#2012-0504

NEW ISSUE – BOOK-ENTRY-ONLY **NO RATING**

(See "CONCLUDING INFORMATION - No Rating on the Bonds" herein)

In the opinion of Rutan & Tucker, LLP, Costa Mesa, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes, and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS - Tax Exemption" herein.

SANTA CRUZ COUNTY **STATE OF CALIFORNIA**

$3,965,000
SANTA CRUZ COUNTY PUBLIC FINANCING AUTHORITY
2012 LEASE REVENUE BONDS, SERIES A
(SANTA CRUZ REGIONAL 9-1-1)

Dated: Date of Delivery **Due: June 15, as shown on the inside front cover**

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

The Santa Cruz County Public Financing Authority 2012 Lease Revenue Bonds, Series A (Santa Cruz Regional 9-1-1) (the "Bonds") are being issued to (i) refinance an existing lease, (ii) terminate an existing lease, (iii) purchase equipment, (iv) fund a reserve account for the Bonds and (v) pay the costs incurred in connection with the issuance of the Bonds. The Bonds are payable from the revenues pledged under the Indenture of Trust, as defined herein, consisting primarily of lease payments to be made by the Santa Cruz Consolidated Emergency Communications Center Joint Powers Authority (the "Center") to the Santa Cruz County Public Financing Authority (the "Authority") as rental for certain facilities (the "Project") pursuant to a Lease Agreement, as defined herein, and from certain funds held under the Indenture of Trust and insurance or condemnation awards. The Center is required under the Lease Agreement to make payments (the "Lease Payments") in each fiscal year in consideration of the use and possession of the Project from certain Use Payments to be paid by the Participants, as described herein, in an amount sufficient to pay the annual principal and interest due with respect to the Bonds and any Additional Bonds, subject to abatement, as described herein. See "SOURCES OF PAYMENT FOR THE BONDS" and "RISK FACTORS" herein.

A MATURITY SCHEDULE IS SET FORTH ON THE INSIDE FRONT COVER

Interest on the Bonds is payable semiannually on December 15 and June 15 of each year, commencing on December 15, 2012, until maturity or earlier redemption. See "THE BONDS - General Provisions" and "THE BONDS - Redemption" herein.

The Bonds do not constitute an obligation of the Authority for which the Authority is obligated to levy or pledge any form of taxation or for which the Authority has levied or pledged any form of taxation. The obligation of the Center to pay Lease Payments does not constitute an obligation for which the Center is obligated to levy or pledge any form of taxation or for which the Center has levied or pledged any form of taxation. The obligation of the Center to pay Lease Payments does not constitute a debt or liability of the Center, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. The obligation of the Participants to pay Use Payments does not constitute an obligation for which the Participants are obligated to levy or pledge any form of taxation or for which the Participants have levied or pledged any form of taxation. The obligation of the Participants to pay Use Payments does not constitute a debt or liability of the Participants, the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Rutan & Tucker, LLP, Costa Mesa, California, Bond Counsel. Certain legal matters will be passed on for the Authority and the Center by Fulbright & Jaworski L.L.P., Los Angeles, California, as Disclosure Counsel and for the Underwriter by its Counsel, Nossaman LLP, Irvine, California. It is anticipated that the Bonds, in book-entry form, will be available for delivery on or about May 15, 2012 through the facilities of The Depository Trust Company (see "APPENDIX I - DTC AND THE BOOK-ENTRY-ONLY SYSTEM" herein).

The date of the Official Statement is May 1, 2012.

STONE & YOUNGBERG
A DIVISION OF STIFEL NICOLAUS

$3,965,000
SANTA CRUZ COUNTY PUBLIC FINANCING AUTHORITY
2012 LEASE REVENUE BONDS, SERIES A
(SANTA CRUZ REGIONAL 9-1-1)

MATURITY SCHEDULE

(Base CUSIP®† 80182R)

$2,950,000 Serial Bonds

Maturity Date June 15	**Principal Amount**	**Interest Rate**	**Reoffering Yield**	**CUSIP®†**
2013	$115,000	2.00%	1.15%	DE9
2014	130,000	2.00	1.80	DF6
2015	130,000	2.125	2.15	DG4
2016	135,000	2.50	2.55	DH2
2017	140,000	2.75	2.85	DJ8
2018	140,000	3.00	3.05	DK5
2019	145,000	3.125	3.30	DL3
2020	150,000	3.25	3.50	DM1
2021	155,000	3.50	3.75	DN9
2022	160,000	3.75	3.95	DP4
2023	165,000	4.00	4.10	DQ2
2024	175,000	4.125	4.25	DR0
2025	180,000	4.25	4.40	DS8
2026	190,000	4.375	4.50	DT6
2027	195,000	4.50	4.60	DU3
2028	205,000	4.50	4.70	DV1
2029	215,000	4.625	4.80	DW9
2030	225,000	4.75	4.85	DX7

$1,015,000 5.00% Term Bond due June 15, 2034, Price 99.334% CUSIP®† DY5

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

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

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

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

Information Subject to Change. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the Center or the Participants or any other entity described or referenced herein since the date hereof. All summaries of the documents referred to in this Official Statement are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

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

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

SANTA CRUZ COUNTY PUBLIC FINANCING AUTHORITY
SANTA CRUZ COUNTY, CALIFORNIA

AUTHORITY GOVERNING BOARD

John Leopold, *Supervisor, 1st District*
Ellen Pirie, *Supervisor, 2nd District*
Neal Coonerty, *Supervisor, 3rd District*
Greg Caput, *Supervisor, 4th District*
Mark W. Stone, *Supervisor, 5th District*

CENTER GOVERNING BOARD

Susan A. Mauriello, *County Administrative Officer, County of Santa Cruz*
Jamie Goldstein, *City Manager, City of Capitola*
Martin Bernal, *City Manager, City of Santa Cruz*
Carlos Palacios, *City Manager, City of Watsonville*

CENTER STAFF

Dennis Kidd, *Interim General Manager*
Amethyst Uchida, *Systems Division Manager*
Mary Jo Walker, *Controller*
Dana McRae, *Counsel to the Center*

PROFESSIONAL SERVICES

Bond Counsel
Rutan & Tucker, LLP
Costa Mesa, California

Disclosure Counsel
Fulbright & Jaworski L.L.P.
Los Angeles, California

Financial Advisor
Harrell & Company Advisors, LLC
Orange, California

Underwriter
Stone & Youngberg,
a Division of Stifel Nicolaus
Los Angeles, California

Trustee
The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

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OFFICIAL STATEMENT

$3,965,000
SANTA CRUZ COUNTY PUBLIC FINANCING AUTHORITY
2012 LEASE REVENUE BONDS, SERIES A
(SANTA CRUZ REGIONAL 9-1-1)

This Official Statement which includes the cover page and appendices (the "Official Statement") is provided to furnish certain information concerning the sale of the Santa Cruz County Public Financing Authority (the "Authority") 2012 Lease Revenue Bonds, Series A (Santa Cruz Regional 9-1-1) (the "Bonds"), in the aggregate principal amount of $3,965,000.

INTRODUCTION

This Introduction contains only a brief description of this issue and does not purport to be complete. The Introduction is subject in all respects to more complete information in the entire Official Statement and the offering of the Bonds to potential investors is made only by means of the entire Official Statement and the documents summarized herein. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision (see "RISK FACTORS" herein).

The Issuer

The Authority. The Santa Cruz County Public Financing Authority (the "Authority") is a joint exercise of powers authority organized and existing under and by virtue of the Joint Exercise of Powers Act, constituting Articles 1 through 4 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the Government Code of the State (the "Joint Powers Act"). Santa Cruz County (the "County"), pursuant to Resolution No. 152-90 adopted on March 6, 1990, and the Santa Cruz County Redevelopment Agency, pursuant to Resolution No. 153-90 adopted on March 6, 1990, formed the Authority by the execution of a joint exercise of powers agreement. Pursuant to the Joint Powers Act, the Authority is authorized to issue lease revenue bonds to provide funds to acquire or construct public capital improvements, such revenue bonds to be repaid from the lease payments for such improvements, such as the lease payments described herein (see "THE AUTHORITY" herein).

The Center. The Santa Cruz Consolidated Emergency Communications Center Joint Powers Authority (the "Center") is also a joint exercise of powers authority organized and existing under and by virtue of the Joint Powers Act. The Center was formed by the execution of a joint powers agreement dated as of July 1, 1991 and amended as of April 26, 1994 by and among the County of Santa Cruz, the City of Capitola, the City of Santa Cruz and the City of Watsonville (collectively, the "Participants") (see "THE CENTER" and "THE PARTICIPANTS" herein). The Center was established to operate a consolidated communications facility to provide 9-1-1 and public safety dispatching services for the law enforcement, fire, rescue and emergency medical providers of the Participants (the "Project"). The Center is known as "Santa Cruz Regional 9-1-1."

Security and Sources of Repayment

The Project. The Project consists of a 13,900 square foot facility operated as a consolidated regional emergency communications center for the benefit of the Participants (see "THE PROJECT" herein).

The Bonds. The Bonds are secured under an Indenture of Trust dated as of April 1, 2012 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., San Francisco, California, as trustee (the "Trustee") (see "APPENDIX A - SUMMARY OF THE LEGAL DOCUMENTS - THE INDENTURE" herein).

The Bonds are payable solely from lease payments (the "Lease Payments") to be made by the Center to the Authority as the rental for the Project, as described herein, pursuant to a lease agreement to be entered into as of April 1, 2012, between the Authority, as lessor, and the Center, as lessee (the "Lease Agreement"), from certain funds held under the Indenture and investment earnings thereon, and from net proceeds of insurance or condemnation awards (the "Revenues") (see "SOURCES OF PAYMENT FOR THE BONDS," "APPENDIX A - SUMMARY OF THE LEGAL DOCUMENTS - THE LEASE AGREEMENT," and "FINANCIAL INFORMATION" herein). Under certain circumstances, the Authority is authorized under the Indenture to issue Additional Bonds on parity with the Bonds. See "THE BONDS - Additional Bonds" herein.

The Bonds are limited obligations of the Authority. The Bonds do not constitute a debt or liability of the State of California or of any political subdivision thereof, other than the Authority. The Authority shall only be obligated to pay the principal of the Bonds, or the interest thereon, from the funds described herein, and neither the faith and credit nor the taxing power of Santa Cruz County, the State of California or any of its political subdivisions is pledged to the payment of the principal of or the interest on the Bonds. The Authority has no ad valorem taxing power.

Lease Payments. In general, the Center is required under the Lease Agreement to pay to the Trustee specified amounts for use and possession of the Project which amounts are designed to be sufficient in both time and amount to pay, when due, the principal and interest payable with respect to the Bonds. The Center is also required to pay any taxes and assessments and the cost of maintenance and repair of the Project. The Center has covenanted in the Lease Agreement to take such actions as may be necessary to include all Lease Payments in its annual budget and to make the necessary annual appropriations for all such Lease Payments subject to complete or partial abatement of such Lease Payments resulting from a taking of the Project (either in whole or in part) under the powers of eminent domain or resulting from damage or loss of all or any portion of the Project. Except for the Authority's right, title and interest in and to the Lease Agreement, no funds or properties of the Authority or the Center are pledged to or otherwise liable for the obligations of the Authority (see "RISK FACTORS" herein).

The Lease Agreement is, in the opinion of Bond Counsel, a valid and binding special obligation of the Center enforceable against the Center in accordance with its terms, except to the extent enforceability thereof may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereinafter enacted and may be subject to the exercise of judicial discretion in accordance with general principles of equity which are deemed to preclude the enforcement of judgments against funds held by a city or agency which serve the public welfare and interest (see "RISK FACTORS - The Lease Payments - Limited Recourse on Default" herein).

The obligation of the Center to pay Lease Payments does not constitute an obligation for which the Center is obligated to levy or pledge any form of taxation or for which the Center has pledged any form of taxation. The obligation of the Center to pay Lease Payments does not constitute a debt or liability of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. The Center has no ad valorem taxing power.

Use Payments. In order to provide for the payment of the Lease Payments by the Center, the Center and the Participants will enter into a Restated and Amended Use Agreement, dated as of April 1, 2012 (the "Use Agreement"). In general, the Participants are required under the Use Agreement to pay to the Center specified amounts for the use of the facility operated by the Center (the "Use Payments"), which, in total, are designed to be sufficient in both time and amount to pay, when due, the Lease Payments. Participants are not required to pay any delinquent Use Payment of another Participant. The Participants have covenanted in the Use Agreement to take such actions as may be necessary to include all Use Payments in their respective annual budgets and to make the necessary annual appropriations for all such Use Payments. Except for the Center's right, title and interest in and to the Use Agreement, no funds or properties of the Participants are pledged to or otherwise liable for the obligations of the Center (see "RISK FACTORS - The Use Payments" herein).

The Use Agreement is, in the opinion of Bond Counsel, a valid and binding special obligation of each Participant enforceable against each Participant in accordance with its terms, except to the extent enforceability thereof may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereinafter enacted and may be subject to the exercise of judicial discretion in accordance with general principles of equity which are deemed to preclude the enforcement of judgments against funds held by a city or agency which serve the public welfare and interest.

The obligation of the Participants to pay Use Payments does not constitute an obligation for which the Participants are obligated to levy or pledge any form of taxation or for which the Participants have pledged any form of taxation. The obligation of the Participants to pay Use Payments does not constitute a debt or liability of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

Purpose

The Bonds are being issued to provide funds to refinance an existing lease of the Project, to terminate an existing lease within the Project, to fund equipment purchases, to fund a Reserve Account and to pay the expenses incurred in connection with the issuance of the Bonds (see "THE FINANCING PLAN - Estimated Sources and Uses of Funds" and "THE PROJECT" herein).

Tax Exemption

In the opinion of Rutan & Tucker, LLP, Costa Mesa, California ("Bond Counsel"), under existing law, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, the interest on the Bonds is exempt from State of California personal income tax. See "LEGAL MATTERS - Tax Exemption" herein.

Professional Services

The legal proceedings relating to the issuance of the Bonds are subject to the approving opinion of Rutan & Tucker, LLP, Costa Mesa, California, Bond Counsel. Certain legal matters will be passed on for the Center and the Authority by Dana MacRae as County Counsel and Counsel to the Center and Fulbright & Jaworski L.L.P., Los Angeles, California as Disclosure Counsel, and for the Underwriter by its Counsel, Nossaman LLP, Irvine, California.

The Bank of New York Mellon Trust Company, N.A., will serve as trustee (the "Trustee") under the Indenture. The Trustee will act on behalf of the Bondholders for the purpose of receiving all moneys required to be paid to the Trustee, to allocate, use and apply the same, to hold, receive and disburse the Revenues and other funds held under the Indenture, and otherwise to hold all the offices and perform all the functions and duties provided in the Indenture to be held and performed by the Trustee.

Harrell & Company Advisors, LLC, Orange, California, Financial Advisor, advised the Authority and the Center as to the financial structure and certain other financial matters relating to the Bonds.

The Center's financial statements for the fiscal year ended June 30, 2011, attached hereto as "APPENDIX B" have been audited by the Auditor-Controller of the County of Santa Cruz, California. The Participants audited financial statements for the year ended June 30, 2011 are available on the Municipal Securities Rulemaking Board (the "MSRB") Electronic Municipal Market Access system at the following address: http://emma.msrb.org/IssueView/IssueDetails.aspx?id=MS166626. The Center's audited financial statements are public documents and are included within this Official Statement without the prior approval of their auditors. Accordingly, no auditor has performed any post-audit of the financial condition of the Center.

Offering of the Bonds

Authority for Issuance. The Bonds are to be issued and secured pursuant to the Indenture, authorized by a resolution of the Authority adopted on April 10, 2012. The Bonds are also issued in accordance with the laws of the State of California (the "State"), and particularly the Marks-Roos Local Bond Pooling Act of 1985, as amended, constituting Article 4 (commencing with Section 6584), of Chapter 5, Division 7, Title 1 of the Government Code of the State (the "Bond Law").

Offering and Delivery of the Bonds. The Bonds are offered, when, as and if issued, subject to the approval as to their legality by Rutan & Tucker, LLP, Costa Mesa, California, Bond Counsel. It is anticipated that the Bonds will be available for delivery in New York, New York on or about May 15, 2012 through the facilities of The Depository Trust Company.

Information Concerning this Official Statement

This Official Statement speaks only as of its date. The information set forth herein has been obtained by the Financial Advisor from the Authority, the Center and the Participants and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness, nor has it been independently verified and is not to be construed as a representation by the Financial Advisor. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended as such and are not to be construed as representations of fact. The information and expressions of opinion herein are subject to change without notice and the delivery of this Official Statement shall not, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the Authority, the Center and the Participants since the date hereof.

