

PRELIMINARY OFFICIAL STATEMENT DATED MAY ___, 2018**NEW ISSUE - FULL BOOK ENTRY****RATINGS:**

S&P Insured Rating: “ ”
S&P Underlying Rating: “ ”
 (See “RATINGS” herein.)

In the opinion of Norton Rose Fulbright US LLP (“Bond Counsel”), based on existing statutes, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents pertaining to the Bonds and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference for purposes of the federal alternative minimum tax. Although the corporate alternative minimum tax is repealed for taxable years beginning on and after January 1, 2018, for taxable years that began before January 1, 2018, interest on the Bonds is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation’s alternative minimum tax liability. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

\$_____.

**MONTEREY COUNTY FINANCING AUTHORITY
2018 REVENUE REFUNDING BONDS**

Dated: Date of Delivery

Due: September 1, as shown below

The Monterey County Financing Authority 2018 Revenue Refunding Bonds (the “Bonds”) are special obligations of the Monterey County Financing Authority (the “Authority”) payable solely from (i) Authority Revenues, which consist of the Installment Payments (the “Installment Payments”) to be made by the Monterey County Water Resources Agency (the “Agency”) pursuant to an Installment Purchase Agreement, dated as of June 1, 2018 (the “Installment Purchase Agreement”), by and between the Authority and the Agency, and (ii) amounts on deposit in certain funds and accounts held under the Indenture, dated as of June 1, 2018 (the “Indenture”), by and between the Authority and U.S. Bank National Association, as trustee (the “Trustee”), pursuant to which the Bonds are being issued. The Installment Payments and other payments required to be made by the Agency pursuant to the Installment Purchase Agreement are payable solely from certain specified revenues of the Agency (the “Revenues”) consisting of (a) Pledged *Ad Valorem* Taxes, (b) Hydroelectric Facility Net Revenues, (c) Pledged Assessments, and (d) Annexation Fees received by the Agency, each as defined herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.

The Bonds are being issued in fully registered book-entry only form, initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Interest on the Bonds is payable semiannually on March 1 and September 1 of each year, commencing on September 1, 2018. Purchasers will not receive certificates representing their interest in the Bonds. Individual purchases will be in principal amounts of \$5,000 and any integral multiple of \$5,000. Principal of and interest and premium, if any, on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Bonds.

The Bonds are being issued, together with other available moneys, to (i) refund all of the \$32,855,000 Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project), originally issued on July 30, 2008 and currently outstanding in the aggregate principal amount of \$27,780,000 (the “2008 Bonds”), (ii) fund a debt service reserve fund for the Bonds, which may be satisfied by the deposit of a reserve surety, and (iii) pay the costs incurred in connection with the issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “PLAN OF REFUNDING” herein.

The Bonds are subject to optional and mandatory redemption prior to maturity as described herein. See “THE BONDS — Redemption” herein.

* Preliminary, subject to change.
23906871.9

The Agency has applied for a policy of municipal bond insurance for the Bonds. The terms of any such insurance if purchased will be disclosed in the final Official Statement.

The Bonds are special obligations of the Authority, payable solely from the Authority Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the Agency, the County of Monterey (the “County”) the State of California (the “State”), or any political subdivision thereof, is pledged to the payment of the Bonds.

The obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the Agency, payable in the manner provided in the Installment Purchase Agreement solely from the Revenues and any other amounts held in the Revenue Fund pledged to secure the payment of the Installment Payments in accordance with the provisions of the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the Agency, the County, the State, or any political subdivision thereof, is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement.

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. Capitalized terms used in this cover page shall have the meanings given such terms herein.

The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their validity by Norton Rose Fulbright US LLP, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Agency and the Authority by the County of Monterey Office of County Counsel; and by Norton Rose Fulbright US LLP, as Disclosure Counsel; and for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California. It is anticipated that the Bonds in definitive form will be available for delivery through the book-entry facilities of The Depository Trust Company in New York, New York on or about June __, 2018.

RAYMOND JAMES

Dated: May __, 2018

MATURITY SCHEDULE*

\$ _____ *

MONTEREY COUNTY FINANCING AUTHORITY 2018 REVENUE REFUNDING BONDS

(Base CUSIP[†] _____)

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP[†]</u>
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\$ _____ % Term Bonds due September 1, 20__, Yield: ____%; Price: ____ CUSIP[†]: ____

\$ _____ % Term Bonds due September 1, 20__, Yield: ____%; Price: ____ CUSIP[†]: ____

* Preliminary, subject to change.

[†] 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 Global Market Intelligence. Copyright © 2018 CUSIP Global Services. All rights reserved. The CUSIP numbers are not intended to create a database and do not serve in any way as a substitute for CUSIP service. CUSIP numbers have been assigned by an independent company not affiliated with the Authority or the Agency and are included solely for the convenience of the registered owners of the Bonds. None of the Authority, the Agency, the Underwriter, Bond Counsel, Disclosure Counsel, Underwriter's Counsel or the Municipal Advisor are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance and other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

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

This Official Statement is not to be construed as a contract with the purchasers of the Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been furnished by the Authority and the Agency and includes information from sources that are believed to be reliable, but the Authority and the Agency do not guarantee the completeness or accuracy of the information from such sources. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Agency, or other matters described herein since the date hereof.

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.

This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board through the Electronic Municipal Marketplace Access (“EMMA”) website. The Agency maintains a website. The information presented therein is not part of this Official Statement and should not be relied on in making investment decisions with respect to the Bonds. Unless otherwise expressly stated, references to Internet websites in this Official Statement are shown for reference and convenience only, and none of their content (including any content on the Agency’s website) is incorporated in this Official Statement by reference. The Agency and the Authority make no representation regarding the accuracy or completeness of the information presented on such websites.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

**CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT**

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,” “project,” “expect,” “anticipate,” “intend,” “believe,” “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 that 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. Except as otherwise noted, neither the Agency nor the Authority plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

**MONTEREY COUNTY FINANCING AUTHORITY
BOARD OF DIRECTORS**

Luis Alejo, *Chair*
John M. Phillips, *Vice Chair*
Simón Salinas, *Member*
Mark Gonzalez, *Member*
Deidre Sullivan, *Member*

**MONTEREY COUNTY WATER RESOURCES AGENCY
BOARD OF SUPERVISORS**

Luis Alejo, *District One*
John M. Phillips, *District Two*
Simón Salinas, *District Three*
Jane Parker, *District Four*
Dave Potter, *District Five*

**MONTEREY COUNTY WATER RESOURCES AGENCY
BOARD OF DIRECTORS**

Mark Gonzalez, *Member (Chair)*
Deidre Sullivan, *Member (Vice Chair)*
Mike Scattini, *Member*
Richard Ortiz, *Member*
Ken Ekelund, *Member*

STAFF

David Chardavoyne, *General Manager*
Cathy Paladini, *Deputy General Manager*

MONTEREY COUNTY COUNSEL'S OFFICE

Charles J. McKee, *County Counsel*

SPECIAL SERVICES

Bond Counsel and Disclosure Counsel

Norton Rose Fulbright US LLP
Los Angeles, California

Trustee

U.S. Bank National Association
San Francisco, California

Municipal Advisor

KNN Public Finance, LLC
Oakland, California

Verification Agent

Grant Thornton LLP
Minneapolis, Minnesota

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OFFICIAL STATEMENT

\$_____*

MONTEREY COUNTY FINANCING AUTHORITY 2018 REVENUE REFUNDING BONDS

INTRODUCTION

This Official Statement (which includes the cover page and Appendices hereto) (this “Official Statement”), provides certain information concerning the sale and delivery of Monterey County Financing Authority 2018 Revenue Refunding Bonds, in the aggregate principal amount of \$_____ (the “Bonds”). Capitalized terms used and not otherwise defined herein shall have the meanings given in the Indenture or the Installment Purchase Agreement (each as hereinafter defined) or in APPENDIX C – “SUMMARY OF THE PRINCIPAL LEGAL DOCUMENTS.”

Authority for the Bonds

The Bonds are being issued pursuant to the Section 53580 *et seq.* of the Government Code of the State of California (the “Refunding Law”), and the Indenture, dated as of June 1, 2018 (the “Indenture”), by and between the Monterey County Financing Authority (the “Authority”) and U.S. Bank National Association, as trustee (the “Trustee”). Capitalized undefined terms used herein shall have the meanings ascribed thereto in the Indenture. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

Purpose of the Bonds

The Bonds are being issued, together with other available moneys, to (i) refund all of the \$32,855,000 Monterey County Financing Authority Revenue Bonds, Series A (Salinas Valley Water Project), originally issued on July 30, 2008 and currently outstanding in the aggregate principal amount of \$27,780,000 (the “2008 Bonds”), (ii) fund a debt service reserve fund for the Bonds, which may be satisfied by the deposit of a reserve surety, and (iii) pay the costs incurred in connection with the issuance of the Bonds. See “ESTIMATED SOURCES AND USES OF FUNDS” and “PLAN OF REFUNDING.”

The proceeds of the 2008 Bonds were applied to finance the construction of the Nacimiento Dam Spillway Modifications Project and the Salinas River Diversion Facility Project of the Agency.

Security for the Bonds

The Bonds are special obligations of the Authority payable solely from (i) Authority Revenues, which consist of the Installment Payments (the “Installment Payments”) to be made by the Agency pursuant to an Installment Purchase Agreement, dated as of June 1, 2018 (the “Installment Purchase Agreement”), by and between the Authority and the Agency (the “Authority Revenues”), and (ii) amounts on deposit in certain funds and accounts held under the Indenture.

* Preliminary, subject to change.
23906871.9

The Installment Payments and other payments required to be made by the Agency pursuant to the Installment Purchase Agreement are payable, in the manner provided in the Installment Purchase Agreement, solely from Revenues. "Revenues" for any period under the Installment Purchase Agreement, mean (a) Pledged Ad Valorem Taxes, (b) Hydroelectric Facility Net Revenues, (c) Pledged Assessments, and (d) Annexation Fees received by the Agency, each as defined herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

Neither the faith and credit nor the taxing power of the Agency or the State of California (the "State"), or any political subdivision thereof, is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Agency has applied for a policy of municipal bond insurance for the Bonds. The terms of any such insurance if purchased will be disclosed in the final Official Statement.

The Agency

The Agency is a flood control and water agency, formed to provide for the control of the flood and storm waters of the County of Monterey, California (the "County"). See "THE AGENCY."

Continuing Disclosure

The Authority has determined that no financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Bonds and as such, the Authority will not provide any such information.

The Agency has agreed to provide, with respect to the Bonds, or cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system (the "EMMA System"), certain annual financial information and operating data relating to the Agency and, in a timely manner, notice of certain events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12, as amended (the "Rule 15c2-12") adopted by the U.S. Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended. See "CONTINUING DISCLOSURE."

Additional Information

Brief descriptions of the Bonds, the Indenture, Installment Purchase Agreement, the Continuing Disclosure Agreement, the security for the Bonds, the Authority, the Agency and certain other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the Bonds, the Indenture, the Installment Purchase Agreement, the Continuing Disclosure Agreement and other documents. Copies of such documents may be obtained from the Authority, 1411 Schilling Pl. North Bldg., Salinas, California 93901-4455, Attention: Executive Director of the Monterey County Financing Authority.

THE AGENCY

General

The Agency is a flood control and water agency formed in 1990 pursuant to the Monterey County Water Resources Agency (the “Act”) as a successor to the Monterey County Flood Control and Water Conservation District (formed in 1947). The Agency’s service area consists of all of the territory of the County. For certain County economic and demographic information, see APPENDIX B – “GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE COUNTY.”

The Agency is a “dependent special district” of the County, governed by a Board of Supervisors of the Agency which is comprised of the five members of the Board of Supervisors of the County serving *ex officio*. The Board of Supervisors of the Agency is advised by a Board of Directors of the Agency. Five directors are appointed, one each by each member of the Board of Supervisors of the Agency, and four by a majority vote of the supervisors from nominees submitted by local groups and organizations set forth in the Act. Approximately 45 County employees carry out the mission of the Agency under the direction of Agency management, the Board of Directors of the Agency and the Board of Supervisors of the Agency.

There are currently seventeen zones and two maintenance districts within the territory of the Agency relating to approximately 28 Agency projects and programs. Zones are formed by resolution of the Board of Supervisors of the Agency, and additional areas may be annexed to an existing zone either by resolution of the Board of Supervisors of the Agency or through petition by residents of the area to be annexed, which in some cases requires an election.

Powers

The Agency was formed to provide for the control of the flood and storm waters of the County, to conserve those waters for beneficial and useful purposes by spreading, storing and retaining them, to prevent and deter the loss of usable groundwater through intrusion of seawater and to obtain, retain and reclaim drainage, storm, flood and other waters for beneficial use within the County. To support its mission, the Agency manages facilities relating to water reclamation, water distribution, seawater intrusion prevention, dams and levees, water conservation, generation of hydroelectric energy, groundwater management and drainage.

The Agency is empowered to acquire, hold and sell real and personal property both within and without the borders of the County and exercise the power of eminent domain. The Agency is also empowered to cause taxes or assessments to be levied and collected (subject to certain limitations) to pay any obligation of the Agency, including bonds and other forms of indebtedness, and to carry out any of the purposes of the Act. In addition, the Agency may fix and charge water standby or availability charges for any lands to which water is made available by the Agency (whether the water is actually used or not), which charges must be used for ongoing maintenance and operation of the zones of the Agency on which the charge is levied as well as for the retirement of any bonded indebtedness attributable to that zone. The Agency may also fix and impose water reclamation charges on any persons or entities who extract water from the Salinas Valley Groundwater Basis, which charges may only be used to pay the costs associated with reclamation facilities.

Agency Revenues

The Agency's financial information is presented as a blended component unit in the County's audits. See "APPENDIX A – COUNTY OF MONTEREY AUDITED FINANCIAL STATEMENTS." The following table regarding the Agency's revenues and expenditures, however, is presented for informational purposes only. Debt service for the Bonds is payable solely from Authority Revenues, as described herein under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

	FY 2015-16 Actual	FY 2016-17 Adopted Budget	FY 2017-18 Recommended Budget
Revenues:			
Taxes	\$2,286,246	\$2,119,001	\$2,161,379
Licenses, Permits, and Franchises	16,204	31,391	32,019
Fines, Forfeitures, and Penalties	240,000	0	0
Revenue from Use of Money & Property	2,681,471	2,625,940	2,533,925
Intergovernmental Revenues	275,762	121,034	11,046
Charges for Services	15,256,072	15,797,370	20,552,127
Miscellaneous Revenues	1,032,520	0	0
Other Financing Sources ¹	1,770,069	1,551,000	8,561,000
Subtotal Revenues	\$23,558,344	\$22,245,736	\$33,851,496
Fund Balance	1,872,492	1,792,365	1,706,454
TOTAL SOURCES OF FUNDS:	\$25,430,836	\$24,038,101	\$35,557,950
Expenditures:			
Salaries and Employee Benefits	\$4,803,527	\$5,201,750	\$5,424,251
Services and Supplies	19,983,244	20,732,482	29,089,426
Other Charges	(1,400,552)	-2,147,980	-2,960,727
Capital Assets	203,891	0	0
Other Financing Uses ¹	1,835,389	267,000	4,005,000
TOTAL USE OF FUNDS:	\$25,425,499	\$24,053,252	\$35,557,950

¹In FY 2017-18 includes inter fund transfers of \$405,000 to Funds 113, 114, 115 and \$3,600,000 to funds 119, 131, 132, 303, 313.

Retirement

The County's cost-sharing multiple-employer defined benefit pension plan (the "Plan") provides pensions for all permanent full-time general employees of the Agency. The Plan is administered by the California Public Employees' Retirement System ("CalPERS"), which acts as a common investment and administrative agent for participant public employers within the State of California. The Plan provides retirement, disability, and death benefits. Retirement benefits are based on years of service, final average compensation, and retirement age. In particular, the Plan benefit is based on final compensation, multiplied by CalPERS (i) credited service, for members with less than 10 years of service or greater than 18.518 years of service; or (ii) credited service, plus the additional number of years that the member would have worked until age 60, for members with at least 10 years but not more than 18.518 years of service. Annual cost-of-living adjustments are provided beginning the second calendar year after the year of retirement at 2 percent.

There are two classes of employees under the Plan: Classic (employees joined CalPERS prior to January 1, 2013) and Public Employees' Pension Reform Act of 2013 ("PEPRA") (employees joined CalPERS on or after January 1, 2013). Classic is closed to new entrants. For details regarding the Plan's benefits, contributions, return on investments, and net pension liability see "APPENDIX A – COUNTY OF MONTEREY AUDITED FINANCIAL STATEMENTS," Note 10.

