 6,181,438 |
| Net OPEB obligation, end of year | 6,912,438 |

Annual OPEB Cost and Net OPEB Obligation. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan (as described in the funding policy above), and the net OPEB obligation for Fiscal Year 2015-16 and the prior two fiscal years:

| Fiscal Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|------------------------------|-----------------------------|---|--------------------------------|
| June 30, 2016 | \$5,442,000 | 86.6% | \$6,912,438 |
| June 30, 2015 | 3,869,000 | 102.7 | 6,181,438 |
| June 30, 2014 | 3,780,000 | 114.0 | 6,278,438 |

General Fund, Road Fund, Library, In Home Supportive Services, Office of Employment Training, Community Action Partnership, Behavioral Health, Parks Lakes, Water Resources, and NMC funds have been used to liquidate the net other postemployment benefit obligation.

Funded Status and Funding Progress. The funded status of the plan, based on an actuarial valuation as of June 30, 2015, the plan's most recent actuarial valuation date, was as follows (amounts in thousands):

| | |
|---|----------|
| Actuarial accrued liability (AAL) | \$61,420 |
| Actuarial value of plan assets | 19,833 |
| Unfunded actuarial accrued liability (UAAL) | 41,587 |
| Funded ratio (actuarial value of plan assets/AAL) | 32.29% |
| Covered payroll (active Plan members) | 320,182 |
| UAAL as a percentage of covered payroll | 12.99% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial

statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the June 30, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7.25% investment rate of return (net of administrative expenses), which is the expected long term investment return on CERBT investments, and an annual healthcare minimum cost trend rate of 4.5% after 3 years (actual healthcare minimum costs were used for the first 3 years). This rate includes a 3% inflation assumption. The actuarial value of assets is equal to the market value. The UAAL is being amortized as a level percentage of projected payroll over 20 years on a closed basis. The remaining amortization period at June 30, 2016 was 12 years.

The table below shows an analysis of the actuarial value of assets of the Retiree Healthcare Plan as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30.

Table 14
Retiree Healthcare Plan
(dollars in thousands)

| Valuation Date (June 30) | Actuarial Accrued Liability | Actuarial Value of Assets | Unfunded Liability (UAAL) | Actuarial Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Payroll |
|-------------------------------------|--|--|--|---------------------------------------|---------------------------------------|--|
| 2015 | \$61,420 | 19,833 | 41,587 | 32.3% | \$302,182 | 13.0% |
| 2013* | 36,655 | 11,839 | 24,816 | 32.3 | 298,873 | 8.3 |
| 2011 | 31,719 | 4,434 | 27,299 | 14.0 | 288,974 | 9.4 |
| 2009 | 23,292 | 1,500 | 23,142 | 0.6 | 293,876 | 7.9 |

* Beginning with the June 30, 2013 CalPERS valuation, Actuarial Value of Assets as reported by CalPERS equals Market Value of Assets as a result of CalPERS Direct Rate Smoothing Policy.

Source: County of Monterey Auditor-Controller and Bartel Associates LLC.

Statement of Direct and Overlapping Debt

Contained within the County are numerous overlapping local agencies providing public services. These local agencies have outstanding bonds issued in the form of general obligation, lease revenue and special assessment bonds. Set forth below is a statement of direct and overlapping debt as of June 1, 2017 (the “Debt Statement”) prepared by California Municipal Statistics, Inc. The Debt Statement is included for general information purposes only. The

County has not reviewed the Debt Statement for completeness or accuracy and makes no representations in connection therewith.

The Debt Statement generally includes long term obligations sold in the public credit markets by public agencies other than the County whose boundaries overlap the boundaries of the County in whole or in part. Such long term obligations generally are not payable from revenues of the County (except as indicated) nor are they necessarily obligations secured by land within the County. In many cases long term obligations issued by a public agency are payable only from the General Fund or other revenues of such public agency. Self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations are excluded from the debt statement.

Table 15
County of Monterey
Direct and Overlapping Debt (As of June 1, 2017) [To Come]

2014-15 Assessed Valuation: \$54,466,446,505

| <u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u> | <u>% Applicable</u> | <u>Debt 6/1/15</u> |
|---|---------------------|--------------------------------------|
| Hartnell Community College District | 99.808% | \$121,731,101 |
| Monterey Peninsula Community College District | 100. | 113,164,450 |
| Carmel Unified School District | 100. | 33,093,445 |
| Monterey Peninsula Unified School District | 100. | 53,970,988 |
| North Monterey County Unified School District | 100. | 29,915,000 |
| Pacific Grove Unified School District | 100. | 50,135,000 |
| Soledad Unified School District | 100. | 28,809,036 |
| King City Joint Union High School District | 98.853 | 8,160,315 |
| Salinas Union High School District and School Facilities Improvement District | 100. | 36,078,695 |
| Alisal Union School District | 100. | 32,748,165 |
| Greenfield Union School District | 100. | 8,946,397 |
| Salinas City School District | 100. | 24,370,000 |
| Santa Rita Union School District | 100. | 22,067,260 |
| Washington Union School District | 100. | 11,895,000 |
| Other School Districts | Various | 43,966,347 |
| City of Marina | 100. | 7,925,000 |
| City of Pacific Grove | 100. | 270,000 |
| Soledad Community Hospital District | 100. | 940,000 |
| Community Facilities Districts | 100. | 3,512,542 |
| City 1915 Act Bonds | 100. | 13,585,000 |
| Special District 1915 Act Bonds | 100. | 4,541,000 |
| Monterey County Water Resources Agency Benefit Assessment District Zone 2C | 100. | 29,885,000 |
| Monterey County Special Assessment Bonds | 100. | 113,000 |
| TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT | | \$679,822,741 |
| <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u> | | |
| Monterey County Certificates of Participation | 100. | % \$119,181,768⁽¹⁾ |
| Monterey County Revenue Bonds | 100. | 684,000 |
| Monterey County Board of Education Certificates of Participation | 100. | 1,730,000 |
| North Monterey County Unified School District Certificates of Participation | 100. | 11,840,000 |
| King City Joint Union High School District General Fund Obligations | 98.853 | 12,371,453 |
| Other School District General Fund Obligations | Various | 19,581,385 |
| City of Carmel General Fund Obligations | 100. | 6,435,000 |
| City of Cannel Pension Obligations | 100. | 5,005,000 |
| City of Gonzales General Fund Obligations | 100. | 4,175,000 |
| City of Marina Pension Obligations | 100. | 1,470,000 |
| City of Monterey General Fund Obligations | 100. | 8,225,000 |
| City of Pacific Grove Pension Obligations | 100. | 10,252,079 |
| City of Salinas Certificates of Participation | 100. | 35,386,000 |
| City of Seaside Pension Obligations | 100. | 5,420,000 |
| Monterey County Fire Protection District Pension Obligations | 100. | 8,105,000 |
| Pajaro/Sunny Mesa Community Services District General Fund Obligations | 100. | 375,000 |
| TOTAL DIRECT AND OVERLAPPING GENERAL GOVERNMENT DEBT | | \$250,236,685 |
| OVERLAPPING TAX INCREMENT DEBT (Successor Agencies) | 100 | \$77,462,445 |
| TOTAL DIRECT DEBT | | 149,863,768 |
| TOTAL OVERLAPPING DEBT | | 857,658,103 |
| COMBINED TOTAL DEBT | | \$1,007,521,871⁽²⁾ |

Ratios to 2014-15 Assessed Valuation:

| | |
|--|---------------|
| Total Direct and Overlapping Tax and Assessment Debt | 1.25 % |
| Total Direct Debt (\$149,863,768) | 0.28 % |
| Combined Total Debt | 1.85 % |

Ratios to Redevelopment Incremental Valuation (\$4,436,251,434):

| | |
|--------------------------------------|--------|
| Total Overlapping Tax Increment Debt | 1.75 % |
|--------------------------------------|--------|

⁽¹⁾ Percentage of overlapping debt applicable to county is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the county divided by the districts total taxable assessed value. Excludes the Certificates described in this Official Statement.

⁽²⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

Labor Relations

There are 17 formal labor units, listed in Table 16 below, representing County employees. Supervisors, management, confidential employees, certain attorneys and certain other employees are not represented by an exclusive bargaining agent. Salaries and benefits are determined through a process of “meet and confer” with representatives from each of these classifications. All employees’ salaries are subject to periodic renegotiation.

Table 16
County of Monterey
Labor Relations

| <u>Bargaining Unit</u> | <u>Labor Organization</u> | <u>Number of Employees⁽¹⁾</u> | <u>Contract Expiration</u> |
|------------------------------|---|--|----------------------------|
| 1. Safety Unit | Deputy Sheriff’s Association | 291 | June 30, 2019 |
| 2. Safety Supervisors | Deputy Sheriff’s Association | 36 | June 30, 2019 |
| 3. Safety Management | Deputy Sheriff’s Association | 14 | June 30, 2019 |
| 4. Deputy District Attorneys | Monterey County Prosecutors Association | 49 | August 31, 2019 |
| 5. Deputy Public Defenders | Monterey County Public Defenders’ Association | 24 | August 31, 2019 |
| 6. Probation Supervisors | Probation Association | 9 | June 30, 2019 |
| 7. Probation Officers | Probation Association | 169 | June 30, 2019 |
| 8. Probation Managers | Probation Managers Association | 17 | June 30, 2019 |
| 9. Supervisory | Service Employees International Union 521 | 273 | June 30, 2019 |
| 10. County Counsel | Monterey County Counsel Employee Association | 17 | June 30, 2019 |
| 11. Health Care Unit | Service Employees International Union 521 | 492 | June 30, 2019 |
| 12. General Employees | Service Employees International Union 521 | 1,600 | June 30, 2019 |
| 13. Social Services | Service Employees International Union 521 | 722 | June 30, 2019 |
| 14. Resident Physicians | Service Employees International Union 521 | 30 | December 31, 2017 |
| 15. Park Rangers | Park Rangers Association | 5 | June 30, 2019 |
| 16. Park Ranger Supervisors | Park Rangers Association | 1 | June 30, 2019 |
| 17. Registered Nurses | Monterey County Registered Nurses Association | 441 | January 31, 2020 |
| | | 4,190 | |

⁽¹⁾ Full time equivalents are based on filled positions, calendar year 2017.
Source: County of Monterey.

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating the purchase of the Certificates. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Certificates. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

Rental Payments Not County Debt

The obligation of the County to make the Rental Payments, including the Base Rental Payments, does not constitute a debt of the County or of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does

not constitute an obligation for which the County or the State is obligated to levy or pledge any form of taxation or for which the County or the State has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the County, the County is obligated under the Lease Agreement to pay the Rental Payments from any source of legally available funds and the County has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Rental Payments in its annual budgets and to make necessary annual appropriations therefor. The County is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Rental Payments.

The County has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the County, the funds available to make Rental Payments may be decreased. In the event the County's revenue sources are less than its total obligations, the County could choose to fund other activities before making Rental Payments and other payments due under the Lease Agreement.

Abatement

In the event of substantial interference with the County's right to use and occupy any portion of the Property by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, Rental Payments will be subject to abatement. See "SECURITY AND SOURCES OF PAYMENT – Abatement." In the event that such portion of the Property, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the County's rental interruption insurance will be available in lieu of Base Rental Payments, plus the period for which funds are available from the funds and accounts established under the Trust Agreement, or in the event that casualty insurance proceeds or condemnation proceeds are insufficient or unavailable to provide for complete repair or replacement of such portion of the Property or prepayment of the Certificates, there could be insufficient funds to make payments to Owners in full.

Natural Disasters and Seismic Considerations

The areas at and surrounding the Property, like those in much of California, may be subject to unpredictable seismic activity. Generally, within the State, some level of seismic activity occurs on a regular basis. During the past 150 years, California has experienced several major and numerous minor earthquakes. The County experienced a major earthquake most recently in 1989, with the Loma Prieta Earthquake, which occurred on October 17, 1989. The Loma Prieta Earthquake, with an epicenter approximately 60 miles south of San Francisco, and approximately 45 miles north of the County, measured 7.1 on the Richter scale at its epicenter. Past experience cannot predict certain future results, however, certain facilities comprising the Property, the Salinas Courthouse and the Monterey Courthouse, withstood the Loma Prieta Earthquake without material damage. The County Jail suffered only minimal damage.

Absence of Earthquake and Flood Insurance

The County is not required by the Lease Agreement to maintain earthquake or flood coverage with respect to the Property [and the County does not expect to purchase such coverage]. However, the Property currently meets all standards for seismic strength required by the State. The County is not required, and has not determined, to obtain such insurance in the future, and no assurance can be made that the County will procure and maintain, or continue to procure and maintain, any such insurance.

Limited Recourse on Default

If the County defaults on its obligations to make Rental Payments, the Trustee, as assignee of the Corporation, may (subject to the restrictions described below) retain the Lease Agreement and hold the County liable for all Rental Payments on an annual basis and will have the right to re-enter and re-let the Property. In the event such re-letting occurs, the County would be liable for any resulting deficiency in Rental Payments. Alternatively, the Trustee may terminate the Lease Agreement with respect to the Property and proceed against the County to recover damages pursuant to the Lease Agreement.

Due to the specialized nature of the Property, no assurance can be given that the Trustee will be able to re-let any portion of the Property so as to provide rental income sufficient to make payments of principal and interest evidenced by the Certificates in a timely manner, and the Trustee is not empowered to sell the Property for the benefit of the Owners of the Certificates. In addition, due to the governmental function of the Property, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect thereto. Any suit for money damages would be subject to limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Moreover, there can be no assurance that such re-letting will not adversely affect the exclusion of any interest component of Base Rental Payments from federal or state income taxation.

No Acceleration Upon Default

In the event of a default, there is no available remedy of acceleration of the Rental Payments due over the term of the Lease Agreement. The County will only be liable for Rental Payments on an annual basis, and the Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year's Rental Payments.

Substitution or Release of Property

The Lease Agreement provides that, upon satisfaction of certain conditions specified therein, the County may release from the Lease Agreement any portion of the Property or substitute alternate real property for all or any portion of the Property. Although the Lease Agreement requires (except as provided under the caption "THE PROPERTY – Term of Lease as to Certain Property") that the Property, as constituted after such substitution or release, among other things (i) has an annual fair rental value greater than or equal to 105% of the maximum amount of the Base Rental Payments coming due in the then current Rental Period or any subsequent Rental Period, and (ii) has a fair replacement value at least equal to the aggregate

amount of principal evidenced by the Certificates then Outstanding, the Lease Agreement does not require that such property have an annual fair rental value equal to 100% of the annual fair rental value of the property comprising the Property at the time of substitution or release. Thus, a portion of the real property comprising the Property could be replaced with less valuable property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Certificates, particularly if an event requiring abatement of Rental Payments were to occur subsequent to such substitution or release. See “THE PROPERTY – Term of Lease as to Certain Property” and APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS –LEASE AGREEMENT – Substitution or Release of the Property.” Notwithstanding any such substitution or release, there will be no reduction in or abatement of the Rental Payments due from the County under the Lease Agreement solely as a result of such substitution or release.

Bankruptcy

In addition to the limitations on remedies contained in the Trust Agreement and the Lease Agreement, the rights and remedies in the Lease Agreement may be limited by 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 United States 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 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. In the event of rejection of a lease by a 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 Trust Agreement, the Trustee holds Base Rental Payments for the benefit of the Owners of the Certificates, but Trustee’s interest arises only when the Base Rental Payments are actually received by the Trustee following payment by the County. The Property itself is not subject to any security interest, mortgage or any other lien in favor of the Trustee for the benefit of Owners. In the event of a County bankruptcy and a subsequent rejection of the Lease Agreement by the County, the Trustee, as assignee of the Corporation, would have a claim for damages against the County. The Trustee’s claim would constitute a secured claim only to the extent of Base Rental Payments in the possession of the Trustee; the balance of such claim would be unsecured.

Bankruptcy proceedings would subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently entail risks of delay, limitation, or modification of their rights with respect to the Certificates. In a bankruptcy case, the amount recovered by Owners could be affected by whether the Lease Agreement is determined to be a “true lease” or a loan or other financing arrangement (a “financing lease”), and Owners’ recovery could be reduced in either case. If the Lease Agreement is determined by

the bankruptcy court to constitute a “true lease” (rather than a financing lease), the County could choose not to perform under the Lease Agreement by rejecting it and the claim of the Owners could be substantially limited pursuant to Section 365 of the Bankruptcy Code to a fraction of the scheduled amount of Base Rental Payments, and that reduced claim amount could be impaired as an unsecured claim under a plan of adjustment. If a bankruptcy court were to treat the Lease Agreement as a financing lease then, under a plan of adjustment, the priority, payment terms, collateral, payment dates, payment sources, covenants and other terms or provisions of the Lease Agreement and the Certificates may be altered. Such a plan could be confirmed even over the objections of the Trustee and the Owners, and without their consent. For example, the amount of the Base Rental Payments from the County might be substantially reduced because of the power of the bankruptcy court under the Bankruptcy Code to adjust secured claims to the value of their collateral, which, as described above, could be limited to the Base Rental Payments held by the Trustee. In addition there can be a substantial disparity in treatment based on the nature of the Property. Whether the Lease Agreement is characterized by the bankruptcy court as a true lease or a financing lease, either scenario could result in the Owners not receiving the full amount of the principal and interest components of Base Rental Payments.

In a bankruptcy of the County, if a material unpaid liability is owed to the 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 or other Rental Payments if the Lease Agreement is rejected. Given that municipal pension systems in California are usually administered pursuant to state constitutional provisions and, as applicable, other state and/or municipal 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.

Limitations on Remedies

The rights of the Owners of the Certificates are subject to the limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the Owners of the Certificates, and the obligations incurred by the County, may become subject to the federal bankruptcy code (Title 11, United States Code) (the “Bankruptcy Code”) and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect, 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 U.S. 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 cities in the State. Bankruptcy proceedings, or the exercise of powers by the Federal or State government, if initiated, could subject the Owners of the Certificates 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. Under Chapter 9 of the Bankruptcy Code, which governs the bankruptcy proceedings for public agencies such as the County, there are no involuntary petitions in bankruptcy. If the County were to file a petition under Chapter 9 of the Bankruptcy Code, the Owners of the Certificates, the Trustee and the Corporation could be prohibited from taking any steps to enforce their rights under the Lease Agreement, and from taking any steps to collect amounts due from the County under the Lease Agreement.

No Liability of Corporation to the Owners

Except as expressly provided in the Trust Agreement, the Corporation will not have any obligation or liability to the Owners of the Certificates with respect to the payment when due of the Rental Payments by the County, or with respect to the performance by the County of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

Revenue Sources to Pay Rental Payments

The County receives a significant portion of its annual funding from subventions by the State. As a result, decreases in the revenues received by the State can affect subventions made by the State to the County and other counties in the State. The potential impact of State budget actions for future fiscal years on the County in particular, and other counties in the State generally, is uncertain at this time. See “COUNTY FINANCIAL INFORMATION – State of California Budgets.”

Cash Management

To the extent the Board makes needed budget adjustments and maintains a balanced budget, the County has numerous internal or external means to manage its cash flow, including but not limited to interfund borrowing, intrafund borrowing and tax and revenue anticipation notes. If the County does not take required actions and the budget is out of balance, the cash requirements of the County may exceed available cash flow. The ability of the County to borrow on an interim basis to meet any cash shortfalls also may be limited if the budget remains out of balance for a sustained period of time. The County has the legal authority to issue “warrants” in place of cash to meet various types of expenditures or appropriations as an additional means to manage its cash flow. See “COUNTY FINANCIAL INFORMATION.”

Limitation on Revenues

There are limitations on the ability of the County to increase revenues. The ability of the County to increase the ad valorem property taxes (which have historically been an important source of revenues for counties in California) is limited pursuant to Article XIII A of the State Constitution, which was enacted in 1978. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of the California Constitution.”

The County receives a significant portion of its revenue from State and federal sources. Decreases in revenues received by the State can affect subventions made to the County and other counties in the State. In addition, actions taken by Congress and federal executive branch agencies including, without limitation, reductions in federal spending, could materially reduce the revenues received by the County.

Changes in Law

There can be no assurance that the State Legislature will not at some future time enact legislation that will amend or create laws resulting in a reduction of moneys available to pay the Rental Payments. Similarly, the California electorate could adopt initiatives or the State Legislature could adopt legislation with the approval of the electorate amending the State Constitution which could have the effect of reducing moneys available to pay the Rental Payments.

Drought and Emergency Drought Response [UPDATE]

The State of California has experienced four consecutive years of below-average rain and snow, and is currently facing severe drought conditions in all 58 counties. The most recent surveys recorded the statewide average snowpack, which is the source for one-third of the State's water, at just 2 percent of the normal average. On March 27, 2015, Governor Brown signed emergency legislation (AB 91 and 92) that will mandate reductions in residential use and expedite \$1 billion for drought and water infrastructure projects, including emergency food aid, drinking water, water recycling, conservation awareness, and flood protection. The action comes as the Sierra Nevada snowpack, which Californians rely on heavily during the summer for their water needs, is near a record low. Previously, on January 17, 2014, Governor Brown proclaimed a State of emergency due to the severe drought conditions faced by the State. Legislation was enacted in February which provided \$687.4 million to support drought relief.

Since the State Governor first declared a State of emergency in January 2014, the Administration has worked with the State Legislature to appropriate approximately \$1.9 billion to assist drought-impacted communities and provide additional resources for critical water infrastructure projects. The State's emergency drought response accelerates several of the key actions in the California Water Action Plan. The 2014-15 State Budget included additional one-time resources to continue immediate drought-related efforts started in 2014, such as an increase of \$53.8 million General Fund and \$12.2 million other funds for firefighting efforts, and an increase of \$18.1 million General Fund to aid in assessing water conditions and provide public outreach regarding water conservation. The 2015-16 State Budget includes an additional \$2.2 billion of one-time resources to continue the State's response to drought impacts. The funds will protect and expand local water supplies, conserve water and respond to emergency conditions.

Hydrology in the western United States and the quantity of groundwater supplies are subject to cyclical changes, changes in climate and rainfall and levels of use. The County can make no assurances as to the reliability or adequacy of future supplies to meet future demands. However, in 2015, the County, through the Monterey County Resource Management Agency, commissioned a report by Brown and Caldwell, described as the largest engineering consulting

firm solely focused on the U.S. environmental sector (“Brown & Caldwell”), for a near-term assessment of the condition of the Salinas River Groundwater Basin (Basin) in terms of its groundwater resources within the area defined as Zone 2C (the principal survey area being that area which largely straddles the Salinas River in which a majority of County residents live) and the status of seawater intrusion in the northern Salinas Valley. See “Dependence of County on Agriculture” and “Salinas River Groundwater Basin” below for further information.

Climate Change

Hazards relating to climate change include sea level rise, flooding, heat wave, and severe storm and wind. In May 2009, the California Climate Change Center released a final paper, for informational purposes only, which was funded by the California Energy Commission, the California Environmental Protection Agency, the Metropolitan Transportation Commission, the California Department of Transportation and the California Ocean Protection Council. The title of the paper is “The Impacts of Sea-Level Rise on the California Coast.” The paper posits that increases in sea level will be a significant consequence of climate change over the next century. The paper evaluated the population, infrastructure, and property at risk from projected sea-level rise if no actions are taken to protect the coast. The paper concluded that significant property is at risk of flooding from 100-year flood events as a result of a 1.4 meter sea level rise. The paper further estimates that the replacement value of this property totals nearly \$100 billion (in 2000 dollars). A wide range of critical infrastructure, such as roads, hospitals, schools, emergency facilities, wastewater treatment plants, power plants, and wetlands is also vulnerable. Continued development in vulnerable areas will put additional assets at risk and raise protection costs.

The County is unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur, and if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the County and the local economy.