Availability of Legal Documents. The summaries and references contained herein with respect to the Indenture, the Lease Agreement, the Use Agreement, the Bonds and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Bonds are qualified in their entirety by reference to the form thereof included in the Indenture. Copies of the documents described herein are available for inspection during the period of initial offering of the Bonds at the offices of the Financial Advisor. Copies of these documents may be obtained after delivery of the Bonds at the corporate trust office of the Trustee, The Bank of New York Mellon Trust Company, N.A., 100 Pine Street, Suite 3100, San Francisco, California 94111 or from the Authority at Government Center, 701 Ocean Street, Santa Cruz, California 95060.

THE BONDS

General Provisions

Payment of the Bonds. The Bonds will be issued in the form of fully registered Bonds in the principal amount of $5,000 each or any integral multiple thereof. Interest on the Bonds is payable at the rates per annum set forth on the inside front cover page hereof, on December 15, 2012 and each June 15 and December 15 thereafter (each, an "Interest Payment Date") until maturity. Interest on the Bonds will be computed on the basis of a year consisting of 360 days and twelve 30-day months. Principal on the Bonds is payable on June 15 in each of the years and in the amounts set forth on the inside front cover page hereof.

Interest with respect on the Bonds will be payable from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after the 1st calendar day of the month in which such Interest Payment Date occurs (each, a "Record Date") and on or before the following Interest Payment Date, in which event interest with respect thereto will be payable from such Interest Payment Date; or (b) it is authenticated on or before December 1, 2012, in which event interest with respect thereto will be payable from the Date of Delivery; provided, however, that if, as of the date of authentication of any Bond, interest with respect to any Outstanding Bonds is in default, interest represented by such Bond will be payable from the Interest Payment Date to which interest has previously been paid or made available for payment with respect to the Outstanding Bonds.

Book-Entry-Only System. 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. Interest on and principal of the Bonds will be payable when due by wire of the Trustee to DTC which will in turn remit such interest and principal to DTC Participants (as defined herein), which will in turn remit such interest and principal to Beneficial Owners (as defined herein) of the Bonds (see "APPENDIX I - DTC AND THE BOOK-ENTRY-ONLY SYSTEM" herein). As long as DTC is the registered owner of the Bonds and DTC's book-entry method is used for the Bonds, the Trustee will send any notices to Bond Owners only to DTC.

Discontinuance of Book-Entry System. DTC may discontinue providing its services as securities 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 securities depository is not obtained, Bonds are required to be printed and delivered as described in the Indenture. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, the Bonds will be printed and delivered as described in the Indenture. In addition, the following provisions shall apply: interest with respect to the Bonds will be payable by check of the Trustee mailed by first class mail on the applicable Interest Payment Date to the Owners thereof provided that in the case of an Owner of $1,000,000 or greater in principal amount of Outstanding Bonds, such payment may, at such Owner's option, be made by wire transfer in immediately available funds to an account in the United States of America in accordance with written instructions provided prior to the applicable Record Date to the Trustee by such Owner. The Owners of the Bonds shown on the Registration Books on the Record Date for the Interest Payment Date will be deemed to be the Owners of the Bonds on said Payment Date for the purpose of the paying of interest. Principal of the Bonds will be payable upon presentation and surrender thereof, at the office of the Trustee in San Francisco, California.

Redemption

Optional Redemption. The Bonds maturing on or after June 15, 2023 are subject to redemption prior to maturity at the option of the Authority on any Interest Payment Date on or after June 15, 2022, as a whole or in part, in a manner determined by the Authority, from any source of available funds at a redemption price equal to the principal amount thereof to be redeemed, without a premium.

Special Mandatory Redemption. The Bonds are subject to mandatory redemption as a whole or in part, on any date, from net hazard or title insurance proceeds not used to repair or replace any portion of the Project damaged or destroyed, or from condemnation proceeds received with respect to any portion of the Project and elected by the Center to be used for such purpose, pro-rata among maturities, at a redemption price equal to the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium. There can be no assurance that such proceeds will be adequate to redeem all of the Bonds (see "SOURCES OF PAYMENT FOR THE BONDS - Insurance Relating to the Project" herein).

Mandatory Sinking Account Redemption. The Bonds maturing on June 15, 2034 (the "Term Bonds") are subject to mandatory redemption, in part by lot, on June 15 in each year commencing June 15, 2031 from mandatory Sinking Account payments at a redemption price equal to the principal amount thereof to be redeemed, without premium, plus accrued interest thereon to the date fixed for redemption in the aggregate respective principal amounts and on June 15 in the respective years as set forth in the following schedule; provided, however, that (i) in lieu of redemption thereof, the Term Bonds may be purchased pursuant to the provisions of the Indenture, and (ii) if some but not all of the Bonds have been redeemed pursuant to the optional redemption or special mandatory redemption provisions described above, the total amount of Sinking Account payments to be made subsequent to such redemption will be reduced in an amount equal to the principal amount of the Bonds so redeemed, by reducing each such future Sinking Account payment in integral multiples of $5,000 in a manner designated by the Authority.

SCHEDULE OF MANDATORY SINKING ACCOUNT REDEMPTIONS
TERM BONDS MATURING JUNE 15, 2034

June 15 Year	Principal Amount
2031	$235,000
2032	245,000
2033	260,000
2034 (maturity)	275,000

Notice of Redemption. When redemption is authorized or required, the Trustee is required to give written notice the respective Bondholders of any Bonds designated for redemption at their addresses appearing on the bond registration books, to the Securities Depositories, and to at least one Information Service, all as provided in the Indenture, by first class mail, postage prepaid, no less than 30, no more than 60, days prior to the date fixed for redemption. Neither failure to receive such notice nor any defect in the notice so mailed will affect the validity of the proceedings for redemption of such Bonds or the cessation of accrual of interest from and after the redemption date.

Rescission of Notice. The Authority has the right to rescind any notice of the optional redemption of Bonds by written notice to the Trustee on or prior to the dated fixed for redemption. Any notice of optional redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default. The Authority and the Trustee have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Trustee shall mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Effect of Redemption. Interest on Bonds (or portions thereof) called for redemption will cease to accrue on the date fixed for redemption and such Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture and the Owners of such Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof. The Indenture contains no provisions requiring any publication of notice of redemption, and Bondholders must maintain a current address on file with the Trustee to receive any notices of redemption.

Partial Redemption. In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the Authority will execute and the Trustee will authenticate and deliver to the Bondholder thereof, at the expense of the Authority, a new Bond or Bonds of the same maturity date, of authorized denominations in an aggregate principal amount equal to the unredeemed portion of the Bond surrendered.

Scheduled Debt Service on the Bonds

The following is an annualized schedule of Lease Payments, and therefore the annual scheduled debt service on the Bonds.

Bond Year Ending June 15	**Principal**	**Interest**	**Annual Total**
2013	$ 115,000.00	$ 172,338.03	$ 287,338.03
2014	130,000.00	156,781.26	286,781.26
2015	130,000.00	154,181.26	284,181.26
2016	135,000.00	151,418.76	286,418.76
2017	140,000.00	148,043.76	288,043.76
2018	140,000.00	144,193.76	284,193.76
2019	145,000.00	139,993.76	284,993.76
2020	150,000.00	135,462.50	285,462.50
2021	155,000.00	130,587.50	285,587.50
2022	160,000.00	125,162.50	285,162.50
2023	165,000.00	119,162.50	284,162.50
2024	175,000.00	112,562.50	287,562.50
2025	180,000.00	105,343.76	285,343.76
2026	190,000.00	97,693.76	287,693.76
2027	195,000.00	89,381.26	284,381.26
2028	205,000.00	80,606.26	285,606.26
2029	215,000.00	71,381.26	286,381.26
2030	225,000.00	61,437.50	286,437.50
2031	235,000.00	50,750.00	285,750.00
2032	245,000.00	39,000.00	284,000.00
2033	260,000.00	26,750.00	286,750.00
2034	275,000.00	13,750.00	288,750.00
Total	$3,965,000.00	$2,325,981.89	$6,290,981.89

Additional Bonds

Issuance of Additional Bonds. In addition to the Bonds authorized to be issued under this Indenture, the Authority may, by Supplemental Indenture, establish one or more other issues of Additional Bonds on a parity with the Bonds, and may issue and deliver such Additional Bonds in such principal amount as shall be determined by the Authority, but only upon compliance by the Authority with the provisions of the Indenture and subject to the following specific conditions:

(a) Such Additional Bonds shall have been authorized to finance additional Project Costs relating to the Project including, without limitation, the financing of improvements to the Project, and the issuance thereof shall have been determined and declared by the Authority, in a Supplemental Indenture, to be necessary for that purpose.

(b) The Authority shall be in compliance with all covenants and undertakings set forth in the Indenture.

(c) The Supplemental Indenture authorizing issuance of such Additional Bonds shall require that the balance on deposit in the Reserve Account upon delivery of said Additional Bonds is a sum at least equal to the Reserve Requirement of the Bonds and said Additional Bonds.

(d) Such Additional Bonds shall be equally and ratably secured with all other Bonds herein authorized, without preference or priority.

(e) The Authority shall have entered into an amendment to the Lease Agreement in and by which the Center obligates itself in the manner provided in the Lease Agreement to make payments of rental for the use of the Project at the times and in the amounts sufficient to provide for the payment of the principal of and interest on such Additional Bonds as such principal and interest become due and to make all other payments in the manner provided in the Lease Agreement and the Center shall have entered into a similar amendment to the Use Agreement in and by which the Participants, or any of them, obligates itself or themselves, as the case may be, to make Use Payments sufficient in both time and amount to provide for the payment of Lease Payments required to pay the principal and interest on such Additional Bonds.

Proceedings for the Issuance of Additional Bonds. Whenever the Authority shall have determined to issue Additional Bonds pursuant to the Indenture, the Authority shall adopt a Supplemental Indenture determining that the issuance of such Additional Bonds is necessary for the purposes specified above, specifying the principal amount of such Additional Bonds and prescribing the terms and conditions of such Additional Bonds and the funds to be established for the security and payment thereof. Before such Additional Bonds shall be issued and delivered, the Authority shall file the following documents with the Trustee:

(a) An executed copy of the Supplemental Indenture authorizing such Additional Bonds.

(b) An opinion of Bond Counsel stating: (i) that the execution and delivery of the Additional Bonds have been sufficiently and duly authorized by the Authority; (ii) that the issuance of the Additional Bonds is authorized by the Bond Law and the Indenture; (iii) that the Additional Bonds when duly executed and delivered, will be valid and binding obligations of the Authority, payable from Revenues in accordance with the terms of the Indenture and the Supplemental Indenture authorizing the issuance of such Additional Bonds; (iv) that upon the delivery of the Additional Bonds the aggregate principal amount of Bonds then Outstanding will not exceed the amount at the time permitted by law or the then limits of indebtedness of the Authority, if any; and (v) that the issuance of such Additional Bonds will not, of itself, cause interest on the Bonds to become includable in gross income for federal income tax purposes.

(c) A Certificate of the Authority certifying that these requirements have been either met or provided for, together with a copy of the amendment to the Lease Agreement.

(d) A Certificate of the Authority certifying that the market value of the Project prior to the improvements to be funded by such Additional Bonds is equal to or greater than the Outstanding amount of the Bonds and the Additional Bonds.

THE FINANCING PLAN

The Refunding Program

In 2002, the Authority issued its 2002 Lease Revenue Refunding Bonds, Series A (Santa Cruz Consolidated Emergency Communications Center Project) (the “2002 Bonds”). The 2002 Bonds were issued to refinance prior obligations incurred to originally finance the Project and to acquire additional equipment. On the Delivery Date, the Center will irrevocably deposit a portion of the proceeds from the lease of the Project to the Authority pursuant to the Lease Agreement with the Trustee as escrow bank (the “Escrow Bank”), pursuant to the Escrow Deposit and Trust Agreement, dated as of April 1, 2012 (the “Escrow Agreement”) between the Authority, the Center and the Escrow Bank. The deposit will be in an amount sufficient to pay the interest, principal and the redemption price with respect to all outstanding 2002 Bonds pursuant to an optional redemption of the 2002 Bonds on June 15, 2012, without respect to any interest earnings.

Bond Counsel will deliver an opinion at closing to the effect that the lien of the 2002 Bonds and related lease of the property securing such 2002 Bonds will be discharged, terminated and of no further force and effect upon the deposit with the Escrow Bank of the amounts required pursuant to the Escrow Agreement (see “Estimated Sources and Uses of Funds” below).

The Project Fund

A portion of the proceeds of the Bonds will be deposited in the Project Fund (the “Project Fund”). Proceeds deposited in the Project Fund will be used to terminate an existing lease of space within the Project (see “FINANCIAL INFORMATION - Operating Leases”) and to acquire additional equipment.

Estimated Sources and Uses of Funds

Under the provisions of the Indenture, the Trustee will receive the proceeds from the sale of the Bonds, together with other available funds, and will apply them as follows:

Sources of Funds

Principal Amount of Bonds	$3,965,000.00
Net Original Issue Discount	(38,849.30)
Funds on Deposit with 2002 Trustee	631,505.66
Available Funds	$4,557,656.36

Uses of Funds

Escrow Fund	$2,943,937.50
Project Fund	1,202,478.86
Reserve Account (1)	288,750.00
Underwriters’ Discount	23,790.00
Costs of Issuance Fund (2)	98,700.00
Total Uses	$4,557,656.36

(1) An amount equal to the Reserve Requirement (see “SOURCES OF PAYMENT FOR THE BONDS - Reserve Account” herein).

(2) Expenses include fees of Bond Counsel, Disclosure Counsel, the Financial Advisor, the Trustee, costs of printing the Official Statement, and other costs of issuance of the Bonds.

THE PROJECT

Project Description

The Project leased under the Lease Agreement is comprised of a single story, 13,900 square foot building built in 1995 on 1.76 acres and operated as a consolidated emergency communications center. The Center has estimated the current value of the Property is $8,651,405, based on the current insured value of the existing structure and communications tower of $3,651,655, and the current insured value of building contents of $4,999,780, excluding land value.

Building. The building is located in the City of Santa Cruz and includes a 2,800 square foot, open communications room, staff offices, computer and equipment rooms, a training and conference room, an Emergency Operating Center, Emergency Broadcast Center, and other incidental offices.

Generator/Tower. A 200 KVA diesel fueled emergency power generator designed with an automatic transfer switch is located adjacent to the building. In addition, a free standing, cross braced communications tower to support approximately 12 radio antennas and 1 micro-wave dish have been constructed approximately 700 feet south of the building. The site also includes secured employee parking, extensive landscaping, and a restored native grass coastal prairie.

Equipment. A business phone system, a 9-1-1 computer system, and approximately 10 radio base stations/control stations have been installed. The facility houses 13 work-stations, each equipped with computerized radio transmit and receive capabilities, 6 Video Display Terminals (VDT) and keyboard, electronic tone altering and encoding modules, and telephone and 9-1-1 computer equipment and answering devices. Staff offices are equipped with VDT, telephone and radio monitoring devices and other standard office furnishings.

Computer Aided Dispatch (CAD) System. The facility is equipped with a CAD system based on a centralized minicomputer platform and/or a distributed network of file servers and personal computers/Workstations. The system is configured to provide full redundancy or fault tolerance. Personal computers, terminals (VDT), and printers are attached to the system via a local area network (LAN). The system includes a digital audio recording device for backups and functional software applications to support law enforcement, fire, emergency medical, and other public safety and local government operations. In addition, the CAD system is configured to interface with several external computerized systems and networks in place at county and city offices. Incidental, additional components include large screen status monitors, high speed modems, geographical display monitors, and fire incident printers.

Substitution of Project

The Center has the option at any time and from time to time during the Term of the Lease Agreement to substitute other land, facilities or improvements or to provide for deletion of one or more portions of the Project (a "Substitute Project") for portions of the Project (the "Former Project") provided that the Center has satisfied all of the following requirements which are conditions precedent to such substitution:

(a) The Center shall file with the Authority and the Trustee an amended exhibit to the Lease Agreement which adds thereto a description of such Substitute Project and deletes therefrom the description of the Former Project;

(b) The Center shall have delivered to the Authority and the Trustee an appraisal report, prepared by a MAI appraiser, demonstrating that the market value of the Substitute Project is not less than the market value of the Former Project (as determined prior to the Closing Date or as thereafter determined pursuant to the Lease Agreement);

(c) The Center shall certify in writing to the Authority and the Trustee that such Substitute Project serves the municipal purposes of the Center, constitutes property which the Center is permitted to lease and lease back under the laws of the State and constitutes a public capital improvement within the meaning of the Bond Law;

(d) The Center shall certify in writing to the Authority and the Trustee that such Substitute Project constitutes property for which the Participants are permitted to pay Use Payments therefor;

(e) The Center shall certify in writing to the Authority and the Trustee that the estimated useful life of such Substitute Project is at least as long as the Former Project or at least exceeds the remaining term of the Bonds and that real property has been substituted for real property;

(f) The Center shall certify in writing to the Authority and the Trustee that substitution of the Substitute Project shall not cause the Center to violate any of its covenants, representations and warranties made in the Lease Agreement;

(g) The Center delivers to the Trustee an opinion of Bond Counsel to the effect that the substitution will not adversely affect the exclusion from gross income for purposes of federal income taxation of the interest on the Bonds;

(h) That the Center shall certify in writing to the Authority and the Trustee that the essentiality of the Substitute Project is comparable to the Former Project;

(i) The Substitute Project is subject to no prior liens; and

(j) The Center will obtain a title policy for the Substitute Project meeting the requirements of the Lease Agreement.