THE BONDS

General

The Bonds will be dated the date of delivery and will bear interest at the rates per annum and will mature on the dates and in the principal amounts, all as set forth on the inside front cover page hereof. The Bonds will be issued in fully registered 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"). DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in denominations of \$5,000 and any integral multiple of \$5,000 within a single maturity ("Authorized Denominations"). So long as DTC is acting as securities depository for the Bonds, principal of and interest and premium, if any, on the Bonds will be made directly to DTC. See APPENDIX E – "BOOK-ENTRY ONLY SYSTEM."

Interest on the Bonds is payable semiannually on March 1 and September 1 of each year, commencing September 1, 2018 (each, an "Interest Payment Date"), to the persons in whose names ownership of the Bonds is registered on the Registration Books at the close of business on the immediately preceding Record Date, except as otherwise provided in the Indenture. Such interest will be paid by check mailed by the Trustee on such Interest Payment Date, by first class mail, postage prepaid, to such registered Owners at their respective addresses shown on the Registration Books as of the close of business on the preceding Record Date. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The principal of and premium, if any, on the Bonds will be payable upon presentation and surrender thereof upon maturity or earlier redemption at the principal corporate trust office of the Trustee in San Francisco, California or such other or additional offices as may be specified to the Authority by the Trustee in writing (the "Office of the Trustee"). Principal of and premium, if any, and interest on the Bonds will be paid in lawful money of the United States of America; provided, however, that so long as DTC or its nominee is the registered owner of the Bonds, interest payments will be made as described in APPENDIX F – "BOOK-ENTRY ONLY SYSTEM."

Redemption*

Optional Redemption

The Bonds maturing prior to September 1, 20__ are not subject to optional redemption prior to their maturity. The Bonds are subject to optional redemption prior to their respective stated maturities, on or after September 1, 20__, in whole on any date or in part, in Authorized Denominations, on any date, upon the exercise by the Agency of its right to cause the redemption of Bonds in accordance with the Installment Purchase Agreement, from and to the extent of any

* Preliminary, subject to change.

source of available funds, at a redemption price equal to the sum of the principal amount of each Bond or the portion thereof so redeemed, without premium, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption

The Bonds maturing September 1, 20__ are subject to mandatory sinking fund redemption prior to their fixed maturity date, on September 1 of each year, commencing on September 1, 20__, at a redemption price equal to the principal amount thereof so redeemed, together with accrued interest to the date of redemption, without premium, as follows:

Sinking Fund Redemption Date (September 1)	Principal Amount to be Redeemed
	\$

(Maturity)

If some but not all of the Bonds maturing on September 1, 20__ are optionally redeemed, the principal amount of Bonds maturing on September 1, 20__ to be redeemed from mandatory sinking fund payments on any subsequent September 1 shall be reduced, by \$5,000 or an integral multiple thereof, as designated by the Agency in a Written Certificate of the Agency filed with the Trustee; provided, however, that the aggregate amount of such reductions shall not exceed the aggregate amount of Bonds maturing on September 1, 20__ so optionally redeemed.

The Bonds maturing September 1, 20__ are subject to mandatory sinking fund redemption prior to their fixed maturity date, on September 1 of each year, commencing on September 1, 20__, at a redemption price equal to the principal amount thereof so redeemed, together with accrued interest to the date of redemption, without premium, as follows:

Sinking Fund Redemption Date (September 1)	Principal Amount to be Redeemed
	\$

(Maturity)

If some but not all of the Bonds maturing on September 1, 20__ are optionally redeemed, the principal amount of Bonds maturing on September 1, 20__ to be redeemed from mandatory sinking fund payments on any subsequent September 1 shall be reduced, by \$5,000 or an integral multiple thereof, as designated by the Agency in a Written Certificate of the Agency filed with the Trustee; provided, however, that the aggregate amount of such reductions shall not exceed the aggregate amount of Bonds maturing on September 1, 20__ so optionally redeemed.

Selection of Bonds for Redemption

Whenever provision is made in the Indenture for the redemption of less than all of the Bonds, the Trustee shall select the Bonds to be redeemed from all Bonds not previously called for redemption (i) with respect to any optional redemption of Bonds, among maturities of Bonds as directed in a Written Request of the Agency, and (ii) by lot among Bonds with the same maturity in any manner which the Trustee in its sole discretion shall deem appropriate and fair. For purposes of such selection, all Bonds shall be deemed to be comprised of separate \$5,000 denominations and such separate denominations shall be treated as separate Bonds which may be separately redeemed.

Notice of Redemption

So long as DTC is acting as securities depository for the Bonds, notice of redemption, containing the information required by the Indenture, will be mailed by first class mail, postage prepaid, by the Trustee to DTC (not to the beneficial owners of any Bonds designated for redemption) at least 20 days but not more than 60 days prior to the redemption date. The Trustee must give notice of redemption to each of certain specified securities depositories and information services designated in the Indenture. The actual receipt by DTC (or any Owner of a Bond in the event that the book-entry only system is discontinued) of such notice of redemption is not a condition precedent to redemption, and neither the failure to receive such notice nor any defect in such notice will affect the validity of the proceedings for redemption of the Bonds or the cessation of accrual of interest thereon from and after the date fixed for redemption.

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

Partial Redemption of Bonds

Upon surrender of any Bonds redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same maturity in Authorized Denominations equal in aggregate principal amount representing the unredeemed portion of the Bonds surrendered.

Effect of Notice of Redemption

Notice of redemption having been mailed as described above, and moneys for the redemption price, and the interest to the applicable date fixed for redemption having been set aside, the Bonds shall become due and payable on said date and, upon presentation and surrender thereof at the Office of the Trustee, said Bonds shall be paid at the redemption price thereof, together with interest accrued and unpaid to said date. If, on said date fixed for redemption, moneys for the redemption price of all the Bonds to be redeemed, together with interest to said date, shall be held by the Trustee so as to be available therefor on such date and, if notice of redemption thereof shall have been mailed as described above, then, from and after said date, interest on said Bonds shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the redemption of Bonds shall be held in trust for the account of the Owners of the Bonds so to be redeemed without liability to such Owners for interest thereon.

Transfers and Exchanges

So long as the Bonds remain in book-entry form, the Bonds may be transferred or exchanged only as described in APPENDIX F – “DTC BOOK-ENTRY ONLY SYSTEM.” However, should the Bonds cease to be in book-entry form, then they may be transferred or exchanged as provided in the Indenture. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – THE INDENTURE.”

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. See APPENDIX F – “BOOK-ENTRY ONLY SYSTEM.”

DEBT SERVICE SCHEDULE

The debt service schedule for the Bonds (including mandatory sinking fund redemption on their respective September 1 redemption dates) is set forth below:

Bond Year Ending September 1	Principal	Interest	Total Debt Service
2018	\$	\$	\$
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			

PLAN OF REFUNDING

Pursuant to an Escrow Agreement, dated as of June 1, 2018 (the “Escrow Agreement”), by and between U.S. Bank National Association, as escrow agent (the “Escrow Agent”) and the Agency, a portion of the proceeds of the Bonds, together with certain other available monies, will be deposited into an escrow account (the “Escrow Account”) established for the 2008 Bonds to be refunded, as specified on the following table, pursuant to the Escrow Agreement. Amounts in the Escrow Account will be held in cash or will be invested in non-callable (a) direct obligations of the United States of America and (b) obligations of any agency, department or instrumentality of the United States of America the timely payment of principal of and interest on which are fully guaranteed by the United States of America (“Defeasance Securities”). The Defeasance Securities will bear interest at such rates and will be scheduled to mature at such times and in such amounts so that, when paid in accordance with their terms, such amounts, together with any amounts held as cash in the Escrow Account, will provide sufficient monies to pay the redemption price (i.e., 100% of the principal amount) of such 2008 Bonds (the “Redemption Price”) on September 1, 2018 (the “Redemption Date”), the date of redemption therefor.

<u>Maturity Date</u> <u>(September 1)</u>	<u>Principal Amount</u> <u>Outstanding</u>	<u>CUSIP No.</u>
2018	\$ 765,000	612454AK4
2023	4,460,000	612454AL2
2028	5,735,000	612454AM0
2038	<u>16,820,000</u>	612454AN8
	<u>\$27,780,000</u>	

Grant Thornton LLP, certified public accountants (the “Verification Agent”), will deliver a report stating that the firm has verified the accuracy of mathematical computations concerning the adequacy of the amounts deposited in the Escrow Account. See “VERIFICATION OF MATHEMATICAL COMPUTATIONS.”

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds are as follows:

Sources:

Principal amount of Bonds	\$
[Net] Original Issue Premium	
Release related to 2008 Bonds	
Total Sources	\$

Uses:

Deposit to Escrow Fund	\$
[Deposit to Reserve Fund]	
Costs of Issuance ⁽¹⁾	
Total Uses	<u>\$</u>

⁽¹⁾ Costs of issuance include bond insurance and surety premiums, if applicable, underwriter’s discount, bond and disclosure counsel fee, municipal advisor fee, rating agency fee, and other costs incurred in connection with the issuance of the Bonds.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge of Authority Revenues

The Indenture provides that, subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, all of the Authority Revenues and any other amounts held in the Debt Service Fund, the Reserve Fund and the Redemption Fund are pledged to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture. The term “Authority Revenues” is defined in the Indenture to mean all Installment Payments to be made by the Agency pursuant to the Installment Purchase Agreement. The Indenture provides that such pledge shall constitute a first lien on such assets.

To secure the pledge of the Authority Revenues contained in the Indenture, the Authority, in the Indenture, transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Authority’s rights, title and interest under the Installment Purchase Agreement (excepting its right to indemnification and its right to receive notices thereunder), including the right to receive Installment Payments and the right to exercise any remedies provided therein in the event of a default by the Agency thereunder, and the Trustee accepts said assignment for the benefit of the Owners under and subject to the provisions of the Indenture. The Indenture provides that the Trustee is entitled to and shall receive all of the Authority Revenues, and any Authority Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as agent of the Trustee and shall forthwith be paid by the Authority to the Trustee.

Debt Service Fund

The Indenture provides that the Trustee shall establish and maintain the Debt Service Fund as a special trust fund to be held by the Trustee, and provides that, within the Debt Service Fund the Trustee shall establish and maintain an Interest Account (the “Interest Account”) and a Principal Account (the “Principal Account”). The Indenture provides further that all Authority Revenues shall, upon receipt thereof by the Trustee, be deposited by the Trustee in the Debt Service Fund, and provides that all money in the Debt Service Fund, and the accounts therein, shall be applied by the Trustee as follows:

(i) On each Interest Payment Date, the Indenture provides that the Trustee shall (a) transfer from the Debt Service Fund and deposit in the Interest Account the amount, if any, necessary to cause the amount on deposit therein to be equal to the aggregate amount of interest becoming due and payable on all Outstanding Bonds on such Interest Payment Date, and (b) withdraw from the Interest Account for payment to the Owners of the Bonds the interest on the Outstanding Bonds then due and payable.

(ii) On each Interest Payment Date on which principal of the Bonds is due and payable, including principal due and payable by reason of mandatory sinking fund redemption of Term Bonds, the Indenture provides that the Trustee shall (a) transfer from the Debt Service Fund and deposit in the Principal Account the amount, if any, necessary to cause the amount on deposit therein to be equal to the aggregate amount of principal becoming due and payable on all Outstanding Bonds on such Interest Payment Date, including principal due and payable by reason of mandatory sinking fund redemption of

Term Bonds, and (b) withdraw from the Principal Account for payment to the Owners of the Bonds the principal of the Outstanding Bonds then due and payable, including principal due and payable by reason of mandatory sinking fund redemption of Term Bonds.

Special Obligations

The Bonds are special obligations of the Authority, payable solely from the Authority Revenues and the other assets pledged under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the Agency, the County or the State, or any political subdivision thereof, is pledged to the payment of the Bonds. The Indenture provides that, notwithstanding anything contained in the Indenture, the Authority shall not be required to advance any money derived from any source of income other than the Authority Revenues as provided in the Indenture for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds or for the performance of any agreements or covenants contained in the Indenture.

Reserve Fund

The Indenture provides that a Reserve Fund must be maintained in an amount equal to the Reserve Requirement. "Reserve Requirement" means, as of any date of calculation, an amount equal to the least of (a) 10% of the initial offering public price of the Bonds (except that if the net original issue premium or net original issue discount is not greater than 2% of the initial stated principal amount of the Bonds 10% of such initial stated principal amount shall be used), (b) Maximum Annual Debt Service on the Outstanding Bonds in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Outstanding Bond is due, or (c) 125% of Average Annual Debt Service on the Outstanding Bonds for the period beginning on the date on which the calculation is made (except average annual debt service on the Outstanding Bonds shall initially be calculated as of the date of issuance of the Bonds) and ending with the final maturity date of the Bonds. The Reserve Requirement may be satisfied by a Qualified Reserve Fund Credit Instrument. At closing the Reserve Requirement will be satisfied by a deposit to the Reserve Fund or the purchase of a Qualified Reserve Fund Credit Instrument.

The Indenture provides that the Trustee shall promptly notify the Agency if the amount on deposit in the Reserve Fund is less than the Reserve Requirement, including after the payment of any amounts under the Payment Agreement. The Installment Purchase Agreement provides that the Agency must pay to the Trustee such amounts as are required to make available in the Reserve Fund an amount equal to the Reserve Requirement; provided, however, that such payments shall be payable solely from Revenues. If the Trustee notifies the Agency that the amount on deposit in the Reserve Fund is less than the Reserve Requirement, the Installment Purchase Agreement provides that the Agency shall, as provided in the Installment Purchase Agreement, on or before the Business Day immediately preceding the Payment Date (defined below) following such notice, withdraw from the Revenue Fund and transfer to the Trustee, for deposit in the Reserve Fund, the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement. See "The Installment Purchase Agreement – Revenue Fund; Allocation of Revenues" below.

If, on any Interest Payment Date, the amount on deposit in the Debt Service Fund is not sufficient to make the transfers required to be made therefrom pursuant to the Indenture, the Indenture provides that the Trustee shall, to the extent that amounts are available therein, transfer

from the Reserve Fund and deposit in the Debt Service Fund an amount sufficient to eliminate such deficiency.

If, as a result of the payment of principal of or interest on the Bonds, the Reserve Requirement is reduced, the Indenture provides that the Trustee shall transfer from the Reserve Fund to the Debt Service Fund an amount equal to the amount by which the amount on deposit in the Reserve Fund exceeds the Reserve Requirement. Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Indenture provides that the Trustee shall, upon receipt of a Written Request of the Authority, transfer the amount in the Reserve Fund to the Debt Service Fund or Redemption Fund, as applicable, to be applied, on the next succeeding Interest Payment Date to the payment and redemption of all of the Outstanding Bonds.

The Indenture provides that whenever Bonds are to be optionally redeemed pursuant to the Indenture, a proportionate share, determined as provided below, of the amount on deposit in the Reserve Fund shall, on the date on which amounts to redeem such Bonds are deposited in the Redemption Fund or otherwise deposited with the Trustee pursuant to the Indenture, be transferred by the Trustee from the Reserve Fund to the Redemption Fund or to such deposit held by the Trustee and shall be applied to the redemption of said Bonds; provided, however, that such amount shall be so transferred only if and to the extent that the amount remaining on deposit in the Reserve Fund will be at least equal to the Reserve Requirement (excluding from the calculation thereof said Bonds to be redeemed). Such proportionate share shall be equal to the largest integral multiple of \$5,000 that is not larger than the amount equal to the product of (i) the amount on deposit in the Reserve Fund on the date of such transfer, times (ii) a fraction, the numerator of which is the principal amount of Bonds to be so redeemed and the denominator of which is the principal amount of Bonds to be Outstanding on the day prior to the date on which such Bonds are to be so redeemed.

The Installment Purchase Agreement

The Installment Purchase Agreement provides that, subject only to the provisions of the Installment Purchase Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Installment Purchase Agreement, all of the Revenues and any other amounts held in the Revenue Fund or transferred in accordance with the terms of the Payment Agreement, are pledged to secure the payment of the Installment Payments in accordance with the provisions of the Installment Purchase Agreement and the Payment Agreement.

The Installment Purchase Agreement provides that such pledge shall constitute a first lien on such assets. Pursuant to the Installment Purchase Agreement, the Agency is obligated to pay to the Authority, from Revenues, on February 25 and August 25 of each year, commencing August 25, 2018 (each a "Payment Date"), the Installment Payments equal to the interest on, or the principal of (including mandatory sinking fund redemptions) and interest on, as applicable, the Bonds due on the immediately following Interest Payment Date, less amounts previously transferred pursuant to the Payment Agreement for the Installment Payment due and payable on such Payment Date.