Dependence of County on Agriculture

The County’s economy is dependent in large part on the agricultural industry, the largest industry in the County, which provided approximately 19% of all employment in the County in Fiscal Year 2015-16, according to the U.S. Census Bureau, 2015 American Community Survey 1-Year Estimates. The County continues to be a leader in California agriculture with more than 40 crops exceeding a production value of \$4.84 billion for the County. Area production is diverse. Vegetable Crops were the single largest production category by dollar value, comprising 67.4% of the County total crops. Lettuce dominated this category (\$1.5 billion), followed by broccoli (\$423 million), celery (\$226 million), and spinach (\$141 million). Fruit & Nut Crops represented the second largest category (23.7%) and consisted mostly of strawberries (\$861 million) and wine grapes (\$186 million). In recent years, Monterey County has become one of the largest premium grape growing regions in California, with over 44,000 acres of wine grapes. Together, these two major categories accounted for 91% of the county’s direct farm production values, which were \$4.4 billion, according to the 2015 Monterey County Crop Report.

Many factors can influence the overall health of the agricultural industry, including a reliable and affordable water supply, product supply and demand, and ecological and natural

conditions and events. The economic viability of the County will, in part, be subject to all the risks generally associated with agriculture production, shipping, processing and handling including, without limitation, general market demands, preferences and consumer tastes, changes in general economic conditions, climate and weather conditions, environmental hazards, fluctuations in the market prices, natural disasters (including, without limitation, earthquakes and floods) which may result in uninsured losses, and by other similar factors. Further, future governmental policies, including, but not limited to, those which may be imposed by the State or federal government and their respective agencies, and other governmental policies to restrict or control agriculture production, biological terrorism, and immigration or workforce factors can be expected to impact the County's agricultural industry. See "Drought and Emergency Drought Response" above and "Salinas River Groundwater Basin" below for further information.

Salinas Valley Groundwater Basin

Irrigation for County agriculture is substantially provided by the Salinas Valley Groundwater Basin (the "Salinas Basin"). The Salinas Basin is the largest coastal groundwater basin in Central California. It lies within the southern coast ranges between the San Joaquin Valley and the Pacific Ocean, and is drained by the Salinas River. The valley extends approximately 150 miles from the La Panza Range north-northwest to its mouth at Monterey Bay, draining approximately 5,000 square miles in Monterey and San Luis Obispo Counties. The valley is bounded on the west by the Santa Lucia Range and Sierra de Salinas and on the east by the Gabilan and Diablo Ranges. The Monterey Bay acts as the northwestern boundary of the Salinas Basin. Rainfall is highest on the Santa Lucia Range (ranging from 30 to 60 inches per year) and lowest on the valley floor (about 14 inches per year). Dry years are common and droughts can extend over several years, such as the six-year drought of water years 2011 to 2016.

In 2015, the County commissioned a report by Brown and Caldwell, for a near-term assessment of the condition of the Salinas Basin in terms of its groundwater resources within the area defined as Zone 2C (the principal survey area being that area which largely straddles the Salinas River in which much of County residents live) and the status of seawater intrusion in the northern Salinas Valley. The report was prepared under direction of the County as a precursor to its Five Year Basin Investigation, which is being managed by Monterey County Water Resources Agency staff.

The goal of the water supply analyses was to provide an analysis of how groundwater supply may change in the future should the current drought conditions continue. This was accomplished by assessing how and why groundwater availability, replenishment and storage have changed in the past. The study includes professional opinions on the consequences of using more groundwater than the estimated yield on both the short-term conditions and long-term sustainability. The report evaluated groundwater storage and water balance based on changes in groundwater elevation from 1944 through 2013.

Zone 2C consists of 7 subareas, four of which are the primary water-producing subareas, the Pressure, East Side, Forebay (including the Arroyo Seco), and Upper Valley Subareas. These four subareas include most of the land area and account for nearly all the reported groundwater usage within Zone 2C. As estimated at the time of the Brown & Caldwell report, the estimated volume of groundwater in reserve (i.e. storage) is about 6.8 million acre-feet in the aquifers of

the Pressure Subarea, and the total volume of groundwater stored in Zone 2C is about 16.4 million acre-feet.

Over the period from 1959 to 2013 (the period for which groundwater pumping data are available and the reservoirs have been operating), the average reported annual pumping in Zone 2C was about 523,000 acre-feet per year. During this same period, the average annual storage change (calculated using groundwater head changes) was about 6,000 acre-feet per year. An additional loss of storage due to seawater intrusion has occurred and has been estimated at between 11,000 and 18,000 acre-feet per year. The cumulative storage loss from 1944 to 2014 for Zone 2C was about 559,000 acre-feet, averaging about 8,000 acre-feet per year. The pattern of storage change follows the pattern of the precipitation surplus, but is also affected by reservoir releases, which typically replenish approximately 35 percent of annual pumping as aquifer recharge. During years of exceptionally low reservoir releases, such as 1991 and 2011, drought-related aquifer storage depletion is amplified. Storage under continued dry conditions can be expected to decline by about 50,000 to 85,000 acre-feet per year, comparable to past dry years. However, if reservoir releases are severely curtailed, storage losses could be expected to be much larger, on the order of about 165,000 to 215,000 acre-feet per year.

Storage changes are strongly affected by the occurrence of low reservoir releases, which have historically resulted in storage declines. About 40 percent of the storage loss occurred in the 14 years before Nacimiento Reservoir began releasing water, while about 60 percent occurred over the 55 years from 1959 to 2013. Estimates of storage decline in future dry years range from about 50,000 to 215,000 acre-feet per year depending on the level of reservoir releases that occur. This storage loss, added to the existing storage deficit built up over the history of groundwater development in the study area, will exacerbate the problem of seawater intrusion in the Pressure Subarea.

The Salinas Basin is currently out of hydrologic balance by approximately 17,000 to 24,000 acre-feet per year. The average annual groundwater extraction for the four-primary water-producing subareas that compose Zone 2C was about 523,000 acre-feet per year from 1959 to 2013. The average annual change in storage was about 17,000 to 24,000 acre-feet per year, including seawater intrusion. This implies that the yield for Zone 2C is on the order of about 501,000 to 508,000 acre-feet per year; the deficit is essentially the storage change (loss) stated above. It is important to note that the Salinas Basin has an estimated volume of groundwater in storage of about 16 million acre-feet, which could represent a significant groundwater reserve – as compared to the current estimated storage loss of 17,000 to 24,000 acre-feet per year – and could be used to offset temporary overdraft conditions in the future.

Based on the continued large storage declines in the East Side and Pressure Subareas (and resulting groundwater head declines and seawater intrusion), the current distribution of groundwater extractions is not sustainable. Seawater intrusion can account for up to 18,000 acre-feet per year of the total storage loss of 24,000 acre-feet per year. Sustainable use of groundwater can only be achieved by aggressive and cooperative water resources planning to mitigate seawater intrusion and groundwater head declines. Notwithstanding current storage, the existing storage deficit has continued to grow over the period of record, and must be remedied before the deleterious effects of storage declines, such as seawater intrusion and the drying of wells, can be

reversed. In addition, the volume of storage lost due to seawater intrusion must be better quantified.

The consequences of no-action under continued drought conditions will be the imminent advancement of seawater intrusion within the next few years and the continued decline of groundwater head. Both conditions would necessitate the drilling of deeper groundwater wells (as and if feasible) to produce the quantity and quality of water needed for consumptive use and irrigation. The Brown & Caldwell report stated that a more sustainable and long term management practice would encourage a Basin-wide redistribution and reduction of groundwater pumping, which would require cooperative and aggressive resource management. The unsustainability of the current distribution of groundwater extractions has long been recognized by various investigators. As detailed in the Brown & Caldwell report, the large storage declines that have occurred in the Salinas Basin in the past, especially in the East Side Subarea, have permitted seawater intrusion.

The report notes that groundwater usage is not expected to change substantially over the coming several years and the County does not expect major changes in pumping over the coming years. The spatial pattern of future pumping can be assumed to be fairly like the average annual pumping for the past seven years. Almost all the irrigable acreage in Zone 2C is already under cultivation, so it is assumed that irrigation pumping is not expected to notably increase. The irrigated acreage may decrease as it is replaced through urbanization if urban areas continue to expand. Residential units require less water than does an equivalent agricultural area, thus decreasing groundwater pumping over time. Per projections by the Association of Monterey Bay Area Governments (AMBAG), the population in Monterey County is expected to rise by about 7% from 2010 to 2020, a growth rate of about 0.7% per year.

The County can make no assurances with respect to the Brown & Caldwell report including as to the reliability or adequacy of future supplies of groundwater to meet future demands. The Water Resources Agency continually collects and evaluates surface and groundwater conditions within the Salinas Basin. Updates are reported regularly to the Agency's Board of Directors through its "Quarterly Salinas Valley Water Conditions Report", "Groundwater Extractions Summary Report", Groundwater Elevation Contour maps, and Seawater Intrusion Maps; all of which are available through the Agency's website. Water Resources Agency staff, along with the U.S. Geological Survey will be presenting an update to the Board of Supervisors and Board of Directors soon with results of work accomplished to date on the County's five-year Basin Investigation. This report will present initial results on the development of an integrated hydrogeologic model of the Salinas Basin developed for the hydrologic period 1967 through 2014, and will complement the previous Brown and Caldwell report. This model will be updated throughout the five years of the County's investigation (2014 – 2018) with a final report due to the Board of Supervisors in 2019. In summary, Water Resources Agency staff will provide to the joint Boards a review of the scope of the Basin Investigation, what has been accomplished to date and future strategies.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

On June 6, 1978, California voters approved Proposition 13 (“Proposition 13”), which added Article XIII A to the State Constitution (“Article XIII A”). Article XIII A, as amended, limits the amount of any ad valorem tax on real property to one percent of the full cash value thereof, except that additional ad valorem taxes may be levied to pay debt service on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) (as a result of an amendment to Article XIII A approved by State voters on June 3, 1986) on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-third of the voters on such indebtedness, and (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district, but only if certain accountability measures are included in the proposition. Article XIII A defines full cash value to mean “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.” This full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

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 damage, destruction or other factors, 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 minor or technical ways.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The one percent property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the “taxing area” based upon their respective “situs.” Any such allocation made to a local agency continues as part of its allocation in future years.

Beginning in the 1981-82 fiscal year, assessors in the State no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 assessed value. All taxable property is now shown at full market value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property

value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Article XIII B of the California Constitution

On November 6, 1979, California voters approved Proposition 4, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The “base year” for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to the governmental entity, or (ii) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in June 1990, the appropriations limit for the County in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the County’s option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college (“K-14”) districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate “proceeds of taxes” received by the County over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

The Board adopted the annual appropriation limit for Fiscal Year 2014-15 of \$562,017,432. The limitation applies only to proceeds of taxes and therefore does not apply to service fees and charges, investment earnings on non-proceeds of taxes, fines, and revenue from the sale of property and taxes received from the State and federal governments that are tied to special programs. Based on the 2014-15 Adopted Budget, the funds subject to limitation total \$174,274,280 (total General Operating Budget minus non-proceeds of taxes and debt service) and are \$387,743,152 below the Article XIII B limit.

Proposition 1A

Proposition 1A (2004), proposed by the State Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, 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 (2004) 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 State Legislature. Proposition 1A (2004) 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 of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A (2004) also provides that if the State reduces the VLF rate below 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A (2004) requires the State, beginning July 1, 2005, 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 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the County be approved by a two-thirds vote of the governmental entity’s legislative body and by a majority vote of the voters of the governmental

entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in *Santa Clara County Local Transportation Authority v. Guardino*, 11 Cal. 4th 220 (1995) (the “Santa Clara Case”), upheld the constitutionality of the portion of Proposition 62 requiring a two-thirds vote in order for a local government or district to impose a special tax, and, by implication, upheld a parallel provision requiring a majority vote in order for a local government or district to impose any general tax. The decision in the Santa Clara Case did not address the question of whether it should be applied retroactively. On June 4, 2001, the California Supreme Court released *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* (“La Habra”). In this decision, the court held that a public agency’s continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought. The portion of the County’s taxes subject to Proposition 62, including the County’s transient occupancy tax, is in compliance with Proposition 62 requirements. The County is of the opinion that Proposition 62 will not materially impact any existing or future taxes, fees and assessments collected by the County. No revenues collected by the County have been challenged under Proposition 62.

Right to Vote on Taxes Initiative – Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIIC and XIID to the California Constitution, which contain a number of provisions affecting the ability of the County to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIIC requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the County require a majority vote and taxes for specific purposes, even if deposited in the County’s General Fund, require a two-thirds vote. The voter approval requirements of Proposition 218 reduce the flexibility of the Board to raise revenues for the General Fund, and no assurance can be given that the County will be able to impose, extend or increase such taxes in the future to meet increased expenditure requirements. In addition, Article XIID contains new provisions relating to how local agencies may levy and maintain “assessments” for municipal services and programs. “Assessment” is defined to mean any levy or charge upon real property for a special benefit conferred upon the

real property. This definition applies to landscape and maintenance assessments for open space areas, street medians, street lights and parks.

Article XIID also contains several new provisions affecting “fees” and “charges,” defined for purposes of Article XIID to mean “any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by a [local government] upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.” All new and existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as “property related” for purposes of Article XIID, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

In addition to the provisions described above, Article XIIC removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge. No assurance can be given that the voters of the County will not, in the future, approve an initiative or initiatives which reduce or repeal local taxes, assessments, fees or charges currently comprising a substantial part of the County’s General Fund. “Assessment,” “fee” and “charge” are not defined in Article XIIC, and it is not clear whether the definitions of these terms in Article XIID (which are generally property related as described above) would be applied to Article XIIC. If the Article XIID definitions are not held to apply to Article XIIC, the initiative power could potentially apply to revenue sources which currently constitute a substantial portion of General Fund revenues. No assurance can be given that the voters of the County will not, in the future, approve initiatives which repeal, reduce or prohibit the future imposition or increase of local taxes, assessments, fees or charges.

The County does not currently levy any property related “fees” or “charges” which it considers subject to challenge under Proposition 218.

Proposition 26

On November 2, 2010, the voters of the State approved Proposition 26, known as the “Supermajority Vote to Pass New Taxes and Fees Act” (“Proposition 26”). Proposition 26, among other things, amends Article XIII C to the California Constitution principally to define what constitutes a “tax” under the limitations and requirements of that provision. Article XIII C

imposes limitations on local governments like the County when imposing certain taxes, including a requirement that the local government submit certain taxes to the electorate for its approval. Before Proposition 26, Article XIII C did not define the term “tax.” Proposition 26 broadly defines a tax under Article XIII C to include “any levy, charge, or exaction of any kind imposed by a local government.” Proposition 26 lists several exceptions to the definition of “tax,” which include (a) a charge for a specific benefit or privilege, which does not exceed the reasonable costs of providing the benefit or privilege, (b) a charge for a government service or product, which does not exceed the reasonable costs of providing the service or product, (c) a charge for the reasonable regulatory costs of issuing licenses and permits, performing investigations, inspections, and audits, and the administrative enforcement thereof, (d) a charge for entrance to or use of local government property, or the purchase, rental, or lease of local government property, (e) a fine, penalty, or other monetary charge imposed as a result of a violation of law, (f) a charge imposed as a condition of property development, and (g) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

It appears that Proposition 26 does not apply retroactively to local government. Thus, even if a fee enacted by the County prior to November 3, 2010 does not fit within any of Proposition 26’s exceptions, it will nonetheless remain valid provided that the legislation authorizing it is not amended so as to extend or increase the fee. The County does not believe that it has enacted, extended or increased any fees since passage of Proposition 26 that would not be exempt from Proposition 26 or that would require voter approval pursuant to Proposition 26.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D and Propositions 62, 22, 26 and 1A were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the County or local districts to increase revenues or to increase appropriations which may affect the County’s revenues or its ability to expend its revenues.

THE CORPORATION

The Corporation was organized on June 21, 1989, as a nonprofit public benefit corporation pursuant to the Nonprofit Public Corporation Law of the State. The Corporation is a separate legal entity from the County. It is governed by a three-member Board of Directors consisting of designated County officers. The Corporation has no employees. Except as expressly provided in the Trust Agreement, the Corporation will not have any obligation or liability to the Owners of the Certificates with respect to the payment when due of the Rental Payments by the County, or with respect to the performance by the County of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

TAX MATTERS

Federal Income Taxes. The Code imposes certain requirements that must be met subsequent to the issuance and delivery of the Certificates for interest thereon to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Certificates to be included in gross income for federal income tax purposes retroactive to the date of issue of the Certificates. Pursuant to the Resolution and Tax and Nonarbitrage Certificate executed by the County in connection with the issuance of the Certificates (the “Tax Certificate”), the County has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest on the Certificates from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the County has made certain representations and certifications in the Tax Certificate. Special Counsel will not independently verify the accuracy of those representations and certifications.

In the opinion of Nixon Peabody LLP, Special Counsel, under existing law and assuming compliance with the aforementioned covenant, and the accuracy of certain representations and certifications made by the County described above, interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Code. Special Counsel is also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. Interest on the Certificates is, however, included in the adjusted current earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations.

In rendering these opinions, Special Counsel has relied upon representations and covenants of the County in the Tax Certificate concerning the property refinanced with Certificate proceeds, the investment and use of Certificate proceeds and the rebate to the federal government of certain earnings thereon. In addition, Special Counsel has assumed that all such representations are true and correct and that the County will comply with such covenants. Special Counsel has expressed no opinion with respect to the exclusion of the interest on the Certificates from gross income under Section 103(a) of the Code in the event that any of such representations are untrue or the County fails to comply with such covenants, unless such failure to comply is based on the advice or the opinion of Special Counsel.

Original Issue Discount. Special Counsel is further of the opinion that the excess of the principal amount of any maturity of the Certificates over the price at which a substantial amount of such maturity of the Certificates was sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) (each, a “Tax-Exempt Discount Certificate” and collectively, the “Tax-Exempt Discount Certificates”) constitutes original issue discount which is excluded from gross income for federal income tax purposes to the same extent as interest on the Certificates. Further, such original issue discount accrues actuarially on a constant interest rate basis over the term of each Tax-Exempt Discount Certificate and the basis of each Tax-Exempt Discount Certificate acquired at such initial offering price by an initial purchaser thereof will be increased by the amount of such accrued original issue discount. The accrual of original issue discount may be taken into account as an increase in the amount of tax-exempt income for purposes of determining various other tax

consequences of owning the Tax-Exempt Discount Certificates, even though there will not be a corresponding cash payment. Owners of the Tax-Exempt Discount Certificates are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Tax-Exempt Discount Certificates.

Original Issue Premium. Certificates sold at prices in excess of their principal amounts are “Premium Certificates.” An initial purchaser with an initial adjusted basis in a Premium Certificate in excess of its principal amount will have amortizable certificate premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable certificate premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each Premium Certificate based on the purchaser’s yield to maturity (or, in the case of Premium Certificates callable prior to their maturity, over the period to the call date, based on the purchaser’s yield to the call date and giving effect to any call premium). For purposes of determining gain or loss on the sale or other disposition of a Premium Certificate, an initial purchaser who acquires such obligation with an amortizable certificate premium is required to decrease such purchaser’s adjusted basis in such Premium Certificate annually by the amount of amortizable certificate premium for the taxable year. The amortization of certificate premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Certificates. Owners of the Premium Certificates are advised that they should consult with their own advisors with respect to the state and local tax consequences of owning such Premium Certificates.

Ancillary Tax Matters. Ownership of the Certificates may result in other federal tax consequences to certain taxpayers, including, without limitation, certain S corporations, foreign corporations with branches in the United States, property and casualty insurance companies, individuals receiving Social Security or Railroad Retirement benefits, and individuals seeking to claim the earned income credit. Ownership of the Certificates may also result in other federal tax consequences to taxpayers who may be deemed to have incurred or continued indebtedness to purchase or to carry the Certificates. Prospective investors are advised to consult their own tax advisors regarding these rules.

Interest paid on tax-exempt obligations such as the Certificates is subject to information reporting to the Internal Revenue Service (“IRS”) in a manner similar to interest paid on taxable obligations. In addition, interest on the Certificates may be subject to backup withholding if such interest is paid to a registered owner that (a) fails to provide certain identifying information (such as the registered owner’s taxpayer identification number) in the manner required by the IRS, or (b) has been identified by the IRS as being subject to backup withholding.

Special Counsel is not rendering any opinion as to any federal tax matters other than those described in the opinion attached as APPENDIX D. Prospective investors, particularly those who may be subject to special rules described above, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the Certificates, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

Changes in Law and Post Issuance Events. Legislative or administrative actions and court decisions, at either the federal or state level, could have an adverse impact on the potential benefits of the exclusion from gross income of the interest on the Certificates for federal or state

income tax purposes, and thus on the value or marketability of the Certificates. This could result from changes to federal or state income tax rates, changes in the structure of federal or state income taxes (including replacement with another type of tax), repeal of the exclusion of the interest on the Certificates from gross income for federal or state income tax purposes, or otherwise. In this regard, there have been various proposals in recent years that would limit the extent of the exclusion from gross income of interest on obligations of states and political subdivisions under Section 103 of the Code for taxpayers whose income exceeds certain thresholds. It is not possible to predict whether any legislative or administrative actions or court decisions having an adverse impact on the federal or state income tax treatment of holders of the Certificates may occur. Prospective purchasers of the Certificates should consult their own tax advisors regarding the impact of any change in law on the Certificates. Special Counsel has not undertaken to advise in the future whether any events after the date of issuance and delivery of the Certificates may affect the tax status of interest on the Certificates. Special Counsel expresses no opinion as to any federal, state or local tax law consequences with respect to the Certificates, or the interest thereon, if any action is taken with respect to the Certificates or the proceeds thereof upon the advice or approval of other counsel.

IN ALL EVENTS, ALL INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE CERTIFICATES.

CERTAIN LEGAL MATTERS

Certain legal matters are subject to the approving opinion of Nixon Peabody LLP, Los Angeles, California, Special Counsel to the County. A complete copy of the proposed form of Special Counsel opinion is contained in APPENDIX D. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Copies of this opinion will be available at the time of delivery of the Certificates. Payment of the fees and expenses of Special Counsel is contingent upon the sale and delivery of the Certificates. Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, San Francisco, California. Certain legal matters will be passed upon for the County by Nixon Peabody LLP, Los Angeles, California, as Disclosure Counsel to the County, and for the County and the Corporation by County Counsel.

MUNICIPAL ADVISOR

KNN Public Finance, LLC (the “Municipal Advisor”) is serving as municipal advisor to the County and provides financial recommendation and guidance to the County with respect to the preparation for sale of the Certificates, timing of sale, tax-exempt bond market conditions, costs of issuance and other factors related to the sale of the Certificates. The Municipal Advisor has not audited, authenticated or otherwise verified the information set forth in this Official Statement.

RATINGS

[Fitch Ratings, Inc. (“Fitch”) and] S&P Global Ratings, a Standard & Poor’s Financial Services LLC business (S&P), respectively, have assigned ratings of “[AA-]” and “[AA]” to the Certificates. Such ratings reflect only the views of such rating agencies, and an explanation of the significance of the ratings may be obtained by contacting them at: Fitch Ratings, One State Street Plaza, New York, New York 10004 and Standard & Poor’s, 55 Water Street, New York, New York 10041. Such ratings are not a recommendation to buy, sell or hold the Certificates. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either rating agency, if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

CONTINUING DISCLOSURE

The County has agreed to provide, or cause to be provided, certain annual financial information and operating data and, in a timely manner, notice of certain enumerated events. For a complete listing of items of information which will be provided in the Annual Report, see APPENDIX F – “FORM OF CONTINUING DISCLOSURE AGREEMENT.” Such information is to be provided by the County not later than nine (9) months after the end of the County’s fiscal year (which currently would be April 1), commencing with the report for the 2016-17 Fiscal Year. The Annual Report will be filed by the Trustee, acting as Dissemination Agent, on behalf of the County through the Electronic Municipal Market Access (EMMA) website of the MSRB, or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to Securities and Exchange Commission Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended (“Rule 15c2-12”). These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12. In the last five years, the County failed to include current year budget information for its most recent annual report, which the County has since remedied. The County has not otherwise failed to comply in any material respect with any of its prior undertakings to provide continuing disclosure.