Modification of Project

The Center shall, at its own expense, have the right to make additions, modifications and improvements to the Project. All additions, modifications and improvements to the Project shall thereafter comprise part of the Project and be subject to the provisions of the Lease Agreement.

SOURCES OF PAYMENT FOR THE BONDS

General

The Authority has assigned all of its rights under the Lease Agreement, including its rights to receive Lease Payments from the Center and its remedies under the Lease Agreement to the Trustee for the benefit of the Owners of the Bonds. The Lease Payments are sufficient to pay, when due, the annual principal of and interest due with respect to the Bonds.

Principal of and interest on the Bonds will be paid from the Lease Payments payable by the Center for the use and possession of the Project, insurance or condemnation Net Proceeds received in respect to the Project to the extent that such Net Proceeds are not used for repair or replacement, interest or other income derived from the investment of the funds held by the Trustee for the Center pursuant to the Indenture, or, in certain instances, from the Reserve Account established by the Indenture.

Lease Payments will be paid by the Center from Use Payments payable by the Participants. The Bonds are limited obligations of the Authority. The Bonds do not constitute a debt or liability of the State of California or of any political subdivision thereof, other than the Authority. The Authority shall only be obligated to pay the principal of the Bonds, or the interest thereon, from funds described herein, and neither the faith and credit nor the taxing power of the County, the State of California, or any of its political subdivisions is pledged to the payment of the principal of or interest on the Bonds. The Authority has no ad valorem taxing power.

Lease Payments

The Center is required to pay to the Trustee specified amounts for use of the Project, which are equal to the principal of and interest due on the Bonds. The Lease Agreement requires the Center to make Lease Payments to the Authority fifteen Business Days preceding each Payment Date. The Indenture requires that the amount of Lease Payments as are necessary to pay the principal and interest with respect to the Bonds then coming due and payable will be deposited in the Lease Payment Fund maintained by the Trustee under the Indenture (the “Lease Payment Fund”).

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

The Lease Agreement provides that Lease Payments for any portion of the Project will be abated during any period in which there is substantial interference with the Center’s use of such portions of the Project because of damage, destruction or condemnation of such portions. The amount of such abatement will be an amount such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Project not taken, damaged or destroyed. Such abatement will continue for the period commencing with such taking, damage or destruction and ending with the substantial completion of the work of replacement, repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement will continue in full force and effect and the Center waives any right to terminate the Lease Agreement by virtue of such damages, destruction and taking. Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the Lease Agreement to the extent that the proceeds of rental interruption insurance or amounts in the Lease Payment Fund, the Bond Fund or the Reserve Account are available to pay Lease Payments which would otherwise be abated under the Lease Agreement.

During any period of abatement of Lease Payments, the Trustee may pay principal and interest with respect to the Bonds allocable to such portions of the Project from moneys on deposit in the Reserve Account, and, if available, proceeds of insurance or condemnation award. The Center's reduced rental payments will constitute the total Lease Payments. The reduced Lease Payments may not be sufficient to pay principal and interest with respect to the Bond in the amounts and at the rates set forth therein. The failure to make such payment of principal and interest would not constitute a default by the Center under the Indenture, the Lease Agreement or otherwise.

The obligation of the Center to make Lease Payments does not constitute an indebtedness of the Center for which the Center is obligated to levy or pledge any form of taxation or for which the Center has levied or pledged any form of taxation. Neither the Bonds nor the obligation of the Center to make Lease Payments constitutes an indebtedness of the Center, the State of California, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. The Center has no ad valorem taxing power.

Use Payments

Each Participant is required to pay to the Center specified amounts for the use of the facility to be operated by the Center, which, in total, are equal to the Lease Payments. The Use Agreement requires the Participants to make Use Payments to the Center 30 days preceding each Interest Payment Date commencing with the December 15, 2012 Interest Payment Date. Each Participant's share of Use Payments is shown under the heading "FINANCIAL INFORMATION - Revenues - Use Payments" herein. No Participant is liable for the Use Payment of any other Participant.

The Lease Agreement requires that the Use Payments are to be deposited in the Lease Payment Fund, held by the Center, and applied to make Lease Payments when due. The Participants shall receive a credit against the Use Payment due equal to the amount of any credit received by the Center against its Lease Payment for amounts on deposit in the Bond Fund, including any amount in excess of the Reserve Requirement, as well as the amount on deposit in the Lease Payment Fund.

Each Participant covenants in the Use Agreement to take such action as may be necessary to include all Use Payments in its annual budget and to make annual appropriations for all such Use Payments. The Use Agreement provides that the several actions required by such covenants are deemed to be and shall be construed to be ministerial duties imposed by law and that it is the duty of each and every public official of each Participant to take such action and do such things as are required by law in the performance of the official duty of such official to enable the Participants and the Center to carry out and perform the covenants in the Lease Agreement agreed to be carried out and performed by the Participants and the Center.

The obligation of each Participant to make Use Payments does not constitute an indebtedness of any Participant for which any Participant is obliged to levy or pledge any form of taxation or for which any Participant has levied or pledged any form of taxation. The obligation of any Participant to make Use Payments does not constitute an indebtedness of any Participant, the State of California, or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. Deficiency in payment by a Participant will not be paid by any other Participant.

Reserve Account

A Reserve Account has been established under the Indenture to be held by the Trustee to further secure the timely payment of principal and interest on the Bonds. The amount to be maintained in the Reserve Account is an amount equal to the lesser of maximum annual Lease Payments, 10% of the aggregate principal amount of the Bonds, or 125% of the average annual Lease Payments (the "Reserve

Requirement"). In the event that the Center fails to deposit with the Trustee the full amount required by the Lease Agreement to pay principal and interest due on the Bonds, the Trustee will withdraw from the Reserve Account, the difference between the amount required to be on deposit and the amount available on such date.

Amounts in excess of the Reserve Requirement will be transferred to the Lease Payment Fund to be applied as a credit against the next succeeding Lease Payments.

Insurance Relating to the Project

The Lease Agreement requires the Center to maintain or cause to be maintained with respect to the Project, comprehensive general public liability and property damage insurance and fire insurance with extended coverage. The Center is also required to maintain rental interruption insurance covering loss of the use of any part of the Project in an amount equal to two times the maximum annual Lease Payments. The Center is only required to maintain earthquake insurance only with respect to structures and only to the extent available at reasonable cost from reputable insurers (see "APPENDIX A – SUMMARY OF THE LEGAL DOCUMENTS - THE LEASE AGREEMENT - Insurance" and "RISK FACTORS – The Lease Payments – Insurance" herein). Although the Center currently maintains earthquake insurance with respect to the Project, damage from earthquakes may not be covered in future years. In the event the Project is damaged or destroyed, the Center may apply the net proceeds of any insurance award (except that included for the purposes of rental interruption) to replace, repair, restore, modify or improve (collectively, "repair") the Project, or if repairing the Project is not economically feasible, or in the best interest of the Center, to payment or prepayment of the Lease Payments. In the event the Project has been damaged or destroyed and the Center directs the Trustee to apply insurance proceeds arising from such damage or destruction to the payment or prepayment of Lease Payments, then the Trustee shall apply such proceeds to the redemption of Bonds as described under the caption "THE BONDS – Redemption - Special Mandatory Redemption" herein. The amount of the Lease Payments will be adjusted or abated (but only after all available moneys have been depleted) during any period in which damage or destruction to the Project or condemnation of the Project substantially interferes with the Center's use and possession thereof.

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

Reentering and Reletting

If the Center or the Participants default in performance of their respective obligations under the Lease Agreement or the Use Agreement, as applicable, the Trustee, as assignee of the Authority, may re-enter and relet the Project and may enforce the Lease Agreement and hold the Center liable for all Lease Payments on an annual basis while re-entering and reletting the Project. Such re-entry and reletting shall not effect a surrender of the Lease Agreement. The Center, in the event of default, waives all rights to any rentals received by the Trustee through reletting of the Project. The Center agrees to pay all costs, loss or damage howsoever occurring.

Encumbrances

The Center and the Authority may not create any mortgage, pledge, lien, charge or encumbrance upon the Project other than "Permitted Encumbrances." The Center has the right under the Lease Agreement, however, to delete or substitute for portions of the Project with an alternate Project subject to the satisfaction of certain requirements.

RISK FACTORS

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

The Lease Payments

Center's Lease Payments. The Center's Lease Payments and other payments due under the Lease Agreement (including the costs of improvement, repair and maintenance of the Project and taxes, other governmental charges and assessments levied against the Project) are not secured by any pledge of taxes or other revenues of the Center but are payable from the Participants' Use Payments collected by the Center.

Abatement. The amount of Lease Payments due under the Lease and the corresponding Use Payments due under the Use Agreement will be adjusted or abated during any period in which by reason of damage or destruction to the Project or eminent domain proceedings there is substantial interference with the use and possession of the Project. In addition, the discovery of toxic or other environmentally hazardous materials could result in substantial interference with the use of the Project, although the Center has no reason to believe there are any hazardous environmental conditions at the site. Notwithstanding the provisions of the Lease Agreement and the Indenture specifying the extent of abatement in the event of the Center's failure to have use and possession of the Project, such provisions may be superseded by operation of law, and, in such event, the resulting Use Payments and the Participants and the corresponding Lease Payments of the Center may not be sufficient to pay all of that portion of the remaining principal and interest represented by the Bonds.

Insurance. The Lease Agreement obligates the Center to obtain and keep in force various forms of insurance, to assure repair or replacement of the Project in the event of damage or destruction to the Project (see "APPENDIX A - SUMMARY OF THE LEGAL DOCUMENTS - THE LEASE AGREEMENT - Insurance" herein). The Center makes no representation as to the ability of any insurer to fulfill its obligations under any insurance policy provided for in the Lease Agreement. In addition, the Center is required to obtain earthquake and flood insurance only if it is available from a reputable insurer at a reasonable cost. Although the Center currently maintains earthquake insurance with respect to the Project, damage from earthquakes may not be covered by such insurance in future years. The Project is not within a mapped flood plain.

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

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

Project be affected by a hazardous substance might be to limit the beneficial use of the Project upon discovery and during remediation.

Limited Recourse on Default. If the Center defaults on its obligations to make Lease Payments with respect to the Project or any portion thereof due to a default of one or more Participants to pay Use Payments, the Trustee may have limited ability to relet the Project or portions of the Project to provide a source of payments sufficient to meet principal and interest payments with respect to the Bonds and preserve the tax-exempt nature of the interest component of the Lease Payments and the Bonds. No assurance can be given that the Trustee will be able to relet the Project or portions thereof so as to provide Lease Payments sufficient to pay principal of and interest on the Bonds in a timely manner. **In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement.** The Center, while it is a lessee, will only be liable for Lease Payments on an annual basis, and the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against public entities in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

The Use Payments

Participants' Use Payments and Other Payments. Each Participant's Use Payments and other payments due under the Use Agreement (including a proportionate share of the costs of improvement, repair and maintenance of the Project and taxes, other governmental charges and assessments levied against the Project) are not secured by any pledge of taxes or other revenues of any of the Participants, but are payable from yearly appropriations of any funds lawfully available to each of the Participants. In the event any Participant's revenue sources are less than its total obligations, such Participant could choose to fund other services before making Use Payments and other payments due under the Use Agreement. The same result could occur if, because of State Constitutional limits on expenditures, a Participant is not permitted to appropriate and spend all of its available revenues (see "Constitutional Limitations on Expenditures" below). To the extent these types of events or other events adversely affecting the funds available to the Participants occur in any year, the funds available to make Use Payments may be decreased. Each Participant's proportionate share of Use Payments is shown under the heading "FINANCIAL INFORMATION - Revenues - Use Payments" herein.

Each Participant has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by any Participant, the funds available to such Participant to make Use Payments may be decreased. **Deficiency in any payment by a Participant will not be paid by any other Participant.**

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

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

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

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

Proposition 218 also extended the initiative power to reducing or repealing any local taxes, assessments, fees and charges. This extension of the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218, and could result in retroactive repeal or reduction in any existing taxes, assessments, fees and charges, subject to overriding federal constitutional principles relating to the impairment of contracts.

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

The Participants do not expect the application of Proposition 218 will have a material adverse impact on their ability to pay Use Payments.

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

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

For Fiscal Year 2009/10, a portion of the Participants' property tax revenues were diverted to the State as a result of a Proposition 1A suspension. Proposition 1A also provides that if the State reduces the vehicle license fee ("VLF") rate currently in effect, 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 22. On November 2, 2010, voters in the State approved Proposition 22. Proposition 22, known as the "Local Taxpayer, Public Safety, and Transportation Protection Act of 2010," eliminates or reduces the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues. However, redevelopment agencies have been dissolved by State legislation, and in effect, Proposition 22 no longer applies with respect to (iii) in the preceding sentence.

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

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

State Budget Issues Affecting Participants

State Budget. The State of California is experiencing significant financial and budgetary stress. State budgets are affected by national and state economic conditions and other factors over which the Participants have no control. The State's financial condition and budget policies affect communities and local public agencies throughout California. To the extent that the State budget process results in reduced revenues to a Participant, the Participant will be required to make adjustments to its budget. Each State budget contains a number of measures which impact the Participants' finances.

The State's fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the Governor by January 10 of each year for the next fiscal year (the "Governor's Budget"). Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior years. Following the submission of the Governor's Budget, the California Legislature takes up the proposal.

Redevelopment Agency Legislation. The adopted State budget for Fiscal Year 2011/12 included as trailer bills Assembly Bill No. 26 (First Extraordinary Session) ("AB X1 26") and Assembly Bill No. 27 (First Extraordinary Session) ("AB X1 27"), which the Governor signed on June 29, 2011. AB X1 26 provides for the windup and dissolution of redevelopment agencies, such as the Agency, and AB X1 27 provided for an alternative voluntary redevelopment program in lieu of dissolution of the Agency. On July 18, 2011, the California Redevelopment Association and the League of California Cities filed a petition with the California Supreme Court (the "Court"), requesting the Court to review the constitutionality of AB X1 26 and AB X1 27.

On December 29, 2011, the Court issued its opinion, which substantially upheld AB X1 26 and invalidated AB X1 27. As a result of the decision, all California redevelopment agencies, including the redevelopment agencies formed by the Participants, were dissolved as of February 1, 2012.

On an annual basis, each Participant may have received significant revenues from its redevelopment agency and from properties owned or formerly owned by such redevelopment agency which are affected by the implementation of AB X1 26. Elimination of all or a portion of such revenues may impact a Participant's general fund budget in future years.

AB1X 26, as modified by the Court's opinion, suspends various redevelopment agency activities and prohibits redevelopment agencies from incurring indebtedness, making loans or grants, or entering into contracts after June 29, 2011. As of February 1, 2012, AB X1 26 dissolves all redevelopment agencies in existence and designates "successor agencies." The Participants' will act as the successor agency to their respective redevelopment agencies. Property taxes that would have been allocated to each redevelopment agency if the agencies had not been dissolved will be allocated to various taxing entities in the county and to specified expenses of the dissolved agency. AB X1 26 provides that the successor agencies will administer the redevelopment agencies' existing "enforceable obligations." Although, as defined in AB X1 26, "enforceable obligations" include loan agreements and other legally binding and enforceable agreements, AB X1 26 generally provides that following dissolution of an agency, agreements between a redevelopment agency and the city or county that established the agency are not "enforceable obligations." This could include certain transactions between a Participant and its respective redevelopment agency. However, AB X1 26 provides that certain agreements between a redevelopment agency and the city or county that established the agency will be deemed "enforceable obligations" if certain criteria are met.

AB X1 26 also provides that a successor entity wishing to enter or reenter into agreements with the city or county that formed the redevelopment agency it is succeeding may do so upon obtaining the approval of its oversight board.

Ongoing State Budget Risks. As noted above, the State is facing significant financial stress. The State's financial difficulties may affect the amount and timing of payments to or for the benefit of cities and counties of funds provided by the State. From time to time, some of the State's budget solutions may increase the financial stress of cities, counties and other local governments because they (1) decrease local revenues (particularly the property tax, road improvement funding, public safety or other categorical funded initiatives) or (2) directly or indirectly increase demand for local programs (such as public safety or indigent health programs). There can be no assurances that the State's financial difficulties will not materially adversely affect the financial condition of any of the Participants.