Certain Installment Purchase Agreement Definitions

“Revenues” means, for any period (a) Pledged Ad Valorem Taxes, (b) Net Hydroelectric Revenues, (c) Pledged Assessments, and (d) Annexation Fees received by the Agency.

“Pledged Ad Valorem Taxes” means, for any period, the *ad valorem* property taxes received by the Agency during such period pursuant to Article XIII A of the Constitution of the State and Section 95 *et seq.* of the California Revenue and Taxation Code, excluding any such taxes levied to pay any voter approved general obligation indebtedness of the Agency. The Agency does not have any voter approved general obligation indebtedness outstanding.

“Hydroelectric Facility Revenues” means, for any period, all income and revenue received by the Agency during such period from the operation or ownership of the Hydroelectric Facility, determined in accordance with generally accepted accounting principles, including all payments received by the Agency from the sale of electrical energy generated by the Hydroelectric Facility, whether pursuant to the Power Purchase Agreement or otherwise.

“Hydroelectric Facility Net Revenues” means, for any period, the Hydroelectric Facility Revenues for such period, less the Hydroelectric Facility Maintenance and Operations Costs for such period.

“Power Purchase Agreement” means (i) the Renewable Energy Power Purchase Agreement, effective as of April 1, 2014, by and between the Northern California Power Agency and the Agency, and as it may from time to time be amended or supplemented in accordance with the terms thereof, and (ii) any other agreement or contract for the sale of electrical energy generated by the Hydroelectric Facility to, and the purchase of such energy by, a Person, as any such agreement or contract may from time to time be amended or supplemented in accordance with the terms thereof. See “–Sources of Revenues – Hydroelectric Facility Revenues” below.

“Hydroelectric Facility Maintenance and Operations Costs” means, for any period, the reasonable and necessary costs spent or incurred by the Agency for maintaining, operating, repairing, insuring and administering the Hydroelectric Facility and providing the services of the Hydroelectric Facility, calculated in accordance with generally accepted accounting principles, including, but not limited to (i) all expenses necessary to maintain and preserve the Hydroelectric Facility in good repair and working order, and (ii) all administrative costs allocable to the operation of the Hydroelectric Facility, such as salaries and wages of employees, payments to employee retirement systems, overhead, insurance, taxes (if any), fees of auditors, accountants, attorneys or engineers and insurance premiums, but excluding in all cases (a) depreciation, replacement and obsolescence charges or reserves therefor, (b) amortization of intangibles or other bookkeeping entries of a similar nature, and (c) costs of capital additions, replacements, betterments, extensions or improvements to the Hydroelectric Facility, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation.

“Pledged Assessments” means the components of the assessments levied pursuant to the Assessment Ordinance designated therein as the Spillway component and the Diversion component. “Assessment Ordinance” is defined in the Installment Purchase Agreement to mean Ordinance No. 04203, adopted by the Board of Supervisors on July 22, 2003, enacted pursuant to Sections 6, 9, 20, 24 and 24.1 of the Act, as originally adopted, as modified by the stipulated judgment in *Salinas Valley Property Owners for Lawful Assessments, et al. v. County of Monterey*,

et al. (Case No. M66890) and as it may from time to time be amended or supplemented. The Pledged Assessments are levied on property located in a special benefit zone established by the Agency designated as Zone No. 2C. See “–Sources of Revenues – Pledged Assessments” below.

“Annexation Fees” means annexation fees imposed in connection with one or more parcels of property being annexed into a zone or zones, the parcels of property in which are subject to Pledged Assessments. The Act and the Assessment Ordinance authorize the Agency to annex territory within the Agency’s boundaries into Zone No. 2C, the special benefit zone established by the Agency, the parcels of property in which are subject to Pledged Assessments, and provide for the payment of a fee by the owners of the territory to be annexed for the acquisition, transfer, use or right of use of all or any part of the existing property of the benefit zone. Whenever any new territory is annexed into a zone, such territory thereupon becomes subject to all the liabilities and entitled to all the benefits of the zone. The Agency has not annexed property to date and cannot predict when or if any additional territory will be annexed into Zone No. 2C and, therefore, whether it will collect any Annexation Fees.

Transfer of Pledged Ad Valorem Taxes and Pledged Assessments

The County Auditor-Controller and will send Pledged Ad Valorem Taxes and Pledged Assessments, each constituting a portion of the Revenues, directly to the Trustee for deposit into the Debt Service Fund held under the Indenture pursuant to the Pledged Ad Valorem Tax and Pledged Assessment Payment Agreement, dated the date of issuance of the Bonds (the “Payment Agreement”), by and among the County Auditor-Controller, the Agency and the Trustee. The Payment Agreement provides [mechanics to come].

Revenue Fund; Allocation of Revenues

To carry out and effectuate the pledge and lien in the Installment Purchase Agreement, the Agency has agreed and covenanted that all Revenues received by or for the credit of the Agency shall be deposited as and when received in a special fund designated as the Revenue Fund, which fund the Agency has agreed and covenanted to establish and maintain within its treasury, or transferred in accordance with the terms of the Payment Agreement.

The Installment Purchase Agreement provides that moneys in the Revenue Fund shall be applied by the Agency as follows:

(i) On or before the Business Day immediately preceding each Payment Date, the Agency shall withdraw from the Revenue Fund and transfer to the Trustee the amounts set forth below in the following order of priority:

(a) the Agency shall transfer to the Trustee, for deposit in the Debt Service Fund, an amount equal to the Installment Payment due and payable on such Payment Date, less amounts previously transferred pursuant to the Payment Agreement for the Installment Payment due and payable on such Payment Date; and

(b) the Agency shall transfer to the Trustee, for deposit in the Reserve Fund, the amount, if any, necessary to cause the amount on deposit in the Reserve

Fund to be equal to the Reserve Requirement, less amounts previously transferred to the Reserve Fund pursuant to the Payment Agreement.

(ii) In each Bond Year, on the Business Day immediately following the date in such Bond Year on which the amount previously transferred by the Agency to the Trustee pursuant to paragraph (i), above, and any amounts previously transferred to the Trustee pursuant to the Payment Agreement, is at least equal to the sum of (a) the aggregate amount of the Installment Payments payable in such Bond Year, plus (b) the amount, if any, necessary to cause the amount on deposit in the Reserve Fund to be equal to the Reserve Requirement (A) the Agency shall withdraw from the Revenue Fund and transfer to such funds or accounts of the Agency as the Agency shall determine, any amount then remaining on deposit in the Revenue Fund, and (B) from and including such date to and including the September 1 that constitutes the last day of such Bond Year, the Agency shall not be required to deposit Revenues received by the Agency in the Revenue Fund.

The Installment Purchase Agreement provides that moneys in the Revenue Fund may be invested by the Agency in Permitted Investments. The Installment Purchase Agreement provides that the obligations in which moneys in the Revenue Fund are invested shall mature prior to the date on which such moneys are estimated to be required to be paid out under the Installment Purchase Agreement and that any interest, income or profits from the investment of moneys in the Revenue Fund shall be retained in the Revenue Fund.

The Agency covenants in the Installment Purchase Agreement not to encumber, pledge or place any charge upon the Revenues that would impair the Agency's ability to comply with its obligations under the Installment Purchase Agreement, and covenants to pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien on Revenues or any part thereof or on any funds in the hands of the Agency or the Trustee which might impair the security of the Installment Payments; provided, however, that the Installment Purchase Agreement does not require the Agency to pay such claims if the validity thereof is contested in good faith (if such nonpayment will not materially adversely affect the Agency's ability to perform its obligations under the Installment Purchase Agreement).

Special Obligation

The obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the Agency, payable in the manner provided in the Installment Purchase Agreement solely from the Revenues and any other amounts held in the Revenue Fund pledged to secure the payment of the Installment Payments in accordance with the provisions of the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the Agency or the State, or any political subdivision thereof, is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement.

The Installment Purchase Agreement provides that the obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement, from Revenues, is absolute and unconditional, and provides that, until such time as the Installment Payments and such other payments shall have been paid in full (or all agreements, covenants and other obligations of the Agency under the Installment Purchase

Agreement shall have ceased, terminated and become void and been discharged and satisfied as provided in the Installment Purchase Agreement), the Agency shall not discontinue or suspend any Installment Payments or other payments required to be made by it under the Installment Purchase Agreement when due. The Installment Purchase Agreement also provides that such Installment Payments and other payments shall not be subject to reduction whether by offset or otherwise and shall not be conditional upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

Additional Obligations of the Agency

The Installment Purchase Agreement provides that the Agency shall not incur any obligations payable from Revenues on a basis senior to or on a parity with the payment of the Installment Payments and payments to replenish the Reserve Fund as provided in the Installment Purchase Agreement. The Installment Purchase Agreement provides that the Agency may from time to time incur obligations payable from Revenues on a basis subordinate to the payment therefrom of the Installment Payments and payments to replenish the Reserve Fund as provided in the Installment Purchase Agreement.

Flow of Funds Under Indenture and Installment Purchase Agreement

The following table sets forth the flow of funds with respect to Authority Revenues and Revenues under the Indenture and the Installment Purchase Agreement.

[insert schematic of flow of funds]

Description of Principal Sources of Revenues

The principal sources of Revenues for the Agency available to pay the Installment Payments are (i) Pledged Ad Valorem Taxes, (ii) Hydroelectric Facility Net Revenues, and (iii) Pledged Assessments. These sources of Revenue are discussed below. Additional sources of Revenues consist of Annexation Fees that may be imposed by the Agency in connection with one or more parcels of property being annexed into a zone or zones, the parcels of property in which are subject to Pledged Assessments. See also “–The Installment Purchase Agreement – Pledge of Revenues to Secure Payment of Installment Payments” above.

Ad Valorem Taxes

General. Article XIII A of the California Constitution, approved by voters in 1978 as Proposition 13 (“Proposition 13”), altered the method by which *ad valorem* taxes are levied and collected in the territory of the Agency (and throughout California), mandating that the *ad valorem* taxes are “to be collected by the counties and apportioned according to law to the districts within the counties.” Prior to the enactment of Article XIII A, the Agency’s predecessor itself levied and collected separate *ad valorem* taxes in the territory of the Agency as a whole and in various zones under the authority of the Monterey County Flood Control and Water Conservation District Act. However, as a result of the enactment of Article XIII A, the Agency’s predecessor no longer had, and the Agency does not have, the power to levy and collect *ad valorem* taxes in the territory of the Agency. Rather, California Revenue and Taxation Code Section 93 and Section 95 *et seq.* provide the statutory scheme by which the County levies, collects and allocates *ad valorem* taxes to the Agency and each zone thereof. As a result, each of such zones receives a share of the 1% countywide tax levied in such zone based on the actual allocation of property tax revenues to each taxing jurisdiction in the county with territory in such zone in fiscal year 1978-79, as adjusted according to Section 95 *et seq.* of the California Revenue and Taxation Code. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt. See also “LIMITATIONS ON TAXES AND APPROPRIATIONS – Article XIII A of the California Constitution.”

Prior to the enactment of Article XIII A, the Agency’s predecessor established a County-Wide Zone, Zone No. 1, Zone No. 2, Zone No. 2A, Zone No. 3, Zone No. 5, Zone No. 6, Zone No. 7, Zone No. 8, Zone No. 9, Zone No. 11, Zone No. 12, Zone No. 14, Zone No. 15 and Storm Maintenance District No. 2, and levied and collected separate *ad valorem* taxes in such zones. As discussed above, each of such zones receives a share of the 1% countywide tax based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in fiscal year 1978-79, as adjusted according to Section 95 *et seq.* of the California Revenue and Taxation Code.

Future assessed valuation growth allowed under Article XIII A (as a result of new construction, certain changes of ownership, and increases in the cost of living of up to 2% per year) will be allocated on the basis of “situs” among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies will share the growth of “base” revenues from the tax rate area. Each year’s growth allocation becomes part of each agency’s allocation in the following year. The availability of revenue from growth in an agency tax base is affected by the existence or establishment of redevelopment agencies which, under certain circumstances, may be entitled to such revenues.

Assessed Valuations. All property (real, personal and intangible) is taxable unless an exemption is granted by the California Constitution or United States law. Under the State Constitution, exempt classes of property include household and personal effects, intangible personal property (such as bank accounts, stocks and bonds), business inventories, and property used for religious, hospital, scientific and charitable purposes. The State Legislature may create additional exemptions for personal property, but not for real property. Most taxable property is assessed by the assessor of the county in which the property is located. Some special classes of property are assessed by the California Department of Tax and Fee Administration (the “CDTFA”), as statutorily created and authorized successor to the former California State Board of Equalization.

Taxes are levied for each fiscal year on taxable real and personal property assessed as of the preceding January 1, at which time the lien attaches. The assessed value is required to be adjusted during the course of the year when property changes ownership or new construction is completed. State law also affords an appeal procedure to taxpayers who disagree with the assessed value of any property. When necessitated by changes in assessed value during the course of a year, a supplemental assessment is prepared so that taxes can be levied on the new assessed value before the next regular assessment roll is completed.

Under the Constitution, the CDTFA assesses property of State-regulated transportation and communications utilities, including railways, telephone and telegraph companies, and companies transmitting or selling gas or electricity. The CDTFA also is required to assess pipelines, flumes, canals and aqueducts lying within two or more counties. The value of property assessed by the CDTFA is allocated by a formula to local jurisdictions in the county, and taxed by the local county tax officials in the same manner as for locally assessed property. Taxes on privately owned railway cars, however, are levied and collected directly by the CDTFA. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the CDTFA. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as often occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived.

Locally taxed 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 (real or personal) for which there is a lien on real property sufficient, in the opinion of the county assessor, to secure payment of the taxes. All other property is “unsecured,” and is assessed on the “unsecured roll.” Secured property assessed by the CDTFA is commonly identified for taxation purposes as “utility” property.

The Agency receives 0.36% of the County-wide 1% *ad valorem* property tax revenues. The County's and Agency's boundaries are co-terminus. The following table provides the assessed valuations for the fiscal years shown.

Table 1
County of Monterey
Assessed Valuations
Fiscal Years 2007-08 through 2017-18

<u>Fiscal Year</u>	<u>Local Secured</u>	<u>Non-Unitary Utility</u>	<u>Unsecured</u>	<u>Total</u>	<u>Unitary Utility Valuation</u>
2007-08	\$48,646,781,445	\$693,671,435	\$2,148,558,392	\$51,284,254,326	\$559,940,483
2008-09	49,572,897,796	758,054,383	1,943,801,446	52,479,510,571	600,670,600
2009-10	47,776,608,790	668,853,350	2,164,773,805	50,610,235,945	620,538,452
2010-11	45,795,650,828	670,257,163	2,024,731,357	48,490,639,348	629,039,985
2011-12	45,871,595,535	635,865,651	2,038,929,581	48,546,390,767	680,252,060
2012-13	46,479,492,857	580,238,597	2,058,287,690	49,118,019,144	685,231,332
2013-14	48,279,851,161	502,516,497	2,055,615,177	50,837,982,835	709,081,750
2014-15	51,239,861,438	369,447,497	2,120,652,183	53,729,961,118	736,485,387
2015-16	54,291,641,823	363,039,497	2,242,248,953	56,896,930,273	811,713,609
2016-17	56,844,450,408	335,284,936	2,269,476,164	59,449,211,508	839,165,466
2017-18	60,118,276,812	243,184,936	2,380,713,251	62,742,174,999	903,117,058

Source: California Municipal Statistics, Inc.

Assessed Valuation and Parcels by Land Use. The following table provides a distribution of taxable property located within the territory of the Agency on the 2017-18 tax roll by principal purpose for which the land is used, and the assessed valuation and number of parcels for each use.