LITIGATION

Absence of Material Litigation Relating to the Certificates

At the time of delivery of and payment for the Certificates, the County will certify that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental or public entity pending or, to the best knowledge of the County, threatened against the County (i) which affects or seeks to prohibit, restrain or enjoin the execution or delivery of the Certificates, the Lease Agreement, the Ground Lease, the Trust Agreement or the Assignment Agreement, (ii) contesting the validity of the Certificate Purchase Agreement, the Lease Agreement, the Ground Lease, the Trust Agreement or the Continuing Disclosure Agreement, the powers of the County to enter into or perform its obligations under the Certificate Purchase Agreement, the Lease Agreement, the Ground Lease or the Trust Agreement, or the existence or powers of the County, or (iii) which, if determined adversely to the County, would materially impair the County’s ability to meet its obligations under the Lease Agreement or materially and adversely affect the County’s financial condition.

Other Litigation

[The County does have claims pending against it. The aggregate amount of the uninsured liabilities of the County which may result from all claims will not, in the opinion of the County, materially affect the County's finances or impair its ability to make Rental Payments under the Lease Agreement.]

[Measure Z litigation to come]

[Settlement regarding Hernandez v. County to come]

[Other litigation?]

FINANCIAL INTEREST

The fees of Special Counsel and Underwriter's Counsel are contingent upon the execution and delivery of the Certificates. From time to time, Nixon Peabody LLP represents Barclays Capital Inc. on matters unrelated to the Certificates.

UNDERWRITING

The Certificates are to be purchased by Barclays Capital Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Certificates at a price of \$[_____] (reflecting an underwriter's discount of \$[_____] from the public offering price shown on the inside cover page of this Official Statement plus net original issue premium of \$[_____]). The purchase agreement related to the Certificates provides that the Underwriter will purchase all the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase agreement, including the approval of certain legal matters by Special Counsel and certain other conditions. The Certificates may be offered and sold to certain dealers (including dealers depositing said Certificates into investment trusts) and others at prices lower than the initial public offering price, and the public offering price may be changed from time to time by the Underwriter.

MISCELLANEOUS

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the documents are on file and available for inspection at the office of the Trustee at 400 South Hope Street, Suite 400, Los Angeles, California 90071.

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

The execution and delivery of this Official Statement has been duly authorized by the County.

COUNTY OF MONTEREY, CALIFORNIA

By: _____
[Name]
[Title]

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APPENDIX A

GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE COUNTY

Population

Between 2013 and 2017 the County's population increased by approximately 3.6% compared to the State's growth of 3.4%. The following table details the yearly population growth in the County and the State.

Table A-1
County of Monterey Population Trends
Calendar Years 2013 through 2017
(As of January 1)

| <u>Year</u> | <u>County of Monterey</u> | | <u>State of California</u> | |
|-------------|---------------------------|-----------------|----------------------------|-----------------|
| | <u>Population</u> | <u>% Change</u> | <u>Population</u> | <u>% Change</u> |
| 2013 | 427,087 | - | 38,238,492 | - |
| 2014 | 429,298 | 0.5% | 38,572,211 | 0.9% |
| 2015 | 432,664 | 0.8 | 38,915,880 | 0.9 |
| 2016 | 438,171 | 1.2 | 39,189,035 | 0.7 |
| 2017 | 442,365 | 1.0 | 39,523,613 | 0.9 |

Source: California Department of Finance, Demographic Research Unit.

Economy

Following is a table which summarizes key economic indicators with respect to the County for the years 2012 through 2016:

Table A-2
County of Monterey Key Economic Indicators
Calendar Years 2012 through 2016

| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|-------------------|-------------|-------------|-------------|-------------|-------------|
| Population | 427,087 | 429,298 | 432,664 | 438,171 | 442,365 |
| Employment | 197,500 | 199,100 | 199,600 | 203,500 | 203,800 |
| Unemployment | 25,600 | 22,400 | 19,900 | 17,900 | 16,700 |
| Unemployment rate | 11.5% | 10.1% | 9.1% | 8.1% | 7.6% |

Sources: Data derived from California Department of Finance, Demographic Research Unit (Population); Employment Development Department, Labor Market Information Division (Employment, Unemployment).

Employment

The following table indicates labor patterns for the County, the State and the nation.

Table A-3
Labor Force, Employment And Unemployment
Yearly Average for Years 2012 through 2016

| <u>Year, Area</u> | <u>Labor Force</u> | <u>Civilian Employment</u> | <u>Unemployment Rate</u> |
|-------------------|--------------------|--------------------------------|--------------------------|
| <u>2012</u> | | | |
| Monterey County | 223,100 | 197,500 | 11.5% |
| California | 18,551,000 | 16,589,700 | 10.4 |
| United States | 154,975,000 | 142,469,000 | 8.1 |
| <u>2013</u> | | | |
| Monterey County | 221,600 | 199,100 | 10.1% |
| California | 18,596,800 | 16,933,300 | 8.9 |
| United States | 155,389,000 | 143,929,000 | 7.4 |
| <u>2014</u> | | | |
| Monterey County | 219,600 | 199,600 | 9.1% |
| California | 18,811,400 | 17,397,100 | 7.5 |
| United States | 155,922,000 | 146,305,000 | 6.2 |
| <u>2015</u> | | | |
| Monterey County | 221,400 | 203,500 | 8.1% |
| California | 18,981,800 | 17,798,600 | 6.2 |
| United States | 157,130,000 | 148,834,000 | 5.3 |
| <u>2016</u> | | | |
| Monterey County | 220,400 | 203,800 | 7.6% |
| California | 19,102,700 | 18,065,000 | 5.4 |
| United States | 159,187,000 | 151,436,000 | 4.9 |

Sources: California State Employment Development Department, Labor Market Information Division; U.S. Department of Labor, Bureau of Labor Statistics.

The following table summarizes the historical numbers of workers in the County by industry for the years 2012 through 2016.

Table A-4
County of Monterey
Estimated Number of Wage and Salary Workers by Industry
(Not Seasonally Adjusted)

| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|---|----------------|----------------|----------------|----------------|----------------|
| Agricultural | 48,200 | 50,100 | 52,200 | 53,000 | 53,700 |
| Natural Resources and Mining | 200 | 200 | 200 | 300 | 200 |
| Construction | 4,100 | 4,500 | 4,900 | 5,200 | 5,900 |
| Manufacturing | 5,200 | 5,300 | 5,400 | 5,500 | 5,400 |
| Wholesale Trade | 5,200 | 5,200 | 5,400 | 5,300 | 5,400 |
| Retail Trade | 15,900 | 16,200 | 16,200 | 16,400 | 16,600 |
| Transportation, Warehousing and Utilities | 3,800 | 4,000 | 4,200 | 4,300 | 4,300 |
| Information | 1,500 | 1,500 | 1,400 | 1,300 | 1,100 |
| Financial Activities | 4,200 | 4,000 | 4,000 | 4,100 | 4,200 |
| Professional and Business Services | 11,400 | 11,300 | 12,100 | 12,800 | 13,400 |
| Educational and Health Services | 16,200 | 17,500 | 18,000 | 18,400 | 18,600 |
| Leisure and Hospitality | 21,200 | 21,900 | 22,800 | 23,400 | 24,300 |
| Other Services | 4,700 | 4,800 | 4,900 | 5,000 | 5,200 |
| Government | 31,300 | 30,200 | 30,600 | 31,100 | 31,900 |
| Total All Industries | <u>173,500</u> | <u>176,700</u> | <u>182,000</u> | <u>186,100</u> | <u>190,200</u> |

Source: California Employment Development Department, Labor Market Information Division.

Per Capita Personal Income

The following table summarizes per capita personal income for the County, the State and the nation for the years 2011 through 2015.

Table A-5
Per Capita Personal Income
For the Years 2011 through 2015

| <u>Year, Area</u> | <u>Per Capita Income</u> |
|---------------------------|------------------------------|
| <u>2011</u> | |
| Monterey County | \$41,958 |
| California | 44,749 |
| United States | 42,332 |
| <u>2012</u> | |
| Monterey County | \$43,411 |
| California | 47,505 |
| United States | 44,200 |
| <u>2013</u> | |
| Monterey County | \$44,707 |
| California | 48,471 |
| United States | 44,462 |
| <u>2014</u> | |
| Monterey County | \$46,438 |
| California | 50,988 |
| United States | 46,414 |
| <u>2015⁽¹⁾</u> | |
| Monterey County | \$49,836 |
| California | 53,741 |
| United States | 48,112 |

⁽¹⁾ Most recent calendar year data available.

Sources: U.S. Department of Commerce and Bureau of Economic Analysis.

Largest Employers

The following table represents the major employers within the County.

Table A-6
County of Monterey
Major Employers – 2017

| <u>Company</u> | <u>Type of Entity</u> |
|--------------------------------|--|
| Al Pak Labor | Labor Contractors |
| Azcona Harvesting | Harvesting-Contract |
| Breast Care Ctr | Diagnostic Imaging Centers |
| Bud of California | Fruits & Vegetables-Growers & Shippers |
| Cardiology Clinic | Nurses-Practitioners |
| Casa Palmero | Hotels & Motels |
| Community Hospital-Monterey | Hospitals |
| County-Monterey Behavioral | Health Services |
| Dole Fresh Vegetables Co | Fruits & Vegetables-Growers & Shippers |
| Hilltown Packing Co | Harvesting-Contract |
| Mann Packing Co | Fruits & Vegetables-Growers & Shippers |
| Monterey Cnty Social Svc Cmmtt | Government Offices-County |
| Monterey Cnty Social Svc Dept | Government Offices-County |
| Monterey County Office Edu | School Districts |
| Natividad Medical Ctr | Hospitals |
| Naval Postgraduate School | Schools-Universities & Colleges Academic |
| Pebble Beach Co | Resorts |
| Pebble Beach Resorts | Resorts |
| Quality Farm Labor | Labor Contractors |
| R C Packing | Packing & Crating Service |
| Salinas Valley Memorial Hlthcr | Hospitals |
| Salinas Valley Memorial Hosp | Hospitals |
| Taylor Farms | Fruits & Vegetables-Growers & Shippers |
| US Defense Dept | Government Offices-Us |
| US Defense Manpower Data Ctr | Government Offices-Us |

Sources: America's Labor Market Information System (ALMIS) Employer Database, 2017 2nd Edition;
Employer information provided by Infogroup, Omaha, NE.

Commercial Activity

As of 2015, taxable transactions in the County exceeded \$6.4 billion. A history of taxable transactions is shown below:

Table A-7
County of Monterey
Taxable Transactions 2011 – 2015
(Dollars in Thousands)

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015⁽¹⁾⁽²⁾</u> |
|---------------------|--------------------|--------------------|--------------------|--------------------|------------------------------|
| Apparel Stores | \$ 265,864 | \$ 294,017 | \$ 312,175 | \$ 323,291 | \$ 340,549 |
| Group | | | | | |
| General | 492,596 | 500,337 | 507,088 | 521,361 | 478,901 |
| Merchandise Group | | | | | |
| Food and Beverage | 288,939 | 294,742 | 308,182 | 320,804 | 327,246 |
| Group | | | | | |
| Eating and Drinking | 581,655 | 637,659 | 677,471 | 743,876 | 791,067 |
| Group | | | | | |
| Household Group | 80,719 | 81,177 | 87,719 | 88,134 | - |
| Building Material | 276,757 | 287,797 | 317,910 | 332,583 | 376,468 |
| Group | | | | | |
| Automotive Group | 581,680 | 666,429 | 742,343 | 821,637 | 929,924 |
| All Other Retail | 187,146 | 191,020 | 198,718 | 210,700 | 512,008 |
| Stores Group | | | | | |
| Retail Stores | 3,680,776 | 3,927,095 | 4,137,019 | 4,339,409 | 4,500,693 |
| Totals | | | | | |
| All Other Outlets | <u>1,631,956</u> | <u>1,710,350</u> | <u>1,773,512</u> | <u>1,861,338</u> | <u>1,905,424</u> |
| Total All Outlets | <u>\$5,312,732</u> | <u>\$5,637,445</u> | <u>\$5,910,531</u> | <u>\$6,200,747</u> | <u>\$6,406,117</u> |

(1) Most recent calendar year data available.

(2) Industry-level data for 2015 are not comparable to that of prior years

Source: Taxable Sales, California State Board of Equalization.

Construction Activity

Building permit activity for the years 2012 through 2016 is summarized below.

Table A-8
County of Monterey
Building Permit Valuation
(Dollars in Thousands)

| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|-------------------|------------------|------------------|------------------|------------------|------------------|
| Valuation | | | | | |
| Residential | \$154,053 | \$168,823 | \$166,058 | \$128,730 | \$155,873 |
| Nonresidential | 94,390 | 104,698 | 154,341 | 138,229 | 107,185 |
| Total | <u>\$248,443</u> | <u>\$273,521</u> | <u>\$320,399</u> | <u>\$266,959</u> | <u>\$263,058</u> |
| New Housing Units | | | | | |
| Single Family | 107 | 190 | 236 | 122 | 163 |
| Multiple Family | 131 | 252 | 85 | 144 | 18 |
| Total | <u>238</u> | <u>442</u> | <u>321</u> | <u>266</u> | <u>181</u> |

Source: Construction Industry Research Board.

Agriculture

The following table provides a summary of agricultural production within the County for the years 2011 through 2015:

Table A-9
County of Monterey
Agricultural Production

| | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015⁽¹⁾</u> |
|---------------------|------------------------|------------------------|------------------------|------------------------|---------------------------|
| Fruit and Nut Crops | \$ 914,685,000 | \$1,057,684,000 | \$1,159,589,000 | \$1,033,798,000 | \$1,149,353,000 |
| Vegetable Crops | 2,596,683,000 | 2,557,772,000 | 2,833,775,000 | 3,084,577,000 | 3,261,521,000 |
| Field Crops | 16,824,000 | 19,338,000 | 19,990,000 | 18,724,000 | 20,748,000 |
| Seed Crops | 9,404,000 | 8,550,000 | 8,803,000 | 5,466,000 | 4,980,000 |
| Nursery Crops | 260,703,000 | 307,543,000 | 312,346,000 | 286,577,000 | 313,689,000 |
| Apiary | 228,000 | 204,000 | 195,000 | 135,000 | 226,000 |
| Livestock & Poultry | 54,468,000 | 53,126,000 | 45,024,000 | 64,286,000 | 91,228,000 |
| Totals | <u>\$3,852,995,000</u> | <u>\$4,004,217,000</u> | <u>\$4,379,722,000</u> | <u>\$4,493,428,000</u> | <u>\$4,841,519,000</u> |

(1) Most recent data available.

Source: County of Monterey Agricultural Commission.

Transportation

Two major north-south highways connect the County with surrounding counties. State Highway 1 follows the coast. U.S. 101 follows the Salinas Valley. Highway 68 links Salinas to the Monterey Peninsula. Highways 156 and 198 link U.S. 101 with the parallel inland route in adjacent counties. Local transit needs are served by the Monterey-Salinas Transit system. Greyhound provides regularly scheduled intrastate and interstate transportation. Amtrak passenger service is available from Salinas, which is located on the Southern Pacific mainline route between San Francisco and Los Angeles. County residents and visitors utilize commercial airlines flying out of Monterey Peninsula Airport. Airport facilities are also located at Salinas Municipal Airport. Southern Pacific Transportation Company provides freight service for the interior of the County. Freight transportation is also provided by several intrastate and transcontinental trucking firms.

Education

Public school education is available through 15 elementary school districts, two high school districts, and seven unified school districts. Total public school enrollment in the 2016-17 school year is approximately 77,517.

Table A-10
County of Monterey
Public School Enrollment
For Fiscal Years 2012-13 through 2016-17

| | <u>2012-13</u> | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | <u>2016-17</u> |
|--------|----------------|----------------|----------------|----------------|----------------|
| K – 8 | 53,016 | 54,090 | 55,688 | 55,434 | 55,016 |
| 9 – 12 | 20,444 | 20,522 | 21,829 | 21,334 | 20,981 |
| Total | 73,460 | 74,684 | 75,997 | 76,768 | 77,517 |

Source: California Department of Education, Educational Demographic Unit.

The County is served by a state university campus, two public community colleges, Hartnell College and Monterey Peninsula College, as well as a private institution, The Monterey Institute of International Studies. Hartnell is located in Salinas and serves approximately 17,000 students. Monterey Peninsula College is located in the City of Monterey and has an enrollment of approximately 9,100. Both colleges offer courses off campus. The Middleberry Institute of International Studies at Monterey is located in the City of Monterey and has an enrollment of approximately 792. Its emphasis in undergraduate and graduate study is foreign policy, diplomacy, international relations, and languages. California State University, Monterey Bay is located on the site of the former Fort Ord and has an enrollment of approximately 7,145.

APPENDIX B

**COUNTY COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR
FISCAL YEAR ENDED JUNE 30, 2016**

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following summary discussion of selected provisions of the Ground Lease, the Lease Agreement, the Assignment Agreement and the Trust Agreement is made subject to all of the provisions of such documents. This summary discussion does not purport to be a complete statement of said provisions and is qualified in its entirety by reference to the full terms of the Ground Lease, the Lease Agreement, the Assignment Agreement and the Trust Agreement, copies of which may be obtained from the Trustee.

DEFINITIONS

“Additional Rental Payments” means all amounts payable by the County as Additional Rental Payments pursuant to the Lease Agreement.

“Assignment Agreement” means the Assignment Agreement, dated as of August 1, 2017, by and between the Corporation and U.S. Bank National Association, as Trustee.

“Authorized Corporation Representative” means the President, the Vice President, the Chief Financial Officer/Treasurer and the Secretary of the Corporation, and any other Person authorized by the Board of Directors of the Corporation to act on behalf of the Corporation under or with respect to the Trust Agreement.

“Authorized County Representative” means the County Administrative Officer of the County, the Auditor-Controller of the County, the Treasurer of the County, the Chief Deputy Auditor-Controller of the County, the Deputy Auditor-Controller of the County, the County Debt Manager of the County, and any other Person authorized by the Board of Supervisors of the County to act on behalf of the County under or with respect to the Trust Agreement.

“Authorized Denominations” means \$5,000 and whole multiples thereof.

“Base Rental Deposit Date” means the second Business Day next preceding each Interest Payment Date.

“Base Rental Payment Fund” means the fund by that name established in accordance with the Trust Agreement.

“Base Rental Payment Schedule” means the schedule of Base Rental Payments payable by the County pursuant to and attached to the Lease Agreement.

“Base Rental Payments” means all amounts payable to the Corporation by the County as Base Rental Payments pursuant to the Lease Agreement.

“Beneficial Owners” means those Persons for whom the Participants have caused the Depository to hold Book-Entry Certificates.

“Book-Entry Certificates” means the Certificates registered in the name of the nominee of DTC, or any successor securities depository for the Certificates, as the registered owner thereof pursuant to the terms and provisions of the Trust Agreement.

“Business Day” means a day other than (a) Saturday or Sunday, (b) a day on which banking institutions in the city in which the Principal Office of the Trustee is located are authorized or required by law to be closed, or (c) a day on which the New York Stock Exchange is closed.

“Cede & Co.” means Cede & Co., the nominee of DTC, and any successor nominee of DTC with respect to the Certificates.

“Certificate Purchase Agreement” means the Certificate Purchase Agreement, dated August [2], 2017, by and between the Purchaser and the County relating to the Certificates.

“Certificates” means the County of Monterey Certificates of Participation (2017 Public Facilities Refunding) executed and delivered by the Trustee pursuant to the Trust Agreement.

“Code” means the Internal Revenue Code of 1986.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, dated as of August 1, 2017, by and between the County and U.S. Bank National Association, as Trustee, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

“Corporation” means the County of Monterey Public Improvement Corporation, a nonprofit public benefit corporation organized and existing under the laws of the State, and its successors.

“Costs of Issuance” means all the costs of executing and delivering the Certificates, including, but not limited to, printing expenses, rating agency fees, filing and recording fees, initial fees, expenses and charges of the Trustee and its counsel (including the Trustee’s first annual administrative fee), fees, charges and disbursements of attorneys, financial advisors, accounting firms, consultants and other professionals, fees and charges for preparation, execution and safekeeping of the Certificates and any other cost, charge or fee in connection with the original execution and delivery of the Certificates.

“Costs of Issuance Fund” means the fund by that name established in accordance with the Trust Agreement.

“County” means the County of Monterey, a county and political subdivision of the State organized and existing under the laws of the State, and its successors.

“Defeasance Securities” means (a) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America), or (b) obligations guaranteed as to principal and interest by, the United States of America or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America. Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity.

“Delivery Date” means August [23], 2017.

“Depository” means the securities depository acting as Depository pursuant to the Trust Agreement.

“DTC” means The Depository Trust Company, New York, New York and its successors.

“Event of Default” means, with respect to the Trust Agreement, any event or circumstance specified in the Trust Agreement as an Event of Default and, with respect to the Lease Agreement, any event or circumstance specified in the Lease Agreement as an Event of Default.

“Fair Rental Value” means, with respect to the Property, the annual fair rental value thereof.

“Fiscal Year” means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the County.

“Fitch” means Fitch Ratings, its successors and assigns, except that if such corporation shall no longer perform the function of a securities rating agency for any reason, the term “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency selected by the County.

“Ground Lease” means the Ground Lease, dated as of August 1, 2017, by and between the County and the Corporation, as originally executed and as it may from time to time be amended in accordance with the provisions thereof and of the Lease Agreement.

“Independent Insurance Consultant” means a nationally recognized independent actuary, insurance company or broker that has actuarial personnel experienced in the area of insurance for which the County is to be self-insured, as may from time to time be designated by the County.

“Interest Fund” means the fund by that name established in accordance with the Trust Agreement.

“Interest Payment Date” means April 1 and October 1 of each year commencing October 1, 2017.

“Lease Agreement” means the Lease Agreement, dated as of August 1, 2017, by and between the County and the Corporation, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

“Letter of Representations” means the letter of the County delivered to and accepted by the Depository on or prior to the delivery of the Certificates as Book-Entry Certificates setting forth the basis on which the Depository serves as depository for such Book-Entry Certificates, as originally executed or as it may be supplemented or revised or replaced by a letter to a substitute Depository.

“Mandatory Sinking Account Payment” means the principal evidenced by Certificates required to be paid on each Mandatory Sinking Account Payment Date pursuant to the Trust Agreement.

“Mandatory Sinking Account Payment Date” means a date on which a Mandatory Sinking Account Payment is required to be paid pursuant to the Trust Agreement.

“Moody’s” means Moody’s Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, except that if such entity shall no longer perform the functions of a securities rating agency for any reason, the term “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency selected by the County.

“Net Proceeds” means any insurance proceeds or condemnation award in excess of \$50,000, paid with respect to any of the Property, remaining after payment therefrom of all reasonable expenses incurred in the collection thereof.

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

“Opinion of Counsel” means a written opinion of counsel of recognized national standing in the field of law relating to municipal bonds, appointed and paid by the County and satisfactory to and approved by the Trustee.

“Outstanding,” when used as of any particular time with reference to Certificates, means, subject to the provisions of the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—MISCELLANEOUS—Disqualified Certificates,” all Certificates except (a) Certificates previously canceled by the Trustee or delivered to the Trustee for cancellation, (b) Certificates paid or deemed to have been paid within the meaning of the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—DEFEASANCE—Discharge of Trust Agreement” and (c) Certificates in lieu of which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—TERMS AND CONDITIONS OF CERTIFICATES—Certificates Mutilated, Lost, Destroyed or Stolen.”

“Owner” means any Person who shall be the registered owner of any Outstanding Certificate as indicated in the Registration Books.

“Participating Underwriter” has the meaning ascribed thereto in the Continuing Disclosure Agreement.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Book-Entry Certificates as securities depository.

“Permitted Encumbrances” means with respect to the Property, as of any particular time (a) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the County may, pursuant to provisions of the Lease Agreement, permit to remain unpaid, (b) the Lease Agreement, (c) the Ground Lease, (d) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law as normally exist with respect to properties similar to the Property for the purposes for which it was acquired or is held by the County, (e) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Delivery Date, and (f) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the Delivery Date which the County certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the Owners of the Certificates by the Trust Agreement.