The financial condition of the State is subject to a number of other risks in the future, including particularly potential significant increases in required state contributions to the Public Employees' Retirement System, increased financial obligations related to other post-employment benefits, and increased debt service.

Aside from AB X1 26 described above no new proposals to reduce or delay material sources of revenues to cities were included in the adopted Fiscal Year 2011/12 Budget. However, in Fiscal Years 2008/09 and 2009/10 the State either deferred payments or issued IOU's which could not immediately be cashed. No prediction can be made by the Participants as to what measures the State will adopt to respond to the current or potential future financial difficulties. The Participants cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on the individual Participants' finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the Participant's have no control. There can be no assurances that State actions to respond to State financial difficulties will not adversely affect the financial condition of any of the Participants.

Information regarding the State Budget is regularly available at various State-maintained websites. The Fiscal Year 2012/13 Proposed Budget and the 2011/12 State Budget may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading "California Budget." Additionally, summary information for the 2012/13 Proposed Budget and 2011/12 Budget are posted by the Office of the Legislative Analyst (the "LAO") at www.lao.ca.gov, under the heading "Budget (State)." The information referred to on such websites is prepared by the respective State agency maintaining each website and not by the Authority, the Center or the Participants, and the Authority, the Center or the Participants take no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

Seismic Conditions and Other Hazards

The Project is located in an area classified as Seismic Risk Zone 4 by the Uniform Building Code. Seismic Risk Zone 4 includes the greater San Francisco Bay Area and all of coastal California. It is the highest risk zone classification of the Uniform Building Code. The Project is also located in an area where there is high or extreme danger of wildfires during dry months and during periods of prolonged drought. In May 2008, 35 residences and several outbuildings were lost and 4,270 acres were burned in the Summit fire. In June 2008, 3 residences and several outbuildings were lost and 520 acres were burned in the Martin fire.

If there were to be an occurrence of severe seismic activity in the County of Santa Cruz or a wildfire in the area surrounding the Project, there could be substantial damage to and interference with the Center's right to use and occupy all or a portion of the Project, which could result in Lease Payments being subject to abatement. See "RISK FACTORS - The Lease Payments - Abatement" herein.

Early Redemption Risk

Early prepayment of the Lease Payments and redemption of the Bonds may occur in whole or in part without premium, on any date if the Project or a portion thereof is lost, destroyed or damaged beyond repair or taken by eminent domain, or on any Interest Payment date on or after June 15, 2022, without a premium, if the Center exercises its right to prepay Lease Payments in whole or in part, or if any of the Participants exercises their right to prepay Use Payments pursuant to the provisions of the Use Agreement, the Lease Agreement and the Indenture.

Loss of Tax Exemption

As discussed under the caption "LEGAL MATTERS - Tax Exemption" herein, 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 future acts or omissions of the Authority, the Center or the Participants in violation of their covenants contained in the Indenture and the Lease Agreement. Should such an event of taxability occur, the Bonds are not subject to special redemption or any increase in interest rate and will remain outstanding until maturity or until prepaid under one of the redemption provisions contained in the Indenture.

In addition, Congress has considered in the past, is currently considering and may consider in the future, legislative proposals, including some that carry retroactive effective dates, that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. The Authority can provide no assurance that federal tax law will not change while the Bonds are outstanding or that any such changes will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes. If the exclusion of interest on the Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the Bonds would be adversely impacted.

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds).

Secondary Market Risk

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

THE AUTHORITY

The Authority is a joint exercise of powers authority organized and existing under and by virtue of the Joint Powers Act. The County of Santa Cruz, pursuant to Resolution No. 152-90 adopted on March 6, 1990, and the Santa Cruz County Redevelopment Agency, pursuant to Resolution No. 153-90 adopted on March 6, 1990, formed the Authority by the execution of a Joint Exercise of Powers Agreement.

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

The Bond Law provides for the issuance of revenue bonds of joint exercise of powers authorities, such as the Authority, to be repaid solely from the revenues of certain public obligations, such as the Lease Agreement. The Authority has no taxing power. Pursuant to Bond Law, the Authority is authorized to issue its revenue bonds for the purpose of financing, among other things, public capital improvement projects.

THE CENTER

The Center is a joint exercise of powers authority organized and existing under and by virtue of the Joint Powers Act. The Center was formed on July 1, 1991 by the execution of a joint powers agreement by and among the Participants, namely, the cities of Capitola, Santa Cruz and Watsonville and the County of Santa Cruz. The Center is known locally as "Santa Cruz Regional 9-1-1."

The Center was created to establish, equip, maintain, operate and staff a single site, public safety communications facility to provide 9-1-1 and public safety dispatching services for the law enforcement, fire, rescue and emergency medical providers of the Participants (see "THE PROJECT" herein).

The Center also provides such services on a contractual basis to other governmental entities. For fiscal year 2010/11, the Center provided service to American Medical Response West (the local paramedic and ambulance transport provider), County Animal Services Authority, University of California Santa Cruz Fire Department, Santa Cruz County Fire and ten fire districts. In fiscal year 2011/12, the Center began providing service to the City of Hollister and the County of San Benito.

Governing Board

The Center is governed by a four-member Governing Board. The Chairman of the Center's Board of Directors is selected from among its members. The Center's current Board members are as follows:

Board Member	Participant	Title
Martin Bernal	City of Santa Cruz	City Manager
Jamie Goldstein, Chairman	City of Capitola	City Manager
Susan A. Mauriello	County of Santa Cruz	County Administrative Officer
Carlos Palacios	City of Watsonville	City Manager

The General Manager is appointed by the Center's Board of Directors to administer the Center's staff and generally implement policies established by the Board. Current staff who administer the Center include:

Dennis Kidd, Interim General Manager. Mr. Kidd is the Interim General Manager. He had been the Center's Assistant General Manager since 2011. Previously he was Operations Division Manager as well as Support Services Division Manager. He holds an undergraduate degree in Business Management and a Master's Degree in Public Administration, both from San Jose State University. He has over 26 years experience in 9-1-1 with over 12 years in management positions.

Amethyst Uchida, Systems Division Manager. Ms. Uchida has worked for the Center since 2005, holding positions of increasing responsibility culminating in her promotion to Division Manager in 2008. She has 16 years of experience working with information technology, specializing in public safety technology for over 12 years. She has a Bachelor's degree in Psychology from the University of California, Santa Cruz.

Mary Jo Walker, Controller. Ms. Walker is the Auditor-Controller of the County of Santa Cruz and acts as Controller of the Center.

Dana McRae, Counsel to the Center. Ms. McRae is the County Counsel for the County of Santa Cruz and acts as the Counsel for the Center.

THE COUNTY OF SANTA CRUZ

The Center's four Participants are located in the County of Santa Cruz, California.

General Information for the County of Santa Cruz

Santa Cruz County is situated at the northern tip of Monterey Bay, 65 miles south of San Francisco, 35 miles north of Monterey, and 35 miles southwest of the Silicon Valley. The County is the gateway to the Monterey Bay National Marine Sanctuary, has 29 miles of beaches and includes six state parks and six state beaches. It is the second smallest county in California in land area, containing a total of 440 square miles. Two-thirds of the County is considered to be forest land by the U.S. Department of Agriculture. There are four incorporated cities in the County of Santa Cruz: Capitola, Santa Cruz, Scotts Valley and Watsonville. The City of Santa Cruz was incorporated as a city in 1866. It is the principal city and county seat of the County and is the site of the Santa Cruz campus of the University of California. The City of Watsonville, established in 1868, lies 18 miles southeast of the City of Santa Cruz. It is the trading and shipping center for the Pajaro River Valley, a fertile agricultural region. Watsonville is the nucleus of the County's food-processing activities, such as canning and freezing, which are closely tied to farming. Capitola stretches along the coast east and south of the City of Santa Cruz. It was incorporated in 1949 and is a center for tourism. Scotts Valley, incorporated in 1966, lies north of the City of Santa Cruz. This primarily residential area has recently been the site of light manufacturing development predominately for the electronics industry.

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

Community Information

Public school education is available through 17 elementary schools, 12 secondary schools and three unified school districts as well as numerous alternative education programs. The University of California established its Santa Cruz campus in 1965. The University is structured into ten independent undergraduate colleges and offers graduate study in 34 academic fields. Eight of the colleges are self-contained educational and residential communities. Approximately half of all students live on campus, the highest ratio of on-campus housing in the University of California system. University sponsored activities form an important part of the cultural life of Santa Cruz County. The 2,000-acre campus, set among redwood groves and meadows, lies on the northwest boundary of the City of Santa Cruz.

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

Santa Cruz also hosts the Long Marine Laboratory, the Lick Observatory, the National Marine Fisheries Service, and the Oiled Wildlife Veterinary Care and Research Center.

There are two full service hospitals in the County. Santa Cruz Dominican Hospital is located in the Santa Cruz area and Watsonville Community Hospital is located in Watsonville. A maternity and outpatient surgery center, Sutter Hospital, is also located in the County. While jobs in health services will continue to expand, a restructuring of service delivery from inpatient to outpatient care will require fewer registered nurses and facility support personnel, but more medical assistants, technicians and home health aides.

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

Transportation

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

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

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

Population

Approximately 49.4% of the County's population lives in the County's four incorporated cities: Capitola, Santa Cruz, Scotts Valley and Watsonville.

TABLE NO. 1
COUNTY OF SANTA CRUZ
POPULATION
INCORPORATED CITIES AND UNINCORPORATED COMMUNITIES
2007 – 2011

	Incorporated Cities		Unincorporated Communities		Santa Cruz County	
Year	Population	Percentage Change	Population	Percentage Change	Population	Percentage Change
2007	128,778		127,765		256,543	
2008	130,150	1.1%	128,587	0.6%	258,737	0.9%
2009	131,638	1.1%	129,254	0.5%	260,892	0.8%
2010	132,628	0.8%	129,924	0.5%	262,552	0.6%
2011	133,909	1.0%	130,521	0.5%	264,430	0.7%
% Increase Between 2007 - 2011		4.0%		2.2%		3.1%

The population in the incorporated cities in Santa Cruz County is set forth in the following table.

TABLE NO. 2
COUNTY OF SANTA CRUZ
POPULATION IN INCORPORATED CITIES
2007 – 2011

Year	Capitola	Santa Cruz	Scotts Valley	Watsonville	Total
2007	9,735	57,505	11,358	50,180	128,778
2008	9,793	58,268	11,441	50,648	130,150
2009	9,861	59,357	11,520	50,900	131,638
2010	9,924	59,871	11,587	51,246	132,628
2011	9,974	60,800	11,640	51,495	133,909
% Increase Between 2007 - 2011	2.5%	5.7%	2.5%	2.6%	4.0%

Source: *State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Counts" Sacramento, California, August 2011, "E-5 Population and Housing Estimates for Cities, Counties, and the State, 2010-2011, with 2010 Benchmark" Sacramento, California, May 2011 and "January 2011 Tables of City Population Ranked by Size, Numeric and Percent Change" Sacramento, California, May 2011.*

The County is adjacent to Santa Clara, Monterey and San Mateo Counties. The following table sets forth the population for Santa Cruz County, Santa Clara County and Monterey County between 2007 and 2011.

TABLE NO. 3
POPULATION
COUNTIES OF SANTA CRUZ, SANTA CLARA AND MONTEREY
2007 – 2011

	SANTA CRUZ COUNTY		SANTA CLARA COUNTY		MONTEREY COUNTY	
Year	Population	Percentage Change	Population	Percentage Change	Population	Percentage Change
2007	256,543		1,725,066		406,890	
2008	258,737	0.9%	1,747,912	1.3%	409,387	0.6%
2009	260,892	0.8%	1,767,204	1.1%	412,233	0.7%
2010	262,552	0.6%	1,781,427	0.8%	415,108	0.7%
2011	264,430	0.7%	1,797,375	0.9%	419,038	0.9%
% Increase Between 2007 - 2011		3.1%		4.2%		3.0%

Source: *State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties and the State, 2001-2010, with 2000 & 2010 Census Counts" Sacramento, California, August 2011, "E-5 Population and Housing Estimates for Cities, Counties, and the State, 2010-2011, with 2010 Benchmark" Sacramento, California, May 2011 and "January 2011 Tables of City Population Ranked by Size, Numeric and Percent Change" Sacramento, California, May 2011.*

Per Capita Income

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

TABLE NO. 4
PER CAPITA INCOME
SANTA CRUZ COUNTY, CALIFORNIA AND UNITED STATES
2006 – 2010

Year	Santa Cruz County	State of California	United States
2006	$40,632	$41,518	$37,725
2007	41,917	43,211	39,506
2008	45,925	43,993	40,947
2009	49,145	41,353	38,846
2010	Not Available	42,578	39,945

Source: U.S. Department of Commerce, Bureau of Economic Analysis, (February 2012 Revision).

Employment and Industry

Industrial

Industrial activity has two distinct segments, manufacture of durable goods and manufacture of non-durable goods, including food processing. Durable goods manufacture includes electronics, electrical equipment and machinery.

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

New information technologies and the County's proximity to Silicon Valley are factors that contribute to growth in the areas of computer, networking services, and software development.

Agriculture

Agriculture is the region's largest industry. The gross value of crops has increased steadily in recent years, as some segments of the industry have adapted successfully to changing consumer tastes, adopted new technologies and taken advantage of growing overseas markets. The agriculture economy has become highly diversified, producing over 2,000 kinds of crops in Santa Cruz County. According to the County's Agriculture Commissioner, the largest producers are strawberries, raspberries, cut flowers, woody ornamentals and bush berries.

Tourism

Santa Cruz County is an important vacation and recreation area. Miles of coastline and accessible beaches border the second largest Marine Sanctuary in the world, an amusement park and other attractions, acres of redwood forest land, six State Parks comprising 5,275 acres of parkland and 14.5 miles of beach, U-pick farms, world class wineries, and the presence of a diverse music and art scene, all in close proximity to the Bay Area.

Commercial

In addition to traditional commercial and retail businesses, Santa Cruz County is home to several businesses started by local entrepreneurs with nationally-recognized brands and products, including O'Neill Wetsuits, Santa Cruz Skateboards and Giro cycling helmets. The County also has a large and productive arts community.

Santa Cruz County is located in the Santa Cruz-Watsonville Metropolitan Statistical Area (MSA). As of February 2012, six major job categories constitute 82.7% of the work force. These are government (22.0%), service producing (16.3%), educational and health services (15.6%), leisure and hospitality (12.6%), professional and business services (10.7%), and manufacturing (5.5%). The February 2012 unemployment rate in the Santa Cruz-Watsonville MSA was 13.6% (not seasonally adjusted to account for agricultural employment). The State of California February 2012 unemployment rate (unadjusted) was 11.4%. The employment in the Santa Cruz-Watsonville MSA is presented in the following table.

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

Industry	2008	2009	2010	2011	2012
Government	22.9	22.5	19.5	20.9	20.3
Other Services	3.9	3.7	3.6	3.5	3.5
Leisure and Hospitality	10.8	10.4	10.2	10.3	11.6
Educational and Health Services	12.5	13.0	13.3	13.9	14.4
Professional and Business Services	9.9	9.6	8.7	9.0	9.9
Financial Activities	3.5	3.4	3.3	3.1	3.1
Information	1.1	1.0	0.9	0.9	0.9
Transportation, Warehousing and Utilities	1.4	1.3	1.3	1.5	1.7
Service Producing					
Retail Trade	12.6	11.4	11.1	11.2	11.5
Wholesale Trade	4.0	4.0	3.5	3.5	3.5
Manufacturing					
Nondurable Goods	2.3	2.1	2.2	1.9	2.2
Durable Goods	3.5	3.1	2.7	2.9	2.9
Goods Producing					
Mining, Logging and Construction	4.8	3.3	2.7	2.6	2.7
Total Nonfarm	93.2	88.8	83.0	85.2	88.2
Farm	3.8	3.6	4.0	4.0	4.1
Total (all industries)	97.0	92.4	87.0	89.2	92.3

Source: State of California Employment Development Department, Labor Market Information Division, "*Industry Employment & Labor Force - by month, March 2011 Benchmark.*"

(1) Annually, as of February.

The major employers operating within the jurisdiction of the Cities of Capitola, Santa Cruz and Watsonville and their respective number of employees as of June 30, 2011 are as follows:

TABLE NO. 6
CITY OF CAPITOLA

Employer	Business	Employees
Macy's	Department Store	150
Subaru, Toyota, Kia of Santa Cruz	Automobile Dealership	149
Gayle's Bakery & Rosticceria	Eating and Drinking Establishment	140
Whole Foods Market	Retailer of Natural and Organic Foods	123
Shadowbrook Restaurant	Eating and Drinking Establishment	120
Kohls	Department Store	108
Orchard Supply Hardware	Building Materials Store	110
Sears	Department Store	95
Pacific Coast Manor	Nursing Home	90
Trader Joe's	Specialty Retail Grocery Store	90

Source: City of Capitola Comprehensive Annual Financial Report.