Table 2
County of Monterey
Assessed Valuation and Parcels by Land Use

	2017-18 Assessed Valuation ⁽¹⁾	% of Total	No. of Parcels	% of Total
<u>Non-Residential:</u>				
Agricultural/Rural	\$ 4,543,629,839	7.56%	7,482	5.76%
Commercial/Office	6,143,869,466	10.22	4,659	3.59
Vacant Commercial	156,317,223	0.26	650	0.50
Industrial	2,767,110,187	4.60	858	0.66
Vacant Industrial	99,978,793	0.17	252	0.19
Recreational	531,787,895	0.88	128	0.10
Government/Social/Institutional	212,603,517	0.35	7,965	6.14
Miscellaneous/Water Companies	<u>322,721,196</u>	<u>0.54</u>	<u>833</u>	<u>0.64</u>
Subtotal Non-Residential	\$14,778,018,116	24.58%	22,827	17.59%
<u>Residential:</u>				
Single Family Residence	\$38,426,451,323	63.92%	80,672	62.15%
Condominium	2,442,677,750	4.06	6,968	5.37
Mobile Home	55,718,454	0.09	1,895	1.46
Mobile Home Park	149,938,046	0.25	67	0.05
2-4 Residential Units/Apartments	1,081,948,404	1.80	3,271	2.52
5+ Residential Units/Apartments	1,816,933,734	3.02	1,292	1.00
Timeshare Use	92,486,555	0.15	6,765	5.21
Vacant Residential	<u>1,274,104,430</u>	<u>2.12</u>	<u>6,042</u>	<u>4.5</u>
Subtotal Residential	\$45,340,258,696	75.42%	106,972	82.41%
TOTAL	\$60,118,276,812	100.00%	129,799	100.00%

⁽¹⁾ Local Secured and Utility Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

The Agency's tax base is largely residential, representing approximately 75% of assessed valuations. The following table sets forth certain information concerning the assessed values of single family homes in the County.

Table 3
County of Monterey
Per Parcel 2017-18 Assessed Valuation of Single Family Homes

	<u>No. of Parcels</u>	<u>2017-18 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>
Single Family Residential	80,668	\$38,426,446,871	\$476,353	\$304,090

<u>2017-18 Assessed Valuation</u>	<u>No. of Parcels ⁽¹⁾</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>	<u>Total Valuation</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>
\$0 - \$99,999	9,146	11.338%	11.338%	\$ 595,448,174	1.550%	1.550%
\$100,000 - \$199,999	14,894	18.463	29.801	2,284,468,512	5.945	7.495
\$200,000 - \$299,999	15,745	19.518	49.319	3,903,808,395	10.159	17.654
\$300,000 - \$399,999	12,015	14.894	64.214	4,174,388,295	10.863	28.517
\$400,000 - \$499,999	8,496	10.532	74.746	3,787,826,714	9.857	38.374
\$500,000 - \$599,999	5,337	6.616	81.362	2,916,338,989	7.589	45.964
\$600,000 - \$699,999	3,392	4.205	85.567	2,197,435,402	5.719	51.682
\$700,000 - \$799,999	2,399	2.974	88.541	1,794,474,773	4.670	56.352
\$800,000 - \$899,999	1,708	2.117	90.658	1,448,142,428	3.769	60.121
\$900,000 - \$999,999	1,243	1.541	92.199	1,175,678,725	3.060	63.180
\$1,000,000 - \$1,099,999	805	0.998	93.197	841,411,439	2.190	65.370
\$1,100,000 - \$1,199,999	669	0.829	94.026	767,964,041	1.999	67.369
\$1,200,000 - \$1,299,999	595	0.738	94.764	743,484,764	1.935	69.303
\$1,300,000 - \$1,399,999	498	0.617	95.381	671,789,105	1.748	71.052
\$1,400,000 - \$1,499,999	370	0.459	95.840	534,486,213	1.391	72.443
\$1,500,000 - \$1,599,999	350	0.434	96.274	542,701,816	1.412	73.855
\$1,600,000 - \$1,699,999	272	0.337	96.611	448,667,330	1.168	75.023
\$1,700,000 - \$1,799,999	244	0.302	96.913	426,492,714	1.110	76.132
\$1,800,000 - \$1,899,999	233	0.289	97.202	430,206,094	1.120	77.252
\$1,900,000 - \$1,999,999	168	0.208	97.410	326,760,504	0.850	78.102
\$2,000,000 and greater	<u>2,089</u>	<u>2.590</u>	100.000	<u>8,414,472,444</u>	<u>21.898</u>	100.000
Total	80,668	100.000%		\$38,426,446,871	100.000%	

Source: California Municipal Statistics, Inc.

⁽¹⁾ Improved single family residential parcels. Excludes condominiums and parcels with multiple family units.

Largest Local Secured Taxpayers. The ten taxpayers with the greatest combined ownership of taxable property within the territory of the Agency represent 3.7% of its local secured tax base on the 2017-18 tax roll. The assessed valuation of all property owned by those taxpayers within the entire territory of the Agency, are shown in the table below.

Table 4
County of Monterey
Ten Largest Fiscal Year 2017-18 Local Secured Taxpayers

	Property Owner	Primary Land Use	2017-18 Assessed Value	Percent of Total ⁽¹⁾
1.	Pebble Beach Company	Hotel & Golf	\$803,175,271	1.34%
2.	Chevron U.S.A. Inc.	Oil & Gas	332,813,602	0.55
3.	Aera Energy LLC	Oil & Gas	215,054,658	0.36
4.	D'Arrigo Bros. Co.	Agricultural & Food Processing	197,878,980	0.33
5.	Northridge Owner LP	Regional Mall	128,013,161	0.21
6.	California-American Water Co.	Water Company	126,203,163	0.21
7.	AAT Del Monte LLC	Shopping Center	115,027,394	0.19
8.	Global AG Properties II USA LLC	Vineyards	112,839,420	0.19
9.	Scheid Vineyards California Inc.	Vineyards	104,922,107	0.17
10.	Jackson Family Estates II LLC	Vineyards	90,073,970	0.15
			<u>\$2,226,001,726</u>	<u>3.70%</u>

Source: California Municipal Statistics, Inc.

Typical Tax Rate Areas. The State Constitution permits the levy of an *ad valorem* tax on taxable property not to exceed 1 % of the full cash value of the property, and State law requires the full 1% tax to be levied. The levy of special *ad valorem* property taxes in excess of the 1% levy is permitted as necessary to provide for debt service payments on voter-approved indebtedness.

Tax Collections and Delinquencies. The county treasurer prepares the property tax bills. Property taxes on the regular secured assessment roll are due in two equal installments: the first installment is due on November 1, and becomes delinquent after December 10. The second installment is due on February 1 and becomes delinquent after April 10. If taxes are not paid by the delinquent date, a 10% penalty attaches and a \$10 cost is added to unpaid second installments. If taxes remain unpaid by June 30, the tax is deemed to be in default, and a \$15 state redemption fee applies. Interest then begins to accrue at the rate of 1.5% per month. The property owner has the right to redeem the property by paying the taxes, accrued penalties, and costs within five years of the date the property went into default. If the property is not redeemed within five years, it is subject to sale at a public auction by the county treasurer.

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.

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 ten fiscal years.

Table 5
County of Monterey
Property Tax Levies, Collections and Delinquencies
(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
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
2017	708,862	701,198	98.92	6,531	726,541	707,729	97.41

⁽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 Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017.

Historical Pledged Ad Valorem Taxes. The Pledged Ad Valorem Taxes allocated by the Monterey County Auditor to, and received by, the Agency with respect to property located within the territory of the Agency for the ten-year period from 2007-08 through 2016-17 are set forth in the following table.

Table 6
Monterey County Water Resources Agency
Pledged Ad Valorem Taxes
Fiscal Years 2007-08 through 2016-17

Fiscal Year	Ad Valorem Tax Revenues
2007-08	\$2,081,949
2008-09	2,159,486
2009-10	1,946,839
2010-11	1,872,942
2011-12	1,847,600
2012-13	1,891,580
2013-14	2,037,127
2014-15	2,008,083
2015-16	2,286,246
2016-17	2,369,455

Source: The Agency.

The Agency covenants in the Installment Purchase Agreement to receive and collect the Pledged Ad Valorem Taxes and apply the Pledged Ad Valorem Taxes as provided in the Installment Purchase Agreement and the Payment Agreement. See “–The Installment Purchase Agreement–Transfer of Pledged Ad Valorem Taxes and Pledged Assessments” and “–Revenue Fund; Allocation of Revenues” above.

Direct and Overlapping Debt. Set forth below is a schedule of direct and overlapping debt prepared by California Municipal Statistics Inc. The table is included for general information purposes only. The Agency has not reviewed this table for completeness or accuracy and makes no representations in connection therewith. The schedule generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the Agency. Such long-term obligations generally are not payable from revenues of the Agency (except as indicated) nor are they necessarily obligations secured by land within the Agency. 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.

Table 7
Monterey County Water Resources Agency
Direct And Overlapping Bonded Debt
As of March 6, 2018

2017-18 Assessed Valuation: \$63,645,292,057 (includes unitary utility valuation)

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/18</u>
Hartnell Community College District	99.812%	\$211,937,474
Monterey Peninsula Community College District	100.	131,443,522
Carmel Unified School District	100.	25,623,445
Monterey Peninsula Unified School District	100.	92,306,430
North Monterey County Unified School District	100.	33,665,000
Pacific Grove Unified School District	100.	44,506,000
Soledad Unified School District	100.	40,513,425
South Monterey County Joint Union High School District	98.797	4,011,158
Salinas Union High School District and School Facilities Improvement District	100.	104,092,176
Alisal Union School District	100.	63,913,166
Greenfield Union School District	100.	31,718,835
Salinas City School District	100.	23,350,000
Santa Rita Union School District	100.	20,836,189
Washington Union School District	100.	10,875,000
Other School Districts	Various	46,949,106
City of Marina	100.	7,390,000
Soledad Community Hospital District	100.	410,000
Community Facilities Districts	100.	11,662,542
City 1915 Act Bonds	100.	9,625,000
Special District 1915 Act Bonds	100.	4,038,000
Monterey County Water Resources Agency Benefit Assessment District, Zone 2C	100.	<u>27,780,000</u>(1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$946,646,468
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Monterey County Certificates of Participation	100. %	\$169,718,230
Monterey County Board of Education Certificates of Participation	100.	1,495,000
North Monterey County Unified School District Certificates of Participation	100.	6,140,000
Soledad Unified School District Certificates of Participation	100.	16,311,557
South Monterey County Joint Union High School District General Fund Obligations	98.797	10,571,279
Other School District General Fund Obligations	Various	32,231,514
City of Carmel General Fund Obligations	100.	5,530,000
City of Carmel Pension Obligation Bonds	100.	3,825,000
City of Gonzales General Fund Obligations	100.	6,963,573
City of Greenfield General Fund Obligations	100.	1,340,841
City of Marina Pension Obligation Bonds	100.	275,000
City of Monterey General Fund Obligations	100.	6,545,000
City of Pacific Grove Pension Obligation Bonds	100.	8,177,207
City of Salinas Certificates of Participation	100.	48,426,586
City of Seaside Pension Obligation Bonds	100.	4,710,000
Monterey County Fire Protection District Pension Obligation Bonds	100.	6,580,000
Pajaro/Sunny Mesa Community Services District General Fund Obligations	100.	<u>325,000</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$329,165,787
Less: Monterey County supported obligations		<u>39,770,000</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$289,395,787
 <u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u>	 100.	 \$58,908,632
 GROSS COMBINED TOTAL DEBT		 \$1,334,720,887(2)
NET COMBINED TOTAL DEBT		\$1,294,950,887

(1) Excludes issue to be sold.

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

Table 7 (Cont.)
Monterey County Water Resources Agency
Direct And Overlapping Bonded Debt
As of March 6, 2018

Ratios to 2017-18 Assessed Valuation:

Total Direct Debt (\$27,780,000)	0.04%
Total Direct and Overlapping Tax and Assessment Debt	1.49%
Gross Combined Total Debt	2.10%
Net Combined Total Debt.....	2.03%

Ratios to Redevelopment Successor Agencies Incremental Valuation (\$4,850,710,276):

Total Overlapping Tax Increment Debt	1.21%
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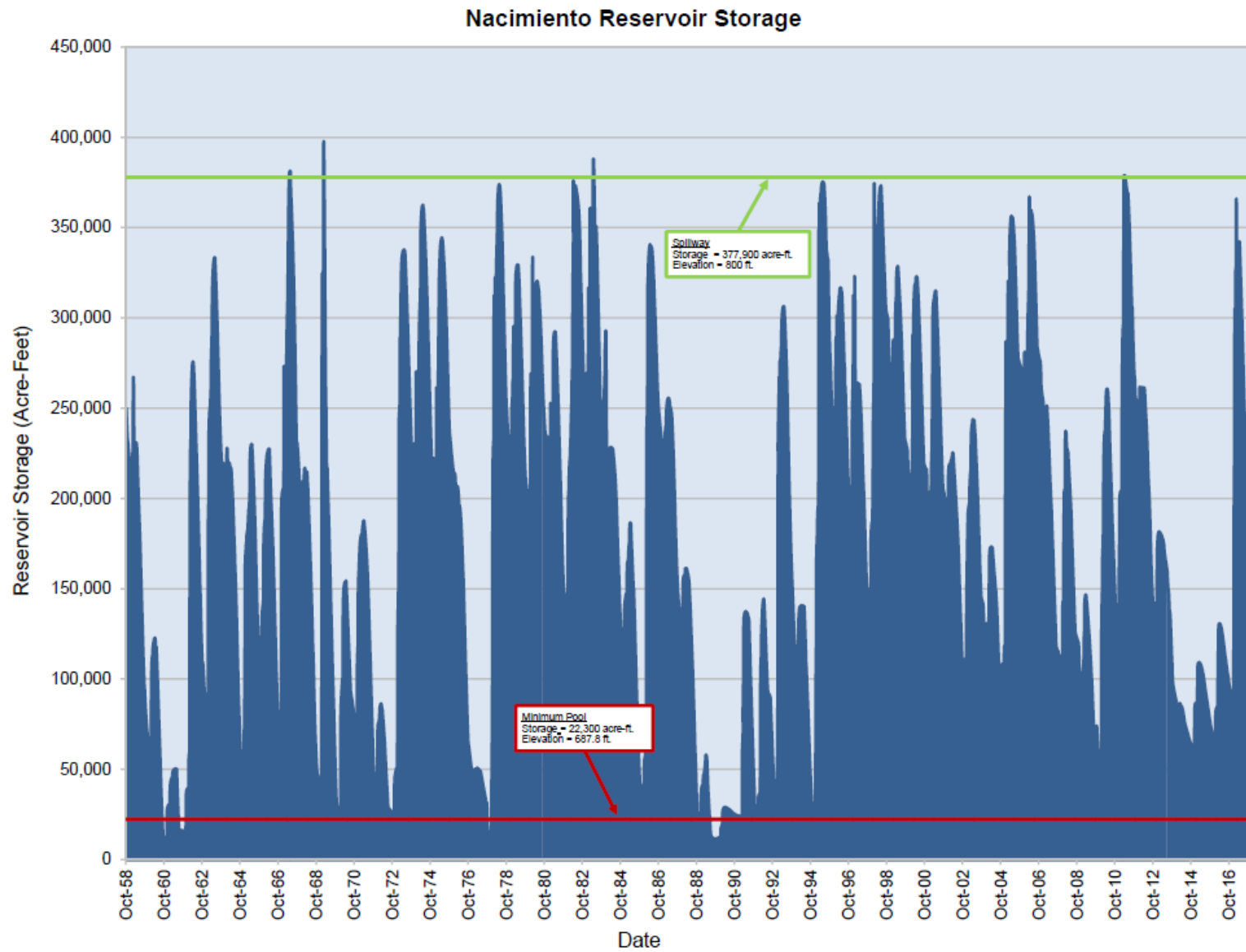
Source: California Municipal Statistics, Inc.

Hydroelectric Facility Net Revenues

The second component of Revenues pledged under the Installment Purchase Agreement are Hydroelectric Facility Net Revenues generated by operation of the Nacimiento Dam.

Nacimiento Dam. The Nacimiento Dam and its reservoir are located in northern San Luis Obispo County, about 20 miles from the coast, in central California. The Nacimiento River Watershed, which feeds the Nacimiento reservoir, has been a reliable watershed during periods of drought. Completed in 1957, this earthfill dam has a height of 215 feet above the streambed and a crest length of 1,650 feet. The crest elevation is 825 feet above mean sea level with a spillway elevation of 787.75 feet which can be raised to an elevation of 800 feet by the use of an inflatable Obermeyer spillway gate. Extensive repairs and upgrades were made to the Nacimiento spillway in the 1970s, and additional upgrades were completed in the early 2000s that included: a new gate system; raising and strengthening spillway chute walls; anchoring the chute walls with “sister” walls; strengthening and anchoring approach channel walls; modifying the High-Level Gate Operations System with an upgraded mechanical system; and strengthening the bridge pier with steel reinforced concrete.