“Permitted Investments” means the following:

(1) Direct general obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America);

(2) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:

- Export-Import Bank
- Rural Economic Community Development Administration
- U.S. Maritime Administration
- Small Business Administration
- U.S. Department of Housing & Urban Development (PHAs)
- Federal Housing Administration
- Federal Financing Bank;

(3) Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:

- Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
- Obligations of the Resolution Funding Corporation (REFCORP)
- Senior debt obligations of the Federal Home Loan Bank System;

(4) U.S. dollar denominated deposit accounts, federal funds and bankers’ acceptances and bank deposit products (so long as such products have the same payment priority as short term certificates of deposit) with domestic commercial banks (which may include the Trustee and its affiliates) which have a rating on their short term certificates of deposit on the date of purchase of “P-1” by Moody’s and “A-1” or “A-1+” by S&P and maturing not more than 360 calendar days after the date of purchase (ratings on holding companies are not considered as the rating of the bank), or which are fully insured by the Federal Deposit Insurance Corporation;

(5) Commercial paper which is rated at the time of purchase in the single highest classification, “P-1” by Moody’s and “A-1+” by S&P and which matures not more than 270 calendar days after the date of purchase;

(6) Investments in a money market fund rated “AAAm” or “AAAm-G” or better by S&P, including a fund for which the Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Trustee provide investment advisory or other management services;

(7) Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(a) which are rated, based on an irrevocable escrow account or fund (the “escrow”), in the highest rating category of Moody’s or S&P or any successors thereto; or

(b) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1) or (2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(8) Municipal obligations rated “Aa/AA1” or general obligations of states with a rating of “A2/A” or higher by both Moody’s and S&P;

(9) Investment agreements with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least “Aa3” by Moody’s and “AA-” by S&P; provided, that, by the terms of the investment agreement:

(a) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days’ prior notice;

(b) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks *pari passu* with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

(c) the Trustee or the County receive the opinion of domestic counsel that such investment agreement is legal, valid and binding and enforceable against the provider in accordance with its terms and of foreign counsel (if applicable);

(d) the investment agreement shall provide that if during its term (i) the provider’s rating by either Moody’s or S&P falls below “Aa3” or “AA-,” respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (A) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider’s books) to the Trustee or a holder of the collateral, collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to Moody’s and S&P to maintain an “A” rating in an “A” rated structured financing (with a market value approach); or (B) repay the principal of and accrued but unpaid interest, on the investment, and (ii) the provider’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A3” or “A-,” respectively, the provider must, at the direction of the County or the Trustee, within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Trustee;

(e) the investment agreement shall state, and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the holder of collateral has a perfected first priority security

interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the holder of collateral is in possession); and

(f) the investment agreement must provide that if during its term (i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the County or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc., the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Trustee.

"Person" means an individual, corporation, firm, association, partnership, limited liability company, trust, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Prepayment Fund" means the fund by that name established in accordance with the Trust Agreement.

"Principal Fund" means the fund by that name established in accordance with the Trust Agreement.

"Principal Office" means (a) the Trustee's corporate trust office in San Francisco, California, except for purposes of the presentation and surrender of Certificates for payment, transfer or exchange, such office shall be the corporate trust agency or operations office of the Trustee, or (b) any other office designated by the Trustee.

"Principal Payment Date" means a date on which the principal component of the Base Rental Payments evidenced by the Certificates is scheduled to become due and payable pursuant to the Lease Agreement, other than by reason of a Mandatory Sinking Account Payment.

"Prior Lease" means a Lease Agreement, dated as of May 1, 2007, by and between the County and Corporation.

"Property" means the real property described in the Lease Agreement, and any improvements thereto, subject to the provisions of the Lease Agreement relating to the termination of the term of the Lease Agreement with respect to portions of such real property and improvements thereto.

"Purchaser" means Barclays Capital Inc., as underwriter and purchaser of the Certificates pursuant to the Certificate Purchase Agreement.

"Rebate Fund" means the fund by that name established in accordance with the Trust Agreement. "Rebate Requirement" has the meaning ascribed thereto in the Tax Certificate.

"Record Date" means, with respect to any Interest Payment Date, the fifteenth day of the calendar month immediately preceding such Interest Payment Date, whether or not such day is a Business Day.

"Refunded Certificates" means the County of Monterey Certificates of Participation (2007 Refunding and Public Facilities Financing) executed and delivered by the County pursuant to a Trust Agreement, dated as of May 1, 2007, by and between the County and the Trustee.

"Registration Books" means the records maintained by the Trustee for the registration of ownership and registration of transfer of the Certificates pursuant to the Trust Agreement.

"Rental Payments" means, collectively, the Base Rental Payments and the Additional Rental Payments.

"Rental Period" means the period from the Delivery Date through June 30, 2018 and, thereafter, the twelve-month period commencing on July 1 of each year during the term of the Lease Agreement.

“S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, a corporation organized and existing under the laws of the State of New York, its successors and assigns, except that if such entity shall no longer perform the functions of a securities rating agency for any reason, the term “S&P” shall be deemed to refer to any other nationally recognized securities rating agency selected by the County.

“State” means the State of California.

“Supplemental Trust Agreement” means any supplemental trust agreement that modifies or amends the provisions of the Trust Agreement, but only if and to the extent that such Supplemental Trust Agreement is specifically authorized under the Trust Agreement.

“Tax Certificate” means the Tax Certificate executed by the County at the time of execution and delivery of the Certificates relating to the requirements of Section 148 of the Code, as originally executed and as it may from time to time be amended in accordance with the provisions thereof.

“Trust Agreement” means the Trust Agreement, dated as of August 1, 2017, by and among U.S. Bank National Association, as Trustee, the Corporation and the County, as originally executed and as it may from time to time be modified or amended by any Supplemental Trust Agreement.

“Trustee” means U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, as Trustee under the Trust Agreement, or any successor thereto as Trustee under the Trust Agreement, substituted in its place as provided in the Trust Agreement.

“Verification Report” means, with respect to the deemed payment of Certificates pursuant to the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT--DEFEASANCE--Certificates Deemed To Have Been Paid,” a report of a nationally recognized certified public accountant, or firm of such accountants, verifying that the Defeasance Securities and cash, if any, deposited in connection with such deemed payment satisfy the requirements of the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT--DEFEASANCE--Certificates Deemed To Have Been Paid.”

“Written Certificate” and **“Written Request”** of the County mean, respectively, a written certificate or written request signed in the name of the County by an Authorized County Representative. Any such request may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

“2007 Trustee” means the Union Bank of California, N.A. and any successors in interest thereto.

“2007 Prepayment Fund” means the Prepayment Fund established in accordance with the Trust Agreement, dated as of May 1, 2007, by and between the County, the Corporation and the 2007 Trustee.

GROUND LEASE

Lease of Property. The County leases to the Corporation, and the Corporation leases from the County, for the benefit of the Owners of the Certificates, the Property, subject only to Permitted Encumbrances, to have and to hold for the term of the Ground Lease.

Quiet Enjoyment. The parties intend that the Property will be leased back to the County pursuant to the Lease Agreement for the term thereof. Subject to any rights the County may have under the Lease Agreement (in the absence of an event of default) to possession and enjoyment of the Property, the County covenants and agrees that it will not take any action to prevent the Corporation from having quiet and peaceable possession and enjoyment of the Property during the term of the Ground Lease and will, at the request of the Corporation and at the County’s cost, to the extent that it may lawfully do so, join in any legal action in which the Corporation asserts its right to such possession and enjoyment.

Waste. The Corporation agrees that at all times that it is in possession of the Property, it will not commit, suffer or permit any waste on the Property, and that it will not willfully or knowingly use or permit the use of the Property for any illegal purpose or act.

Further Assurances and Corrective Instruments. The County and the Corporation agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements to the Ground Lease and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Property leased by the Ground Lease or intended so to be or for carrying out the expressed intention of the Ground Lease, the Lease Agreement, the Assignment Agreement and the Trust Agreement.

Waiver of Personal Liability. (a) All liabilities under the Ground Lease on the part of the Corporation shall be solely liabilities of the Corporation as a nonprofit public benefit corporation, and the County releases each and every director, officer and employee of the Corporation of and from any personal or individual liability under the Ground Lease. No director, officer or employee of the Corporation shall at any time or under any circumstances be individually or personally liable under the Ground Lease to the County or to any other party whomsoever for anything done or omitted to be done by the Corporation under the Ground Lease.

(b) All liabilities under the Ground Lease on the part of the County shall be solely liabilities of the County as a city and municipal corporation, and the Corporation releases each and every member, officer and employee of the County of and from any personal or individual liability under the Ground Lease. No member, officer or employee of the County shall at any time or under any circumstances be individually or personally liable under the Ground Lease to the Corporation or to any other party whomsoever for anything done or omitted to be done by the County under the Ground Lease.

Taxes. The County covenants and agrees to pay any and all assessments of any kind or character and also all taxes, including possessory interest taxes, levied or assessed upon the Property.

Right of Entry. The County reserves the right for any of its duly authorized representatives to enter upon the Property at any reasonable time to inspect the same.

Assignment, Selling and Subleasing. The Ground Lease may be assigned or sold, and the Property may be subleased, as a whole or in part, by the Corporation, without the necessity of obtaining the consent of the County, if an event of default occurs under the Lease Agreement. The Corporation shall, within 30 days after such an assignment, sale or sublease, furnish or cause to be furnished to the County a true and correct copy of such assignment, sublease or sale, as the case may be.

Restrictions on County. The County agrees that, except with respect to Permitted Encumbrances, it will not mortgage, sell, encumber, assign, transfer or convey the Property or any portion thereof during the term of the Ground Lease.

Improvements. Title to all improvements made on the Property during the term of the Ground Lease shall vest in the County.

Term. The term of the Ground Lease shall commence as of the date of commencement of the term of the Lease Agreement and shall remain in full force and effect from such date to and including August 1, 2037, unless such term is extended or sooner terminated as provided in the Ground Lease; provided, however, that, so long as no Event of Default shall have occurred and be continuing under the Lease Agreement, upon the filing of a Written Certificate of the County stating that the Courthouse Project has been completed and that all costs of the Courthouse Project have been paid, the term of the Ground Lease with respect to the Other Property shall terminate, unless such term is sooner terminated as provided in the Ground Lease, and, from and after the date of such termination, the description of the Other Property set forth in the Ground Lease shall be deemed to have been deleted therefrom and the term "Property" shall, for all purposes of the Ground Lease, be deemed not to include the Other Property.

Extension; Early Termination. If, on August 1, 2037, the Certificates shall not be fully paid, or provision therefor made in accordance with the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—DEFEASANCE,” or the Trust Agreement shall not be discharged by its terms, or if the Rental Payments payable under the Lease Agreement shall have been abated at any time, then the term of the Ground Lease shall be automatically extended until the date upon which all Certificates shall be fully paid, or provision therefor made in accordance with the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—DEFEASANCE,” and the Trust Agreement shall be discharged by its terms, except that the term of the Ground Lease shall in no event be extended more than ten years. If, prior to August 1, 2037, all Certificates shall be fully paid, or provisions therefor made in accordance with the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—DEFEASANCE,” and the Trust Agreement shall be discharged by its terms, the term of the Ground Lease shall end simultaneously therewith.

Assignment. The Corporation and County acknowledge that the Corporation has assigned its right, title and interest in and to the Ground Lease to the Trustee pursuant to the Assignment Agreement. The County consents to such assignment.

LEASE AGREEMENT

LEASE OF PROPERTY; TERM

Lease of Property. (a) The Corporation leases to the County and the County leases from the Corporation the Property, on the terms and conditions set forth in the Lease Agreement, and subject to all Permitted Encumbrances.

(b) The leasing of the Property by the County to the Corporation pursuant to the Ground Lease shall not effect or result in a merger of the County’s leasehold estate in the Property as lessee under the Lease Agreement and its leasehold or fee estate, as applicable, in the Property as lessor under the Ground Lease, and the Corporation shall continue to have a leasehold estate in the Property pursuant to the Ground Lease throughout the term thereof and of the Lease Agreement. The Lease Agreement shall constitute a sublease with respect to the Property. The leasehold interest in the Property granted by the County to the Corporation pursuant to the Ground Lease is and shall be independent of the Lease Agreement; the Lease Agreement shall not be an assignment or surrender of the leasehold interest in the Property granted to the Corporation under the Ground Lease.

Occupancy; Term. (a) The County shall take possession of the Property on the Delivery Date.

(b) The term of the Lease Agreement shall commence on the Delivery Date and shall end on the Scheduled Termination Date, unless such term is extended or sooner terminated as provided in the Lease Agreement.

(c) If all of the Property shall be taken under the power of eminent domain, and the County does not elect to cause alternate real property to be substituted for all or a portion of the Property pursuant to, and in accordance with the provisions of the Lease Agreement as summarized herein under the heading “LEASE AGREEMENT—AMENDMENTS; ASSIGNMENT AND SUBLEASING; SUBSTITUTION OR RELEASE—Substitution or Release of the Property,” as provided in the Lease Agreement as summarized herein under the heading “LEASE AGREEMENT—INSURANCE; NET PROCEEDS; EMINENT DOMAIN—Eminent Domain” but, rather, elects to deliver or cause to be delivered any award made in eminent domain proceedings for such taking to the Trustee for the application to the prepayment, pursuant to the Trust Agreement, of all or a portion of the Outstanding Certificates, as provided in the Lease Agreement as summarized herein under the heading “LEASE AGREEMENT—INSURANCE; NET PROCEEDS; EMINENT DOMAIN—Eminent Domain,” then, on the date that possession thereof shall be so taken, the term of the Lease Agreement shall terminate.

(d) If, prior to the Scheduled Termination Date, all Certificates shall be fully paid, or deemed paid in accordance with the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—DEFEASANCE,” then, on the date of such payment or deemed payment, the term of the Lease Agreement shall terminate.

(e) If on the Scheduled Termination Date, the Rental Payments payable under the Lease Agreement shall have been abated at any time and for any reason, then the term of the Lease Agreement shall be extended until the date upon which all such Rental Payments shall have been paid in full, except that the term of the Lease Agreement shall in no event be extended more than ten years beyond the Scheduled Termination Date.

(f) Upon the termination of the term of the Lease Agreement (other than as provided in the Lease Agreement as summarized herein under the heading “LEASE AGREEMENT—DEFAULTS AND REMEDIES—Events of Defaults and Remedies”), and the first date upon which the Certificates are no longer Outstanding, all right, title and interest in and to the Property shall vest in the County. Upon any such termination or expiration, the Corporation shall execute such conveyances, deeds and other documents as may be necessary to effect such vesting of record.

RENTAL PAYMENTS

Rental Payments. (a) Rental Payments, consisting of Base Rental Payments and Additional Rental Payments, shall be paid by the County to the Corporation for and in consideration of the right to use and occupy the Property and in consideration of the continued right to the quiet use and enjoyment thereof during each Rental Period for which such Rental Payments are to be paid.

(b) The obligation of the County to make the Rental Payments, including the Base Rental Payments, does not constitute a debt of the County or of the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the County or the State is obligated to levy or pledge any form of taxation or for which the County or the State has levied or pledged any form of taxation.

(c) If the term of the Lease Agreement shall have been extended pursuant to the Lease Agreement, the obligation of the County to pay Rental Payments shall continue to and including the Base Rental Deposit Date preceding the date of termination of the Lease Agreement, as so extended.

Base Rental Payments. (a) The County, subject to the provisions of the Lease Agreement as summarized herein under the heading “LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement,” shall pay Base Rental Payments to the Corporation in the amounts at the times specified in the Base Rental Payment Schedule. A portion of the Base Rental Payments shall constitute principal components and a portion of the Base Rental Payments shall constitute interest components, as specified in the Base Rental Payment Schedule. The interest components of the Base Rental Payments shall be paid by the County as and constitute interest paid on the principal components of the Base Rental Payments.

(b) If the term of the Lease Agreement shall have been extended pursuant to the Lease Agreement, the obligation of the County to pay Rental Payments shall continue to and including the date of termination of the Lease Agreement as so extended. Upon such extension, the principal and interest components of the Base Rental Payments shall be established so that the principal components will in the aggregate be sufficient to pay all extended and unpaid principal components and the interest components will in the aggregate be sufficient to pay all extended and unpaid interest components; provided, however, that the Rental Payments payable in any Rental Period shall not exceed the annual fair rental value of the Property.

Additional Rental Payments. (a) The County shall also pay, as Additional Rental Payments, such amounts as shall be required for the payment of the following:

- (i) all taxes and assessments of any type or nature charged to the Corporation or the County or affecting the Property or the respective interests or estates of the Corporation or the County therein;
- (ii) insurance premiums for all insurance required pursuant to the Lease Agreement; and
- (iii) all other payments not constituting Base Rental Payments required to be paid by the County pursuant to the provisions of the Lease Agreement.

(b) Amounts constituting Additional Rental Payments payable under the Lease Agreement shall be paid by the County directly to the person or persons to whom such amounts shall be payable. The County shall pay all such amounts when due or at such later time as such amounts may be paid without penalty or, in any other case, within 60 days after notice in writing from the Corporation to the County stating the amount of Additional Rental Payments then due and payable and the purpose thereof.

Payment Provisions. Each installment of Base Rental Payments payable under the Lease Agreement shall be paid in lawful money of the United States of America to or upon the order of the Trustee, as the assignee of the Corporation at the Principal Office of the Trustee, or such other place or entity as the Trustee shall designate. Each Base Rental Payment shall be deposited with the Trustee, as assignee Corporation no later than the Base Rental Deposit Date preceding the Interest Payment Date on which such Base Rental Payment is due. Any Base Rental Payment which shall not be paid by the County when due and payable under the terms of the Lease Agreement shall bear interest from the date when the same is due under the Lease Agreement until the same shall be paid a rate equal to the highest rate of interest evidenced by any of the Outstanding Certificates. Notwithstanding any dispute between the Corporation and the County, the County shall make all Rental Payments when due without deduction or offset of any kind and shall not withhold any Rental Payments pending the final resolution of such dispute. In the event of a determination that the County was not liable for said Rental Payments or any portion thereof, said payments or excess of payments, as the case may be, shall be credited against subsequent Rental Payments due under the Lease Agreement or refunded at the time of such determination. Amounts required to be deposited by the County with the Trustee pursuant to this section on any date shall be reduced to the extent of available amounts on deposit in the Base Rental Payment Fund, the Interest Fund or the Principal Fund.

Appropriations Covenant. The County shall take such action as may be necessary to include all Rental Payments due under the Lease Agreement as a separate line item in its annual budgets and to make necessary annual appropriations for all such Rental Payments. The covenants on the part of the County contained in the Lease Agreement shall be deemed to be and shall be construed to be duties imposed by law and it shall be 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 officials to enable the County to carry out and perform the covenants and agreements in the Lease Agreement agreed to be carried out and performed by the County.

Rental Abatement. (a) Except as otherwise specifically provided in this section, during any period in which, by reason of material damage to, or destruction or condemnation of, the Property, or any defect in title to the Property, there is substantial interference with the County's right to use and occupy any portion of the Property, Rental Payments shall be abated proportionately, and the County waives the benefits of California Civil Code Sections 1932(1), 1932(2) and 1933(4) and any and all other rights to terminate the Lease Agreement by virtue of any such interference, and the Lease Agreement shall continue in full force and effect. The County and the Corporation shall, in a reasonable manner and in good faith, determine the amount of such abatement; provided, however, that the Rental Payments due for any Rental Period shall not exceed the annual fair rental value of that portion of the Property available for use and occupancy by the County during such Rental Period. Such abatement shall 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 Property, ending with the substantial completion of the work of repair or replacement of the Property, or the portion thereof so damaged or destroyed.

(b) Notwithstanding the foregoing, to the extent that Net Proceeds of rental interruption insurance are available for the payment of Rental Payments, Rental Payments shall not be abated as provided in paragraph (a) of this section but, rather, shall be payable by the County as a special obligation payable solely from such Net Proceeds.

Prepayment. (a) The County may prepay all or a portion of the Base Rental Payments which are payable on or after August 1, 20[], from any source of available funds, on any date on or after August 1, 20[], by paying (i) all or a portion, as elected by the County, of the principal components of such Base Rental Payments, and (ii) the accrued but unpaid interest component of such Base Rental Payments to be prepaid to the date of such prepayment.

(b) The County may prepay, from any source of available funds, all or any portion of the Base Rental Payments by depositing with the Trustee moneys or securities as provided, and subject to the terms and conditions

set forth, in the Trust Agreement sufficient to make such Base Rental Payments when due or to make such Base Rental payments through a specified date on which the County has a right to prepay such Base Rental Payments pursuant to paragraph (a) above, and to prepay such Base Rental Payments on such prepayment date, at a prepayment price determined in accordance with paragraph (a) above.

(c) If less than all of the Base Rental Payments are prepaid pursuant to this section then, as of the date of such prepayment pursuant to paragraph (a) above, or the date of a deposit pursuant to paragraph (b) above, the principal and interest components of the Base Rental Payments shall be recalculated in order to take such prepayment into account, which recalculated amounts the County shall provide to the Trustee in a Written Certificate of the County. The County agrees that if, following a partial prepayment of Base Rental Payments, the Property is damaged or destroyed or taken by eminent domain, or a defect in title to the Property is discovered, the County shall not be entitled to, and by such prepayment waives the right of, abatement of such prepaid Base Rental Payments and the County shall not be entitled to any reimbursement of such Base Rental Payments.

(d) If all of the Base Rental Payments are prepaid in accordance with the provisions of the Lease Agreement then, as of the date of such prepayment pursuant to paragraph (a) above, or deposit pursuant to paragraph (b) above, the term of the Lease Agreement shall be terminated.

(e) Prepayments of Base Rental Payments made pursuant to this section shall be applied to the prepayment of Certificates as provided in the Trust Agreement.

QUIET ENJOYMENT; MAINTENANCE; ALTERATIONS; LIENS

Quiet Enjoyment. The parties to the Lease Agreement mutually covenant that the County, by keeping and performing the covenants and agreements contained in the Lease Agreement, shall at all times during the term of the Lease Agreement peaceably and quietly have, hold and enjoy the Property without suit, trouble or hindrance from the Corporation.

Net-Net-Net Lease. The Lease Agreement shall be deemed and construed to be a “net-net-net lease” and the County agrees that the Rental Payments shall be an absolute net return to the Corporation, free and clear of any expenses, charges or set-offs whatsoever and notwithstanding any dispute between the County and the Corporation.

Right of Entry. The Corporation shall have the right to enter upon and to examine and inspect the Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Corporation’s rights or obligations under the Lease Agreement, and for all other lawful purposes.

Maintenance and Utilities. Throughout the term of the Lease Agreement, as part of the consideration for rental of the Property, all improvement, repair and maintenance of the Property shall be the responsibility of the County, and the County shall pay for or otherwise arrange for the payment of all utility services supplied to the Property, which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, ventilation, air conditioning, water and all other utility services, and shall pay for or otherwise arrange for payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the County or any assignee or sublessee thereof. In exchange for the Rental Payments, the Corporation agrees to provide only the Property.

Additions to Property. Subject to the Lease Agreement as summarized herein under the heading “LEASE AGREEMENT—QUIET ENJOYMENT; MAINTENANCE; ALTERATIONS; LIENS—Mechanics’, Etc. Liens,” the County and any sublessee shall, at its own expense, have the right to make additions, modifications and improvements to the Property. To the extent that the removal of such additions, modifications or improvements would not cause material damage to the Property, such additions, modifications and improvements shall remain the sole property of the County or such sublessee, and the Corporation shall not have any interest therein. Such additions, modifications and improvements shall not in any way damage the Property or cause it to be used for purposes other than those authorized under the provisions of state and federal law; and the Property, upon completion of any additions, modifications and improvements made pursuant to this section, shall be of a value

which is at least equal to the value of the Property immediately prior to the making of such additions, modifications and improvements.