TABLE NO. 7
CITY OF SANTA CRUZ

Employer	Business	Employees
University of California, Santa Cruz	Education	7,364
County of Santa Cruz	Government	2,319
City of Santa Cruz	Government	780
Plantronics	Electronics	505
Santa Cruz Beach-Boardwalk	Entertainment/Arcades	347
Costco	Membership Warehouses	239
Threshold Enterprises, LTD	Nutritional Supplements	213
Community Bridges	Interconnected Community Website	212
New Teacher Center	Non-Profit Teaching Organization	211
Santa Cruz Biotechnology Incorporated	Scientific Research Products	204

Source: City of Santa Cruz Comprehensive Annual Financial Report.

TABLE NO. 8
CITY OF WATSONVILLE

Employer	Business	Employees
Pajaro Valley Unified School District	Education	2,061
Watsonville Community Hospital	Health Care	693
Fox Factory	Motor Vehicle Parts & Accessories	400
City of Watsonville*	Government	374
West Marine Products	Marine Products	279
Target	Discount Retail Store	211
S Martinelli & Co.	Beverage Company	180
Couch Distributing	Beverage Distributor	170
Salud Para La Gente	Health Clinic	160
Mi Pueblo Food Center	Restaurant and Grocery Store	144

Source: City of Watsonville Comprehensive Annual Financial Report.

* Full time equivalent employees.

Other major employees located in the County, but outside of the Cities of Capitola, Santa Cruz and Watsonville include Dominican Hospital, Cabrillo College, Santa Cruz City School District and Seagate Technology.

Commercial Activity

The following table summarizes the volume of retail and food services sales and taxable transactions for the County for 2006 through 2010 (the most recent year for which statistics are available for the full year).

TABLE NO. 9
COUNTY OF SANTA CRUZ
TOTAL TAXABLE TRANSACTIONS
(in thousands)
2006 – 2010

Year	Retail and Food Services ($000's)	% Change	Retail and Food Services Permits	Total Taxable Transactions ($000's)	% Change	Issued Sales Permits
2006	$2,358,563		3,801	$3,165,946		8,626
2007	2,385,543	1.1%	3,719	3,195,786	0.9%	8,568
2008	2,211,878	(7.3)%	3,807	3,031,072	(5.2)%	8,614
2009	1,956,754	(11.5)%	5,557	2,638,469	(13.0)%	8,092
2010	2,079,236	6.3%	5,711	2,731,832	3.5%	8,222

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

The following table sets forth taxable transactions in the County of Santa Cruz and surrounding counties for 2006 through 2010 (the most recent year for which statistics are available for the full year).

TABLE NO. 10
TOTAL TAXABLE TRANSACTIONS
COUNTY OF SANTA CRUZ AND SURROUNDING COUNTIES
(in thousands)
2006 – 2010

County	2006	2007	2008	2009	2010	% Change from 2006 - 2010
SANTA CRUZ	$ 3,165,946	$ 3,195,786	$ 3,031,072	$ 2,638,469	$ 2,731,832	(13.7)%
San Mateo	12,900,391	13,326,306	13,137,913	11,327,022	11,966,338	(7.2)%
Santa Clara	32,273,238	33,663,448	32,274,306	27,427,709	30,523,322	(5.4)%
San Benito	536,846	550,032	504,523	422,942	449,872	(16.2)%
Monterey	5,658,166	5,680,652	5,399,594	4,705,845	4,955,562	(12.4)%

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

Taxable transactions by type of business for the County are summarized below for 2006 through 2010 (the most recent year for which statistics are available for the full year).

TABLE NO. 11
COUNTY OF SANTA CRUZ
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
(in thousands)
2006 – 2010

	2006	**2007**	**2008**	**2009**	**2010**
Retail and Food Services					
Motor Vehicle and Parts Dealers	$ 336,048	$ 341,717	$ 248,129	$ 202,343	$ 217,152
Furniture and Home Furnishings Stores	69,286	73,331	57,776	42,214	42,656
Electronics and Appliance Stores	45,811	43,465	46,476	60,553	63,183
Building Material, Garden Supplies	287,440	283,731	240,523	200,782	243,660
Food and Beverage Stores	219,786	236,194	225,836	210,528	215,102
Health and Personal Care Stores	79,552	83,576	85,288	91,471	89,147
Gasoline Stations	223,934	252,183	290,255	238,382	283,133
Clothing and Accessories Stores	108,005	115,004	120,243	128,188	133,381
Sporting Goods, Hobby, Books, Music	91,294	87,901	72,756	78,106	79,066
General Merchandise	308,459	305,958	273,635	232,232	235,293
Miscellaneous Store Retailers	263,130	223,765	207,397	127,037	126,282
Nonstore Retailers	-	-	-	13,172	13,818
Food Services and Drinking Places	325,818	338,718	343,564	331,746	337,363
Total Retail and Food Services	**2,358,563**	**2,385,543**	**2,211,878**	**1,956,754**	**2,079,236**
All Other Outlets	807,383	810,243	819,194	681,715	652,596
Total All Outlets	**$3,165,946**	**$3,195,786**	**$3,031,072**	**$2,638,469**	**$2,731,832**

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

Note: In 2009, the classification of some categories were changed and are not directly comparable with prior years.

FINANCIAL INFORMATION

Budgetary Process and Administration of the Center

In accordance with the Government Code, the Center prepares and adopts a budget for each fiscal year. Prior to July 1, the General Manager submits to the Board of Directors (the "Board") a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. On or before June 30, the budget is legally enacted by Board action.

All budgetary changes that alter the total expenditures of the Center require approval of the Board. The Controller is responsible for controlling expenditures within budgeted amounts.

Each annual operating budget shall include a reserve for contingencies equal to 4% of otherwise budgeted and approved expenditures. Moneys may be expended from this reserve only with the approval of the Board. The reserve lapses at the end of each fiscal year, with the excess funds reverting back to the Participants in proportion to their assigned contributions. The total assessment against each Participant is reduced by expected revenue for contracts for dispatch services to other agencies and by unencumbered funds available at the end of the fiscal year.

Revenues

The Center's revenues consist primarily of Participants' reimbursements for expenditures incurred in connection with the provision of services and the financing of the facilities and equipment used in the operation of the Center, and charges to other users for dispatch services, such as fire districts and ambulance providers.

Operating Costs Reimbursements. The Center bills the Participants quarterly for their proportionate share of the costs to operate the facilities, provide the emergency communications services and pay the Use Payments. Budgeted operation and maintenance costs are to be billed as follows: 1st Quarter - 35%; 2nd Quarter - 25%; 3rd Quarter - 25%; 4th Quarter - 15%. The Center will bill in arrears for any costs in excess of budgeted costs. A 5% late charge is imposed upon any payment not received within 30 days of the scheduled due date. An additional 5% late charge is imposed if payment is not made in the following 30 days. If the payment is not made within 75 days of the date due, such Participant shall be in default and subject to termination of its participation in the Center. Such terminated Participant shall continue to be liable for defaulted payments, late charges and for future assessments as if the terminated Participant were still a party to the joint powers agreement. Each Participant is also responsible for their share of any debt service payments regardless of whether they have withdrawn from the Center, unless the remaining Participants modify their percentage of Use Payments payable to take into account the percentage formerly paid by the withdrawing Participant.

The Center also bills users of the system who are not Participants. These users include fire districts and ambulance services. The Participants' and certain contract users' proportionate share of the costs of operating and maintaining the Center is annually reduced to reflect the revenues received from other users. The cost sharing percentages established for each Participant with regard to operating costs are calculated based on a formula which takes into account actual calls for service of each Participant. For 2011/12, the operating cost gross charges (before credit for other user fees) is based on the following allocation:

Santa Cruz County	31.94%
City of Capitola	9.20%
City of Santa Cruz	26.29%
City of Watsonville	18.21%
Fire Districts	5.42%
Ambulance Providers	8.94%
	100.00%

Table No. 13 below shows the Participants' and certain contract users' share of costs are reduced for revenues received from other users.

Use Payments. In accordance with the Lease Agreement and the Use Agreement, the Center will collect the Use Payments from the Participants. The Use Payments are the primary source of revenue from which the Lease Payments will be made. The Use Payments are due to the Center in semiannual installments, 15 days prior to the due date of the Lease Payments. Pursuant to the Use Agreement, the Participants' Use Payments will be based on the following percentage of the Lease Payments:

Santa Cruz County	47.53%
City of Capitola	11.96%
City of Santa Cruz	22.86%
City of Watsonville	17.65%
	100.00%

The Use Payments are deposited in the Center's Debt Service Fund. No Participant is obligated to pay the Use Payment of any other Participant.

See Appendices C, D, E and F for further information regarding the financial status of the Participants.

Operating Leases

On March 30, 1994, the Center executed an agreement as lessee to lease its property from the City of Santa Cruz for $1.00 per year, for a period of 50 years. At the end of this period the Center will have the option to extend the lease for an additional 49 years. The sum total of lease payments was prepaid to the City of Santa Cruz at the inception of the lease.

On March 23, 2006, the Center executed an agreement as lessee to lease property for an alternative dispatch area from the City of Watsonville. The initial base rent under the lease was $1,137.09 per month, with the rent being subject to an annual adjustment each August 1st during the term of the lease. The initial term of the lease was for a period of 5 years commencing on August 1, 2006. It was extended an additional 5 years.

On August 16, 1994, the Center entered into an operating sublease agreement as lessor with what was then GTE Mobilenet. GTE Mobilenet agreed to sublease space on the transmitting tower as a cellular transceiving site for an initial term of 5 years, beginning on January 1, 1995, with an option to extend the lease for 3 additional periods of 5 years each. The agreement calls for GTE Mobilenet to pay the Center an initial Base Rent of $17,484 per year (in monthly installments) for the first year, with the rent being subject to an annual adjustment each January 1st during the term of the sublease. Since the inception of the sublease, GTE Mobilenet has become Verizon Wireless. Verizon Wireless has exercised the option to extend the sublease through December 31, 2014.

On October 19, 1995, the Center entered into an operating lease agreement as lessor with the County's Emergency Operations Center (EOC). The County EOC agreed to lease space at the main Center facility for 50 years, beginning on July 1, 1996, with an option which has been exercised to extend the lease for an additional 49 years. The County EOC entered into the lease for the purposes of operating the EOC at the Center whenever necessary, as their operations are complimentary with those of the Center. The agreement calls for the County to pay the Center $66,528 per year (in quarterly installments) for the first 30 years, and $1 per year for the following 69 years. This lease can only be terminated with mutual written agreement from the lessee and the lessor. The County and the Center have agreed to terminate the lease and the Center will make a termination payment to the County of $1,000,000 from proceeds of the Bonds. The County will continue to make annual lease payments at the existing rate of $66,528 until it can move the EOC operations to its new Sheriff's facility, which will be complete in approximately 2 years.

Outstanding Indebtedness of the Center

Other than (1) the 2002 Lease Agreement relating to the 2002 Bonds, being refinanced with proceeds of the Lease Agreement and (2) compensated absences, the Center currently has no long-term debt. The Center has entered into two equipment leases. One lease requires annual payments of $74,690 through July 15, 2018 and the other requires annual payments of $82,338 through November 1, 2016.

Fiscal Year 2011/12 Budget

The Center has prepared the following estimate of the Fiscal Year 2011/12 annual costs to operate the Project, based on staffing levels approved by its Board of Directors, a preliminary budget for Fiscal Year 2012/13, which is not yet finalized and actual costs for 2010/11. Due to increased service to be provided to the City of Hollister and the County of San Benito, operating costs increased in 2011/12. However, user fees provide an offsetting revenue. Debt Service declined in 2011/12 from approximately $430,000 to $310,000. The termination of the EOC lease and reduced rental income will not impact the Center's budget for several years.

TABLE NO. 12
SANTA CRUZ CONSOLIDATED EMERGENCY COMMUNICATIONS CENTER
ESTIMATED ANNUAL COSTS (ALL FUNDS)

	Actual 2010/11	Budget 2011/12	Preliminary Budget 2012/13
Operating:			
Salaries and Benefits	$4,766,158	$5,728,828	$5,661,647
Services and Supplies	779,902	751,234	744,715
Contingency	-	259,202	256,229
Total Operating	5,546,060	6,739,264	6,661,943
Capital:			
Service and Supplies	57,631	-	-
Principal Payments	270,000	160,000	170,000
Interest and Fiscal Charges	160,925	151,875	146,275
Equipment	82,533	200,000	363,029 (1)
Total Capital	571,089	511,875	679,304
Total	$6,117,149	$7,251,139	$7,341,247

(1) Includes $200,000 to be funded with proceeds of the Bonds.

Table No. 13 below show the Participants' share of costs to operate the Project, the Participants' share of debt service on the Bonds, and how the Participants' costs to maintain the facility are reduced by charges on other users.

TABLE NO. 13
SANTA CRUZ CONSOLIDATED EMERGENCY COMMUNICATIONS CENTER
BUDGETED ANNUAL REVENUES BASED ON COST PERCENTAGES
CHARGED TO PARTICIPANTS AND USERS
FISCAL YEAR 2011/12

	County	Capitola	Santa Cruz	Watsonville	Other Users	Total
Charges for:						
Operations	$2,152,521	$ 620,012	$1,771,753	$1,227,220	$ 967,758	$6,739,264
Debt Service	148,234	37,300	71,295	55,046	-	311,875
Capital	95,060	23,920	45,720	35,300	-	200,000
Total Annual Costs	2,395,815	681,233	1,888,767	1,317,566	967,758	7,251,139
User Fees/Other Credits [(1)]	(952,007)	(265,359)	(700,360)	(494,406)	(318,629)	(2,730,761)
Annual Net Costs	1,443,808	415,874	1,188,407	823,160	649,129	4,520,378
Other Reimbursable Charges	84,961	14,874	210,965	117,617	164,851	593,268
Net Costs	$1,528,769	$ 430,748	$1,399,372	$ 940,777	$ 813,980	$5,113,646
% of Net Costs	29.9%	8.4%	27.4%	18.4%	15.9%	100.0%

(1) Includes $650,651 of accumulated fund balance.

There are no significant changes expected in operations of the Center or in net costs charged to Participants for Fiscal Year 2012/13, based on the Center's preliminary budget. The Center estimates that there will be an excess of charges to the Participants in Fiscal Year 2011/12 of $687,848 that will be applied to off-set Fiscal Year 2012/13 charges.

Financial Statements

The Center's financial statements are audited by the Auditor-Controller of the County of Santa Cruz. The following tables summarize the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance of the Center's General Fund for the last four fiscal years. The Center maintains a separate Capital Projects Fund and Debt Service Fund.

The Center was required to implement GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition, for the Fiscal Year ending June 30, 2011. GASB No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. GASB No. 54 also provides for additional classification as "restricted," "committed," "assigned," and "unassigned" based on the relative strength of the constraints that control how specific amounts can be spent.

Amounts shown in Table No. 14 as "assigned" as of June 30, 2011 represent prior years' accumulated excess of operating charges to Participants over actual expenses and are set aside to be applied as a credit against the Fiscal Year 2011/12 expenditures (and shown in Table No. 13 on the "User Fees/Other Credits" line item. The Center is not allowed to operate at a deficit, and must charge the users for the entire cost of operations.

TABLE NO. 14
SANTA CRUZ CONSOLIDATED EMERGENCY COMMUNICATIONS CENTER
GENERAL FUND
BALANCE SHEET
As of June 30

	2008	2009	2010	2011
Assets				
Cash	$ 509,166	$ 628,197	$1,120,355	$1,040,947
Accounts Receivable	2,083	4,182	8,249	2,643
Other Receivable	3,024	3,098	3,277	6,092
Total Assets	$ 514,173	$ 635,477	$1,131,881	$1,049,682
Liabilities				
Accounts Payable - Claims	51,605	60,996	37,821	55,092
Accounts Payable - Payroll	186,315	190,838	192,269	231,705
Total Liabilities	237,920	251,834	230,090	286,797
Fund Balances				
Assigned	-	-	-	650,651
Unassigned	276,353	383,643	901,791	112,234
Total Fund Balance	276,353	383,643	901,791	762,885
Total Liabilities and Fund Balance	$ 514,273	$ 635,477	$1,131,881	$1,049,682

Source: Santa Cruz Consolidated Emergency Communications Center Annual Financial Report.