The Nacimiento reservoir is 18 miles long, and has about 165 miles of shoreline. When the reservoir is full (elevation 800 feet) it has a maximum storage capacity of 377,900 acre feet (“AF”), with storage levels at approximately 56% or 212,290 AF as of March 26, 2018. The maximum elevation during flood stage is 825 feet, with a maximum temporary capacity of 538,000 acre feet and a temporary surface area of 7,149 acres. A Master Water Contract between the San Luis Obispo County Flood Control and Water Conservation District and the Agency requires that downstream releases from the reservoir cease when storage capacity reaches 22,300 AF. Since 1958, however, the capacity of the Nacimiento reservoir has only declined to 22,300 AF six times, most recently in Fiscal Year 1989-90. The graph below illustrates the historic storage levels in AF of Nacimiento reservoir since 1958.



DSOD Review. In September 2017, following the March 2017 failure of the Lake Oroville spillways incident, the State Division of Safety of Dams (the “DSOD”) released updated information on the 1,249 dams under its jurisdiction, including the Nacimiento Dam. The updated the DSOD information (the “DSOD Update”) for each dam includes: (i) downstream hazard classifications; (ii) condition assessment; and (iii) reservoir restriction status, reflecting the most recent physical inspections and comprehensive re-evaluations by DSOD engineers and engineering geologists, and technical analyses performed by dam owners.

- Downstream Hazard Classification. The downstream hazard classification identified for a dam is based solely on the size of the dam’s reservoir and population that would be impacted by a dam failure; it does not reflect the condition of the dam or its structures. The hazard classification is used in part to prioritize development of inundation maps and emergency action plans. Dams are classified as high hazard if at least one person is at risk downstream in the event of a dam failure, and extremely high hazard if the loss of human life is considerable. Using this standard, the Nacimiento Dam downstream hazard is classified as extremely high hazard.

- Condition Assessments. The DSOD dam condition assessments are based on five condition ratings from the U.S. Army Corps of Engineers National Inventory of Dams, with some minor modifications. The ratings include satisfactory, fair, poor, unsatisfactory, and not rated. Dams rated as satisfactory have no identified deficiencies. Dams rated as fair, poor or unsatisfactory have at least one identified deficiency. The Nacimiento Dam was rated satisfactory, meaning it has no identified deficiencies, however, dam condition assessments may change from year to year as repair work is completed or new deficiencies are identified.

- Reservoir Restrictions. The DSOD Update for the Nacimiento Dam did not contain any reservoir restrictions.

The DSOD ordered the Agency to complete minimum repairs (filling joints and cracks, replacing damaged concrete, removing raised edges on downstream slabs and walls, and ensuring spillway drains are functional) by December 1, 2017. In September 2017, the Agency approved up to \$500,000 for the DSOD-mandated emergency repair work for Nacimiento and Lake San Antonio spillways. Not all of the repairs mandated by the DSOD were completed by the December deadline. However, the Agency did complete the “Immediate Need Concerns,” and is in regular communication with the DSOD to establish final completion dates and deadlines for the remaining repairs. Due to the dry winter there was little concern by the DSOD for spillway operation. The repairs that have been completed permit full operation of the Nacimiento Dam and water storage.

The repairs to the spillway are ongoing, and ground penetrating radar testing will also be conducted to determine if additional repairs are required. The DSOD is reviewing the Spillway Assessment Reports for both the Nacimiento and San Antonio spillways and will submit comments and future operational and repair requirements to the Agency upon completion of that review. If the condition of the Nacimiento spillway warranted, DSOD could order a reservoir reservation limiting the amount of water that could be stored in Nacimiento until spillway repairs were completed.

On February 26, 2018, the Governor signed Assembly Bill No. 1270 (“AB 1270”) that will require the DSOD to, among other things, annually inspect each fiscal year all dams, groins, abutments, spillways, outlet works, and toe areas, other than those classified as low hazard potential.

Hydroelectric Facility. Located at the Nacimiento Dam, the Hydroelectric Facility is an indoor powerplant housing two small hydroelectric units. Unit one is a Francis turbine with rotor and stator capable of generating up to 4418 kVA. Unit two is an induction generator capable of producing 375 kW. The Hydroelectric Facility was constructed in 1987 and is situated on the downstream slope at the base of the Nacimiento Dam on the south side. The remaining useful life of the Hydroelectric Facility is estimated by the Agency to be approximately years. The facility is under the jurisdiction of the Federal Energy Regulatory Commission (“FERC”). See “RISK FACTORS – Hydroelectric Facility Net Revenues.”

Power Purchase Agreement. On April 15, 1985, PG&E and the Flood Control and Water Conservation District (predecessor to the Agency) entered into a power purchase agreement (the “PG&E Agreement”) for the purchase and sale of electric energy generated by the Hydroelectric Facility. The PG&E Agreement was replaced by the Renewable Energy Power Purchase Agreement, effective as of April 1, 2014 (the “Power Purchase Agreement”), by and between the Northern California Power Agency and the Agency. Under the Power Purchase Agreement, the Northern California Power Agency, as buyer (“NCPA”) agrees to purchase all of the output generated by the Hydroelectric Facility, together with all environmental and capacity attributes associated therewith. The Power Purchase Agreement expires on December 31, 2033, unless earlier terminated in accordance with its terms. Set forth under this subcaption are summaries of certain provisions of the Power Purchase Agreement. Reference should be made to the full agreement at www._____.

The Agency is considering assigning the Power Purchase Agreement to the Bay Area Transportation Authority (“BATA”) and changing the pricing terms set forth below. The Agency has agreed in the Installment Purchase Agreement that it will not rescind or terminate, or consent to the rescission or termination of, a Power Purchase Agreement, enter into an amendment or supplement to a Power Purchase Agreement, or consent to any such amendment or supplement, or waive any material term of a Power Purchase Agreement unless the Board of Supervisors determines by resolution that such rescission, termination, amendment, supplement or waiver would not materially adversely affect the ability of the Agency to pay the Installment Payments or other payments required to be made by it under the Installment Purchase Agreement, or to perform and observe all of its covenants under the Installment Purchase Agreement.

Generally. In accordance with the terms and conditions hereof, commencing on the Effective Date and continuing throughout the remaining portion of the Term, the Agency shall sell and deliver at the Delivery Point, and NCPA shall purchase and accept from the Agency at the Delivery Point, and pay the Contract Price for, all of the Output.

Contract Price. Output is purchased under the Power Purchase Agreement pursuant to the following schedule, subject to adjustment to account for the differences between the scheduled forecasted Output and metered Output during each applicable period.

<u>Contract Year</u>	<u>Price (\$/Mwh)</u>	<u>Contract Year</u>	<u>Price (\$/Mwh)</u>
2014	\$75.00	2024	\$87.04
2015	76.13	2025	88.35
2016	77.27	2026	89.67
2017	78.43	2027	91.02
2018	79.60	2028	92.38
2019	80.80	2029	93.77
2020	82.01	2030	95.17
2021	83.24	2031	96.60
2022	84.49	2032	98.05
2023	85.75	2033	99.52

Invoicing. Subject to the Power Purchase Agreement, all invoices under this Agreement shall be due and payable thirty (30) calendar days after receipt of the invoice. If such day is not a Business Day, then payment shall be due on the next Business Day. Payments made after the due date shall be considered late and shall bear interest on the unpaid balance at an annual rate equal to the lesser of (i) two percent (2%) plus the Interest Rate and (ii) the maximum rate permitted by applicable law. Interest shall be computed on the basis of a 365-day year.

Scheduling. The Agency is responsible for designating a Scheduling Coordinator that shall, with respect to the Generating Facility, perform those functions assigned to a Scheduling Coordinator under the ISO Tariff. the Agency's Scheduling Coordinator shall be identified in Exhibit 4. the Agency may change its Scheduling Coordinator upon reasonable advance written notice to NCPA. the Agency shall Schedule or cause to be Scheduled the forecast Output in accordance with, and shall at all times comply with, all applicable ISO Tariff requirements and the provisions of the Power Purchase Agreement. Pursuant to the Power Purchase Agreement, the Agency's Scheduling Coordinator shall Schedule an amount equal to the forecast Output to NCPA's Scheduling Coordinator using a Physical Trade Scheduled on a day-ahead basis in accordance with the ISO Tariff for each applicable ISO scheduling interval.

Agreement with Transmission Provider. The Agency shall, at its own cost and expense, cause to be maintained its Interconnection Agreement and such other agreements with the Transmission Provider as needed to enable the Agency to maintain its Interconnection of the Generating Facility to transmit Capacity and Energy to the Delivery Point.

Agreements with ISO. The Agency shall, at its own cost and expense, cause to be maintained agreements with the ISO required by the ISO for the Generating Facility to deliver power into the ISO-controlled grid, including, but not limited to, a Meter Service Agreement for ISO Metered Entities and a Participating Generator Agreement.

Events of Default Under Power Purchase Agreement

An “Event of Default” under the Power Purchase Agreement shall mean, with respect to each party, the occurrence of any of the following:

- (i) the failure to make, when due, any payment required pursuant to the Power Purchase Agreement if such failure is not remedied within ten (10) Business Days after written notice;
- (ii) any representation or warranty made by such party herein is false or misleading in any material respect when made or when deemed made or repeated;
- (iii) the failure to perform any material covenant or obligation set forth in the Power Purchase Agreement (except to the extent constituting a separate Event of Default) if such failure is not remedied within thirty (30) calendar days after written notice (provided that if such failure is not capable of being remedied within such period, then for such longer period as is reasonably needed to effect the remedy, not to exceed one-hundred-eighty (180) calendar days, so long as the failing party diligently pursues such remedy);
- (iv) the initiation of an involuntary proceeding against such party under the bankruptcy or insolvency laws, which involuntary proceeding remains undismissed for sixty (60) calendar days, or in the event of the initiation by such party of a voluntary proceeding under the bankruptcy or insolvency laws;
- (v) such party either voluntarily or involuntarily consolidates or amalgamates with, or merges with or into, or transfers all or substantially all of its assets to, another entity and, at the time of such consolidation, amalgamation, merger or transfer, the resulting, surviving or transferee entity fails to assume all the obligations of such party under the Power Purchase Agreement to which it or its predecessor was a party by operation of law or pursuant to an agreement reasonably satisfactory to the other party; or
- (vi) the Agency sells or transfers NCPA’s share of the output (or any individual component thereof) to any Person other than NCPA.

Termination Due to Force Majeure Event Under Power Purchase Agreement

In addition to and without limiting any other provisions of the Power Purchase Agreement, if a party is prevented from performing its material obligations under the Power Purchase Agreement by a Force Majeure Event for a period of either (i) three hundred and sixty five (365) consecutive days or more, or (ii) seven hundred and thirty (730) non-consecutive days or more (whether full or partial days), the unaffected party may terminate the Power Purchase Agreement, without liability of either party to the other, upon thirty (30) days written notice at any time after the expiration of such periods and during the Force Majeure Event.

A Force Majeure Event may include, (i) acts of God such as storms, floods, lightning and earthquakes; (ii) sabotage or destruction by a third party of facilities and equipment relating to the performance by the affected party of its obligations under the Power Purchase Agreement; (iii) Transmission System or generating equipment failure; (iv) war, riot, acts of a public enemy or other civil disturbance; (v) strike, walkout, lockout or other significant labor dispute; or (vi)

curtailment by the ISO, or its successor, but only to the extent that the ISO declares a “System Emergency” or “Uncontrollable Force” under the ISO Tariff. “ISO” means the California Independent System Operator Corporation, or its functional successor.

A Force Majeure Event does not include the following: (i) economic hardship of either party; (ii) failure or delay in the granting of Permits; (iii) failures or delays by the Transmission Provider or the ISO in entering into, or performing under, all agreements with the Agency contemplated by the Power Purchase Agreement; or (iv) curtailment or interruption of transmission services, other than by the ISO where the ISO declares a “System Emergency” or “Uncontrollable Force” under the ISO Tariff.

NCPA’s Right to Purchase. the Agency may in its sole discretion determine, from time to time, to develop, finance, construct and/or operate an Expansion Plant, provided such Expansion Plant shall not impair, diminish or alter the Agency's ability to satisfy its obligations to deliver the Output to NCPA; provided, however, NCPA acknowledges that the Agency's ability to satisfy its obligations to deliver the Output may be temporarily impaired, diminished or altered due to development and construction of an Expansion Plant. For the avoidance of doubt, an expansion or modification of the Generating Facility that does not result in the Capacity of the Generating Facility exceeding five (5.0) MW shall not be considered an Expansion Plant, and all Output associated with any such expansion or modification of the Generating Facility shall be purchased and sold hereunder, as generally described in the Power Purchase Agreement. Each time a determination is made to develop, finance, construct and/or operate an Expansion Plant, the Agency shall notify NCPA of such determination and shall offer in writing to sell the Expansion Plant Output to NCPA. The offer shall include the price to be paid by NCPA for the Expansion Plant Output, and other material terms and conditions associated with the offer. If NCPA wishes to accept such offer to purchase all of the Expansion Plant Output on the price and terms described in the offer, NCPA shall so notify the Agency within ninety (90) calendar days of NCPA's receipt of such offer. The Parties shall promptly thereafter enter into a good faith negotiation to enter into a definitive agreement incorporating the terms of such offer.

The Agency’s Right to Sell to Third Parties. If NCPA does not notify the Agency in writing within ninety (90) calendar days of receipt of the Agency's offer stating that NCPA accept the Agency's offer to purchase all of the Expansion Plant Output, the Agency shall be free to offer to sell the Expansion Plant Output to one or more third parties at a price and on other terms and conditions which, taken as a whole, are at least as favorable to the Agency as the price and other terms and conditions set forth in the Agency's offer to NCPA; provided, however, that NCPA’s refusal of Expansion Plant Output from one Expansion Plant shall not affect NCPA's right to be offered the Expansion Plant Output from a later Expansion Plant.

Historical Hydroelectric Facility Net Revenues. The Hydroelectric Facility Net Revenues for the period from fiscal year 2007-08 through fiscal year 2016-17 are set forth in the following table. The variability in kilowatt hours and Hydroelectric Facility Net Revenues is primarily due to changing hydrologic conditions from year to year. The following table shows the historical Net Revenues of the Hydroelectric Facility. [explain the drop in 2012-16 -- drought? maybe the change in contract pricing? Also, do deficits carry over from year to year?]

Table 8
Monterey County Water Resources Agency
Historical Hydroelectric Facility Net Revenues
Fiscal Year 2007-08 through Fiscal Year 2016-17

<u>Fiscal Year</u>	<u>Kilowatt Hours</u>	<u>Hydroelectric Facility Revenues</u>	<u>Hydroelectric Facility Maintenance and Operations Costs</u>	<u>Hydroelectric Facility Net Revenues</u>
2007-08	13,138,366	\$1,180,157	\$229,556	\$950,601
2008-09	10,150,151	712,516	246,858	465,658
2009-10	9,905,705	530,470	335,483	194,987
2010-11	15,613,560	719,998	415,603	304,395
2011-12	14,326,724	611,670	420,106	191,564
2012-13	4,996,952	162,880	149,551	13,329
2013-14	3,462,300	176,992	166,097	10,895
2014-15	940,824	71,100	122,803	(51,703)
2015-16	594,682	45,684	166,756	(121,072)
2016-17	10,377,236	458,055	275,900	182,155

Source: The Agency.

Covenants with respect to Hydroelectric Facility. The Agency covenants in the Installment Purchase Agreement that it will maintain and preserve the Hydroelectric Facility in good repair and working order at all times and will operate the Hydroelectric Facility in an efficient and economical manner and will pay all operation and maintenance costs of the Hydroelectric Facility as they become due and payable, but the Installment Purchase Agreement provides that the Agency will not be required to pay such operation and maintenance costs if the validity thereof shall be contested in good faith (so long as such nonpayment will not materially adversely affect the Agency's ability to perform its obligations under the Installment Purchase Agreement).

The Agency covenants in the Installment Purchase Agreement that it will procure and maintain or cause to be procured and maintained casualty insurance on the Hydroelectric Facility with responsible insurers, or provide self-insurance (which may be provided in the form of risk-sharing pools), in such amounts and against such risks (including accident to or destruction of the Hydroelectric Facility) as are usually covered in connection with hydroelectric generation facilities similar to the Hydroelectric Facility. Under the Installment Purchase Agreement, in the event of any damage to or destruction of the Hydroelectric Facility caused by the perils covered by such insurance or self-insurance, the net proceeds thereof must be applied to the reconstruction, repair or replacement of the damaged or destroyed portion of the Hydroelectric Facility. The Installment Purchase Agreement provides that the Agency must begin such reconstruction, repair or replacement promptly after such damage or destruction occurs, and must continue and properly complete such reconstruction, repair or replacement as expeditiously as possible, and must pay out of such net proceeds all costs and expenses in connection with such reconstruction, repair or replacement so that the same shall be completed and the Hydroelectric Facility shall be free and clear of all claims and liens, unless the Agency determines that such property or facility is not necessary to the efficient or proper operation of the Hydroelectric Facility and that the failure to reconstruct, repair or replace such portion of the Hydroelectric Facility will not have a material

adverse effect on the amount of Hydroelectric Facility Net Revenues. *The Agency is not required under the Installment Purchase Agreement to, and it does not currently, maintain earthquake or flood insurance.*

The Agency covenants in the Installment Purchase Agreement that it will not sell, lease or otherwise dispose of the Hydroelectric Facility or any part thereof essential to the proper operation of the Hydroelectric Facility or to the maintenance of Hydroelectric Facility Revenues; provided, however, that the Installment Purchase Agreement provides that any real or personal property which has become nonoperative or which is not needed for the efficient and proper operation of the Hydroelectric Facility, or any material or equipment which has become worn out, may be sold if such sale will not materially reduce Hydroelectric Facility Revenues.