Installation of County's Equipment. The County and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon the Property. All such items shall remain the sole property of the County or such sublessee, and the Corporation shall have no interest therein. The County or such sublessee may remove or modify such equipment or other personal property at any time, provided that such party shall repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items; and the Property, upon completion of any installations, modifications or removals made pursuant to this section, shall be of a value which is at least equal to the value of the Property immediately prior to the making of such installations, modifications or removals. Nothing in the Lease Agreement shall prevent the County or any sublessee from purchasing items to be installed pursuant to this section under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Property.

Mechanics', Etc. Liens. In the event the County shall at any time during the term of the Lease Agreement cause any changes, alterations, additions, improvements, or other work to be done or performed or materials to be supplied, in or upon the Property, the County shall pay, when due, all sums of money that may become due for, or purporting to be for, any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the County in, upon or about the Property and which may be secured by a mechanics', materialmen's or other lien against the Property or the Corporation's interest therein, and will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that, if the County desires to contest any such lien, it may do so as long as such contest is in good faith. If any such lien shall be reduced to final judgment and such judgment or such process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and said stay thereafter expires, the County shall forthwith pay and discharge said judgment.

Other Liens. The County shall keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Property, and the Corporation at its option (after first giving the County ten days' written notice to comply therewith and failure of the County to so comply within such ten-day period) may defend against any and all actions or proceedings, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Corporation shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Lease Agreement, or from its obligation under the Lease Agreement to perform such agreements and covenants. The Corporation shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

INSURANCE; NET PROCEEDS; EMINENT DOMAIN

Public Liability and Property Damage Insurance; Workers' Compensation Insurance. (a) The County shall maintain or cause to be maintained, throughout the term of the Lease Agreement, a standard comprehensive general liability insurance policy or policies in protection of the County, the Corporation and their respective board members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or ownership of the Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in a single accident or event, and in a minimum amount of \$500,000 for damage to property (subject to a deductible clause of not to exceed \$100,000) resulting from a single accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the County. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with

respect to which the Net Proceeds of such insurance shall have been paid. The County's obligations under this paragraph may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—INSURANCE; NET PROCEEDS; EMINENT DOMAIN—Self-Insurance."

(b) The County shall maintain or cause to be maintained casualty insurance insuring the Property against fire, lightning and all other risks covered by an extended coverage endorsement (excluding earthquake and flood) to the full insurable value of the Property, subject to a \$100,000 loss deductible provision. Full insurable value shall not be less than the aggregate amount of principal evidenced by the Outstanding Certificates. The Net Proceeds of such casualty insurance shall be applied as provided in the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—INSURANCE; NET PROCEEDS; EMINENT DOMAIN—Damage or Destruction." The County's obligations under this paragraph may be satisfied by self-insurance, provided that such self-insurance complies with the provisions of the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—INSURANCE; NET PROCEEDS; EMINENT DOMAIN—Self-Insurance."

(c) The County shall maintain rental interruption insurance to cover the Corporation's loss, total or partial, of Base Rental Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered pursuant to paragraph (b) of this section in an amount not less than the product of two times the maximum amount of Base Rental Payments scheduled to be paid during any Rental Period. The Net Proceeds of such rental interruption insurance shall be applied to the payment of Rental Payments during the period in which, as a result of the damage or destruction to the Property that resulted in the receipt of such Net Proceeds, there is substantial interference with the County's right to the use or occupancy of the Property. The County's obligations under this paragraph may not be satisfied by self-insurance.

(d) The insurance required by this section shall be provided by reputable insurance companies with claims paying abilities determined, in the reasonable opinion of the County's professionally certified risk manager or an Independent Insurance Consultant, to be adequate for the purposes of the Lease Agreement.

Title Insurance. The County shall provide, at its own expense, one or more CLTA title insurance policies for the Property, in the aggregate amount of not less than the aggregate amount of principal evidenced by the Outstanding Certificates. Said policy or policies shall insure (a) the fee interest of the County in the Property (b) the Corporation's ground leasehold estate in the Property under the Ground Lease, and (c) the County's leasehold estate under the Lease Agreement in the Property, subject only to Permitted Encumbrances; provided, however, that one or more of said estates may be insured through an endorsement to such policy or policies. The Net Proceeds of such title insurance shall be applied as provided as provided in the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—INSURANCE; NET PROCEEDS; EMINENT DOMAIN—Title Insurance."

Additional Insurance Provision; Form of Policies. (a) The County shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—INSURANCE; NET PROCEEDS; EMINENT DOMAIN—Public Liability and Property Damage Insurance; Workers' Compensation Insurance." All such policies shall contain a standard lessee clause in favor of the Trustee and the general liability insurance policies shall be endorsed to show the Trustee as an additional insured. All such policies shall provide that the Trustee shall be given 30 days' notice of the expiration thereof, any intended cancellation thereof or any reduction in the coverage provided thereby. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Trustee.

(b) The County shall cause to be delivered to the Trustee, on or before August 15 of each year, commencing August 15, 2018, a schedule of the insurance policies being maintained in accordance herewith and a Written Certificate of the County stating that such policies are in full force and effect and that the County is in full compliance with the requirements of the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—INSURANCE; NET PROCEEDS; EMINENT DOMAIN." The Trustee shall be entitled to rely upon said Written Certificate of the County as to the County's compliance with the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—INSURANCE; NET PROCEEDS; EMINENT DOMAIN." The Trustee shall not be responsible for the sufficiency of coverage or amounts of such policies.

Self-Insurance. Any self-insurance maintained by the County pursuant to the Lease Agreement as summarized herein under the heading “LEASE AGREEMENT—INSURANCE; NET PROCEEDS; EMINENT DOMAIN” shall comply with the following terms:

(a) the self-insurance program shall be approved in writing by the County’s professionally certified risk manager or by an Independent Insurance Consultant;

(b) the self-insurance program shall include an actuarially sound claims reserve fund out of which each self-insured claim shall be paid, the adequacy of each such fund shall be evaluated on a bi-annual basis by the County’s professionally certified risk manager or by an Independent Insurance Consultant and any deficiencies in any self-insured claims reserve fund shall be remedied in accordance with the recommendation of the County’s professionally certified risk manager or such Independent Insurance Consultant, as applicable; and

(c) in the event the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by the County’s professionally certified risk manager or by an Independent Insurance Consultant, shall be maintained.

Damage or Destruction. (a) If the Property or any portion thereof shall be damaged or destroyed, the County shall, within 30 days of the occurrence of the event of damage or destruction, notify the Trustee in writing of the County’s determination as to whether or not such damage or destruction will result in a substantial interference with the County’s right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments pursuant to the Lease Agreement as summarized herein under the heading “LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement.”

(b) If the County determines that such damage or destruction will not result in a substantial interference with the County’s right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments pursuant to the Lease Agreement as summarized herein under the heading “LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement,” the County shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof.

(c) If the County determines that such damage or destruction will result in a substantial interference with the County’s right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments pursuant to the Lease Agreement as summarized herein under the heading “LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement,” then the County shall (i) apply sufficient funds from the Net Proceeds of any insurance (other than Net Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of such damage or destruction and other legally available funds to the repair or replacement of the Property or the portions thereof which have been damaged or destroyed to the condition that existed prior to such damage or destruction, provided that, within 40 days of the occurrence of the event of damage or destruction, the County delivers to the Trustee a Written Certificate of the County (A) certifying that the County has sufficient funds to so complete such repair or replacement of the Property or such portions thereof and identifying such funds and the location thereof, and (B) stating that such funds will not be used for any other purpose until such repair or replacement is completed, (ii) within 60 days of the occurrence of the event of damage or destruction, cause alternate real property to be substituted for all or a portion of the Property pursuant to, and in accordance with the provisions of, the Lease Agreement as summarized herein under the heading “LEASE AGREEMENT—AMENDMENTS; ASSIGNMENT AND SUBLEASING; SUBSTITUTION OR RELEASE—Substitution or Release of the Property,” or (iii) within 60 days of the occurrence of the event of damage or destruction, deliver sufficient funds from such Net Proceeds and other legally available funds to the Trustee for the application to the prepayment, pursuant to the Trust Agreement (A) of all of the Outstanding Certificates, or (B) of such portion of the Outstanding Certificates as shall result in (I) the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, as certified in a Written Certificate of the County delivered to the Trustee, being at least equal to 105% of the maximum amount of the Base Rental Payments coming due in the then current Rental Period or any subsequent Rental Period, and (II) the fair replacement value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, as certified in a Written Certificate of the

County delivered to the Trustee, being at least equal to the aggregate amount of principal evidenced by the Certificates then Outstanding.

Title Insurance. (a) If a defect in title to the Property results in the creation of a right to receive Net Proceeds under any policy of title insurance with respect to the Property or any portion thereof, the County shall, within 30 days of the creation of such right, notify the Trustee in writing of the County's determination as to whether or not such title defect will result in a substantial interference with the County's right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments pursuant to the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement."

(b) If the County determines that such title defect will not result in a substantial interference with the County's right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments pursuant to the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement," such Net Proceeds shall be remitted to the County and used for any lawful purpose thereof.

(c) If the County determines that such title defect will result in a substantial interference with the County's right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments pursuant to the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement," then the County shall (i) within 60 days of the creation of such right to receive such Net Proceeds, cause alternate real property to be substituted for all or a portion of the Property pursuant to, and in accordance with the provisions of, the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—AMENDMENTS; ASSIGNMENT AND SUBLEASING; SUBSTITUTION OR RELEASE—Substitution or Release of the Property," or (ii) immediately upon receipt thereof, deliver or cause to be delivered such Net Proceeds to the Trustee for the application to the prepayment, pursuant to the Trust Agreement, of all or a portion of the Outstanding Certificates.

Eminent Domain. (a) If all or a portion of the Property shall be taken under the power of eminent domain, the County shall, no later than 45 days prior to the day that possession thereof shall be so taken, notify the Trustee in writing of the County's determination as to whether or not such taking will result in a substantial interference with the County's right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments pursuant to the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement."

(b) If the County determines that such taking will not result in a substantial interference with the County's right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments pursuant to the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement," any award made in eminent domain proceedings for such taking shall be remitted to the County and used for any lawful purpose thereof.

(c) If the County determines that such taking will result in a substantial interference with the County's right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments pursuant to the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement," then the County shall (i) no later than 45 days prior to the day that possession thereof shall be so taken, cause alternate real property to be substituted for all or a portion of the Property pursuant to, and in accordance with the provisions of, the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—AMENDMENTS; ASSIGNMENT AND SUBLEASING; SUBSTITUTION OR RELEASE—Substitution or Release of the Property," or (ii) immediately upon receipt thereof, deliver or cause to be delivered any award made in eminent domain proceedings for such taking to the Trustee for the application to the prepayment, pursuant to the Trust Agreement, of all or a portion of the Outstanding Certificates.

REPRESENTATIONS; COVENANTS

Representations of the County. The County represents and warrants (a) that the County has the full power and authority to enter into, to execute and to deliver the Lease Agreement and the Trust Agreement and to

perform all of its duties and obligations under the Lease Agreement and thereunder, and has duly authorized the execution and delivery of the Lease Agreement and the Trust Agreement, and (b) the Property will be used in the performance of essential governmental functions.

Representation of the Corporation. The Corporation represents and warrants that the Corporation has the full power and authority to enter into, to execute and to deliver the Lease Agreement and the Trust Agreement, and to perform all of its duties and obligations under the Lease Agreement and thereunder, and has duly authorized the execution and delivery of the Lease Agreement and the Trust Agreement.

Recordation. The County shall record, or cause to be recorded, with the appropriate county recorder, the Lease Agreement, the Ground Lease and the Assignment Agreement, or memoranda thereof.

Use of the Property. The County will not use, operate or maintain the Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Lease Agreement. In addition, the County agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of the Property) with all laws of the jurisdictions in which its operations may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Property; provided, however, that the County may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the Corporation, adversely affect the estate of the Corporation in and to any of the Property or its interest or rights under the Lease Agreement.

Other Liens. The County shall keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Property, and the Corporation at its option (after first giving the County ten days' written notice to comply therewith and failure of the County to so comply within such ten-day period) may defend against any and all actions or proceedings, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Corporation shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Lease Agreement, or from its obligation under the Lease Agreement to perform such agreements and covenants. The Corporation shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

Taxes. (a) The County shall pay or cause to be paid all taxes and assessments of any type or nature charged to the Corporation or affecting the Property or the respective interests or estates therein; provided, however, that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the County shall be obligated to pay only such installments as are required to be paid during the term of the Lease Agreement as and when the same become due.

(b) After giving notice to the Corporation, the County or any sublessee may, at the County's or such sublessee's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Corporation shall notify the County or such sublessee that, in the opinion of independent counsel, by nonpayment of any such items, the interest of the Corporation in the Property will be materially endangered or the Property, or any part thereof, will be subject to loss or forfeiture, in which event the County or such sublessee shall promptly pay such taxes, assessments or charges or provide the Corporation with full security against any loss which may result from nonpayment, in form satisfactory to the Corporation.

No Liability; Indemnification. (a) The Corporation and its directors, officers, agents and employees, shall not be liable to the County or to any other party whomsoever for any death, injury or damage that may result to any person or property by or from any cause whatsoever in, on or about the Property. To the extent permitted by law, the County shall, at its expense, indemnify and hold the Corporation and the Trustee and all directors, members, officers, employees and agents thereof harmless against and from any and all claims by or on behalf of Person arising from the acquisition, construction, occupation, use, operation, maintenance, possession, conduct or

management of or from any work done in or about the Property or from the subletting of any part thereof, including any liability for violation of conditions, agreements, restrictions, laws, ordinances, or regulations affecting the Property or the occupancy or use thereof, but excepting the negligence or willful misconduct of the persons or entity seeking indemnity. The County also covenants and agrees, at its expense, to pay and indemnify and save the Corporation and the Trustee and all directors, officers, employees and agents thereof harmless against and from any and all claims arising from (i) any condition of the Property and the adjoining sidewalks and passageways, (ii) any breach or default on the part of the County in the performance of any covenant or agreement to be performed by the County pursuant to the Lease Agreement, (iii) any act or negligence of licensees in connection with their use, occupancy or operation of the Property, or (iv) any accident, injury or damage whatsoever caused to any person, firm or corporation in or about the Property or upon or under the sidewalks and from and against all costs, reasonable counsel fees, expenses and liabilities incurred in any action or proceeding brought by reason of any claim referred to in this section, but excepting the negligence or willful misconduct of the person or entity seeking indemnity. In the event that any action or proceeding is brought against the Corporation or the Trustee or any director, member, officer or employee thereof, by reason of any such claim, the County, upon notice from the Corporation or the Trustee or such director, member, officer or employee thereof, covenants to resist or defend such action or proceeding by counsel reasonably satisfactory to the Corporation or the Trustee or such director, member, officer or employee thereof.

(b) In no event shall the Corporation be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Lease Agreement or the County's use of the Property.

Further Assurances. The County shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Lease Agreement and for the better assuring and confirming unto the Corporation of the rights and benefits provided in the Lease Agreement.

DEFAULTS AND REMEDIES

Events of Defaults and Remedies. (a) If (i) the County shall fail (A) to pay any Rental Payment payable under the Lease Agreement when the same becomes due and payable, time being expressly declared to be of the essence in the Lease Agreement, or (B) to keep, observe or perform any other term, covenant or condition contained in the Lease Agreement to be kept or performed by the County, if such failure to so keep, observe or perform shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the County by the Corporation, the Trustee, or the Owners of not less than 5% of the aggregate amount of principal evidenced by the Certificates at the time Outstanding; provided, however, that if the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default under the Lease Agreement if corrective action is instituted by the County within such 30 day period and the County shall thereafter diligently and in good faith cure such failure in a reasonable period of time, which period, unless otherwise consented to by the Corporation, shall not exceed 180 days after written notice thereof shall have been given to the County, (ii) the County's interest in the Lease Agreement or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Corporation, (iii) the County shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute, or (iv) the County shall fail to observe and perform any of the covenants, agreements or conditions on its part in the Trust Agreement contained, if such failure shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the County by the Corporation or the Owners of not less than 5% of the aggregate amount of principal evidenced by the Certificates at the time Outstanding; provided, however, that if the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default under the Lease Agreement if corrective action is instituted by the County within such 30 day period and the County shall thereafter diligently and in good faith cure such failure in a reasonable period of time, which period, unless otherwise consented to by the Corporation, shall not exceed 180 days after written notice thereof shall have been given to the County, then such failure or event shall constitute an Event of Default under the Lease Agreement.

(b) Upon the occurrence of any Event of Default under the Lease Agreement, the Corporation, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(i) To terminate the Lease Agreement in the manner provided in the Lease Agreement on account of such Event of Default, notwithstanding any re-entry or re-letting of the Property as provided in the Lease Agreement for in subparagraph (ii) below, and to re-enter the Property and remove all persons in possession thereof and all personal property whatsoever situated upon the Property and place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the County. In the event of such termination, the County agrees to surrender immediately possession of the Property, without let or hindrance, and to pay the Corporation all damages recoverable at law that the Corporation may incur by reason of such Event of Default, including, without limitation, any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon the Property and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. Neither notice to pay Rental Payments or to deliver up possession of the Property given pursuant to law nor any entry or re-entry by the Corporation nor any proceeding in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property nor the appointment of a receiver upon initiative of the Corporation to protect the Corporation's interest under the Lease Agreement shall of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of an Event of Default under the Lease Agreement shall be or become effective by operation of law or acts of the parties to the Lease Agreement, or otherwise, unless and until the Corporation shall have given written notice to the County of the election on the part of the Corporation to terminate the Lease Agreement. The County covenants and agrees that no surrender of the Property or of the remainder of the term of the Lease Agreement or any termination of the Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated by the Corporation by such written notice.

(ii) Without terminating the Lease Agreement, (A) to collect each installment of Rental Payments as the same become due and enforce any other terms or provisions of the Lease Agreement to be kept or performed by the County, regardless of whether or not the County has abandoned the Property, or (B) to exercise any and all rights of entry and re-entry upon the Property. In the event the Corporation does not elect to terminate the Lease Agreement in the manner provided for in subparagraph (i) above, the County shall remain liable and agrees to keep or perform all covenants and conditions contained in the Lease Agreement to be kept or performed by the County and, if the Property is not re-let, to pay the full amount of the Rental Payments to the end of the term of the Lease Agreement or, in the event that the Property is re-let, to pay any deficiency in Rental Payments that results therefrom; and further agrees to pay said Rental Payments and/or Rental Payment deficiency punctually at the same time and in the same manner as provided in the Lease Agreement for the payment of Rental Payments under the Lease Agreement, notwithstanding the fact that the Corporation may have received in previous years or may receive thereafter in subsequent years Rental Payments in excess of the Rental Payments specified in the Lease Agreement, and notwithstanding any entry or re-entry by the Corporation or suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Property. Should the Corporation elect to re-enter as provided in the Lease Agreement, the County irrevocably appoints the Corporation as the agent and attorney-in-fact of the County to re-let the Property, or any part thereof, from time to time, either in the Corporation's name or otherwise, upon such terms and conditions and for such use and period as the Corporation may deem advisable and to remove all persons in possession thereof and all personal property whatsoever situated upon the Property and to place such personal property in storage in any warehouse or other suitable place, for the account of and at the expense of the County, and the County indemnifies and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising out of, in connection with, or incident to any such re-entry upon and re-letting of the Property and removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions contained in the Lease Agreement. The County agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-let the Property in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-letting shall constitute a surrender or termination of the Lease Agreement irrespective of the use or the term for which such re-letting is made or the terms and conditions of such re-letting, or otherwise, but that, on the contrary, upon the occurrence of an Event of Default under the Lease Agreement, the right to terminate the Lease Agreement shall vest in the Corporation to be effected in the sole and exclusive manner provided for in subparagraph (i) above. The County further agrees to pay the Corporation the cost of any alterations or additions to the Property

necessary to place the Property in condition for re-letting immediately upon notice to the County of the completion and installation of such additions or alterations.

The County waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Property as provided in the Lease Agreement and all claims for damages that may result from the destruction of or injury to the Property and all claims for damages to or loss of any property belonging to the County, or any other person, that may be in or upon the Property.

(c) In addition to the other remedies set forth in this section, upon the occurrence of an Event of Default under the Lease Agreement, the Corporation shall be entitled to proceed to protect and enforce the rights vested in the Corporation by the Lease Agreement or by law. The provisions of the Lease Agreement and the duties of the County and of its board, officers or employees shall be enforceable by the Corporation by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction. Without limiting the generality of the foregoing, the Corporation shall have the right to bring the following actions:

(i) Accounting. By action or suit in equity to require the County and its board, officers and employees and its assigns to account as the trustee of an express trust.

(ii) Injunction. By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the Corporation.

(iii) Mandamus. By mandamus or other suit, action or proceeding at law or in equity to enforce the Corporation's rights against the County (and its board, officers and employees) and to compel the County to perform and carry out its duties and obligations under the law and its covenants and agreements with the County as provided in the Lease Agreement.

(d) Each and all of the remedies given to the Corporation under the Lease Agreement or by any law now or hereafter enacted are cumulative and the single or partial exercise of any right, power or privilege under the Lease Agreement shall not impair the right of the Corporation to the further exercise thereof or the exercise of any or all other rights, powers or privileges. The term "re-let" or "re-letting" as used in this section shall include, but not be limited to, re-letting by means of the operation by the Corporation of the Property. If any statute or rule of law validly shall limit the remedies given to the Corporation under the Lease Agreement, the Corporation nevertheless shall be entitled to whatever remedies are allowable under any statute or rule of law.

(e) In the event the Corporation shall prevail in any action brought to enforce any of the terms and provisions of the Lease Agreement, the County agrees to pay a reasonable amount as and for attorney's fees incurred by the Corporation in attempting to enforce any of the remedies available to the Corporation under the Lease Agreement.

(f) Notwithstanding anything to the contrary contained in the Lease Agreement, the Corporation shall have no right upon a default by the County under the Lease Agreement, an Event of Default under the Lease Agreement or otherwise to accelerate Rental Payments.

(g) Notwithstanding anything in the Lease Agreement to the contrary, the termination of the Lease Agreement by the Corporation on account of an Event of Default under the Lease Agreement shall not effect or result in a termination of the lease of the Property by the County to the Corporation pursuant to the Ground Lease.

Waiver. Failure of the Corporation to take advantage of any default on the part of the County shall not be, or be construed as, a waiver thereof, nor shall any custom or practice which may grow up between the parties in the course of administering this instrument be construed to waive or to lessen the right of the Corporation to insist upon performance by the County of any term, covenant or condition of the Lease Agreement, or to exercise any rights given the Corporation on account of such default. A waiver of a particular default shall not be deemed to be a waiver of any other default or of the same default subsequently occurring. The acceptance of Rental Payments under the Lease Agreement shall not be, or be construed to be, a waiver of any term, covenant or condition of the Lease Agreement.

AMENDMENTS; ASSIGNMENT AND SUBLEASING;
SUBSTITUTION OR RELEASE

Amendments. (a) The Lease Agreement and the Ground Lease, and the rights and obligations of the Corporation and the County under the Lease Agreement and thereunder, may be amended at any time by an amendment to the Lease Agreement or thereto which shall become binding upon execution by the County and the Corporation, but only with the prior written consent of the Owners of a majority of the aggregate amount of principal evidenced by the Certificates then Outstanding, provided that no such amendment shall (i) extend the payment date of any Base Rental Payment or reduce any Base Rental Payment, without the prior written consent of the Owner of each Certificate so affected, or (ii) reduce the percentage of the aggregate amount of principal evidenced by the Certificates then Outstanding, the consent of the Owners of which is required for the execution of any amendment of the Lease Agreement or the Ground Lease, without the prior written consent of the Owners of all the Certificates then Outstanding.