TABLE NO. 15
SANTA CRUZ CONSOLIDATED EMERGENCY COMMUNICATIONS CENTER
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended June 30

	2008	2009	2010	2011
Revenues				
Use of Money and Property	$ 137,503	$ 111,853	$ 103,117	$ 102,860
Charges for Services	5,226,164	5,547,583	5,250,678	4,803,255
Miscellaneous Revenues	436,575	468,857	448,475	501,039
Total Revenues	$5,800,242	$6,128,293	$5,802,270	$5,407,154
Expenditures				
Salaries and Benefits	5,101,695	5,176,037	4,541,073	4,766,158
Services and Supplies	758,486	791,611	743,049	779,902
Fixed Assets	19,660	53,355	-	-
Total Expenditures	$5,879,841	$6,021,003	$5,284,122	$5,546,060
Net Change in Fund Balance	(79,599)	107,290	518,148	(138,906)
Fund Balance - Beginning	355,952	276,353	383,643	901,791
Fund Balance - Ending	$ 276,353	$ 383,643	$ 901,791	$ 762,885

Source: Santa Cruz Emergency Communications Center Annual Financial Report.

Retirement Programs

Plan Description. The Center contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and Center ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy. Active plan members are required to contribute 7% of annual covered salary for miscellaneous and safety employees. The Center was required to contribute for Fiscal Year 2010/11 at an actuarially determined rate of 11.763% of covered payroll. Employees vest after 5 years of eligible service and are eligible to retire after age 50.

Annual Pension Costs. The Center's annual pension cost for 2010/11 and the two previous years was $609,339, $587,801, and $662,099, respectively. These were equal to the Center's required and actual contributions. The required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included; (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases of 3.25% to 14.45% depending on age, service, and type of employment, and (c) 3.0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a fifteen-year period. PERS unfunded actuarial accrued liabilities (or surplus) is being amortized as a level percentage of projected payroll on a closed basis. The average remaining amortization period at June 30, 2008 was 16 years.

In March 2012, PERS voted to decrease the investment rate of return used in future actuarial valuations from the current 7.75% to 7.5%. The Center expects that this change would affect contribution rates beginning in 2013/14, but has not calculated the amount of the potential increase.

THREE-YEAR TREND INFORMATION FOR PERS

Fiscal Year	Annual Pension Cost (APC)	Pension Cost of APC Contributed	Net Pension Obligation
6/30/2009	$662,099	100%	$ -
6/30/2010	587,801	100%	-
6/30/2011	609,339	100%	-

The Center contributes to the California Public Employees' Retirement System (CalPERS), under an agent multiple – employer public employee defined benefit pension plan As part of the program to smooth the changes in required employer contributions for smaller plans, resulting from changes in actuarial assumptions and short-term market experiences, PERS placed plans of 100 or fewer members onto "Risk Pools." Formation of the Risk Pools required the establishment of "'Side Funds" to account for the differences between the funded status of the Risk Pool and the funded status of the member districts plan. The Side Fund represents unfunded liabilities to be amortized on an annual basis over a closed period.

The table below displays accrued liability, actuarial value of assets, unfunded liability, funded status (i.e. the ratio of the actuarial value of assets to accrued liability), the estimated annual covered payroll, and the unfunded actuarial accrued liability (UAAL) as a percentage of the covered payroll for the Risk Pool as of a June 30, 2010 valuation date.

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Liability as a Percent of Covered Payroll
2010	$2,946,408,106	$3,309,064,934	$362,656,828	89.0%	$748,401,352	48.5%

Deferred Compensation Plan

The Center participates in the deferred compensation plan offered by the County of Santa Cruz (the Deferred Compensation Plan) created in accordance with Section 457 of the Internal Revenue Code. The Deferred Compensation Plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or emergency. Employees direct the investment of plan assets into certificates of deposits and various mutual funds. The Center has insignificant administrative duties. The Deferred Compensation Plan's assets are on deposit with a third party administrator independent of the Center and the County.

Other Post Employment Benefits

Plan Description. Employees of the Center who retire through PERS, their spouse, and eligible dependents may receive health plan coverage through the Public Employees' Medical & Hospital Care Program (PEMHCA) Plan (Plan). The Plan is a defined benefit plan which provides the retirees a monthly medical contribution that is not to exceed the cost of the plan selected. The cost of the Plan to the Center for each bargaining group will be determined through PERS regulations and requirements.

Effective January 1, 2010, the Center contributes to PEMHCA Plan or any other PERS approved alternate medical plans $500.00 a month for active and retired eligible employees who have elected to participate in such programs.

Eligibility. All of the Center's employees became participants in accordance with the Memorandum of Understanding (MOU) as negotiated by each group or bargaining unit. In order to receive benefits, eligible employees must meet the minimum requirements defined in their MOU. The PEMHCA Plan is eligible to members who retire directly from the Center through PERS at age 50 with at least 5 years of service.

As of June 30, 2011, the numbers of participants in the Plan were 69, of which 18 were retirees and 51 were active.

Funding Policy. The contribution requirements for the Center are established by a Memorandum of Understanding as negotiated by each group or bargaining unit. The required contribution is based on projected pay-as-you-go financing requirements. For Fiscal Year 2010/11, the Center contributed $90,995 to the plan.

Annual OPEB Cost and Net OPEB Obligation. The Center's Annual Other Post-Employment Benefits (OPEB) cost (expense) is calculated based on the *Annual Required Contribution of the Employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The following table shows the components of the Center's annual OPEB cost for the 2010/11 Fiscal Year, the amount actually contributed to the plan, and changes in the Center's net OPEB obligation to the Plan:

Annual required contribution	$203,000
Interest on net OPEB obligation	5,712
Annual OPEB cost (expense)	208,712
Contributions made	(90,995)
Increase in net OPEB obligation	117,717
Net OPEB obligation - beginning of year	126,930
Net OPEB obligation - end of year	$244,647

The Center has been contributing to its OPEB costs on a pay-as-you-go basis. The Center's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the two years ending June 30 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Contribution	% of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$186,000	$59,070	31.76%	$126,930
6/30/2011	208,712	90,995	43.60%	244,647

Funded Status and Funding Progress. As of June 30, 2011, the most recent actuarial valuation date, the Plan was 0% funded. The Actuarial Accrued Liability for benefits was $2,417,000, and the actuarial value of assets was $0, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of $2,417,000. The covered payroll (annual payroll of active employees covered by the plan) was $3,575,000 and the ratio of UAAL to the covered payroll was 67.6%.

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

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

In the actuarial valuations, the entry age actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return which is based on the expected return on funds invested by PERS, and an annual healthcare cost trend of actual premiums from 9% to 11% initially and reduced to an ultimate rate of 4.5% thereafter. The actuarial assumption for inflation was 3%, and the aggregate payroll increases were 3.25%. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization as of June 30, 2011 was 26.5 years.

The table below shows the actuarial value of assets as a percentage of the actuarial accrual liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of January 1, 2008 and June 30, 2011.

Actuarial Valuation Date	Actuarial Valuation of Assets	Entry Age Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percent of Covered Payroll
1/1/2008	$ -	$1,480,000	$1,480,000	0.0%	$3,610,000	41.0%
6/30/11	$ -	$2,417,000	$2,417,000	0.0%	$3,575,000	67.6%

LEGAL MATTERS

Enforceability of Remedies

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

Approval of Legal Proceedings

Rutan & Tucker, LLP, Costa Mesa, California, as Bond Counsel, will render an opinion which states that the Indenture, the Lease Agreement and the Use Agreement are valid and binding contracts of the Authority, the Center and the Participants, as applicable, and are enforceable in accordance with their terms. The legal opinion of Bond Counsel will be subject to the effect of bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights and to the exercise of judicial discretion in accordance with general principles of equity.

Neither the Authority, the Center nor the Participants have any knowledge of any fact or other information which would indicate that the Indenture, the Lease Agreement or the Use Agreement are not so enforceable against the Authority, the Center or the Participants as applicable, except to the extent such enforcement is limited by principles of equity and by state and federal laws relating to bankruptcy, reorganization, moratorium or creditors' rights generally.

Certain legal matters will be passed on for the Authority and for the Center by Dana McRae, County Counsel and Counsel for the Center. In addition, certain legal matters will be passed on for the Authority and the Center by Fulbright & Jaworski, L.L.P., Los Angeles, California, as Disclosure Counsel.

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

Tax Exemption

Federal Tax Status. In the opinion of Rutan & Tucker, LLP, Costa Mesa, California, Bond Counsel, subject, however, to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. The opinions described in the preceding sentence are subject to the condition that the City and the Authority comply with all requirements of the Internal Revenue Code of 1986 (the "Tax Code") that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City and the Authority have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which each Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. De minimis original issue discount is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straightline interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of Premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

California Tax Status. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

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

Proposed Form of Tax Opinion. A copy of the proposed form of opinion of Bond Counsel is included as "APPENDIX G."

Absence of Litigation

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

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

Each Participant will furnish a certificate dated as of the date of delivery of the Bonds that there is not now known to be pending or threatened any litigation restraining or enjoining the execution or delivery of the Use Agreement or the sale or delivery of the Bonds or in any manner questioning the proceedings and authority under which the Use Agreement is to be executed or delivered or the Bonds are to be delivered or affecting the validity thereof.

CONCLUDING INFORMATION

No Rating on the Bonds

The Authority has not made, and does not contemplate making, application to any rating agency for a rating on the Bonds.

Underwriting

Stifel, Nicolaus & Company, Inc. doing business as Stone & Youngberg, a Division of Stifel Nicolaus, (the "Underwriter") is offering the Bonds at the prices set forth on the inside front cover hereof. The initial offering prices may be changed from time to time and concessions from the offering prices may be allowed to dealers, banks and others. The Underwriter has purchased the Bonds at a price equal to $98.420194% of the aggregate principal amount of the Bonds, which amount represents the principal amount of the Bonds, less an Underwriter's discount of $23,790.00, and less a net original issue discount of $38,849.30. The Underwriter will pay certain of its expenses relating to the offering.

The Financial Advisor

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

Continuing Disclosure

The Center and the Participants will covenant to provide annually certain financial information and operating data by not later than March 31, each year commencing March 31, 2013 and to provide the audited General Purpose Financial Statements of the Center and the Participants for the fiscal year ending June 30, 2012 and for each subsequent fiscal year when they are available (together, the "Annual Report"), and the Center will provide notices of the occurrence of certain enumerated events. The Annual Report will be filed by the Center on the Electronic Municipal Market Access Website ("EMMA") operated by the Municipal Securities Rulemaking Board (www.emma.msrb.org). The specific nature of the information to be contained in the Annual Report or the notices of listed events and certain other terms of the continuing disclosure obligation are summarized in "APPENDIX H - FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants will be made in order to assist the Underwriter in complying with Rule 15c2-12 of the Securities Exchange Act of 1934 (the "Rule"). The specific nature of the information to be contained in the Annual Report or the notices of material events and certain other terms of the continuing disclosure obligation are set forth in "APPENDIX H - FORM OF CONTINUING DISCLOSURE CERTIFICATE."

Except as disclosed in Appendix F, neither the Center nor any of the Participants have failed to comply with any undertaking to provide any required continuing disclosure filing under the federal securities laws.

Additional Information

The summaries and references contained herein with respect to the Indenture, the Lease Agreement, the Use Agreement, the Bonds, statutes and other documents, do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute and references to the Bonds are qualified in their entirety by reference to the form hereof included in the Indenture. Copies of the Indenture, the Lease Agreement and the Use Agreement are available for inspection during the period of initial offering on the Bonds at the offices of the Financial Advisor. Copies of these documents may be obtained after delivery of the Bonds from the Authority through the Executive Director, Government Center, 701 Ocean Street, Santa Cruz, California 95060.

Information concerning the Santa Cruz Regional 9-1-1 may be obtained through the General Manager, 495 Upper Park Road, Santa Cruz, California 95065, www.scr911.org.

Information concerning the County of Santa Cruz may be obtained through the County Administrative Officer, Government Center, 701 Ocean Street, Santa Cruz, California 95060, www.co.santa-cruz.ca.us.

Information concerning the City of Capitola may be obtained through the City Manager, 420 Capitola Avenue, Capitola, California 95010, www.ci.capitola.ca.us..

Information concerning the City of Santa Cruz may be obtained through the City Manager, 809 Center Street, Santa Cruz, California 95060, www.ci.santa-cruz.ca.us.

Information concerning the City of Watsonville may be obtained through the City Manager, 275 Main Street, Suite 400, Watsonville, California 95076, www.cityofwatsonville.org.

References

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

Execution

The execution of this Official Statement by the Assistant Executive Director has been duly authorized by the Santa Cruz County Public Financing Authority.

SANTA CRUZ COUNTY PUBLIC FINANCING AUTHORITY

By: /s/ Carol D. Kelly
Assistant Executive Director

APPENDIX A

SUMMARY OF THE LEGAL DOCUMENTS

The following is a summary of certain provisions of the Indenture, the Lease Agreement and the Use Agreement and other legal documents relating to the Bonds. This summary does not purport to be comprehensive and reference should be made to such documents for full and complete statement of their provisions.

DEFINITIONS

"Authorized Representative" means: (a) with respect to the Authority, its Chairman, Treasurer, Executive Director or Secretary, or any other Person designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its Chairperson and filed with the Center and the Trustee; (b) with respect to the Center, its General Manager or Controller, or any other Person designed as an Authorized Representative of the Center by a Certificate signed on behalf of the Center by its General Manager and filed with the Authority and the Trustee; (c) with respect to the Trustee, the President, any Vice President, any Assistant Vice President, any Senior Authorized Officer or any Trust Officer of the Trustee, and when used with reference to any act or document also means any other Person authorized to perform such act or sign any document by or pursuant to a resolution of the Board of Directors of the Trustee or the by-laws of the Trustee. An Authorized Representative may by written instrument designate any Person to act on his or her behalf.

"Bond Year" means each twelve-month period beginning on June 16 of each year and ending on June 15 of the following year, except the first such Bond Year shall begin on the Closing Date and end on June 15, 2012.

"Certificate," "Request" or **"Requisition"** of the Authority or the Center means, respectively, a written certificate, request or requisition signed in the name of the Authority or the Center by its Authorized Representative. Any such certificate, request or requisition may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

"Debt Service" means, during any period of computation, the amount obtained for such period by totaling the following amounts:

(a) The principal amount of all Outstanding Serial Bonds coming due and payable by their terms in such period;

(b) The minimum principal amount of all Outstanding Term Bonds scheduled to be redeemed by operation of mandatory sinking fund deposits in such period; and

(c) The interest which would be due during such period on the aggregate principal amount of Bonds which would be Outstanding in such period if the Bonds are retired as scheduled, but deducting and excluding from such aggregate amount the amount of Bonds no longer Outstanding.

"Fiscal Year" means the period beginning on July 1 of each year and ending on the next succeeding June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Authority and certified to the Trustee in writing by an Authorized Representative of the Authority.

"Information Services" means "EMMA" or the "Electronic Municipal Market Access" system of the Municipal Securities Rulemaking Board; or, in accordance with then-current guidelines of the Securities and Exchange Commissions, such other services providing information with respect to called bonds as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

"Interest Payment Date" means each December 15 and June 15, commencing December 15, 2012.

"Lease Payment Date" means not later than 15 days prior to each June 15 and December 15, commencing December 15, 2012.

"Maximum Annual Debt Service" means, as of the date of any calculation, the largest annual Debt Service during the current or any future Bond Year.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds except:

(a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds paid or deemed to have been paid within the meaning of the Indenture; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the Authority pursuant to the Indenture or any Supplemental Agreement.

"Permitted Investments" means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

(a) Federal Securities;

(b) Debentures of the Federal Housing Administration to the extent such obligations are guaranteed by the full faith and credit of the United States of America;

(c) Obligations of the following agencies which are not guaranteed by the United States of America: (i) participation certificates or debt obligations of the Federal Home Loan Mortgage Corporation; (ii) consolidated system-wide bonds and notes of the Farm Credit Banks (consisting of Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives); (iii) consolidated debt obligations or letter of credit-backed issues of the Federal Home Loan Banks; (iv) mortgage-backed securities (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal) or debt obligations of the Federal National Mortgage Association; or (v) letter of credit-backed issues or debt obligations of the Student Loan Marketing Association; provided, however, that not more than 10% of the proceeds of the Bonds may, in the aggregate, be invested in any such obligations at one time;

(d) Federal funds, negotiable certificates of deposit, time deposits and bankers acceptances (having maturities of not more than 180 days) of banks (including the Trustee and its affiliates) the short-term obligations of which are rated in one of the two highest Rating Categories by at least one nationally recognized rating agency;

(e) Deposits (including those of the Trustee and its affiliates) which are fully insured by the Federal Deposit Insurance Corporation ("FDIC");

(f) Debt obligations (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date) rated in one of the two highest Rating Categories by at least one nationally recognized rating agency;

(g) Commercial paper (having original maturities of not more than 270 days) rated, at the time of purchase, in one of the two highest Rating Categories by at least one nationally recognized rating agency;

(h) Money market funds rated in one of the two highest Rating Categories by at least one nationally recognized rating agency, including funds for which the Trustee, its parent, affiliates or subsidiaries provide investment advisory or other management services, in which case it is agreed that the Trustee, its parent, affiliates or subsidiaries shall have the right to be paid its customary management fees in addition to its fees as Trustee hereunder;

(i) Investment contracts or agreements issued or guaranteed by entities whose long-term debt or claims paying ability of which are rated in one of the two highest long-term rating categories of Moody's or S&P;

(j) Repurchase agreements or investment agreements issued by banks, broker/dealers or other financial institutions fully secured by obligations listed in paragraphs (a), (b) or (c) of this definition having a market value at least equal to 105% of face amount of the agreement and possession of which obligations is held or controlled by the Trustee, the County or by a third party satisfactory to the County under arrangements satisfactory to the Trustee or the County, as the case may be; and

(k) The Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

"Record Date" means, with respect to any Interest Payment Date, the 1st calendar day of the month in which such Interest Payment Date occurs whether or not a Business Day.