The Agency covenants in the Installment Purchase Agreement to receive and collect the Hydroelectric Facility Revenues as provided in the Installment Purchase Agreement and to apply the Hydroelectric Facility Net Revenues as provided in the Installment Purchase Agreement. See “–The Installment Purchase Agreement-Revenue Fund; Allocation of Revenues” above. The Agency covenants in the Installment Purchase Agreement that it will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in a Power Purchase Agreement and all other contracts affecting or involving the Hydroelectric Facility Revenues to the extent that the Agency is a party thereto.

The Agency further covenants in the Installment Purchase Agreement not to rescind or terminate, or consent to the rescission or termination of, a Power Purchase Agreement, enter into an amendment or supplement to a Power Purchase Agreement, or consent to any such amendment or supplement, or waive any material term of a Power Purchase Agreement unless the Board of Supervisors of the Agency determines by resolution that such rescission, termination, amendment, supplement or waiver would not materially adversely affect the ability of the Agency to pay the Installment Payments or other payments required to be made by it under the Installment Purchase Agreement, or to perform and observe all of its covenants under the Installment Purchase Agreement. The Agency also covenants in the Installment Purchase Agreement that it will cause each other party to a Power Purchase Agreement to comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by such person in such Power Purchase Agreement.

Assessments

Under the Act, the Agency is empowered to levy assessments on real property within specified zones of the Agency to pay the costs and expenses of constructing and operating works or improvements established within or on behalf of such zones according to the benefits derived or to be derived by such zones. Such assessments are set by the Board of Supervisors of the Agency by resolution, or, if certain protest conditions are present, by zone landowner election where each landowner is entitled to one vote per acre owned, but after the initial year’s approval, assessments are not subject to the usual protest procedures and election requirements unless an increase in the assessment amount is sought. Assessments are also subject to the use of the referendum power. Assessments are levied and collected together with taxes for County purposes, but are held in the County Treasury to the credit of the Agency.

On July 22, 2003, pursuant to the Assessment Ordinance, and in accordance with the Act, Article XIID of the Constitution of the State of California and the Proposition 218 Omnibus Implementation Act (Statutes of 1997, Chapter 38), the Agency created a benefit zone (“Zone No. 2C”) and established certain assessments within such zone for purposes of funding the operation and maintenance costs of the Nacimiento and San Antonio dams and reservoirs and the cost of the acquisition, construction and installation of the Salinas River Diversion Facility Project and the Nacimiento Dam Spillway Modifications Project (collectively, the “Salinas Valley Water Project”). The area covered by Zone No. 2C, consisting of approximately 436,000 assessable acres, lies generally in the Salinas River basin from Monterey Bay to just south of San Ardo. Most of this land is agricultural, with the principal exception of the City of Salinas. The following map shows the boundary of Zone No. 2C within the County.

[Remainder of page intentionally left blank.]

[insert map]

The Act and Article XIID of the State Constitution require that individual assessments assigned to the property within Zone No. 2C be based on the special benefit such properties receive from the Salinas Valley Water Project. Raines, Melton & Carella, Inc., San Jose, California (the “Assessment Engineer”) prepared a written report (the “Engineer’s Report”) which contains, among other things, the assessment methodology and proposed assessment rates for each of the four parcel categories within each of the seven sub-areas within Zone No. 2C. The Engineer’s Report was filed and approved by the Agency on January 14, 2003, and was the basis for the establishment of the Zone No. 2C assessments under the Assessment Ordinance on July 22, 2003. The assessments covered by Zone No. 2C consists of four separate components for (i) the operation and maintenance of the Nacimiento and San Antonio dams and reservoirs, (ii) the acquisition, construction and installation of the Salinas River Diversion Facility Project, (iii) the acquisition, construction and installation of the Nacimiento Dam Spillway Modifications Project, and (iv) the cost of administering the assessments. **The Agency has not pledged the component related to the operation and maintenance of the Nacimiento and San Antonio dams and reservoirs or the component related to the cost of administering the assessments.**

Subsequent to the adoption of the Assessment Ordinance, several property owners owning parcels within Zone No. 2C, in *Salinas Valley Property Owners for Lawful Assessments, et al. v. County of Monterey, et al.* (Case No. M66890), challenged the assessments levied under the Assessment Ordinance and, on March 9, 2006, a stipulated judgment was agreed to by the plaintiffs and defendants, including the Agency, and entered by the court, eliminating assessments on certain parcels within Zone No. 2C, reducing assessments on certain categories of property within certain sub-areas within Zone No. 2C, and validating the Assessment Ordinance in all other respects, including the imposition of assessments under the Assessment Ordinance on all other lands within Zone No. 2C. Amounts in the following table reflect the adjusted Pledged Assessments as a result of the “stipulated judgment.”

The Salinas Valley Water Coalition, a group of landowners and others in the Salinas Valley, has sued the Agency in *Salinas Valley Water Coalition v. Monterey County Water Resources Agency, et al.* (Case No. 17CV000157), seeking mandamus, declaratory and injunctive relief from certain Agency actions, including the assessment of Pledged Assessments. See “COALITION LITIGATION” and “RISK FACTORS – Coalition Litigation.”

The following table sets forth historical assessment revenues for the fiscal years shown.

Table 9
Monterey County Water Resources Agency
Historical Assessment Revenues

<u>Fiscal Year</u>	<u>Zone 2C Total Assessment</u>	<u>Zone 2C Pledged Assessment</u>	<u>% of Total</u>
2008-09	\$4,104,168	\$1,092,220	26.61%
2009-10	4,087,352	1,115,295	27.29
2010-11	4,126,837	1,120,271	27.15
2011-12	4,237,554	1,107,985	26.15
2012-13	4,351,495	1,142,185	26.25
2013-14	4,384,754	1,123,360	25.62
2014-15	4,446,765	1,119,623	25.18
2015-16	4,487,999	1,107,650	24.68
2016-17	4,560,876	1,102,230	24.17

Source: The Agency.

Historical Pledged Assessments. The following table sets forth the Pledged Assessments for the fiscal years shown. The Pledged Assessments due under the Installment Purchase Agreement consist solely of two of these components: (i) those levied to fund the acquisition, construction and installation of the Salinas River Diversion Facility Project and (ii) those levied to fund the acquisition, construction and installation of the Nacimiento Dam Spillway Modifications Project. The Agency accounts for the collection of Pledged Assessments on a cash basis. Therefore, Pledged Assessments collected include any receipts of previously delinquent Pledged Assessments actually collected and any penalties in the fiscal year indicated.

Table 10
Monterey County Water Resources Agency
Pledged Assessments

<u>Fiscal Year</u>	<u>Spillway⁽¹⁾</u>	<u>Diversion⁽¹⁾</u>	<u>Pledged Assessments⁽¹⁾</u>	<u>% Change</u>
2003-04	\$447,953	\$709,038	\$1,156,992	N/A
2004-05	460,929	738,432	1,199,361	3.66%
2005-06	449,591	715,301	1,164,893	-2.87
2006-07	432,354	658,114	1,090,468	-6.39
2007-08	433,984	654,785	1,088,770	-0.16
2008-09	437,360	654,860	1,092,220	0.32
2009-10	443,997	671,299	1,115,295	2.11
2010-11	445,975	674,297	1,120,271	0.45
2011-12	443,406	664,579	1,107,985	-1.10
2012-13	455,299	686,886	1,142,185	3.09
2013-14	448,237	675,123	1,123,360	-1.65
2014-15	445,407	674,216	1,119,623	-0.33
2015-16	441,855	665,795	1,107,650	-1.07
2016-17	437,893	664,337	1,102,230	-0.49

Source: The Agency.

⁽¹⁾ Amounts reflect adjusted assessments as a result of the stipulated judgment discussed above.

Top Ten Commercial Assesseees. The ten commercial property assesseees paying the most assessments, including the Pledged Assessments, within Zone No. 2C in fiscal year 2017-18 are shown in the table below. These assesseees represent approximately 41% of the total Zone No. 2C assessments.

Table 11
Monterey County Water Resources Agency
Fiscal Year 2017-18
Zone No. 2C Top Ten Commercial Assesseees

Property Owner	Assessments ⁽¹⁾
1. California Artichoke	\$ 540,812
2. Carlsbad National Bank TR The ET AL	366,093
3. Eagle Creek Pacific LLC	336,750
4. D Arrigo Bros. Co.	162,850
5. Yuki Farms Limited Partnership III LP ET AL	149,430
6. Salinas Land Co.	71,323
7. San Bernabe Vineyards LLC	66,858
8. Loma Del Rio Vineyards LLC	58,332
9. Rava Jerry J II TR ET AL	55,679
10. Jacks Ranch LLC	52,234
Total	<u>\$1,860,361</u>

Source: The Agency.

⁽¹⁾ Includes assessments for operations and maintenance of the Nacimiento and San Antonio dams and reservoirs and the costs of administering the assessments which are not pledged to the payment of the Installment Payments due under the Installment Purchase Agreement.

Covenants with respect to Pledged Assessments. Under the Installment Purchase Agreement, the Agency covenants to, in accordance with the Act and the Assessment Ordinance, levy the annual Pledged Assessments and collect and enforce, or cause the collection and enforcement of, such Pledged Assessments (including by the Auditor-Controller pursuant to the Payment Agreement). The Installment Purchase Agreement provides that, prior to August 1 of each year, the Agency shall ascertain from the Monterey County Assessor the relevant parcels on which the Pledged Assessments are to be levied, taking into account any parcel splits during the preceding and then current year. The Installment Purchase Agreement provides further that the Agency shall effect the levy of the Pledged Assessments each fiscal year in accordance with the Assessment Ordinance, including the maximum allowable cost-of-living adjustments, by each August 10, or otherwise such that the computation of the levy is complete before the final date on which the Monterey County Auditor will accept the transmission of the Pledged Assessment amounts for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Installment Purchase Agreement provides that the Agency shall prepare or cause to be prepared, and shall transmit to the Monterey County Auditor, such data as the Auditor requires to include the levy of the Pledged Assessments on the next real property tax roll.

The Agency agrees in the Installment Purchase Agreement that it will not rescind the Assessment Ordinance and that it will not amend or supplement the Assessment Ordinance so as to reduce the amount of the Pledged Assessments levied thereunder or to reduce the amount of land subject thereto, and covenants not to amend or supplement the Assessment Ordinance for any other purpose unless the Board of Supervisors of the Agency determines by resolution that such amendment or supplement would not materially adversely affect the ability of the Agency to pay the Installment Payments or other payments required to be made by it under the Installment Purchase Agreement, or to perform and observe all of its covenants under the Installment Purchase Agreement.

Covenant to Maintain Payment Agreement. The Agency agrees in the Installment Purchase Agreement to comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in the Payment Agreement and all other contracts affecting or involving the Pledged Ad Valorem Taxes and the Pledged Assessments to the extent that the Agency is a party thereto.

The Agency agrees in the Installment Purchase Agreement that it will not rescind or terminate, or consent to the rescission or termination of, the Payment Agreement, enter into an amendment or supplement to the Payment Agreement, or consent to any such amendment or supplement, or waive any material term of the Payment Agreement unless the Board of Supervisors of the Agency determines by resolution that such rescission, termination, amendment, supplement or waiver would not materially adversely affect the ability of the Auditor-Controller to make the deposits and transfers specified under the Payment Agreement, or to perform and observe all of its covenants thereunder.

Not a Teeter Plan County. 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.

Historical Revenues

Total historical Revenues for the five-year period from fiscal year 2007-08 through fiscal year 2016-17 are set forth in the following table. The Agency has not annexed property to date and cannot predict when or if any additional territory will be annexed into Zone No. 2C and, therefore, whether it will collect any Annexation Fees.

Table 12
Monterey County Water Resources Agency
Historical Revenues
Fiscal Years 2007-08 through 2016-17

<u>Fiscal Year</u>	<u>Pledged Ad Valorem Taxes</u> (A)	<u>Hydroelectric Facility Net Revenues</u> (B)	<u>Pledged Assessments</u> (C)	<u>Total Revenues</u> (D=A+B+C)	<u>2008 Bonds Debt Service</u> (E)	<u>Coverage</u> (D/E)
2007-08	\$ 2,081,949	\$ 950,601	\$ 1,088,770	\$ 4,121,320	-	
2008-09	2,159,486	465,658	1,092,220	3,717,364	\$ 936,554	3.97x
2009-10	1,946,839	194,987	1,115,295	3,257,121	1,597,913	2.04
2010-11	1,872,942	304,395	1,120,271	3,297,608	2,136,913	1.54
2011-12	1,847,600	191,564	1,107,985	3,147,149	2,134,513	1.47
2012-13	1,891,580	13,329	1,142,185	3,047,094	2,139,188	1.42
2013-14	2,037,127	10,895	1,123,360	3,171,382	2,137,963	1.48
2014-15	2,008,083	0 ⁽¹⁾	1,119,623	3,127,706	2,137,863	1.46
2015-16	2,286,246	0 ⁽¹⁾	1,107,650	3,393,896	2,138,313	1.59
2016-17	<u>2,369,455</u>	<u>182,155</u>	<u>1,102,230</u>	<u>3,653,840</u>	<u>2,134,063</u>	1.71
Totals	\$20,501,307	\$2,140,809	\$11,119,589	\$33,934,480	\$17,493,283	

Source: The Agency.

⁽¹⁾ Reflects Hydroelectric Facility Net Revenues available for debt service. In Fiscal Years 2014-15 and 2015-16 the amounts were negative (\$51,703) and (\$121,072), respectively.

Debt Service Coverage

The following table sets forth pro forma debt service coverage for the Bonds.

Table 13
Monterey County Water Resources Agency
Projected Maximum Annual Debt Service Coverage

<u>Fiscal Year</u>	<u>Pledged Ad Valorem Tax Revenue</u> (A)	<u>Hydro. Net Revenues</u> (B)	<u>Pledged Assessments</u> (C)	<u>Total Revenues</u> ⁽¹⁾ (D=A+B+C)	<u>Bonds Estimated MADs Debt Service</u> ⁽²⁾ (E)	<u>MADs Coverage</u> (D/E)	<u>MADs Coverage w/out Pledged Assessments</u> ((A+B)/E)
2018-19	\$2,369,455	\$182,155	\$1,102,230	\$3,653,840	\$1,828,319	2.00x	1.40x

⁽¹⁾ Assumes actual revenues for Fiscal Year 2016-17.

⁽²⁾ Estimated figure based on the Bonds gross debt service.

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 Bonds. However, they do not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Bonds. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

The Bonds are Special Obligations of the Authority

The Bonds are special obligations of the Authority, payable solely from the Authority Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the Agency or the State, or any political subdivision thereof, is pledged to the payment of the Bonds.

The Obligation to Make Installment Payments is a Special Obligation of the Agency

The obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the Agency, payable in the manner provided in the Installment Purchase Agreement solely from the Revenues and any other amounts held in the Revenue Fund pledged to secure the payment of the Installment Payments in accordance with the provisions of the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the Agency or the State, or any political subdivision thereof, is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement.

Coalition Litigation

The Salinas Valley Water Coalition has sued the Agency in *Salinas Valley Water Coalition v. Monterey County Water Resources Agency, et al.* (Case No. 17CV000157) seeking mandamus, declaratory and injunctive relief from certain Agency actions, including the assessment of Pledged Assessments, that form a portion of the Revenues pledged under the Installment Purchase Agreement. See “COALITION LITIGATION.” The Agency intends to vigorously contest the claims made by the Coalition. No assurance can be provided by the Agency, however, that all or any portion of the Pledged Assessments will not be reassessed, enjoined or declared invalid as a result of the litigation when finally adjudicated. See “COALITION LITIGATION.”