(b) The Lease Agreement and the Ground Lease, and the rights and obligations of the County and the Corporation under the Lease Agreement and thereunder, may also be amended at any time by an amendment to the Lease Agreement or thereto which shall become binding upon execution by the County and the Corporation, without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the agreements, conditions, covenants and terms required by the Corporation or the County to be observed or performed in the Lease Agreement or therein other agreements, conditions, covenants and terms thereafter to be observed or performed by the Corporation or the County, or to surrender any right or power reserved in the Lease Agreement or therein to or conferred in the Lease Agreement or therein on the Corporation or the County;

(ii) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Lease Agreement or therein or in regard to questions arising under the Lease Agreement or thereunder which the Corporation or the County may deem desirable or necessary and not inconsistent herewith or therewith, and which shall not materially adversely affect the rights or interests of the Owners;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of interest evidenced by the Certificates;

(iv) to provide for the substitution or release of a portion of the Property in accordance with the provisions of the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—AMENDMENTS; ASSIGNMENT AND SUBLEASING; SUBSTITUTION OR RELEASE—Substitution or Release of the Property;" or

(v) to make such other changes in the Lease Agreement or therein or modifications to the Lease Agreement or thereto as the Corporation or the County may deem desirable or necessary, and which shall not materially adversely affect the interests of the Owners.

Assignment and Subleasing. Neither the Lease Agreement nor any interest of the County under the Lease Agreement shall be sold, mortgaged, pledged, assigned or transferred by the County by voluntary act or by operation of law or otherwise; provided, however, that the Property may be subleased in whole or in part by the County, provided that any such sublease shall be subject to all of the following conditions:

(a) the Lease Agreement and the obligation of the County to make all Rental Payments under the Lease Agreement shall remain the primary obligation of the County;

(b) the County shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Corporation a true and complete copy of such sublease;

(c) any sublease of the Property by the County shall explicitly provide that such sublease is subject to all rights of the Corporation under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement upon an Event of Default under the Lease Agreement; and

(d) the County shall furnish the Corporation with an Opinion of Counsel to the effect that such sublease will not, in and of itself, cause the interest evidenced by the Certificates to be included in gross income for federal income tax purposes.

Substitution or Release of the Property. The County shall have the right to substitute alternate real property for any portion of the Property or to release a portion of the Property from the Lease Agreement. All costs and expenses incurred in connection with such substitution or release shall be borne by the County. Notwithstanding any substitution or release pursuant to this section, there shall be no reduction in or abatement of the Base Rental Payments due from the County under the Lease Agreement as a result of such substitution or release. Any such substitution or release of any portion of the Property shall be subject to the following specific conditions, which are made conditions precedent to such substitution or release:

(a) an independent certified real estate appraiser selected by the County shall have found (and shall have delivered a certificate to the County and the Corporation setting forth its findings) that the Property, as constituted after such substitution or release (i) has an annual fair rental value greater than or equal to 105% of the maximum amount of the Base Rental Payments coming due in the then current Rental Period or any subsequent Rental Period, (ii) has a fair replacement value at least equal to the aggregate amount of principal evidenced by the Certificates then Outstanding, and (iii) has a useful life equal to or greater than the remaining term of the Lease Agreement;

(b) the County shall have obtained or caused to be obtained a CLTA title insurance policy or policies with respect to any substituted property in the amount of the fair market value of such substituted property (which fair market value shall have been determined by an independent certified real estate appraiser), of the type and with the endorsements described in the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—INSURANCE; NET PROCEEDS; EMINENT DOMAIN—Title Insurance;"

(c) the County shall have certified to the Corporation that the substituted real property is of approximately the same degree of essentiality to the County as the portion of the Property for which it is being substituted;

(d) the County shall have provided the Corporation with an Opinion of Counsel to the effect that such substitution or release will not, in and of itself, cause the interest evidenced by the Certificates to be included in gross income for federal income tax purposes; and

(e) the County and the Corporation shall have executed, and the County shall have caused to be recorded with the Monterey County Recorder, any document necessary to reconvey to the County the portion of the Property being substituted or released and to include any substituted real property in the description of the Property contained in the Lease Agreement and in the Ground Lease.

MISCELLANEOUS

Assignment to Trustee. The County understands and agrees that, upon the execution and delivery of the Assignment Agreement (which is occurring simultaneously with the execution and delivery of the Lease Agreement), all right, title and interest of the Corporation in and to the Lease Agreement (other than the Corporation's rights to indemnification and to payment or reimbursement of its reasonable costs and expenses under the Lease Agreement) will be sold, assigned and transferred to the Trustee for the benefit of the Owners of the Certificates. The County consents to such sale, assignment and transfer. Upon the execution and delivery of the Assignment Agreement, references in the operative provisions of the Lease Agreement to the Corporation shall be deemed to be references to the Trustee, as assignee of the Corporation.

Validity and Severability. If for any reason the Lease Agreement shall be held by a court of competent jurisdiction to be void, voidable or unenforceable by the Corporation or by the County, or if for any reason it is held by such a court that any of the covenants and conditions of the County under the Lease Agreement, including the covenant to pay Rental Payments, is unenforceable for the full term of the Lease Agreement, then and in such event the Lease Agreement is and shall be deemed to be a Lease Agreement under which the Rental Payments are to be paid by the County annually in consideration of the right of the County to possess, occupy and use the Property, and all of the terms, provisions and conditions of the Lease Agreement, except to the extent that such terms, provisions and conditions are contrary to or inconsistent with such holding, shall remain in full force and effect.

Governing Laws. The Lease Agreement shall be governed by and construed in accordance with the laws of the State.

ASSIGNMENT AGREEMENT

Assignment. The Corporation, for good and valuable consideration, the receipt of which is acknowledged, does sell, assign and transfer to the Trustee, irrevocably and absolutely, without recourse, for the benefit of the owners of the Certificates, all of its right, title and interest in and to the Ground Lease and the Lease Agreement, including, without limitation, its right to receive the Base Rental Payments to be paid by the County under and pursuant to the Lease Agreement; provided, however, that the Corporation shall retain the rights to indemnification and to payment or reimbursement of its reasonable costs and expenses under the Lease Agreement. This assignment is absolute and is presently effective. Upon execution of the Assignment Agreement, the Corporation shall have no right, title or interest in or to the Base Rental Payments, the Additional Rental Payments, the Lease Agreement or the Ground Lease. All rights assigned by the Corporation shall be administered by the Trustee in accordance with the provisions of the Trust Agreement.

Acceptance. The Trustee accepts the foregoing assignment, subject to the terms and provisions of the Trust Agreement, and all of the Base Rental Payments shall be applied, and the rights so assigned shall be exercised, by the Trustee as provided in the Lease Agreement and the Trust Agreement.

Conditions. The Assignment Agreement shall impose no obligations whatsoever upon the Trustee beyond those expressly provided in the Lease Agreement and the Trust Agreement.

Further Assurances. The Corporation shall make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Assignment Agreement, and for the better assuring and confirming to the Trustee, for the benefit of the owners of the Certificates, the right, title and interest intended to be sold, assigned and transferred pursuant to the Trust Agreement.

Governing Law. The Assignment Agreement shall be governed by and construed in accordance with the laws of the State of California.

TRUST AGREEMENT

TERMS AND CONDITIONS OF CERTIFICATES

Registration Books. (a) The Trustee shall keep at its Principal Office sufficient books for the registration and transfer of the Certificates, which books shall be available for inspection and copying by the Corporation, the Trustee and the County at reasonable hours and under reasonable conditions; and upon presentation for such purpose the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer the Certificates on such books as provided in the Trust Agreement.

(b) The Trustee may treat the Owner of any Certificate, as shown on the Registration Books, as the absolute owner of such Certificate for all purposes, whether or not the principal or interest evidenced by such Certificate shall be overdue, and the Trustee shall not be affected by any knowledge or notice to the contrary; and payment of the interest and principal evidenced by such Certificate shall be made only to such Owner, which

payments shall be valid and effectual to satisfy and discharge the liability evidenced by such Certificate to the extent of the sum or sums so paid.

Exchange of Certificates. (a) Each Certificate is transferable by the Owner thereof, in person or by such Owner's attorney duly authorized in writing, at the Principal Office of the Trustee on the Registration Books, upon surrender of such Certificate for cancellation accompanied by delivery of a duly executed written instrument of transfer in a form approved by the Trustee. Whenever any Certificate shall be surrendered for transfer, the Trustee shall execute and deliver a new Certificate or Certificates evidencing principal in the same aggregate amount and having the same stated Principal Payment Date. The Trustee shall require the payment by any Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

(b) Each Certificate may be exchanged at the Principal Office of the Trustee for Certificates evidencing principal in a like aggregate amount and having the same stated Principal Payment Date in such Authorized Denominations as the Owner thereof may request. The Trustee shall require the payment by the Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

(c) The Trustee shall not be required to transfer or exchange any Certificate during the period commencing on the date five days before the date of selection of Certificates for prepayment and ending on the date of mailing notice of such prepayment, nor shall the Trustee be required to transfer or exchange any Certificate or portion thereof selected for prepayment from and after the date of mailing the notice of prepayment thereof.

Certificates Mutilated, Lost, Destroyed or Stolen. If any Certificate shall become mutilated, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate evidencing a like amount of principal and having the same stated Principal Payment Date and number in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it. If any Certificate shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and if such evidence is satisfactory to the Trustee and indemnity satisfactory to the Trustee shall be given, the Trustee, at the expense of the Owner thereof, shall execute and deliver a new Certificate evidencing a like amount of principal and having the same stated Principal Payment Date, numbered as the Trustee shall determine, in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of a sum not exceeding the actual cost of preparing each new Certificate executed and delivered by it under this section and of the expenses which may be incurred by it under this section. Any Certificate executed and delivered under the provisions of this section in lieu of any Certificate alleged to be lost, destroyed or stolen shall be equally and proportionately entitled to the benefits of the Trust Agreement with all other Certificates executed and delivered under the Trust Agreement, and the Trustee shall not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the amount of Certificates which may be executed and delivered under the Trust Agreement or for the purpose of determining any percentage of Certificates Outstanding under the Trust Agreement, but both the original and replacement Certificate shall be treated as one and the same. Notwithstanding any other provision of this section, in lieu of executing and delivering a new Certificate for a Certificate which has been lost, destroyed or stolen and which evidences principal that is then payable, the Trustee may make payment of such Certificate to the Owner thereof if so instructed by the County.

Temporary Certificates. The Certificates may be initially delivered in temporary form exchangeable for definitive Certificates when ready for delivery, which temporary Certificates shall be printed, lithographed or typewritten, shall be of such denominations as may be determined by the Trustee, shall be in fully registered form and shall contain such reference to any of the provisions of the Trust Agreement as may be appropriate. Every temporary Certificate shall be executed and delivered by the Trustee upon the same conditions and terms and in substantially the same manner as definitive Certificates. If the Trustee executes and delivers temporary Certificates, it shall prepare and execute definitive Certificates without delay, and thereupon the temporary Certificates may be surrendered at the Principal Office of the Trustee in exchange for such definitive Certificates, and until so exchanged such temporary Certificates shall be entitled to the same benefits under the Trust Agreement as definitive Certificates executed and delivered under the Trust Agreement.

PROCEEDS OF CERTIFICATES

2007 Prepayment Fund. (a) The 2007 Trustee has established and maintained a separate fund designated the "2007 Prepayment Fund." On the Delivery Date, the Trustee shall transfer to the 2007 Trustee for deposit in the 2007 Prepayment Fund the amount required to be deposited therein pursuant to the Trust Agreement.

(b) The moneys in the 2007 Prepayment Fund shall be used and withdrawn by the 2007 Trustee on the prepayment date specified in the Written Request of the County to the 2007 Trustee for the purpose of paying the prepayment price equal to the principal evidenced by the Refunded Certificates to be prepaid, plus accrued interest evidenced thereby to the date fixed for prepayment, without premium.

Costs of Issuance Fund. (a) The Trustee shall establish and maintain a separate fund designated the "Costs of Issuance Fund." On the Delivery Date, the Trustee shall deposit in the Costs of Issuance Fund the amount required to be deposited therein pursuant to the Trust Agreement.

(b) The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee from time to time to pay the Costs of Issuance upon submission of a Written Request of the County stating (i) the Person to whom payment is to be made, (ii) the amount to be paid, (iii) the purpose for which the obligation was incurred, (iv) that such payment is a proper charge against the Costs of Issuance Fund, and (v) that such amounts have not been the subject of a prior disbursement from the Costs of Issuance Fund, in each case together with a statement or invoice for each amount requested thereunder. On the last Business Day that is no later than six months after the Delivery Date, the Trustee shall transfer any amount remaining in the Costs of Issuance Fund to the Interest Fund and, upon making such transfer, the Costs of Issuance Fund shall be closed.

FUNDS AND ACCOUNTS; RENTAL PAYMENTS

Pledge; Base Rental Payment Fund. (a) Subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement, in order to secure the County's obligations under the Trust Agreement and under the Lease Agreement, the County irrevocably pledges to the Owners, and grants a lien on and a security interest in, all of its right, title and interest, if any, in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement (other than the Rebate Fund), which amounts shall be used for the payment of the Base Rental Payments, in accordance with the terms of the Trust Agreement and of the Lease Agreement. Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the County, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Trust Agreement, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

(b) It is the intent of the parties to the Lease Agreement that the Corporation not have any right, title or interest in or to the amounts on deposit from time to time in the funds and accounts established under the Trust Agreement. If, contrary to the intent of the parties to the Lease Agreement, the Corporation is found to have any right, title or interest in or to any such amounts, then, subject only to the provisions of the Trust Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Trust Agreement, the Corporation irrevocably pledges to the Owners, and grants a lien on and a security interest in, all of its right, title and interest, if any, in and to all amounts on deposit from time to time in the funds and accounts established under the Trust Agreement (other than the Rebate Fund). Said pledge shall constitute a first lien on and security interest in such assets, which shall immediately attach to such assets and be effective, binding and enforceable against the Corporation, its successors, purchasers of any of such assets, creditors and all others asserting rights therein, to the extent set forth in, and in accordance with, the Trust Agreement, irrespective of whether those parties have notice of the pledge of, lien on and security interest in such assets and without the need for any physical delivery, recordation, filing or further act.

(c) All Base Rental Payments shall be paid directly by the County to the Trustee, and if received by the Corporation at any time shall be deposited by the Corporation with the Trustee within one Business Day after the receipt thereof. All Base Rental Payments paid by the County shall be deposited by the Trustee in the Base Rental

Payment Fund, which the Trustee shall establish and maintain. The moneys in the Base Rental Payment fund shall be held in trust by the Trustee for the benefit of the Owners and shall be disbursed only for the purposes and uses authorized in the Trust Agreement. Any Net Proceeds of rental interruption insurance received with respect to the Property shall be deposited in the Base Rental Payment Fund.

Deposit of Base Rental Payments. The Trustee shall transfer the amounts on deposit in the Base Rental Payment Fund, at the times and in the manner provided in the Trust Agreement, to the following respective funds, each of which the Trustee agrees to establish and maintain. The moneys in each of such funds shall be held in trust by the Trustee and shall be disbursed only for the purposes and uses authorized in the Trust Agreement.

(a) *Interest Fund.* The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund that amount of moneys representing the portion of the Base Rental Payments designated as the interest component coming due on such Interest Payment Date. On each Interest Payment Date, the Trustee shall withdraw from the Interest Fund for payment to the Owners of the Certificates the interest evidenced by the Certificates coming due on such Interest Payment Date.

(b) *Principal Fund.* The Trustee, on each Principal Payment Date and each Mandatory Sinking Account Payment Date, shall deposit in the Principal Fund that amount of moneys representing the portion of the Base Rental Payments designated as principal components coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. On each Principal Payment Date and each Mandatory Sinking Account Payment Date, the Trustee shall withdraw from the Principal Fund for payment to the Owners of the Certificates the principal evidenced by the Certificates due and payable on such Principal Payment Date and such Mandatory Sinking Account Payment Date.

(c) *Prepayment Fund.* The Trustee, on the prepayment date specified in the Written Request of the County filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Lease Agreement, shall deposit in the Prepayment Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Additionally, the Trustee shall deposit in the Prepayment Fund any amounts required to be deposited therein pursuant to the provisions of the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—COVENANTS—Application of Net Proceeds” and “—Title Insurance.” Moneys in the Prepayment Fund shall be used by the Trustee for the purpose of paying the interest, premium, if any, and principal evidenced by the Certificates to be prepaid.

Rebate Fund. (a) The Trustee shall establish and maintain a special fund designated the “Rebate Fund.” There shall be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Tax Certificate, as specified in a Written Request of the County. All money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement, for payment to the United States of America. Notwithstanding defeasance of the Certificates pursuant to the Trust Agreement or anything to the contrary contained in the Trust Agreement, all amounts required to be deposited into or on deposit in the Rebate Fund shall be governed exclusively by this section and by the Tax Certificate (which is incorporated in the Trust Agreement by reference). The Trustee shall have no liability or responsibility to review, or enforce compliance by the County with the terms of the Tax Certificate. The Trustee may conclusively rely upon the County’s determinations, calculations and certifications required by the Tax Certificate. The Trustee shall have no responsibility to independently make any calculation or determination or to review the County’s calculations.

(b) Any funds remaining in the Rebate Fund after payment in full of all of the principal and interest evidenced by the Certificates and after payment of any amounts described in this section, shall be withdrawn by the Trustee and remitted to the County.

Investments. (a) Except as otherwise provided in the Trust Agreement, any moneys held by the Trustee in the funds and accounts established under the Trust Agreement shall be invested by the Trustee upon the Written Request of the County only in Permitted Investments, and in the absence of such direction shall be invested by the Trustee in Permitted Investments described in paragraph (6) of the definition thereof; provided, however, that any such investment shall be made by the Trustee only if, prior to the date on which such investment is to be made, the Trustee shall have received a Written Request of the County specifying a specific money market fund and, if no

such Written Request of the County is so received, the Trustee shall hold such moneys uninvested. The Trustee may act as principal or agent in the acquisition or disposition of any such investment. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with this section. The Trustee shall sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. Permitted Investments that are registerable securities shall be registered in the name of the Trustee.

(b) Permitted Investments purchased with funds on deposit in the Base Rental Payment Fund shall mature not later than the payment date immediately succeeding the investment. Permitted Investments purchased with funds on deposit in the Prepayment Fund shall either be held uninvested or invested in Defeasance Securities that mature on or prior to the prepayment date on which such funds are to be applied to the prepayment of Certificates.

(c) Subject to the provisions of the Trust Agreement as summarized herein under the heading "TRUST AGREEMENT—FUNDS AND ACCOUNTS; RENTAL PAYMENTS—Rebate Fund," all interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Trust Agreement shall be retained therein.

(d) All investments of amounts deposited in any fund or account established under the Trust Agreement shall be valued at the market value thereof. In determining market value of Permitted Investments, the Trustee may use and rely conclusively and without liability upon any generally recognized pricing information service (including brokers and dealers in securities) available to it.

(e) The County acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the County the right to receive brokerage confirmations of security transactions as they occur, at no additional cost, the County will not receive such confirmation to the extent permitted by law. The Trustee will furnish the County periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Trust Agreement.

COVENANTS

Application of Net Proceeds. (a) If the Property or any portion thereof shall be damaged or destroyed, subject to the further requirements of this section, the County shall, as expeditiously as possible, continuously and diligently prosecute or cause to be prosecuted the repair or replacement thereof, unless the County elects not to repair or replace the Property or the affected portion thereof in accordance with the provisions of the Trust Agreement.

(b) The Net Proceeds of any insurance (other than Net Proceeds of rental interruption insurance), including the proceeds of any self-insurance, received on account of any damage or destruction of the Property or a portion thereof shall as soon as possible be deposited with the Trustee and be held by the Trustee in a special account and made available for and, to the extent necessary, shall be applied to the cost of repair or replacement of the Property or the affected portion thereof upon receipt of a Written Request of the County, together with invoices therefor. Pending such application, such proceeds may be invested by the Trustee as directed by the County in Permitted Investments that mature not later than such times as moneys are expected to be needed to pay such costs of repair or replacement.

(c) Notwithstanding the foregoing, the County shall, within 60 days of the occurrence of the event of damage or destruction, notify the Trustee in writing as to whether the County intends to replace or repair the Property or the portions of the Property which were damaged or destroyed. If the County does intend to replace or repair the Property or portions thereof, the County shall deposit with the Trustee the full amount of any insurance deductible to be credited to the special account referred to in paragraph (b) of this section.

(d) If such damage, destruction or loss was such that there resulted a substantial interference with the County's right to the use or occupancy of the Property and an abatement in whole or in part of Rental Payments

results (or would result if moneys were not available for the payment of the Rental Payments in any of the funds and accounts established under the Trust Agreement) from such damage or destruction pursuant to the Lease Agreement as summarized herein under the heading "LEASE AGREEMENT—RENTAL PAYMENTS—Rental Abatement," then the County shall be required either to (i) apply sufficient funds from the insurance proceeds and other legally available funds to the replacement or repair of the Property or the portions thereof which have been damaged to the condition which existed prior to such damage or destruction, or (ii) apply sufficient funds from the insurance proceeds and other legally available funds to the prepayment, as set forth in the Trust Agreement, in full of all the Outstanding Certificates or all of those Outstanding Certificates which evidence that portion of the Base Rental Payments which are abated as a result of the damage or destruction. If the County is required to apply funds from the insurance proceeds and other legally available funds to be applied to the prepayment of Certificates in accordance with clause (ii) above, the County shall direct the Trustee, in a Written Request of the County, to transfer the funds to be applied to such prepayment to the Prepayment Fund and the Trustee shall transfer such funds to the Prepayment Fund. Any proceeds of any insurance, including the proceeds of any self-insurance remaining after the portion of the Property which was damaged or destroyed is restored to and made available to the County in substantially the same condition and annual fair rental value as that which existed prior to the damage or destruction as required by clause (i) above or the prepayment of Certificates as required by clause (ii) above, in each case as evidenced by a Written Certificate of the County to such effect, shall, if there is first delivered to the Trustee a Written Certificate of the County to the effect that the annual fair rental value of the Property after such damage or destruction, and after any repairs or replacements made as a result of such damage or destruction, is at least equal to 100% of the maximum amount of Base Rental Payments becoming due under the Lease Agreement in the then current Rental Period or any subsequent Rental Period and the fair replacement value of the Property after such damage or destruction is at least equal to the sum of the then unpaid principal components of Base Rental Payments, be paid to the County to be used for any lawful purpose.

(e) The proceeds of any award in eminent domain with respect to the Property shall be deposited by the Trustee in the Prepayment Fund and applied to the prepayment of Outstanding Certificates pursuant to the Trust Agreement.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee in respect of the Property shall be applied and disbursed by the Trustee as follows:

(a) if the County determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Rental Payments payable by the County under the Lease Agreement, such proceeds shall be remitted to the County and used for any lawful purpose thereof; or

(b) if the County determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and would result in an abatement in whole or in part of Rental Payments payable by the County under the Lease Agreement, then the County shall, in a Written Request of the County, direct the Trustee to, and the Trustee shall, immediately deposit such proceeds in the Prepayment Fund and such proceeds shall be applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

Compliance with Trust Agreement. Each of the Corporation and the County shall faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Trust Agreement required to be complied with, kept, observed and performed by it.

Compliance with Ground Lease and Lease Agreement. Each of the Corporation and the County shall faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Ground Lease and the Lease Agreement required to be complied with, kept, observed and performed by it and, together with the Trustee, shall enforce the Ground Lease and the Lease Agreement against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Corporation, the County and the Trustee shall faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any

officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. (a) The County shall keep the Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances, and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Property, and the Trustee at its option (after first giving the County ten days' written notice to comply therewith and failure of the County to so comply within such ten-day period) may defend against any and all actions or proceedings, or may pay or compromise any claim or demand asserted in any such actions or proceedings; provided, however, that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Trust Agreement, or from its obligation under the Trust Agreement to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

(b) The Corporation and the Trustee shall not encumber the Property other than in accordance with the Ground Lease, the Lease Agreement, the Trust Agreement and the Assignment Agreement.

(c) None of the Trustee, the Corporation or the County shall create or suffer to be created any pledge of or lien on the amounts on deposit in any of the funds or accounts created under the Trust Agreement, other than the pledge and lien of the Trust Agreement.