"Reserve Requirement" means, as of the date of calculation, an amount equal to the lesser of (1) 10% of the original par amount of the Bonds and any Additional Bonds, maximum annual Debt Service or 125% of average annual Debt Service as such amount shall be provided in the Indenture.

"Securities Depositories" means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

"Supplemental Indenture" means any agreement that execution of which is authorized by a resolution which has been duly adopted by the Authority under the Bond Law and which agreement is amendatory of or supplemental to the Indenture or authorizes the issuance of Parity Debt, if any, but only if and to the extent that such agreement is specifically authorized under the Indenture.

"Tax Code" means the Internal Revenue Code of 1986, as amended from time to time. Any reference to a provision of the Tax Code shall include the Tax Regulations promulgated with respect to such provision.

"Tax Regulations" means temporary and permanent regulations promulgated under Section 103 and related sections of the Tax Code.

"Use Payment Dates" means each November 15 and May 15, commencing November 15, 2012.

THE INDENTURE

Pledge and Assignment; Bond Fund

All of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture are pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms and the provisions of the Indenture. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after the Closing Date, without any physical delivery thereof or further act. The Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the Lease Agreement and the Use Agreement (except for the right to receive any Additional Payments to the extent payable to the Authority and certain rights to indemnification set forth therein). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and shall, subject to the Indenture, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority, all of the obligations of the Center under the Lease Agreement and all of the obligations of the Participants under the Use Agreement.

All Revenues shall be promptly deposited by the Trustee upon receipt thereof in a special fund designated as the "Bond Fund" which the Trustee shall establish, maintain and hold in trust; except that all moneys received by the Trustee and required under the Indenture or under the Lease Agreement to be deposited in the Redemption Fund or the Insurance and Condemnation Fund shall be promptly deposited in such funds. All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee only as provided in the Indenture.

Funds and Accounts

In addition to the Bond Fund, the Indenture creates the Costs of Issuance Fund, the Project Fund, the Redemption Fund and the Insurance and Condemnation Fund, each of which will be established, held and maintained by the Trustee.

Costs of Issuance Fund. The moneys in the Costs of Issuance Fund will be used and withdrawn by the Trustee to pay the Costs of Issuance of the Bonds, upon receipt of a requisition to pay such costs. On August 1, 2012 or upon earlier request of the Center, all amounts remaining in the Costs of Issuance Fund will be transferred to the Project Fund.

Project Fund. The moneys in the Project Fund shall be held in trust by the Trustee for the benefit of the Owners of the Bonds, shall be disbursed, except as otherwise provided below, for the payment of the Project Costs and, pending such disbursement, shall be subject to a lien in favor of the Owners of the Bonds. Project Costs include all costs and expenses which are incidental or related to the acquisition of equipment for use by the Center, including amounts payable to the Center or the Authority as reimbursement for any of the foregoing.

Disbursements from the Project Fund shall be made by the Trustee upon receipt of an Requisition of the Center which shall (i) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made and the person to whom the disbursement is to be paid; and (ii) certify that no portion of the amount then being requested to be disbursed was set forth in any Requisition previously filed requesting disbursement.

Interest earnings and profits shall be retained in the Project Fund to be used for the purpose of the Project Fund. Upon the earlier of May 10, 2015, or the filing of a Certificate of the Center stating that all of the Project Costs have been paid or are not required to be paid from the Project Fund, the Trustee shall transfer the amount, if any, remaining in the Project Fund to the Bond Fund.

Redemption Fund. The moneys deposited in the Redemption Fund shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of and premium (if any) on the Bonds to be redeemed pursuant to the Indenture; provided, however, that at any time prior to giving notice of redemption of any such Bonds, the Trustee may apply such amounts to the purchase of Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as shall be directed pursuant to a Request of the Authority, except that the purchase price (exclusive of accrued interest) may not exceed the redemption price then applicable to the Bonds.

Insurance and Condemnation Fund. Upon the receipt of any proceeds of insurance or condemnation with respect to any portion of the Project, the Trustee shall establish and maintain a separate Insurance and Condemnation Fund, to be held and applied to the repair or replacement of the damaged, destroyed or condemned portion of the Project or transferred to the Redemption Fund and applied to the redemption of Bonds, all in accordance with the provisions of the Indenture.

Application of Revenues

Not later than the first Business Day preceding each Interest Payment Date, the Trustee shall transfer from the Bond Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Bond Fund), the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(a) The Trustee shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to be at least equal to the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding. All amounts in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Indenture).

(b) The Trustee shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds coming due and payable on such Interest Payment Date. All amounts in the Principal Account shall be used and withdrawn by the Trustee solely to pay the principal amount of the Bonds at their respective maturity dates.

(c) The Trustee shall deposit in the Sinking Account an amount equal to the aggregate principal amount of Term Bonds required to be redeemed on the next succeeding June 15. All moneys on deposit in the Sinking Account are required to be used and withdrawn by the Trustee for the sole purpose of redeeming or purchasing (in lieu of redemption) Term Bonds pursuant to the Indenture.

(d) The Trustee shall deposit in the Reserve Account an amount, if any, required to cause the amount on deposit in the Reserve Account to be equal to the Reserve Requirement. Prior to the filing of a Certificate of Completion for the Project, on each Interest Payment Date, the Trustee will transfer amounts on deposit in excess of the Reserve Requirement to the Project Fund and thereafter, to the Bond Fund. All amounts in the Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of (i) paying principal of or interest on the Bonds, including the principal amount of any Term Bonds subject to mandatory Sinking Account redemption pursuant to the Indenture, when due and payable to the extent that moneys deposited in the Interest Account or Principal Account or Sinking Account, respectively, are not sufficient for such purpose, and (ii) making the final payments of principal of and interest on the Bonds. On the date on which all Bonds shall be retired under the Indenture or provision made therefor, all moneys then on deposit in the Reserve Account shall be withdrawn by the Trustee and paid to the Center as a refund of overpaid Lease Payments. If, on any date, moneys on deposit in the Reserve Account, together with amounts then on deposit in the Bond Fund, are sufficient to pay all Outstanding Bonds, including all principal thereof and interest thereon, the Trustee shall transfer all amounts then on deposit in the Reserve Account, together with such amounts in the Bond Fund, to the Redemption Fund to be applied to the redemption of the Bonds in accordance with the Indenture.

Investment of Moneys

Except as otherwise provided in the Indenture, all moneys in any of the funds or accounts established and held by the Trustee pursuant to the Indenture are required to be invested solely in Permitted Investments, as directed in writing by the Authority pursuant to a Request of the Center as agent for the Authority. Absent any such written direction, the Trustee will invest any funds held by it in money market funds rated in one of the two highest rating categories by at least one nationally recognized rating agency or in interest-bearing demand or time deposits fully insured by the Federal Deposit Insurance Corporation.

The Trustee may act as principal or agent in the making or disposing of any investment. The Trustee shall not be liable or responsible for any loss resulting from any investment made or sold pursuant to the Indenture. For the purpose of determining the amount in any fund or account, the value of Permitted Investments credited to such fund shall be valued at the lesser of (a) original cost (excluding any brokerage commissions and excluding any accrued interest), (b) par amount or (c) market value.

Certain Covenants of the Authority

Punctual Payment. The Authority will punctually pay or cause to be paid the principal of and interest on all the Bonds in strict conformity with the terms of the Bonds and of the Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Indenture.

Extension of Payment of Bonds. The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase of such Bonds or by any other arrangement, and in case the maturity of any of the Bonds or the time of payment of any such claims for interest will be extended, such Bonds or claims for interest will not be entitled, in case of any default under the Indenture, to the benefits of the Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which will not have been so extended. Nothing in the Indenture shall be deemed to limit the right of the Authority to issue Bonds for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of the Bonds.

Against Encumbrances. The Authority will not create, or permit the creation of, any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Indenture while any of the Bonds are Outstanding, except the pledge and assignment created by the Indenture in favor of the Bonds and any Additional Bonds. Subject to this limitation, the Authority expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, and reserves the right to issue other obligations for such purposes.

Accounting Records and Financial Statements. The Trustee will at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with industry standards, in which complete and accurate entries shall be made of all transactions relating to the proceeds of Bonds, the Revenues, the Lease Agreement and all funds and accounts established pursuant to the Indenture. Such books of record and account will be available for inspection by the Authority and the Center, during business hours and under reasonable circumstances.

Additional Obligations. The Authority covenants that no additional bonds, notes or other indebtedness shall be issued or incurred which are payable out of the Revenues in whole or in part, except as provided in the Indenture with respect to the Bonds and any Additional Bonds.

No Arbitrage. The Authority and the Center shall not take, nor permit nor suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Tax Code and applicable Tax Regulations.

Compliance with Rebate Requirements. The Authority shall assure compliance with the requirements for rebate of excess investment earnings to the federal government in accordance with section 148(f) of the Tax Code and applicable Tax Regulations.

Private Business Use Limitation. The Authority and the Center will assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business use tests of the Tax Code.

Limitation on Use of Proceeds for Loans. The Authority and the Center shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private loan financing test of the Tax Code.

Federal Guarantee Prohibition. The Authority and the Center shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Tax Code.

Lease Agreement. The Trustee shall promptly collect all amounts due from the Center pursuant to the Lease Agreement and, subject to the provisions of the Indenture and the Lease Agreement, shall enforce, and take all steps, actions and proceedings which the Trustee determines to be reasonably necessary for the enforcement of all of its rights thereunder as assignee of the Authority and for the enforcement of all of the obligations of the Center thereunder.

Waiver of Laws. The Authority and the Center shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force that may affect the covenants and agreements contained in the Indenture or in the Bonds, and all benefit or advantage of any such law or laws is hereby expressly waived by the Authority to the extent permitted by law.

Continuing Disclosure. The Center covenants that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate. Notwithstanding any other provision of the Indenture, failure of the Center to comply with the Continuing Disclosure Certificate shall not be considered an event of default under the Indenture; however, any Participating Underwriter or any Bondholder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Center to comply with its obligations under this provision of the Indenture.

Further Assurances. The Authority and the Center will make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Indenture.

Events of Default and Remedies of Bondholders

Events of Default. The following events shall be Events of Default under the Indenture:

(a) Default in the due and punctual payment of the principal of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise;

(b) Default in the due and punctual payment of any installment of interest on any Bond when and as the same shall become due and payable;

(c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default has continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, has been given to the Authority by the Trustee; provided, however, that if in the reasonable opinion of the Authority the default stated in the notice can be corrected, but not within such 30 day period, such default shall not constitute an Event of Default under the Indenture if the Authority shall commence to cure such default within such 30 day period and thereafter diligently and in good faith cure such failure in a reasonable period of time; and

(d) The occurrence and continuation of a Lease Default Event.

Remedies Upon Event of Default. If any Event of Default shall occur, then, and in each and every such case during the continuance of such Event of Default, the Trustee may, and at the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding shall, upon notice in writing to the Authority and the Center, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding.

Any such declaration is subject to the condition that if, at any time after such declaration and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, the Authority or the Center shall deposit with the Trustee a sum sufficient to pay all the principal of and installments of interest on the Bonds payment of which is overdue, with interest on such overdue principal at the rate borne by the respective Bonds to the extent permitted by law, and the reasonable charges and expenses of the Trustee, and any and all other Events of Default known to the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefore, then, and in every such case, the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, by written notice to the Authority, the Center and the Trustee, or the Trustee if such declaration was made by the Trustee, may, on behalf of the Owners of all of the Bonds, rescind and annul such declaration and its consequences and waive such Event of Default; but no such rescission and annulment shall extend to or shall affect any subsequent Event of Default, or shall impair or exhaust any right or power consequent thereon.

Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Trustee under any of the provisions of the Indenture shall be applied by the Trustee as follows and in the following order:

(a) To the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners of the Bonds and payment of reasonable charges and expenses of the Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Indenture;

(b) To the payment of the principal of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping or otherwise noting thereon of the payment if only partially paid, or surrender thereof if fully paid) in accordance with the provisions of the Indenture, as follows:

First: To the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due, whether at maturity or by acceleration or redemption, with interest on the overdue principal at the rate borne by the respective Bonds (to the extent permitted by law), and, if the amount available shall not be sufficient to pay in full all the Bonds, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

Trustee to Represent Bondholders. Pursuant to the Indenture, the Trustee is irrevocably appointed (and the successive respective Owners of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Owners of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to the Owners under the provisions of the Bonds, the Indenture, the Bond Law and applicable provisions of any other law. Upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Trustee to represent the Bondholders, the Trustee in its discretion may, and upon the written request of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, as determined pursuant to the Indenture and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Owners by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained herein, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Trustee and such Owners under the Bonds, the Indenture, the Bond Law or any other law; and upon instituting such proceeding, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the Revenues and other assets pledged under the Indenture, pending such proceedings. All rights of action under the Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of the Owners of such Bonds, subject to the provisions of the Indenture.

Limitation on Bondholders' Right to Sue. No Owner of any Bonds shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under the Indenture, the Bond Law or any other applicable law with respect to such Bonds, unless (a) such Owner shall have given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, as determined pursuant to the Indenture, shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (c) such Owner or said Owners shall have tendered to the Trustee indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee; and (e) no direction inconsistent with such written request shall have been given to the Trustee during such 60 day period by the Owners of a majority in aggregate principal amount of Bonds then Outstanding.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds of any remedy under the Indenture or under law; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Indenture or the rights of any other Owners of Bonds, or to enforce any right under the Bonds, the Indenture, the Bond Law or other applicable law with respect to the Bonds, except in the manner therein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner therein provided and for the benefit and protection of all Owners of the Outstanding Bonds, subject to the provisions of the Indenture.

Amendments

Modification or Amendment of the Indenture. The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds and of the Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental thereto, which the Authority and the Trustee may enter into when the written consent of the Owners of a majority in aggregate principal amount of all Bonds then Outstanding, shall have been filed with the Trustee. No such modification or amendment shall (i) extend the fixed maturity of any Bonds, or reduce the amount of principal thereof, or extend the time of payment, or change the method of computing the rate of interest thereon, or extend the time of payment of interest thereon, without the consent of the Owner of each Bond so affected, or (ii) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture except as permitted in the Indenture, or deprive the Owners of the Bonds of the lien created by the Indenture on such Revenues and other assets (except as expressly provided in the Indenture), without the consent of the Owners of all of the Bonds then Outstanding.

The Indenture and the rights and obligations of the Authority, of the Trustee and the Owners of the Bonds may also be modified or amended from time to time and at any time by a Supplemental Indenture, which the Authority and the Trustee may enter into without the consent of any Bondholders, if the Trustee has been furnished an opinion of counsel that the provisions of such Supplemental Indenture shall not materially adversely affect the interests of the Owners of the Bonds, including, without limitation, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority;

(b) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable;

(c) to modify, amend or supplement the Indenture in such manner as to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute;

(d) to modify, amend or supplement the Indenture in such manner as to cause interest on the Bonds to remain excludable from gross income under the Tax Code; or

(e) to authorize the issuance of Additional Bonds pursuant to the Indenture.

Defeasance

Discharge of Indenture. The Bonds, or any portion thereof, may be paid by the Authority in any of the following ways, provided that the Authority also pays or causes to be paid any other sums payable under the Indenture by the Authority:

(a) by paying or causing to be paid the principal of and interest and premium, if any, on the Bonds, or any portion thereof as and when the same become due and payable;

(b) by irrevocably depositing with the Trustee, in trust, at or before maturity, money or Federal Securities in the amount and in the manner required by the Indenture necessary to pay or redeem all, or any portion thereof, of the Bonds then Outstanding; or

(c) by delivering to the Trustee, for cancellation by it, all, or any portion thereof, of the Bonds then Outstanding.