Natural Disasters and Seismic Considerations

The County, like all California communities, may be subject to unpredictable seismic activity, wildfires, flood, or other natural disasters. Seismic activity, wildfires, floods and other natural disasters represents a potential risk for damage to buildings, roads, bridges and other property within the County, including that of the Agency. The occurrence of any of the foregoing events in or around the territory of the Agency, among other things, could (1) damage or destroy the Nacimiento Dam and the Hydroelectric Facility reducing or eliminating the Agency’s ability to generate Hydroelectric Facility Revenues, (2) damage or destroy the Salinas Valley Water Project reducing the ability or willingness of property owners to pay their assessments when due (even though legally obligated to do so), or (3) result in substantial damage to other property and infrastructure in the territory of the Agency causing a reduction in the assessed value of taxable

property within the territory of the Agency and reduced Pledged Ad Valorem Taxes available to the Agency. *The Agency is not required under the Installment Purchase Agreement to, and it does not currently, maintain earthquake or flood insurance.*

The Agency, like all California communities, may be subject to unpredictable seismic activity. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. 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.

A tsunami is a series of traveling ocean waves of extremely long length generated by disturbances associated with earthquakes occurring below or near the ocean floor. The worst resulted from the 1964 Alaskan earthquake and caused 12 deaths and at least \$17 million in damages in California. Earthquakes from offshore faults and offshore landslides are capable of generating locally damaging tsunamis along the County coastline. In connection with the 1964 tsunami, Santa Cruz Harbor reported wave heights of 11 feet, a hydraulic dredge and a 38-foot cabin cruiser were sunk, and damage was reported to the harbor, though there was no inundation into the City of Santa Cruz. Monterey Harbor reported a wave height of 8.5 feet, though no damage was reported.

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 Authority and the Agency are 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 Revenues.

Drought

The State recently experienced six consecutive years of below-average rain and snow, causing severe drought conditions in all 58 counties. On January 17, 2014, Governor Brown proclaimed a state of emergency due to the severe drought conditions faced by the State. On March

27, 2015, Governor Brown signed emergency legislation that mandated reductions in residential use and expedited \$1 billion for drought and water infrastructure projects, including emergency food aid, drinking water, water recycling, conservation awareness, and flood protection. Water year 2017 had above-average precipitation and snowpack, and on April 7, 2017, Governor Brown issued Executive Order B-40-17, officially ending the drought state of emergency in all California counties except Fresno, Kings, Tulare, and Tuolumne. However, there can be no assurance that drought conditions will not arise again, causing water rationing and adversely affecting property use and values.

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 Authority and the Agency can make no assurances as to the reliability or adequacy of future supplies to meet future demands. Groundwater aquifers, upon which much of the County's agriculture depends, recover much more slowly than surface water and are limited by how much and how fast water can recharge. Unlike surface water, which can recover during a few days of heavy precipitation, groundwater aquifer recovery often takes years or decades. Excessive, long-term groundwater over-use resulting in groundwater depletion can cause subsidence and permanent loss of groundwater storage as well as water quality degradation and seawater intrusion. These long-term impacts on groundwater have not been remedied by the recent weather. See "Salinas Valley 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 the County population resides) and the status of seawater intrusion in the northern Salinas Valley. The total volume of groundwater stored in Zone 2C is about 16.4 million acre-feet. The report was prepared under direction of the County as a precursor to its Five Year Basin Investigation, which is being managed by the Agency's staff.

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 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, 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.

The current distribution of groundwater extractions is not sustainable. 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 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 similar to 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. The Association of Monterey Bay Area Governments projects that the population in the County will rise by about 7% from 2010 to 2020, a growth rate of about 0.7% per year.

The Authority and the Agency can make no assurances as to the reliability or adequacy of future supplies of groundwater to meet future demands.

The 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. Agency staff, along with representatives of the U.S. Geological Survey, presented on July 11, 2017 an update to the County Board of Supervisors and the Water Resources Agency Board of Directors with results of work accomplished to date on the County's five-year Basin Investigation. This report presented initial results on the development of an integrated hydrogeologic model of the Salinas Basin developed for the hydrologic period 1967 through 2014, and complemented 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 September of 2014, Governor Brown signed into law three legislative bills commonly referred to as the Sustainable Groundwater Management Act (“SGMA”). SGMA requires that one or more Groundwater Sustainability Agencies (“GSAs”) be formed for each groundwater basin in the state (with limited exceptions), and that such GSAs adopt Groundwater Sustainability Plans (“GSPs”) designed to achieve basin sustainability no later than 2040 for basins not in critical conditions of overdraft and 2042 for basins in critical condition of overdraft. The Salinas Valley Groundwater Basin contains 2 sub-basins in critical condition of overdraft as determined by the California Department of Water Resources.

In response to SGMA, the County and the Agency participated in the formation of the Salinas Valley Basin Groundwater Sustainability Agency (“SVBGSA”), which is a GSA designed to manage the whole of the Salinas Valley Groundwater Basin under the provisions of SGMA (two small GSAs within the larger basin have been formed, and SGMA requires co-ordination of all GSAs within a basin). SVBGSA has undertaken the process of creating a GSP for the overall basin, and achieving sustainability and hydrological balance as required by SGMA.

Hydroelectric Facility Net Revenues

Hydrology in the western United States is subject to cyclical changes in climate and rainfall and levels of use. The availability of Hydroelectric Facility Net Revenues to make the Installment Payments due under the Installment Purchase Agreement is dependent upon the generation of Hydroelectric Facility Revenues and the amount of Hydroelectric Facility Maintenance and Operation Costs. With respect to Hydroelectric Facility Revenues, the generation and sale of electricity generated at the Hydroelectric Facility is dependent upon water being accumulated in and released from the Nacimiento Dam. To the extent the amount of water accumulated in the Nacimiento Dam is reduced, due to lower rainfall, natural disaster, or otherwise, less electricity will be generated at the Hydroelectric Facility resulting in less Hydroelectric Facility Revenue. With respect to Hydroelectric Facility Maintenance and Operation Costs, there can be no assurance that such expenses will be consistent with historic levels. A variety of factors could increase Hydroelectric Facility Maintenance and Operation Costs, including changes in technology, increases in the cost of raw materials and increased environmental regulation.

Power Purchase Agreement

The Power Purchase Agreement, is scheduled to expire on December 31, 2033, before the final maturity of the Bonds in 2038. Given the current demand for renewable energy sources, the Agency expects to be able to extend the Power Purchase Agreement or enter into a new agreement for the purchase and sale of electric energy generated by the Hydroelectric Facility. However, the Agency cannot guarantee that it will be able to extend the Power Purchase Agreement or enter into a new agreement and cannot make any assurances as to the rate the Agency will be able to obtain for the electric energy generated by the Hydroelectric Facility in the future.

Limitations on Remedies

Remedies available to the Owners may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds. Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or others similar laws

affecting generally the enforcement of creditor's rights, by equitable principles, by the exercise of judicial discretion and by limitations on remedies against public agencies in the State. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners.

Impact of a Chapter 9 Bankruptcy Filing

The Agency, as well as the County and the Authority, are authorized under California law to file for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code (the "Bankruptcy Code"), if circumstances warranted such a filing. Under the Bankruptcy Code, third parties cannot bring involuntary bankruptcy proceedings against the Agency, the County or the Authority. As of the date of this Official Statement, there have been no public discussions by officials of any such entity with respect to any potential chapter 9 filings by either such entity.

In addition the Agency is a "dependent special district" of the County, which relies upon County employees to provide Agency services. In addition, the Agency is included as a blended component of the County for financial reporting purposes. In the event of the filing of a bankruptcy petition by the County, it is possible, and perhaps likely, that the Agency would be consolidated with the County or otherwise include in a County bankruptcy filing.

If the Agency or the County were to become a debtor under the Bankruptcy Code, such parties would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 case. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the Agency or the County (as the case may be) or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the Agency or the County and could prevent the Trustee from making payments from funds in its possession; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or secured debt which may have a priority of payment superior to that of Owners of the Bonds; and (iv) the possibility of the adoption of a plan (an "Adjustment Plan") for the adjustment of the Agency's or County's various obligations over the objections of the Trustee or all of the Owners of the Bonds or other creditors and without their consent, which Adjustment Plan may restructure, delay, compromise or reduce the amount of any claim of the holders if the Bankruptcy Court finds that such Adjustment Plan is "fair and equitable" and in the best interests of creditors. Neither the Agency nor the County can provide assurances about the nature of any Adjustment Plan if either were to file for bankruptcy.

Should the Agency or the County become a debtor in a bankruptcy proceedings, the Owners of the Bonds would continue to have a lien on Pledged Revenues after the commencement of the bankruptcy case provided the Pledged Revenues constitute "special revenues" within the meaning of the Bankruptcy Code. "Special revenues" are defined under the Bankruptcy Code to include, among other things, "receipts derived from the ownership, operation or disposition of projects or systems of the debtor that are principally used ... to provide ...utility...services...", "incremental tax receipts from the benefitted area in the case of tax-increment financing", "other revenue or receipts derive from particular functions of the debtor...", and "taxes specifically levied to finance one or more projects or systems, excluding receipts from general property, sales or income taxes (other than tax-increment financing) levied to finance the general purposes of the debtor."

While the Agency believes that a portion of the Pledged Revenues (specifically the Hydroelectric Facility Net Revenues and the special assessments) may constitute “special revenues” under the Bankruptcy Code, no assurance can be given that a bankruptcy court would not determine otherwise. Further, even if a court were to determine that the Pledged Revenues were “special revenues,” operating expenses of the Agency may be required to be paid before payments to the holders of the Bonds and payments from such Pledged Revenues may otherwise be delayed, delaying or diminishing payments on the Bonds. Further, if these components of the Pledged Revenues do not constitute “special revenues,” the obligations of the Agency under the Installment Sale Agreement may constitute an unsecured obligation of the Agency, resulting in additional delays or reductions in payment by the Agency with respect to the Bonds during a bankruptcy proceeding.

Accordingly, in addition to the limitations on remedies contained in the Indenture and Installment Purchase Agreement, the rights and remedies in the Indenture and Installment Purchase Agreement may be limited and are subject to the equitable principles that may affect the enforcement of creditors’ rights.

Finally, in addition to any specific determination by a court in an Agency or County bankruptcy proceeding that may be adverse to the Agency or the Owners of the Bonds, the mere filing by the Agency or the County for bankruptcy protection likely would have a material adverse effect on the marketability and the market price of the Bonds.

Loss of Tax Exemption

As discussed under the caption “TAX MATTERS,” interest on the Bonds could become includable in gross income for purposes of Federal income taxation retroactive to the date the Bonds were issued, as a result of acts or omissions of the Authority or the Agency in violation of the Internal Revenue Code of 1986, as amended (the “Code”). Should such an event of taxability occur, the Bonds are not subject to redemption and will remain Outstanding until maturity or until redeemed under the optional redemption or mandatory redemption provisions of the Indenture.

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

In addition to the limits Article XIII A imposes on property taxes that may be collected by local governments, certain other revenues of the State and local governments are subject to an annual “appropriations limit” or “Gann Limit” imposed by Article XIII B of the State Constitution, which effectively limits the amount of such revenues that government entities are permitted to spend. Article XIII B, approved by the voters in June 1979, was modified substantially by Proposition 111 in 1990. The appropriations limit of each government entity applies to “proceeds of taxes,” which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed “the cost reasonably borne by such entity in providing the regulation, product or service.” “Proceeds of taxes” excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on the appropriation of funds which are not “proceeds of taxes,” such as reasonable user charges or fees, and certain other non-tax funds.

Article XIII B also does not limit appropriation of local revenues to pay debt service on bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriation by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990,

levels. The appropriations limit may also be exceeded in cases of emergency; however, the appropriations limit for the three years following such emergency appropriation must be reduced to the extent by which it was exceeded, unless the emergency arises from civil disturbance or natural disaster declared by the Governor, and the expenditure is approved by two-thirds of the legislative body of the local government.

The State and each local government entity has its own appropriations limit. Each year, the limit is adjusted to allow for changes, if any, in the cost of living, the population of the jurisdiction, and any transfer to or from another government entity of financial responsibility for providing services.

Proposition 111 requires that each agency's actual appropriations be tested against its limit every two years. If the aggregate "proceeds of taxes" for the preceding two-year period exceeds the aggregate limit, the excess must be returned to the agency's taxpayers through tax rate or fee reductions over the following two years. [what is Agency's Gann limit?]

Article XIIC of the California Constitution

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIC and XIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIIC also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Although the matter is not free from doubt, it is likely that Article XIIC has not conferred on the voters the power to repeal or reduce the Pledged Assessments and Pledged Ad Valorem Taxes if such reduction would interfere with the timely retirement of the Bonds. Legislation adopted in 1997 provides that Article XIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the U.S. Constitution.

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 Vehicle License Fee (“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 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 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 a local government. Thus, even if a fee enacted by the Agency 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 Agency 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 1A and 26, 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, further affecting Agency’s revenues or the Agency’s ability to expend revenues.

COALITION LITIGATION

[Subject to further revision by the Agency; County Counsel/Litigation Counsel]

The Agency operates the Salinas Valley Water Project for multiple beneficial uses, including water supply and groundwater recharge, flood control and environmental resources. Downstream water users, including members of the Salinas Valley Water Coalition, are assessed for the costs of the dams and reservoirs and benefit from releases from the Nacimiento and San Antonio reservoirs to recharge groundwater aquifers. In 2007, the Agency agreed to comply with certain flow requirements for water releases in connection with a biological opinion issued under Section 7 of the Endangered Species Act of 1973 to protect steelhead trout. These flow requirements trigger reservoir releases based on adult steelhead upstream migration and smelt outmigration.

In 2015 and 2016, the Agency denied the requests of the Salinas Valley Water Coalition (the “Coalition”) to increase summer releases from the Nacimiento and San Antonio reservoirs for irrigation and groundwater recharge, citing its need to comply with the Section 7 Biological Opinion. The Coalition is a nonprofit corporation whose members include individuals and business entities that own, lease or otherwise control real property in the Salinas Valley. The Coalition claims that such ownership, lease or control includes riparian surface water rights and overlying groundwater rights in the Monterey County portion of the Salinas Valley where members grow food and other crops.

Following the Agency’s denial of the Coalition’s requested releases, on January 13, 2017 the Coalition filed a complaint and petition for writ of mandamus (as subsequently amended, the “Complaint”) against the Agency, the Board of Supervisors of Monterey County Water Resources Agency, Board of Directors of Monterey County Water Resources Agency, County of Monterey and the Board of Supervisors of the County of Monterey in the Superior Court of the State of California in the County of Monterey captioned the *Salinas Valley Water Coalition v. Monterey County Water Resources Agency, et al.* (Case No. 17CV000157) seeking mandamus, declaratory and injunctive relief from the Agency’s actions. Specifically, the Complaint, among other things:

- requests a writ of mandate ordering the Agency to operate the Salinas Valley Water Project in a manner consistent with providing the water supply “special benefits” contemplated by the Proposition 218 special ballot assessment proceeding and the Engineer’s Report prepared in connection with the proceeding, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Principal Sources of Revenues”;
- requests a writ of mandate ordering the Agency to perform a reassessment of the costs and benefits of the Salinas Valley Water Project to reflect actual construction costs and operation of the Salinas Valley Water Project, to recalculate the special assessment on Zone 2C landowners to reflect the proportional special benefits they actually receive and to relieve these landowners of the obligation to pay for general public benefits that are not special and proportional to the parcels in Zone 2C;
- seeks to declare the portion of the use of the Salinas Valley Water Project that is properly allocable to providing general public benefits (as opposed to special benefits to landowners) to be declared invalid under Proposition 218 (Art. XIII D), as a “tax” not approved by the voters and in violation of the due process rights of the Zone 2C property owners;

- seeks to enjoin the collection of the special assessment that exceeds the “special benefits” conferred on the Zone 2C property owners;
- seeks to prohibit the Agency from diverting natural flow to which Coalition members assert a right; and
- seeks a writ of mandate ordering the Agency to operate the Nacimiento and San Antonio reservoirs in compliance with water rights licenses and permits.

The Agency reasonably believes that some of the assessments at issue in the litigation include Pledged Assessments. Total historical Revenues for the five-year period from fiscal year 2007-08 through fiscal year 2016-17 set forth in Table 11 are presented without Pledged Assessment revenue received for such period to show a “worst case” historical scenario.

The Agency intends to vigorously contest the claims made in the Complaint, including those summarized above. Although the Agency believes there are viable defenses to each claim made in the Complaint, no assurance can be provided by the Agency that all or any portion of the Pledged Assessments will not be reassessed, enjoined or declared invalid as a result of the litigation when finally adjudicated. No summary judgment motions have been filed and the litigation remains in the early stages. See “RISK FACTORS – Coalition Litigation.”