Prosecution and Defense of Suits. The County shall promptly, upon request of the Trustee or any Owner, take such action from time to time as may be necessary or proper to remedy or cure any cloud upon or defect in the title to the Property or any part thereof, whether now existing or hereafter developing, shall prosecute all actions, suits or other proceedings as may be appropriate for such purpose and shall indemnify and save the Trustee and every Owner harmless from all cost, damage, expense or loss, including attorneys' fees, which they or any of them may incur by reason of any such cloud, defect, action, suit or other proceeding.

Recordation. The County shall record, or cause to be recorded, with the appropriate county recorder, the Lease Agreement, the Ground Lease and the Assignment Agreement, or memoranda thereof.

Tax Covenants. (a) The County shall not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of interest evidenced by the Certificates under Section 103 of the Code. Without limiting the generality of the foregoing, the County will comply with the requirements of the Tax Certificate, which is incorporated in the Trust Agreement as if fully set forth in the Trust Agreement. This covenant shall survive payment in full or defeasance of the Certificates.

(b) In the event that at any time the County is of the opinion that for purposes of this section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee in any of the funds or accounts established under the Trust Agreement, the County shall so instruct the Trustee in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of this section, if the County shall provide to the Trustee an Opinion of Counsel to the effect that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of interest evidenced by the Certificates, the Trustee may conclusively rely on such opinion in complying with the requirements of this section and of the Tax Certificate, and the covenants under the Trust Agreement shall be deemed to be modified to that extent.

Continuing Disclosure. Each of the County and the Trustee shall comply with and carry out all of the provisions of the Continuing Disclosure Agreement applicable to it. Notwithstanding any other provision of the

Trust Agreement, failure of the County or the Trustee to comply with the Continuing Disclosure Agreement shall not constitute an Event of Default under the Trust Agreement; provided, however, that the Trustee may (and, at the written direction of the Owners of at least 25% of the aggregate amount of principal evidenced by Outstanding Certificates and upon being indemnified to its reasonable satisfaction, shall) or any Owner or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate to compel performance, including seeking mandate or specific performance by court order.

Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the Corporation and the County shall promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Trust Agreement or by the Assignment Agreement, the Ground Lease or the Lease Agreement.

DEFAULTS AND REMEDIES

Events of Default. The occurrence of an Event of Default under the Lease Agreement shall constitute an Event of Default under the Trust Agreement.

Action on Default. In each and every case during the continuance of an Event of Default under the Trust Agreement, the Trustee may, and, at the direction of the Owners of not less than a majority of the aggregate amount of principal evidenced by Certificates then Outstanding, shall, exercise any of the remedies granted to the Corporation under the Lease Agreement and, in addition, take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Trust Agreement or by the Certificates, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Trust Agreement.

Other Remedies of the Trustee. Subject to the provisions of the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—DEFAULTS AND REMEDIES—Action on Default,” the Trustee shall have the right:

- (a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the County or the Corporation or any member, director, officer or employee thereof, and to compel the County or the Corporation or any such member, director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Trust Agreement;
- (b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee or the Owners; or
- (c) by suit in equity upon the happening of any Event of Default under the Trust Agreement to require the County and the Corporation to account as if it or they were the trustee or trustees of an express trust.

Non-Waiver. (a) A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—DEFAULTS AND REMEDIES” may be enforced and exercised from time to time and as often as the Trustee shall deem expedient.

(b) If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner, then subject to any adverse determination, the Trustee, such Owner, the Corporation and the County shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. Subject to the provisions of the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—DEFAULTS AND REMEDIES—Action on Default,” no remedy in the Trust Agreement conferred upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Trust Agreement or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Trust Agreement, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Corporation to the Owners. The Corporation shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County of the other agreements and covenants required to be performed by it contained in the Lease Agreement, the Ground Lease or in the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

Application of Amounts After Default. Upon the occurrence and during the continuance of an Event of Default under the Trust Agreement, moneys held by the Trustee in the funds and accounts established under the Trust Agreement (other than the Rebate Fund) and all payments received by the Trustee with respect to the rental of the Property (including, without limitation, any proceeds received in connection with the sale, assignment or sublease of the Corporation’s right, title and interest in the Ground Lease), and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Lease Agreement as summarized herein under the heading “LEASE AGREEMENT—DEFAULTS AND REMEDIES,” shall be deposited into the Base Rental Payment Fund and as soon as practicable thereafter applied:

(a) to the payment of all amounts due the Trustee under the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—THE TRUSTEE—Compensation and Indemnification;”

(b) to the payment of all amounts then due for interest evidenced by the Certificates, in respect of which, or for the benefit of which, money has been collected (other than Certificates which have become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of interest evidenced by such Certificates due and payable; and

(c) to the payment of all amounts then due for principal evidenced by the Certificates, in respect of which, or for the benefit of which, money has been collected (other than Certificates which have become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts of principal evidenced by such Certificates due and payable.

Trustee May Enforce Claims Without Possession of Certificates. All rights of action and claims under the Trust Agreement or the Certificates may be prosecuted and enforced by the Trustee without the possession of any of the Certificates or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Certificates in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Certificate shall have any right to institute any proceeding, judicial or otherwise, with respect to the Trust Agreement, or for the appointment of a receiver or trustee, or for any other remedy under the Trust Agreement, unless (a) such Owner shall have previously given written notice to the Trustee

of a continuing Event of Default under the Trust Agreement, (b) the Owners of not less than 25% of the aggregate amount of principal evidenced by Certificates then Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Trust Agreement, (c) such Owner or Owners shall have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, (d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such proceedings, and (e) no direction inconsistent with such written request shall have been given to the Trustee during such 60 day period by the Owners of a majority of the aggregate amount of principal evidenced by Certificates then Outstanding; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Trust Agreement to affect, disturb or prejudice the rights of any other Owner of Certificates, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal and ratable benefit of all the Owners of Certificates.

Bankruptcy Matters. (a) Nothing in the Trust Agreement shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Owner any plan of reorganization, arrangement, adjustment, or composition affecting the Certificates or the rights of any Owner thereof, or to authorize the Trustee to vote in respect of the claim of any Owner in any such proceeding without the approval of the Owners so affected.

(b) When the Trustee incurs expenses or renders services after the occurrence or during the continuance of an Event of Default, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

THE TRUSTEE

Duties of the Trustee. The Trustee shall, prior to an Event of Default, and after the curing or waiver of all Events of Default which may have occurred, perform such duties and only such duties as are expressly and specifically set forth in the Trust Agreement. The Trustee shall, during the existence of any Event of Default which has not been cured or waived, exercise such of the rights and powers vested in it by the Trust Agreement, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

Removal; Resignation; Successor Trustees; Qualifications; Merger and Consolidation. (a) The County may by an instrument in writing, remove the Trustee initially a party to the Trust Agreement and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Trust Agreement and any successor thereto if at any time (i) requested to do so by an instrument or concurrent instruments in writing signed by the Owners of not less than a majority of the aggregate amount of principal evidenced by the Certificates at the time Outstanding (or their attorneys duly authorized in writing), or (ii) the Trustee shall cease to be eligible in accordance with paragraph (d) of this section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee.

(b) The Trustee may at any time resign by giving written notice of such resignation by first class mail, postage prepaid, to the County and the Corporation, and to the Owners at the respective addresses shown on the Registration Books. Upon receiving such notice of resignation, the County shall promptly appoint a successor Trustee by an instrument in writing.

(c) Any removal or resignation of the Trustee and appointment of a successor Trustee shall become effective upon acceptance of appointment by the successor Trustee; provided, however, that any successor Trustee shall be qualified as provided in paragraph (d) of this section. If no qualified successor Trustee shall have been appointed and have accepted appointment within 45 days following notice of removal or notice of resignation as aforesaid, the removed or resigning Trustee or any Owner (on behalf of such Owner and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may

thereupon, after such notice, if any, as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under the Trust Agreement shall signify its acceptance of such appointment by executing and delivering to the County, the Corporation and its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee in the Trust Agreement; but, nevertheless at the written request of the County, the Corporation or the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under the Trust Agreement and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions set forth in the Trust Agreement. Upon acceptance of appointment by a successor Trustee as provided in this paragraph, the successor Trustee shall, within 15 days after such acceptance, mail, by first class mail postage prepaid, a notice of the succession of such Trustee to the trusts under the Trust Agreement to the Owners at the addresses shown on the Registration Books.

(d) The Trustee shall be a bank, national banking association or trust company incorporated or organized under the laws of the United States of America or any state thereof, having (or if such bank, national banking association or trust company is a member of a bank holding company system, its parent bank holding company shall have) a combined capital and surplus of at least \$50,000,000, and subject to supervision or examination by federal or state agency. If such bank, national banking association or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining agency above referred to, then for the purpose of this paragraph the combined capital and surplus of such bank, national banking association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this paragraph (d), the Trustee shall resign immediately in the manner and with the effect specified in this section.

(e) Any bank, national banking association or trust company into which the Trustee may be merged or converted or with which it may be consolidated or any bank, national banking association or trust company resulting from any merger, conversion or consolidation to which it shall be a party or any bank, national banking association or trust company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such bank, national banking association or trust company shall be eligible under paragraph (d) of this section shall be the successor to such Trustee, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the Trust Agreement anything in the Trust Agreement to the contrary notwithstanding.

Liabilities of the Trustee. (a) The recitals of facts in the Trust Agreement shall be taken as statements of the County, and the Trustee shall not assume responsibility for the correctness of the same. The Trustee shall, however, be responsible for its representations contained in the Certificates. The Trustee makes no representations as to the validity or sufficiency of the Trust Agreement, the Ground Lease, the Lease Agreement, or of the assignment made to it by the Assignment Agreement, or in respect of the security afforded by the Trust Agreement, and the Trustee shall incur no responsibility in respect thereof. The Trustee shall be under no responsibility or duty with respect to (i) the delivery of the Certificates for value, (ii) the application of the proceeds thereof except to the extent that such proceeds are received by it in its capacity as Trustee, or (iii) the application of any moneys paid to the County or others in accordance with the Trust Agreement, except as to the application of any moneys paid to it in its capacity as Trustee. The permissive rights of the Trustee to do things enumerated in the Trust Agreement, the Ground Lease or the Lease Agreement shall not be construed as duties, and the Trustee shall not be liable in connection with the performance of its duties under the Trust Agreement or thereunder, except for its own negligence or willful misconduct. The Trustee may become the Owner of Certificates with the same rights it would have if it were not Trustee, and, to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of a majority of the aggregate amount of principal evidenced by the Certificates then Outstanding.

(b) The Trustee shall not be liable for any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

(c) The Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Trust Agreement, the Ground Lease or the Lease Agreement. The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority of the aggregate amount of principal evidenced by the Certificates at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Trust Agreement, the Ground Lease or the Lease Agreement.

(d) No provision of the Trust Agreement, the Ground Lease or the Lease Agreement or any other document related to the Trust Agreement shall require the Trustee to risk or advance its own funds.

(e) The immunities and protections extended to the Trustee also extend to its directors, officers, employees and agents.

(f) The Trustee may execute any of its powers or duties under the Trust Agreement and under the Ground Lease and the Lease Agreement through attorneys, agents or receivers and shall not be answerable for the actions of such attorneys, agents or receivers if selected by it with reasonable care.

(g) Before taking action under the Trust Agreement as summarized herein under the headings “TRUST AGREEMENT—DEFAULTS AND REMEDIES” or “TRUST AGREEMENT—THE TRUSTEE” or upon the direction of the Owners, the Trustee may require indemnity satisfactory to the Trustee be furnished to it to protect it against all fees and expenses, including those of its attorneys and advisors, and protect it against all liability it may incur, including any liability arising directly or indirectly under any federal, state or local statute, rule, law or ordinance related to the protection of the environment or hazardous substances.

(h) The Trustee shall not be deemed to have knowledge of an Event of Default under the Trust Agreement or an event of default under the Lease Agreement unless it has actual knowledge thereof.

(i) The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Certificates.

(j) The Trustee’s rights to immunities, indemnifications and protection from liability under the Trust Agreement and under the Ground Lease and the Lease Agreement and its rights to payment of its fees and expenses shall survive its resignation or removal and final payment or defeasance of the Certificates. All indemnifications and releases from liability granted in the Trust Agreement or in the Lease Agreement to the Trustee shall extend to its directors, officers, employees and agents.

(k) Notwithstanding the effective date of the Trust Agreement or anything to the contrary in the Trust Agreement, the Trustee shall have no liability or responsibility for any act or event relating to the Trust Agreement which occurs prior to the date the Trustee formally commences acting as Trustee under the Trust Agreement.

Right to Rely on Documents. (a) Upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bonds or other paper or document furnished to it pursuant to any provision of the Trust Agreement, the Ground Lease or the Lease Agreement, the Trustee shall examine such instrument to determine whether it conforms to the requirements, if any, of the Trust Agreement, the Ground Lease or the Lease Agreement, as applicable, and, if the Trustee so determines, the Trustee may conclusively rely, and shall be fully protected in acting upon, any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Whenever in the administration of the duties imposed upon it by the Trust Agreement, the Trustee shall deem it necessary or desirable that a legal matter be established prior to taking or suffering any action under

the Trust Agreement, under the Ground Lease or under the Lease Agreement (including with respect to compliance with the Trust Agreement, the Ground Lease or the Lease Agreement of amendments to the Trust Agreement, the Ground Lease or the Lease Agreement), the Trustee may consult with counsel, who may be counsel to the County or the Corporation, with regard to such legal matter, and the opinion of such counsel shall be full and complete authorization and protection in respect of any such action taken or suffered by it under the Trust Agreement in good faith and in accordance therewith.

(c) Whenever in the administration of the duties imposed upon it by the Trust Agreement, the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Trust Agreement, under the Ground Lease or under the Lease Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Trust Agreement) may be deemed to be conclusively proved and established by a Written Certificate of the County, and such Written Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of the Trust Agreement, the Ground Lease or the Lease Agreement in reliance upon such Written Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as it may deem reasonable.

Accounting Records; Documents. (a) The Trustee shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with prudent corporate trust industry standards, in which accurate entries shall be made of all transactions made by it relating to the proceeds of the Certificates, the Base Rental Payments received by it and all funds and accounts established by it pursuant to the Trust Agreement. Such books of record and account shall be available for inspection by the County and the Corporation during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee. The Trustee shall deliver to the County a monthly accounting of the funds and accounts it holds under the Trust Agreement; provided, however, that the Trustee shall not be obligated to deliver an accounting for any fund or account that (i) has a balance of zero, and (ii) has not had any activity since the last reporting date.

(b) All documents received by the Trustee under the provisions of the Trust Agreement shall be retained in its possession and shall be available for inspection by the County and the Corporation during regular business hours and upon reasonable notice and under reasonable circumstances as agreed to by the Trustee.

Compensation and Indemnification. The County shall, pursuant to a pre-approved fee letter, pay to the Trustee from time to time all reasonable compensation for all services rendered under the Trust Agreement, and all reasonable expenses, charges and legal fees and other disbursements (including those of its attorneys, agents and employees), incurred in and about the performance of its powers and duties under the Trust Agreement. The County shall, to the extent permitted by law, indemnify and save the Trustee harmless against any liabilities, losses, costs, expenses (including legal fees and expenses), claims, suits, judgments or damages which it may incur in the exercise and performance of its powers and duties under the Trust Agreement, under the Ground Lease or under the Lease Agreement, including the enforcement of any remedies and the defense of any suit, and which are not due to its negligence or its willful misconduct.

SUPPLEMENTAL TRUST AGREEMENTS

Supplemental Trust Agreements. (a) The Trust Agreement and the rights and obligations of the Corporation, the County, the Trustee and the Owners under the Trust Agreement may be modified or amended from time to time and at any time by a Supplemental Trust Agreement, which the Corporation, the County and the Trustee may enter into when there are filed with the Trustee the written consents of the Owners of a majority of the aggregate amount of principal evidenced by the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement as summarized herein under the heading "TRUST AGREEMENT—MISCELLANEOUS—Disqualified Certificates." No such modification or amendment shall (i) extend the stated Principal Payment Date of any Certificate or reduce the rate of interest applicable to the interest evidenced thereby or extend the time of payment of such interest or reduce the principal evidenced thereby or reduce the amount of any Mandatory Sinking Account Payment or change the prepayment terms and provisions or the provisions regarding delivery of notice of prepayment without the prior written consent of the Owner of each Certificate so affected, (ii) permit any pledge of, or the creation of any lien on, security interest in or charge or other encumbrance upon the assets pledged under the Trust Agreement prior to or on a parity with the pledge contained in, and the lien and security interest created by, the Trust Agreement or deprive the Owners of the pledge contained in, and the lien and

security interest created by, the Trust Agreement, except as expressly provided in the Trust Agreement, without the consent of the Owners of all of the Certificates then Outstanding, (iii) modify any of the rights or obligations of the Trustee without the prior written consent of the Trustee, or (iv) amend this section without the prior written consent of the Owners of all Certificates then Outstanding.

(b) The Trust Agreement and the rights and obligations of the Corporation, the County, the Trustee and the Owners under the Trust Agreement may also be modified or amended from time to time and at any time by a Supplemental Trust Agreement, which the Corporation, the County and the Trustee may enter into, but without the consent of any Owners, for any one or more of the following purposes:

(i) to add to the covenants and agreements of the Corporation or the County contained in the Trust Agreement, other covenants and agreements thereafter to be observed, to provide additional security for the Certificates (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Corporation or the County in the Trust Agreement;

(ii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision contained in the Trust Agreement that the Corporation or the County may deem desirable or necessary and not inconsistent herewith, provided that such modification or amendment does not materially adversely affect the rights or interests of the Owners under the Trust Agreement;

(iii) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of interest evidenced by the Certificates;

(iv) to permit the qualification of the Trust Agreement under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect; or

(v) in any other respect whatsoever as the Corporation or the County may deem necessary or desirable, provided that such modification or amendment does not materially adversely affect the rights or interests of the Owners.

(c) Promptly after the execution by the Corporation, the County and the Trustee of any Supplemental Trust Agreement, the Trustee shall mail a notice (the form of which shall be furnished to the Trustee by the County), by first class mail postage prepaid, setting forth in general terms the substance of such Supplemental Trust Agreement, to the Owners at the respective addresses shown on the Registration Books. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Trust Agreement.

Effect of Supplemental Trust Agreement. Upon the execution of any Supplemental Trust Agreement pursuant to the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—SUPPLEMENTAL TRUST AGREEMENTS,” the Trust Agreement shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Trust Agreement of the Corporation, the County, the Trustee and the Owners shall thereafter be determined, exercised and enforced under the Trust Agreement subject in all respects to such modification and amendment, and all the terms and conditions of any such Supplemental Trust Agreement shall be deemed to be part of the terms and conditions of the Trust Agreement for any and all purposes.

Endorsement of Certificates; Preparation of New Certificates. Certificates delivered after the effective date of any Supplemental Trust Agreement pursuant to the Trust Agreement as summarized herein under the heading “TRUST AGREEMENT—SUPPLEMENTAL TRUST AGREEMENTS” may and, if the Corporation or the County so determines, shall, bear a notation by endorsement or otherwise in form approved by the Corporation, the County and the Trustee as to any modification or amendment provided for in such Supplemental Trust Agreement, and, in that case, upon demand of the Owner of any Certificate Outstanding at the time of such effective date and presentation of such Certificate for such purpose at the Principal Office of the Trustee a suitable notation

shall be made on such Certificates. If the Supplemental Trust Agreement shall so provide, new Certificates so modified as to conform, in the opinion of the Corporation, the County and the Trustee, to any modification or amendment contained in such Supplemental Trust Agreement, shall be prepared, or caused to be prepared, by the Corporation and the County and executed by the Trustee and, in that case, upon demand of the Owner of any Certificate Outstanding at the time of such effective date, and presentation of such Certificate for such purpose at the Principal Office of the Trustee, such a new Certificate evidencing the same principal, interest at the same interest rate and with the same stated Principal Payment Date shall be exchanged for such Owner's Certificate so surrendered.

Amendment of Particular Certificates. The provisions of the Trust Agreement as summarized herein under the heading "TRUST AGREEMENT—SUPPLEMENTAL TRUST AGREEMENTS" shall not prevent any Owner from accepting any amendment or modification as to any particular Certificate owned by it, provided that due notation thereof is made on such Certificate.

DEFEASANCE

Discharge of Trust Agreement. (a) If there shall be paid (i) to the Owners of all Outstanding Certificates the principal, interest and premium, if any, evidenced thereby at the times and in the manner stipulated in the Trust Agreement and therein, and (ii) all other amounts due under the Trust Agreement and under the Lease Agreement, then the Owners shall cease to be entitled to the pledge of the assets provided for in the Trust Agreement, and, except as otherwise provided in the Trust Agreement as summarized herein under the heading "TRUST AGREEMENT—THE TRUSTEE—Liabilities of the Trustee," all agreements, covenants and other obligations of the Corporation and the County under the Trust Agreement shall thereupon cease, terminate and become void and the Trust Agreement shall be discharged and satisfied. In such event, the Trustee shall execute and deliver to the Corporation and the County all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the County all money or securities held by it pursuant to the Trust Agreement which are not required for the payment of the principal, interest and premium, if any, evidenced by the Certificates.

(b) Subject to the provisions of paragraph (a) of this section, when any Certificate shall have been paid and if, at the time of such payment, each of the Corporation and the County shall have kept, performed and observed all of the covenants and promises in the Trust Agreement and the Lease Agreement required or contemplated to be kept, performed and observed by it or on its part on or prior to that time, then the Trust Agreement shall be considered to have been discharged in respect of such Certificate and such Certificate shall cease to be entitled to the pledge of the assets provided in the Trust Agreement for in the Trust Agreement, and all agreements, covenants and other obligations of the Corporation and the County under the Trust Agreement shall cease, terminate, become void and be completely discharged and satisfied as to such Certificate.

(c) Notwithstanding the discharge and satisfaction of the Trust Agreement or the discharge and satisfaction of the Trust Agreement in respect of any Certificate, those provisions of the Trust Agreement relating to the payment of the principal, interest and premium, if any, evidenced by Certificates, exchange and transfer of Certificates, replacement of mutilated, destroyed, lost or stolen Certificates, the safekeeping and cancellation of Certificates, and the duties of the Trustee in connection with all of the foregoing, shall remain in effect and shall be binding upon the Trustee and the Owners of such Certificate, and the Trustee shall continue to be obligated to hold in trust any moneys or investments then held by the Trustee for the payment of the principal, interest and premium, if any, evidenced by such Certificate, and to pay to the Owner of such Certificate the funds so held by the Trustee as and when such payment becomes due.

Certificates Deemed To Have Been Paid. (a) If moneys shall have been set aside and held by the Trustee for the payment or prepayment of the principal evidenced by any Certificate and the payment of the interest evidenced thereby to the stated Principal Payment Date or prepayment date thereof, such Certificate shall be deemed to have been paid within the meaning and with the effect provided in the Trust Agreement as summarized herein under the heading "TRUST AGREEMENT—DEFEASANCE—Discharge of Trust Agreement." Any Outstanding Certificate shall prior to its stated Principal Payment Date or the prepayment date thereof be deemed to have been paid within the meaning of and with the effect expressed in the Trust Agreement as summarized herein under the heading "TRUST AGREEMENT—DEFEASANCE—Discharge of Trust Agreement," if (i) in case any of such

Certificates is to be prepaid on any date prior to its stated Principal Payment Date, the County shall have given to the Trustee in form satisfactory to it irrevocable instructions to mail, on a date in accordance with the provisions of the Trust Agreement, notice of prepayment of such Certificate on said prepayment date, said notice to be given in accordance with the Trust Agreement, (ii) there shall have been deposited with the Trustee either (A) money in an amount which shall be sufficient, or (B) Defeasance Securities, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which shall be sufficient to pay when due the interest evidenced by such Certificate to become due on and prior to its stated Principal Payment Date or the prepayment date thereof, as the case may be, and the principal and premium, if any, evidenced by such Certificate, and (iii) in the event such Certificate is not by its terms subject to prepayment within the next succeeding 60 days, the County shall have given the Trustee in form satisfactory to it irrevocable instructions to mail as soon as practicable, a notice to the Owner of such Certificate that the deposit required by clause (ii) above has been made with the Trustee and that such Certificate is deemed to have been paid in accordance with this section and stating stated Principal Payment Date or prepayment date upon which money is to be available for the payment of the principal and premium, if any, evidenced by such Certificate.