THE AUTHORITY

The Authority was formed pursuant to the provisions of Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the “Joint Powers Law”) and the Joint Exercise of Powers Agreement, dated as of April 1, 1995 (the “JPA Agreement”), by and between the Agency and the County. The Authority was formed to assist in the financing of public capital improvements.

The Authority functions as an independent entity and its policies are determined by a five-member Board of Directors consisting of the members of the Board of Supervisors of the County elected from Supervisorial Districts 1, 2 and 3 and the Chair and Vice Chair of the Board of Directors of the Agency. The General Manager of the Agency, the Assistant Administrative Officer of the County, the Deputy General Manager of the Agency, the County Treasurer and the County Auditor-Controller serve as the Executive Director, Assistant Executive Director, Secretary, Treasurer and Controller, respectively, of the Authority. The County’s County Counsel serves as counsel to the Authority. The Authority has no employees and all staff work is performed by the County, the Agency or consultants.

Under the JPA Agreement, the Authority is empowered to assist in providing financing for purposes that are authorized under the Joint Powers Law, including the financing of public capital improvements, through the issuance of revenue bonds in accordance with the Joint Powers Law. To exercise its powers, the Authority is authorized, in its own name, to do all necessary acts, including but not limited to making and entering into contracts; employing agents and employees; and to sue or be sued in its own name.

The Bonds are special obligations of the Authority, payable solely from the Authority Revenues and the other assets pledged therefor under the Indenture. Neither the faith and credit nor the taxing power of the Authority, the Agency or the State, or any political subdivision thereof,

is pledged to the payment of the Bonds. notwithstanding anything contained in the Indenture, the Authority shall not be required to advance any money derived from any source of income other than the Revenues as provided in the Indenture for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds or for the performance of any agreements or covenants contained in the Indenture. the obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the Agency, payable in the manner provided in the Installment Purchase Agreement solely from the Revenues and any other amounts held in the Revenue Fund pledged to secure the payment of the Installment Payments in accordance with the provisions of the Installment Purchase Agreement. Neither the faith and credit nor the taxing power of the Agency or the State, or any political subdivision thereof, is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement.

The Authority may issue obligations other than the Bonds, which other obligations are and will be secured by instruments and revenues separate and apart from the Indenture and the Bonds. The holders of such obligations of the Authority have no claim on the security of the Bonds and the owners of the Bonds will have no claim on the security of such other obligations issued by the Authority.

FINANCIAL STATEMENTS

The Agency's audited financial statements are consolidated with the audited financial statements for the County. The County's audited financial statements for the Fiscal Year ended June 30, 2017 are included in APPENDIX A. Clifton Larson Allen LLP, the County's independent auditor, has not been requested to consent to the use or to the inclusion of its report in this Official Statement, and it has neither audited nor reviewed this Official Statement.

Although the financial statements for the Agency are consolidated with the audited financial statements for the County, the Agency is a legally separate entity. Neither the faith and credit nor the taxing power of the County is pledged to the payment of the Installment Payments or other payments required to be made by the Agency under the Installment Purchase Agreement. The obligation of the Agency to make the Installment Payments and other payments required to be made by it under the Installment Purchase Agreement is a special obligation of the Agency, payable in the manner provided in the Installment Purchase Agreement solely from the Revenues and any other amounts held in the Revenue Fund pledged to secure the payment of the Installment Payments in accordance with the provisions of the Installment Purchase Agreement.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Bonds and the Authority will not provide any such information.

The Agency has covenanted for the benefit of the holders and beneficial owners of the Bonds pursuant to a Continuing Disclosure Agreement, dated the date of issuance of the Bonds (the "Continuing Disclosure Agreement"), by and between the Agency and _____, as Disclosure Dissemination Agent, to provide certain financial information and operating data relating to the City (the "Annual Report") no later than April 1 following the end of each fiscal year, commencing with the report for Fiscal Year 2017-18, and to provide notices of the occurrence of certain enumerated events through the EMMA System. The Agency staff has implemented continuing disclosure undertaking policies to assist the Agency in complying with Rule 15c2-12.

The Authority entered into an undertaking pursuant to Rule 15c2-12 to provide annual reports and notices of certain enumerated events in connection with the 2008 Bonds. County staff assisted the Authority in submitting information required by the undertaking for the Authority. The County failed to include required operating and financial data for fiscal years ended June 30, 2013 through 2016 and audited financial statements for fiscal year ended June 30, 2013.

The County was an obligated party during the past five years under various undertakings, other than the Authority's undertaking with respect to the 2008 Bonds. The County failed during this period to timely provide current year budgetary information for fiscal years ended June 30, 2013 through June 30, 2016. In the past five years, the County failed to timely provide portions of such information in its annual reports for fiscal years ended June 30, 2013 through June 30, 2014 and failed to file its audited financial statements for fiscal year ended June 30, 2013. The County is an obligated party in a City of Salinas financing for the Monterey County Public Building Project and failed to timely file its annual report for fiscal year ended June 30, 2016. In the past five years, the County failed to file event notices in connection with three changes to its underlying credit ratings and two changes to the credit ratings of its bond insurers.

RATINGS

S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"), has assigned the Bonds a rating of "___," which such rating shall also be the underlying rating for the Insured Bonds. Such ratings reflect only the views of such organization and any desired explanation of the significance of such rating should be obtained from S&P, at the following address: S&P Global Ratings, 55 Water Street, New York, New York 10041. The Agency has furnished to S&P certain materials and information with respect to the Agency and the Bonds. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant.

The Agency undertakes no responsibility to oppose any such proposed revision or withdrawal. Any such downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Bonds or the Insured Bonds.

TAX MATTERS

General

In the opinion of Norton Rose Fulbright US LLP (“Bond Counsel”), based on existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the Authority and the Agency with certain covenants in the Indenture, the Installment Purchase Agreement, the Tax Certificate and other documents pertaining to the Bonds and requirements of the Code regarding the use, expenditure and investment of proceeds of the Bonds and the timely payment of certain investment earnings to the United States, interest on the Bonds is not includable in the gross income of the owners of the Bonds for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Bonds to be included in gross income retroactive to the date of issuance of the Bonds.

In the further opinion of Bond Counsel, interest on the Bonds is not treated as an item of tax preference for purposes of the alternative minimum tax. Although the corporate alternative minimum tax is repealed for taxable years beginning on and after January 1, 2018, for taxable years that began before January 1, 2018, interest on the Bonds is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation’s alternative minimum tax liability.

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

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

Original Issue Discount

The issue price of certain maturities of the Bonds (the “Discount Bonds”) may be less than the principal amount of those maturities. In general, the issue price of a maturity of the Bonds is the first price at which a substantial amount of Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The excess of the principal amount of a Discount Bond over its issue price (which may differ from its initial public offering price) is original issue discount.

Original issue discount on a Discount Bond accrues over the term of such Discount Bond at a constant interest rate. To the extent it has accrued, original issue discount on a Discount Bond is treated as interest excludable from gross income for federal income tax purposes subject to the conditions and limitations described above. The amount of original issue discount that accrues on a Discount Bond in each year is not an item of tax preference for purposes of the federal alternative minimum tax, but, for corporations with taxable years that began before January 1, 2018, such accrued original issue discount is included as an adjustment in the calculation of federal corporate alternative minimum taxable income. Additionally, such accrued original issue discount is taken into account in determining the distribution requirements of certain regulated investment companies. Consequently, owners of Discount Bonds should be aware that the accrual of original issue discount in each year may result in alternative minimum tax liability, additional distribution requirements or other collateral federal income tax consequences although the owner may not have received cash in such year.

The accrual of original issue discount on a Discount Bond increases the owner's adjusted basis in such Discount Bond. This will affect the amount of taxable gain or loss realized by the owner of the Discount Bond upon the redemption, prepayment, sale or other disposition of such Discount Bond. The effect of the accrual of original issue discount on the federal income tax consequences of a redemption, prepayment, sale or other disposition of a Discount Bond that is not purchased at the initial public offering price may be determined according to rules that differ from those described above. Owners of Discount Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of original issue discount that properly accrues with respect to the Discount Bonds, other federal income tax consequences of owning and disposing of the Discount Bonds and any state and local tax consequences of owning and disposing of the Discount Bonds.

Original Issue Premium

Certain of the Bonds may be purchased in the initial offering for an amount in excess of their principal amount (the "Premium Bonds"). The excess of the tax basis of a purchaser of a Premium Bond (other than a purchaser who holds a Premium Bond as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Premium Bond is "bond premium." Bond premium is amortized for federal income tax purposes over the term of a Premium Bond based on the purchaser's yield to maturity in the Premium Bond, except that in the case of a Premium Bond callable prior to its stated maturity, the amortization period and the yield may be required to be determined on the basis of an earlier call date that result in the lowest yield on such Premium Bond. A purchaser of a Premium Bond is required to decrease his or her adjusted basis in such Premium Bond by the amount of bond premium attributable to each taxable year in which such purchaser holds such Premium Bond. The amount of bond premium attributable to a taxable year is not deductible for federal income tax purposes. Purchasers of Premium Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of bond premium attributable to each taxable year and the effect of bond premium on the sale or other disposition of a Premium Bond, and with respect to the state and local tax consequences of owning and disposing of a Premium Bond.

Information Reporting and Backup Withholding

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

State Tax Exemption

In the opinion of Bond Counsel, under existing law, interest on the Bonds is exempt from personal income taxes imposed by the State of California.

Future Developments

Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to state or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or state tax exemption or the market value of the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding pending or proposed federal or state tax legislation, regulations, rulings or litigation, as to which Bond Counsel expresses no opinion.

A copy of the proposed form of the approving opinion of Bond Counsel is attached hereto as APPENDIX F.

CERTAIN LEGAL MATTERS

Norton Rose Fulbright US LLP, San Francisco, California, Bond Counsel to the Authority, will render an opinion with respect to the validity of the Bonds and certain other legal matters, substantially in the form set forth in APPENDIX D hereto. Norton Rose Fulbright US LLP is also serving as Disclosure Counsel in connection with the Bonds. Certain legal matters will be passed upon for the Agency and the Authority by County of Monterey Office of County Counsel, Salinas, California, and for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California.

Payment of the fees and expenses of Bond Counsel, Disclosure Counsel and Underwriter’s counsel is contingent upon the issuance and delivery of the Bonds. From time to time, Norton Rose Fulbright US LLP represents the Underwriter on matters unrelated to the Bonds.

LITIGATION

At the time of delivery of and payment for the Bonds, the Authority and the Agency, as applicable, 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 Authority or the Agency, as applicable, threatened against such entity (i) which affects or seeks to prohibit, restrain or enjoin the execution or delivery of the Bonds, the Indenture, the Installment Purchase Agreement or the Continuing Disclosure Agreement, (ii) contesting the validity of the Bonds, the Indenture, the Installment Purchase Agreement or the Continuing Disclosure Agreement, the powers of the Authority or the Agency, as applicable, to enter into or perform its obligations under the Indenture, the Installment Purchase Agreement or the Continuing Disclosure Agreement, or the existence or powers of the Authority or the Agency, or (iii) which, if determined adversely to the Agency, would materially impair the Agency's ability to meet its obligations under the Installment Purchase Agreement.

The Agency does have claims pending against it. The aggregate amount of the uninsured liabilities of the Agency which may result from all claims will not, in the opinion of the Agency, materially affect the Agency's finances or impair its ability to make Installment Payments under the Installment Purchase Agreement. See "COALITION LITIGATION."

UNDERWRITING

The Bonds are to be purchased by Raymond James & Associates, Inc. (the "Underwriter"). The Underwriter has agreed, subject to certain terms and conditions set forth in the bond purchase agreement relating to the Bonds, by and among the Underwriter, the Authority and the Agency, to purchase the Bonds at a purchase price of \$_____ (which represents the aggregate principal amount of the Bonds, plus \$_____ of [net] original issue premium, and less \$_____ of Underwriter's discount). The Underwriter will purchase all the Bonds if any are purchased. The Bonds may be offered and sold to certain dealers (including dealers depositing said Bonds 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.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Verification Agent will verify the accuracy of mathematical computations concerning the adequacy of the maturing principal amounts of and interest earned on the Defeasance Securities deposited in the Escrow Account, together with amounts held as cash therein, to provide for payment of the Redemption Price of the 2008 Bonds on the Redemption Date.

The report of the Verification Agent will include the statement that the scope of its engagement was limited to verifying the mathematical accuracy of the computations contained in such schedules provided to it and that the Verification Agent has no obligation to update its report because of events occurring, or data or information coming to its attention, after the date of its report.

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.

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 Agency and the purchasers or Owners of any of the Bonds.

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

MONTEREY COUNTY FINANCING AUTHORITY

By: _____
Executive Director

MONTEREY COUNTY WATER RESOURCES AGENCY

By: _____
General Manager

APPENDIX A
COUNTY OF MONTEREY AUDITED FINANCIAL STATEMENTS

APPENDIX B

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. January 1, 2018 figures are not yet available.

Table B-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. Annual 2017 figures not yet available.

Table B-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 for 2012 through 2016. Annual 2017 figures are not yet available.

Table B-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	18,519,000	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. Annual 2017 figures are not yet available.

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

	2012	2013	2014	2015	2016
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	173,500	176,700	182,000	186,100	190,200

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. Annual 2016 and 2017 figures are not yet available.

Table B-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</u>	
Monterey County	\$49,836
California	53,741
United States	48,112

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

Largest Employers

The following table lists the major employers within the County.

Table B-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 Cmmnt	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. Annual 2016 and 2017 figures are not yet available.

Table B-7
County of Monterey

Taxable Transactions 2011 – 2015
(Dollars in Thousands)

	2011	2012	2013	2014	2015 ⁽¹⁾⁽²⁾
Apparel Stores Group	\$ 265,864	\$ 294,017	\$ 312,175	\$ 323,291	\$ 340,549
General Merchandise Group	492,596	500,337	507,088	521,361	478,901
Food and Beverage Group	288,939	294,742	308,182	320,804	327,246
Eating and Drinking Group	581,655	637,659	677,471	743,876	791,067
Household Group	80,719	81,177	87,719	88,134	-
Building Material Group	276,757	287,797	317,910	332,583	376,468
Automotive Group	581,680	666,429	742,343	821,637	929,924
All Other Retail Stores Group	187,146	191,020	198,718	210,700	512,008
Retail Stores Totals	<u>\$3,680,776</u>	<u>\$3,927,095</u>	<u>\$4,137,019</u>	<u>\$4,339,409</u>	<u>\$4,500,693</u>
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><u>\$5,312,732</u></u>	<u><u>\$5,637,445</u></u>	<u><u>\$5,910,531</u></u>	<u><u>\$6,200,747</u></u>	<u><u>\$6,406,117</u></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. Annual 2017 figures are not yet available.

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

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

Source: Construction Industry Research Board.

Agriculture

The following table provides a summary of agricultural production within the County for the years 2012 through 2016: 2017 figures are not yet available.

Table B-9
County of Monterey
Agricultural Production

	2012	2013	2014	2015	2016
Fruit and Nut Crops	\$1,057,684,000	\$1,159,589,000	\$1,033,798,000	\$1,149,353,000	\$1,056,777,000
Vegetable Crops	2,557,772,000	2,833,775,000	3,084,577,000	3,261,521,000	2,817,031,000
Field Crops	19,338,000	19,990,000	18,724,000	20,748,000	20,947,000
Seed Crops	8,550,000	8,803,000	5,466,000	4,980,000	4,429,000
Nursery Crops	307,543,000	312,346,000	286,577,000	313,689,000	276,423,000
Apiary	204,000	195,000	135,000	226,000	269,000
Livestock & Poultry	53,126,000	45,024,000	64,286,000	91,228,000	80,465,000
Totals	\$4,004,217,000	\$4,379,722,000	\$4,493,428,000	\$4,841,519,000	\$4,256,072,000

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. The table below shows public school enrollment for the past five Fiscal Years.

Table B-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	<u>73,460</u>	<u>74,684</u>	<u>75,997</u>	<u>76,768</u>	<u>77,517</u>

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 C
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

APPENDIX D
FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that each of the Authority and the Agency believes to be reliable, but the Authority and the Agency take no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited through the facilities of 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 3.6 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 S&P Global Ratings rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on such website is not incorporated herein by reference.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("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 Bonds 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 Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds 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 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as prepayments, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds 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 Authority, the Agency 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, the Authority or the Agency, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority 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.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant’s interest in the Bonds, on DTC’s records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC’s records and followed by a book-entry credit of tendered Bonds to the Trustee’s DTC account.

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

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered to DTC.

APPENDIX F
FORM OF APPROVING OPINION OF BOND COUNSEL