(b) No Certificate shall be deemed to have been paid pursuant to clause (ii) of paragraph (a) of this section unless the County shall have caused to be delivered to the County and the Trustee (i) an executed copy of a Verification Report with respect to such deemed payment, addressed to the County and the Trustee, in form and in substance acceptable to the County and the Trustee, (ii) a copy of the escrow agreement entered into in connection with the deposit pursuant to clause (ii)(B) of paragraph (a) of this section resulting in such deemed payment, which escrow agreement shall provide that no substitution of Defeasance Securities shall be permitted except with other Defeasance Securities and upon delivery of a new Verification Report and no reinvestment of Defeasance Securities shall be permitted except as contemplated by the original Verification Report or upon delivery of a new Verification Report, and (iii) a copy of an Opinion of Counsel, dated the date of such deemed payment and addressed to the County and the Trustee, in form and in substance acceptable to the County and the Trustee, to the effect that such Certificate has been paid within the meaning and with the effect expressed in the Trust Agreement, the Trust Agreement has been discharged in respect of such Certificate and all agreements, covenants and other obligations of the County and the Corporation under the Trust Agreement as to such Certificate have ceased, terminated, become void and been completely discharged and satisfied.

Unclaimed Moneys. Any moneys held by the Trustee in trust for the payment and discharge of the principal, interest or premium, if any, evidenced by any Certificates which remain unclaimed for two years after the date when such principal, interest or premium has become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when such principal, interest or premium became payable, shall be repaid by the Trustee, without liability for interest, to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owner of such Certificate shall look only to the County for the payment of such principal, interest or premium.

MISCELLANEOUS

Benefits of Trust Agreement. Nothing contained in the Trust Agreement, expressed or implied, is intended to give to any Person other than the Trustee, the Corporation, the County and the Owners any right, remedy or right under or pursuant to the Trust Agreement, and any agreement, condition, covenant or term required in the Trust Agreement to be observed or performed by or on behalf of the County or the Corporation shall be for the sole and exclusive benefit of the Trustee and the Owners.

Successor Deemed Included in all References to Predecessor. Whenever the Trustee, the Corporation or the County, or any officer thereof, is named or referred to in the Trust Agreement, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Trustee, the Corporation or the County, or such officer, and all agreements, conditions, covenants and terms required by the Trust Agreement to be observed or performed by or on behalf of the Trustee, the Corporation, if any, or the County, or any officer thereof, shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms required in the Trust Agreement to be observed or performed by or on the part of the Corporation, the County or the Trustee shall

be contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms shall be null and void to the extent contrary to law and shall be deemed separable from the remaining agreements, conditions, covenants and terms of the Trust Agreement and shall in no way affect the validity of the Trust Agreement or of the Certificates, and the Owners shall retain all the benefit, protection and security afforded to them under any applicable provisions of law. The Corporation, the County and the Trustee declare that they would have executed the Trust Agreement, and each and every article, section, paragraph, subsection, sentence, clause and phrase of the Trust Agreement and would have authorized the execution and delivery of the Certificates pursuant to the Trust Agreement irrespective of the fact that any one or more articles, sections, paragraphs, subsections, sentences, clauses or phrases of the Trust Agreement or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Execution of Documents by Owners. (a) Any request, consent or other instrument required or permitted by the Trust Agreement to be signed and executed by Owners may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by each such Owners in Person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, shall be sufficient for any purpose of the Trust Agreement and shall be conclusive in favor of the County, the Corporation and the Trustee if made in the manner provided in this section. The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

(b) The ownership of any Certificates and the principal evidenced thereby, stated Principal Payment Date, number and date of owning the same may be proved by the Registration Books.

(c) Any request, consent, or other instrument or writing of the Owner of any Certificate shall bind every future Owner of the same Certificate and the Owner of every Certificate issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the County, the Corporation and the Trustee in accordance therewith or reliance thereon.

Disqualified Certificates. In determining whether the Owners of the requisite aggregate amount of principal evidenced by the Certificates have concurred in any demand, request, direction, consent or waiver under the Trust Agreement, Certificates which are actually known by the Trustee to be owned or held by or for the account of the County, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the County shall be disregarded and deemed not to be Outstanding for the purpose of any such determination, unless all Certificates are owned or held by or for the account of the County, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the County, in which case such Certificates shall be considered Outstanding for the purpose of such determination. Certificates so owned which have been pledged in good faith may be regarded as Outstanding for the purposes of this section if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Certificates and that the pledgee is not a Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the County or any other obligor on the Certificates. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the County shall specify in a Written Certificate of the County delivered to the Trustee which Certificates, if any, are, as of the date of such Written Certificate, owned or held by or for the account of the County, or by any Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the County.

Destruction of Certificates. Whenever in the Trust Agreement provision is made for the cancellation by the Trustee and the delivery to the Corporation or the County of any Certificates, the Trustee shall, in lieu of such cancellation and delivery, destroy such Certificates.

Money Held for Particular Certificates. The money held by the Trustee for the payment of the principal, interest or premium due on any date with respect to particular Certificates (or portions of Certificates in the case of Certificates prepaid in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Owners entitled thereto, subject, however, to the provisions of the Trust Agreement as

summarized herein under the heading “TRUST AGREEMENT—DEFEASANCE—Unclaimed Moneys,” but without any liability for interest thereon.

Funds and Accounts. Any fund or account required to be established and maintained in the Trust Agreement by the Trustee may be established and maintained in the accounting records of the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund, but all such records with respect to all such funds and accounts shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Certificates and the rights of the Owners. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Trust Agreement.

Business Days. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Trust Agreement or the Lease Agreement shall not be a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day, with the same force and effect as if done on the nominal date provided in the Trust Agreement or the Lease Agreement and, unless otherwise specifically provided in the Trust Agreement or the Lease Agreement, no interest shall accrue for the period from and after such nominal date.

Waiver of Personal Liability. No member, officer or employee of the County or the Corporation shall be individually or personally liable for the payment of the principal, interest or premium evidenced by the Certificates or be subject to any personal liability or accountability by reason of the execution and delivery thereof; but nothing contained in the Trust Agreement shall relieve any such member, officer or employee from the performance of any official duty provided by any applicable provisions of law, by the Trust Agreement or by the Lease Agreement.

Governing Law. The Trust Agreement shall be governed by and construed in accordance with the laws of the State.

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APPENDIX D

PROPOSED FORM OF OPINION OF SPECIAL COUNSEL

Upon delivery of the Certificates, Nixon Peabody LLP, Los Angeles, California, Special Counsel, proposes to render its final approving opinion with respect to the Certificates in substantially the following form:

[Date of Delivery]

County of Monterey
Salinas, California

County of Monterey
Certificates of Participation
(2017 Public Facilities Refunding)

Ladies and Gentlemen:

We have acted as Special Counsel to the County of Monterey (the “County”) in connection with the execution, delivery and sale of \$_____ aggregate principal amount of County of Monterey Certificates of Participation (2017 Public Facilities Refunding) (the “Certificates”), executed and delivered pursuant to a trust agreement, dated as of August 1, 2017 (the “Trust Agreement”), among the County of Monterey Public Improvement Corporation (the “Corporation”), the County and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement.

As special counsel, we have examined copies, certified to us as being true and complete, of the Trust Agreement, the Lease Agreement, dated as of August 1, 2017 (the “Lease Agreement”), between the Corporation and the County, the Ground Lease, dated as of August 1, 2017 (the “Ground Lease”), between the Corporation and the County, the Assignment Agreement, dated as of August 1, 2017 (the “Assignment Agreement”), between the Corporation and the Trustee, the Tax and Nonarbitrage Certificate of the County, dated the date hereof (the “Tax Certificate”), opinions of counsel to the Corporation, the County and the Trustee, certificates of the Corporation, the County, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein. We have not undertaken to verify independently the accuracy of the factual matters represented, warranted or certified therein, and we have assumed the genuineness of all signatures thereto. The Lease Agreement, the Ground Lease, the Trust Agreement and the Assignment Agreement are collectively referred to herein as the “Legal Documents.”

We have, with your approval, assumed that all items submitted to us as originals are authentic and that all items submitted as copies conform to the originals.

On the basis of such examination, our reliance upon the assumptions contained herein and our consideration of such questions of law as we considered relevant, and subject to the limitations and qualifications in this opinion, we are of the opinion that:

1. The Trust Agreement, the Lease Agreement and the Ground Lease have been duly executed and delivered by, and, assuming due authorization, execution and delivery by any other parties thereto, constitute the legally valid and binding obligations of, the County and the Corporation, enforceable in accordance with their terms. Enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the enforcement of creditors' rights generally, the exercise of judicial discretion, the application of equitable principles if equitable remedies are sought and limitations on remedies against counties in the State of California.

2. The Assignment Agreement has been duly executed and delivered by, and, assuming due authorization, execution and delivery by the Trustee, constitutes the legally valid and binding obligation of, the Corporation, enforceable in accordance with its terms. Enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles affecting the enforcement of creditors' rights generally, the exercise of judicial discretion and the application of equitable principles if equitable remedies are sought.

3. Assuming due authorization, execution and delivery of the Trust Agreement and the Certificates by the Trustee, the Certificates are entitled to the benefits of the Trust Agreement.

4. The Internal Revenue Code of 1986 (the "Code") sets forth certain requirements which must be met subsequent to the execution and delivery of the Certificates for the interest component of Base Rental Payments evidenced thereby to be and remain excluded from gross income for federal income tax purposes. Noncompliance with such requirements could cause the interest component of Base Rental Payments evidenced by the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. Pursuant to the Trust Agreement and the Tax Certificate, the County has covenanted to comply with the applicable requirements of the Code in order to maintain the exclusion of the interest component of Base Rental Payments evidenced by the Certificates from gross income for federal income tax purposes pursuant to Section 103 of the Code. In addition, the County has made certain representations and certifications in the Trust Agreement and the Tax Certificate. We have not independently verified the accuracy of those certifications and representations.

Under existing law, assuming compliance with the tax covenants described herein and the accuracy of the aforementioned representations and certifications, the interest component of Base Rental Payments evidenced by the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Code. We are also of the opinion that such interest is not treated as a preference item in calculating the alternative minimum tax imposed under the Code with respect to individuals and corporations. The interest component of Base Rental Payments evidenced by the Certificates is, however, included in the adjusted current earnings of certain

corporations for purposes of computing the alternative minimum tax imposed on such corporations.

5. The interest component of Base Rental Payments evidenced by the Certificates is exempt from personal income taxes of the State under present state law.

The opinions set forth in paragraphs 1, 2 and 3 above are subject to (a) applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally (including, without limitation, fraudulent conveyance laws), (b) the effect of general principles of equity, including, without limitation, concepts of materiality, reasonableness, good faith and fair dealing and the possible unavailability of specific performance or injunctive relief, regardless of whether considered in a proceeding in equity or at law, and (c) the limitations on legal remedies against government entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the Legal Documents, and we express no opinion on the laws of any jurisdiction other than the State of California and the United States of America.

Except as stated in paragraphs 4 and 5, we express no opinion as to any other federal, state or local tax consequences of the ownership or disposition of the Certificates. Furthermore, we express no opinion as to any federal, state or local tax law consequences with respect to the Certificates, or the interest component of Base Rental Payments evidenced thereby, if any action is taken with respect to the Legal Documents, the properties subject to the Lease Agreement, the Certificates or the proceeds thereof upon the advice or approval of other counsel.

No opinion is expressed herein on the accuracy, completeness or sufficiency of any offering material relating to the Certificates. This opinion is expressly limited to the matters set forth above and we render no opinion, whether by implication or otherwise, as to any other matters.

We do not undertake to advise you of any subsequent events or developments which might affect the statements contained herein. Our engagement with respect to this matter has ended as of the date hereof, and we disclaim any obligation to update this letter.

Respectfully submitted,

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The description that follows of the procedures and recordkeeping with respect to beneficial ownership interests in the Certificates, payment of principal and interest evidenced by the Certificates to Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interests in the Certificates, and other Certificates-related transactions by and between DTC, Participants and Beneficial Owners, is based on information furnished by DTC which the County and the Corporation each believes to be reliable, but the County and the Corporation take no responsibility for the completeness or accuracy thereof.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Certificates. The Certificates will be executed and delivered 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 bond certificate for each maturity of the Certificates will be executed and delivered for the Certificates in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on such website is not incorporated herein by such reference or otherwise.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC’s records. The ownership interest of each actual purchaser of each Certificate (“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 Certificates 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates 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 Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates 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.

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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as prepayments, tenders, defaults, and proposed amendments to the Trust Agreement and Lease Agreement. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates 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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee will consent or vote with respect to Certificates unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the County 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Prepayment proceeds, principal, and interest payments on the Certificates 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 the County or the Trustee, 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, the Trustee, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of prepayment 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 the County or the Trustee, 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.

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

The County may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Certificates will be printed and delivered to DTC.

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

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APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (this “Disclosure Agreement”), dated as of August 1, 2017, is by and between the COUNTY OF MONTEREY, a county and political subdivision of the State of California organized and existing under and by virtue of the laws of the State of California (the “County”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as Trustee (the “Trustee”).

WITNESSETH:

WHEREAS, the County has caused to be executed and delivered the County of Monterey Certificates of Participation (2017 Public Facilities Refunding) (the “Certificates”), evidencing principal in the aggregate amount of \$_____, pursuant to the Trust Agreement, dated as of August 1, 2017 (the “Trust Agreement”), by and between the County and the Trustee; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the County and the Trustee for the benefit of the owners and beneficial owners of the Certificates and in order to assist the underwriters of the Certificates in complying with Securities and Exchange Commission Rule 15c2-12(b)(5);

NOW, THEREFORE, for and in consideration of the mutual promises and covenants herein contained, the parties hereto agree as follows:

Section 1. Definitions. Unless the context otherwise requires, the terms defined in this Section shall for all purposes of this Disclosure Agreement have the meanings herein specified. Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Trust Agreement.

“Annual Report” means any Annual Report provided by the County pursuant to, and as described in, Sections 2 and 3 hereof.

“Annual Report Date” means the date in each year that is the first day of the month following the ninth month after the end of the County’s fiscal year, which date, as of the date of this Disclosure Agreement, is April 1.

“County” means the County of Monterey, a county and political subdivision of the State organized and existing under the laws of the State, and its successors.

“Disclosure Representative” means the County Administrative Officer of the County, the Auditor-Controller of the County, the Deputy Auditor-Controller of the County, the County Debt Manager of the County, or such other person as the County shall designate in writing to the Trustee from time to time.

“Dissemination Agent” means the Trustee, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the County and which has filed with the Trustee a written acceptance of such designation.

“Trust Agreement” means the Trust Agreement, dated as of August 1, 2017, by and among U.S. Bank National Association, as trustee, the Corporation and the County, as originally executed and as it may be amended or supplemented from time to time in accordance with its terms.

“Listed Events” means any of the events listed in subsection (a) or subsection (b) of Section 4 hereof.

“MSRB” means the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” means the Official Statement, dated August __, 2017, relating to the Certificates.

“Participating Underwriter” means any of the original underwriters of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

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

“Trustee” means U.S. Bank National Association, as Trustee under the Trust Agreement, or any successor thereto as Trustee thereunder, substituted in its place as provided therein.

Section 2. Provision of Annual Reports. (a) The County shall, or shall cause the Dissemination Agent to, provide to the MSRB an Annual Report that is consistent with the requirements of Section 3 hereof, not later than the Annual Report Date, commencing with the report for the 2016-17 Fiscal Year. The Annual Report may include by reference other information as provided in Section 3 hereof; provided, however, that the audited financial statements of the County, if any, 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. If the County’s fiscal year changes, it shall, or it shall instruct the Dissemination Agent to, give notice of such change in a filing with the MSRB.

(b) Not later than 15 business days prior to the date specified in subsection (a) of this Section for the providing of the Annual Report to the MSRB, the County shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the County and the Dissemination Agent to determine if the County is in compliance with the first sentence of this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a) of this Section, the Trustee shall, in a timely manner, send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) provide each Annual Report received by it to the MSRB, as provided herein; and

(ii) file a report with the County and (if the Dissemination Agent is not the Trustee) the Trustee certifying that such Annual Report has been provided pursuant to this Disclosure Agreement and stating the date it was provided to the MSRB.

Section 3. Content of Annual Reports. The County’s Annual Report shall contain or incorporate by reference the following:

(a) The County's audited financial statements, if any, 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, if any, are not available by the time the Annual Report is required to be filed pursuant to subsection (a) of Section 2 hereof, the Annual Report shall contain unaudited financial statements, in a format similar to that used for the County's audited financial statements, and the audited financial statements, if any, shall be filed in the same manner as the Annual Report when they become available.

(b) An update for the then current fiscal year of the information contained in the tables with the following headings in the Official Statement:

| | |
|------------|---|
| Table 1 – | County of Monterey – General Fund Balance Sheet; |
| Table 2 – | County of Monterey – General Fund Statement of Actual Revenues, Expenditures and Changes in Fund Balance; |
| Table 3 – | County of Monterey – General Fund Budget for Current Fiscal Year; |
| Table 4 – | County of Monterey – General Fund Budgets; |
| Table 5 – | County of Monterey – Assessed Values of Taxable Property |
| Table 6 – | County of Monterey – Secured Tax Levies and Delinquencies; |
| Table 7 – | County of Monterey – Ten Largest Taxpayers; |
| Table 8 – | County of Monterey Transient Occupancy Tax Receipts; |
| Table 9 – | County of Monterey Historical Taxable Sales and Sales Tax Receipts; |
| Table 10 – | County of Monterey – Long-Term Debt Outstanding; |
| Table 11 – | County of Monterey – Annual CalPERS Costs; |
| Table 12 – | Funded Status – Miscellaneous Plan; |
| Table 13 – | Funded Status – Safety Plan; |

An update of the information regarding contribution rates and costs in the Official Statement under the caption “COUNTY FINANCIAL INFORMATION – Pension Benefits - Other Post-Employment Benefits (OPEB)”; and

An update of the financial and operating data contained in the Official Statement under the caption “COUNTY FINANCIAL INFORMATION – Investments of County Funds; County Pool.”

(c) In addition to any of the information expressly required to be provided under the preceding paragraphs (a) and (b), 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.

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, that have been made

available to the public on the MSRB's website. The County shall clearly identify each such other document so included by reference.

Section 4. Reporting of Significant Events. (a) Pursuant to the provisions of this Section, the County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates in a timely manner not later than ten business days after the occurrence of the event:

- (i) Principal and interest payment delinquencies.
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (iv) Substitution of credit or liquidity providers, or their failure to perform.
- (v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB).
- (vi) Tender offers.
- (vii) Defeasances.
- (viii) Rating changes.
- (ix) Bankruptcy, insolvency, receivership or similar event of the County.

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

(b) Pursuant to the provisions of this Section, the County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material, in a timely manner not later than ten business days after the occurrence of the event:

- (i) Unless described in paragraph (v) of subsection (a) of this Section, material notices or determinations by the Internal Revenue Service with respect to the tax status of the Certificates or other material events affecting the tax status of the Certificates.
- (ii) Modifications to rights of holders of the Certificates.
- (iii) Optional, unscheduled or contingent Certificate calls.
- (iv) Release, substitution, or sale of property securing repayment of the Certificates.
- (v) Non-payment related defaults.

(vi) The consummation of a merger, consolidation, or acquisition involving an County or the sale of all or substantially all of the assets of the County 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.

(vii) Appointment of a successor or additional Trustee or the change of name of a Trustee.

(c) The Trustee shall, within one business day of obtaining actual knowledge of the occurrence of any of the Listed Events, contact the Disclosure Representative and inform such person of the event. The Trustee shall have no obligation or duty to determine the materiality of such Listed Event or whether such Listed Event reflects financial difficulties.

(d) Whenever the County obtains knowledge of the occurrence of a Listed Event described in subsection (b) of this Section, the County shall determine if such event would be material under applicable Federal securities law.

(e) Whenever the County obtains knowledge of the occurrence of a Listed Event described in subsection (a) of this Section, or determines that knowledge of a Listed Event described in subsection (b) of this Section would be material under applicable Federal securities law, the County shall, or shall cause the Dissemination Agent to, file a notice of the occurrence of such Listed Event with the MSRB, within ten business days of such occurrence.

(f) Notwithstanding the foregoing, notice of Listed Events described in paragraph (vii) of subsection (a) of this Section and (iii) of subsection (a) of this Section need not be given any earlier than the notice (if any) of the underlying event is given to holders of affected Certificates pursuant to the Trust Agreement.

Section 5. Format for Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Agreement must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The County's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior prepayment or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the County shall give, or cause to be given, notice of such termination in a filing with the MSRB.

Section 7. 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 Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 30 days' written notice to the County. If at any time there is not a designated Dissemination Agent (that is not the Trustee), the Trustee shall be the Dissemination Agent.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the County and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the County; provided, however, that the Trustee shall be obligated to agree to any such amendment, so long as such amendment does not adversely affect the rights or increase the obligations of the Trustee), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of subsection (a) of Section 2 hereof, Section 3 hereof or subsection (a) or (b) of Section 4 hereof, 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 Certificates, or the type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized Special Counsel, have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver (i) is approved by Owners of the Certificates in the manner provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Owners, or (ii) does not, in the opinion of nationally recognized Special Counsel, materially impair the interests of Owners or Beneficial Owners of the Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the County shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements (i) notice of such change shall be given in a filing with the MSRB, and (ii) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

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

Section 10. Default. In the event of a failure of the County, the Trustee or the Dissemination Agent to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the written direction of any Participating Underwriter or the Owners of at least 25% of the aggregate amount of principal evidenced by the Outstanding Certificates, shall, upon receipt of indemnification reasonably satisfactory to the Trustee), or any Owner or Beneficial Owner of the Certificates may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County, the Trustee or the Dissemination Agent, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the County, the Trustee or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Trust Agreement is hereby made applicable to this Disclosure Agreement as if this Disclosure

Agreement were (solely for this purpose) contained in the Trust Agreement. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. Neither the Trustee nor the Dissemination Agent shall be responsible for the form or content of any Annual Report or notice of Listed Event and neither thereof shall have any obligation or duty to review, verify or analyze any Annual Report; the Trustee shall hold each Annual Report solely as a repository for the Owners. The Dissemination Agent shall receive reasonable compensation for its services provided under this Disclosure Agreement. The Dissemination Agent (if other than the Trustee or the Trustee in its capacity as Dissemination Agent) shall have only such duties as are specifically set forth in this Disclosure Agreement. To the extent permitted by law, the County agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur 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, and which are not due to its negligence or its willful misconduct. The obligations of the County under this Section shall survive resignation or removal of the Dissemination Agent and the termination of this Disclosure Agreement.

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

Section 13. Governing Laws. This Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of California.

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

IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

COUNTY OF MONTEREY

By: _____
Authorized Signatory

U.S. BANK NATIONAL ASSOCIATION, AS
TRUSTEE

By: _____
Authorized Signatory

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: County of Monterey

Name of Issue: County of Monterey Certificates of Participation (2017 Public Facilities Refunding)

Date of Issuance: August __, 2017

NOTICE IS HEREBY GIVEN that the County of Monterey (the "County") has not provided an Annual Report with respect to the above-named Certificates as required by the Continuing Disclosure Agreement, dated as of August 1, 2017, by and between the County and U.S. Bank National Association, as Trustee. [The County anticipates that such Annual Report will be filed by _____.]

Dated: _____

U.S. Bank National Association, as Trustee, on behalf of
the County of Monterey

By: _____
Authorized Signatory

cc: County of Monterey