If the Authority shall also pay or cause to be paid all other sums payable under the Indenture by the Authority, then and in that case, at the election of the Authority (evidenced by a Certificate of the Authority, filed with the Trustee, signifying the intention of the Authority to discharge all such indebtedness and the Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Indenture and the pledge of Revenues and other assets made under the Indenture and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the Request of the Authority, the Trustee shall execute and deliver to the Authority all such instruments as may be necessary or desirable to evidence such discharge and satisfaction, and the Trustee shall pay over, transfer, assign or deliver all moneys or securities or other property held by it pursuant to the Indenture, which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption, to the Authority.

THE LEASE AGREEMENT

Lease

Pursuant to the Lease Agreement, the Authority leases the Project to the Center, and the Center leases the Project from the Authority, upon the terms and conditions set forth therein.

Term of the Agreement

The Term of the Lease Agreement shall commence as of May 10, 2012 and shall end on June 15, 2034, unless such term is extended as provided therein. If on June 15, 2034, the Indenture shall not be discharged by its terms, or if the Lease Payments payable under the Lease Agreement shall have been abated at any time and for any reason, then the Term of the Lease Agreement shall be extended until June 15, 2044 or until the Indenture shall be discharged by its terms. If prior to June 15, 2034, the Indenture shall be discharged by its terms, the Term of the Lease Agreement shall thereupon end.

Notwithstanding the foregoing, it is intended that the Project will terminate upon payment of the principal portions of the Lease Payments set forth in the Lease Agreement.

Lease Payments

(a) **Obligation to Pay.** In consideration of the lease of the Project from the Authority subject to the provisions of the Lease Agreement, the Center agrees to pay to the Authority, its successors and assigns, as rental for the use and occupancy of the Project during each Rental Period, the Lease Payments (denominated into components of principal and interest) for the Project. Any amount held in the Bond Fund on any Lease Payment Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease Agreement and other than amounts required for payment of past due principal or interest represented by any Bonds not presented for payment), including amounts deposited therein representing accrued interest or capitalized interest on the Bonds, shall be credited towards the Lease Payment then due and payable; and no Lease Payment need be made on any Lease Payment Date if the amounts then held in the Bond Fund are at least equal to the Lease Payment then required to be paid. The Lease Payments for the Project payable in any Rental Period shall be for the use of the Project for such Rental Period.

(b) **Rate on Overdue Payments.** In the event the Center should fail to make any of the payments required in the Lease Agreement, the payment in default shall continue as an obligation of the Center until the amount in default shall have been fully paid, and the Center agrees to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at the interest rate payable by the Authority on the Bonds. Such interest, if received, shall be deposited in the Bond Fund.

(c) **Fair Rental Value.** The Lease Payments for the Project for each Rental Period shall constitute the total rental for the Project for each Rental Period and shall be paid by the Center in each Rental Period for and in consideration of the right of the use and occupancy of, and the continued quiet use and enjoyment of, the Project during each Rental Period. The parties to the Lease Agreement have agreed and determined that the total Lease Payments for the Project do not exceed the fair rental value of the Project. In making such determination, consideration has been given to the obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Project and the benefits therefrom which will accrue to the Center and the general public.

(d) **Source of Payments.** The Lease Payments will be payable from the Use Payments paid to the Center by the Participants. All of the Use Payments and any other amounts held in any fund or account established pursuant to the Lease Agreement are pledged to secure the payment of the Lease Payments in accordance with the terms and the provisions of the Lease Agreement. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after the Closing Date, without any further act. The Center transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Use Payments and all of the right, title and interest of the Center in the Use Agreement (except for the right to receive any Additional Payments to the extent payable to the Center and certain rights to indemnification set forth therein). The Center shall be entitled to and shall collect and receive all of the Use Payments, and any Use Payments collected or received by the Center shall be deemed to be held, and to have been collected or received, by the Center as the agent of the Trustee and shall forthwith be paid by the Center to the Trustee. The Trustee also shall be entitled to and shall, subject to the Lease Agreement, take all steps, actions and proceedings which the Trustee determines to be reasonably necessary in its judgment to enforce, either jointly with the Center or separately, all of the rights of the Center and all of the obligations of the Center under the Lease Agreement. All Use Payments, including any prepayment of Use Payments pursuant to the Use Agreement, shall be promptly deposited by the Center upon receipt thereof in a special fund designated as the "Lease Payment Fund" which the Center shall establish, maintain and hold in trust. All Use Payments deposited with the Center shall be held, disbursed, allocated and applied by the Center only as provided in the Lease Agreement.

(e) **Assignment.** The Center understands and agrees that all Lease Payments have been assigned by the Authority to the Trustee in trust, pursuant to the Indenture, for the benefit of the Owners of the Bonds, and the Center assents to such assignment in the Lease Agreement. The Authority directs the Center, and the Center agrees to pay to the Trustee at the corporate trust office of the Trustee in San Francisco, California, all payments payable by the Center pursuant to the Lease Agreement and the Indenture.

Optional Prepayment

The Center has the right at any time during which the Bonds are subject to redemption pursuant to the Indenture, to, and upon receipt of a prepayment of Use Payments by the Participants, or any of them, the Center will, prepay all or any part of the Lease Payments, and the Authority agrees that the Trustee shall accept such prepayments when the same are tendered by the Center. All such prepayments (and the Additional Payment of any amount necessary to pay the applicable premiums, if any, payable upon the redemption of Bonds) shall be deposited upon receipt in the Redemption Fund, and applied to redeem or purchase Bonds pursuant to the Indenture. The Center also shall have the right to surrender Bonds acquired by it in any manner whatsoever to the Trustee for cancellation and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and surrendered, and shall be allocated to Lease Payments as specified in a Certificate of the Center. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any Additional Payments remain unpaid, the Center shall not be relieved of its obligations under the Lease Agreement.

In the event the Center deposits with the Trustee the full amount of any prepayment of the Lease Payments pursuant to the Lease Agreement, the Authority shall at the request of the Center forthwith take all steps that may be necessary under the Indenture to cause the redemption of all or a portion of the Bonds under and in accordance with the Indenture.

If the Center is not in default in the payment of any Additional Payments, the Authority, at the request of the Center, at any time that there is on deposit with the Trustee moneys or securities in the amount necessary to pay or redeem all Bonds then Outstanding (as provided in the Indenture), shall forthwith take all steps that may be necessary to discharge the entire indebtedness on all Bonds Outstanding.

Lease Payments due after any such partial prepayment shall be in the amounts set forth in a revised Lease Payment schedule which shall be provided by, or caused to be provided by the Authority to the Trustee and the Center and which shall represent an adjustment to the scheduled Lease Payments set forth in the Lease Agreement taking into account said partial prepayment.

Title

During the Term of the Lease Agreement, the Authority shall hold a leasehold in the Project and in any and all additions which comprise fixtures, repairs, replacements or modifications to the Project, except for those fixtures, repairs, replacements or modifications which are added to the Project by the Center at its own expense and which may be removed without damaging the Project and except for any items added to the Project by the Center pursuant to the Lease Agreement.

If the Center pays all of the Lease Payments and Additional Payments during the Term of the Lease Agreement as the same become due and payable, or if the Center prepays the Lease Payments pursuant to the Lease Agreement, and has paid in full all of the Additional Payments coming due and payable as of the date of such prepayment, and provided in any event that no Lease Default Event shall have occurred and be continuing, all right, title and interest of the Authority in and to the Project shall be transferred to and vested in the Center. The Authority agrees to take any and all steps and execute and record any and all documents reasonably required by the Center to consummate any such transfer of title.

Additional Payments

In addition to the Lease Payments, the Center shall pay when due the following Additional Payments: (a) all fees and expenses incurred by the Authority in connection with or by reason of its leasehold interest in the Project as and when the same become due and payable; (b) all reasonable compensation to the Trustee for all services rendered under the Indenture, and also all reasonable expenses, charges, legal fees and other disbursements incurred in and about the performance of its powers and duties under the Indenture; (c) the reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Lease Agreement or the Indenture; (d) the reasonable out-of-pocket expenses of the Authority in connection with the execution and delivery of the Lease Agreement or the Indenture, or in connection with the issuance of the Bonds, including any and all expenses incurred in connection with the authorization, issuance, sale and delivery of the Bonds, or incurred by the Authority in connection with any litigation which may at any time be instituted involving the Lease Agreement, the Bonds, the Indenture or any of the other documents contemplated thereby, or otherwise incurred in connection with the administration of the Lease Agreement; and (e) any and all indemnification obligations to the Trustee pursuant to the Indenture.

Maintenance, Utilities, Taxes and Assessments

Throughout the Term of the Lease Agreement, as part of the consideration for the rental of the Project, all improvement, repair and maintenance of the Project shall be the responsibility of the Center and the Center shall pay for or otherwise arrange for the payment of all utility services supplied to the Project which may include, without limitation, janitor service, security, power, gas, telephone, light, heating, water and all other utility services, and shall pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Project resulting from ordinary wear and tear or want of care on the part of the Center or any assignee or sublessee thereof.

The Center shall also pay or cause to be paid all taxes and assessments of any type or nature, if any, charged to the Authority or the Center affecting the Project or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Center shall be obligated to pay only such installments as are required to be paid during the Term of the Lease Agreement as and when the same become due.

The Center may, at the Center's expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal there from unless the Authority shall notify the Center that, in the opinion of Independent Counsel, by nonpayment of any such items, the interest of the Authority in the Project will be materially endangered or the Project or any part thereof will be subject to loss or forfeiture, in which event the Center shall promptly pay such taxes, assessments or charges or provide the Authority with full security against any loss which may result from nonpayment, in form satisfactory to the Authority and the Trustee.

Insurance

Public Liability and Property Damage Insurance. The Center shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, a standard comprehensive general insurance policy or policies in protection of the Center, the Authority and their respective members, officer, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Project. Said policy or policies shall provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of $100,000 for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy or policies in the amount of $3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the Center, and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose. The Net Proceeds of such insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Fire and Extended Coverage Insurance. The Center shall maintain, or cause to be maintained, through the Term of the Lease Agreement, insurance against loss or damage to any structures constituting any part of the Project by fire and lightning, with extended coverage and vandalism and malicious mischief insurance, and earthquake insurance (but with respect to earthquake insurance, only with respect to structures and only if and to the extent available at reasonable costs from reputable insurers). Said extended coverage insurance, if required, shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount at least equal to the lesser of (a) 100% of the replacement cost of the structures constituting part of the Project, or (b) the aggregate principal amount of the Outstanding Bonds. Such insurance may be subject to deductible clauses of not to exceed $100,000 for any one loss except that earthquake insurance, if any, may be subject to a deductible clause of not to exceed 10% of said replacement costs of any one loss. Such insurance policy must explicitly waive any co-insurance penalty. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the Center and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose or other program providing pooled insurance. All required insurance policies shall be provided by a commercial insurer rated A+ by Best or in the two highest rating categories of Standard & Poor's and Moody's. All policies shall name the Authority, the Center and the Trustee as insureds. The Net Proceeds of such insurance shall be applied as provided in the Indenture.

Rental Interruption Insurance. The Center shall maintain through the Term of the Lease Agreement rental interruption or use and occupancy insurance to cover loss, total or partial, of the use of the improvements constituting any part of the Project as a result of any of the hazards covered in the casualty insurance requirements of the Lease Agreement, in an amount at least equal to two times the maximum annual Lease Payments during the current or any future Fiscal Year. Such insurance may be maintained as part of or in conjunction with any other insurance carried by the Center and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority or other program providing pooled insurance. Such insurance must also list the Trustee and the Authority as named insureds. The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Bond Fund, and shall be applied as provided in the Indenture.

Title Insurance. The Center shall provide, at its own expense, on or before the Closing Date, a title insurance policy in the amount of not less than the aggregate principal amount of the Bonds, insuring the Center's leasehold estate in the Project, subject only to Permitted Encumbrances. All Net Proceeds received under said policy shall be deposited with the Trustee in the Redemption Fund and shall be applied to the redemption of Bonds pursuant to the Indenture.

Damage, Destruction and Eminent Domain; Use of Net Proceeds

Eminent Domain. If all of the Project shall be taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement shall cease as of the day possession shall be so taken. If less than all of the Project shall be taken permanently, or if all of the Project or any part thereof shall be taken temporarily under the power of eminent domain, (a) the Lease Agreement shall continue in full force and effect and shall not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) after application of amounts on deposit in the Bond Fund and the Reserve Account, there shall be a partial abatement of Lease Payments in an amount to be agreed upon by the Center and the Authority such that the resulting Lease Payments for the Project represent fair consideration for the use and occupancy of the remaining usable portion of the Project.

Application of Net Proceeds.

(a) **From Insurance Award.** The Net Proceeds of any insurance award resulting from damage to or destruction of the Project by fire or other casualty shall be deposited in the Insurance and Condemnation Fund by the Trustee and applied as set forth in the Indenture.

(b) **From Eminent Domain Award.** The Net Proceeds of any eminent domain award resulting from any event described in the Lease Agreement shall be deposited in the Insurance and Condemnation Fund and applied as set forth in the Indenture.

Abatement of Lease Payments in the Event of Damage or Destruction. Lease Payments shall be abated during any period in which by reason of damage or destruction (other than by eminent domain which is hereinbefore described) there is substantial interference with the use and occupancy by the Center of the Project or any portion thereof. The amount of such abatement shall be an amount agreed upon by the Center and the Authority such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Project not damaged or destroyed. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the Center waives any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments to the extent that the proceeds of rental interruption insurance or amounts in the Lease Payment Fund, the Bond Fund or the Reserve Account are available to pay Lease Payments which would otherwise be abated, it being declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Assignment and Subleasing by the Center

The Lease Agreement may not be assigned by the Center. The Center may sublease the Project or any portion thereof, but only with the written consent of the Authority and subject to all of the following conditions: (a) the Lease Agreement and the obligation of the Center to make Lease Payments thereunder shall remain obligations of the Center; (b) the Center shall, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority and the Trustee a true and complete copy of such sublease; (c) no such sublease by the Center shall cause the Project to be used for a purpose other than as may be authorized under the provisions of the Constitution and laws of the State; and (d) the Center shall furnish the Authority and the Trustee with a written opinion of nationally-recognized bond counsel, which shall be an Independent Counsel, stating that such sublease is permitted by the Lease Agreement and the Indenture, and will not cause the interest on the Bonds to become included in gross income for federal income tax purposes.

Amendment of the Lease Agreement

Except for the purposes of (i) issuing Additional Bonds pursuant to the Indenture, (ii) substituting the Project pursuant to the Lease Agreement or (iii) adding or removing Participants or modifying a Participant's share of total Use Payments, neither the Center nor the Authority will alter, modify or cancel, or agree to consent to alter, modify or cancel the Lease Agreement.

Lease Default Events and Remedies

Events of Default. The following shall be "Lease Default Events" under the Lease Agreement:

(a) Failure by the Center to pay any Lease Payment required to be paid thereunder at the time specified therein.

(b) Failure by the Center to make any Additional Payment required thereunder and the continuation of such failure for a period of 30 days.

(c) Failure by the Center to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Lease Agreement, other than as referred to in paragraph (a) or paragraph (b) above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the Center by the Authority or the Trustee; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Authority and the Trustee shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Center within the applicable period and diligently pursued until the default is corrected.

(d) The filing by the Center of a voluntary petition in bankruptcy, or failure by the Center promptly to lift any execution, garnishment or attachment, or adjudication of the Center as a bankrupt, or assignment by the Center for the benefit of creditors, or the entry by the Center into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Center in any proceedings instituted under the provisions of the Federal Bankruptcy Act, as amended, or under any similar acts which may hereafter be enacted.

Remedies upon Event of Default. Subject in all respects to the limitations on the use of the Site set forth in that certain Grant Deed between the County of Santa Cruz and the City of Santa Cruz, whenever any Lease Default Event referred to in the Lease Agreement shall have happened and be continuing, then it shall be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything to the contrary in the Lease Agreement or in the Indenture, there shall be no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable or to terminate the Lease Agreement or to cause the fee interest or the sub-leasehold interest of the Center in the Project to be sold, assigned or otherwise alienated. Each and every covenant thereof to be kept and performed by the Center is expressly made a condition and upon the breach thereof the Authority may exercise any and all rights of entry and reentry upon the Project. In the event of such default and notwithstanding any re-entry by the Authority, the Center shall, as therein expressly provided, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions therein contained and, in any event, such rent and/or damages shall be payable to the Authority at the time and in the manner as provided in the Lease Agreement, to wit:

The Center agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease Agreement and shall reimburse the Authority for any deficiency arising out of the re-leasing of the Project, or, in the event the Authority is unable to re-lease the Project, then for the full amount of all Lease Payments to the end of the Term of the Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as described above for the payment of Lease Payments under the Lease Agreement, notwithstanding such entry or re-entry by the Authority or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Project or the exercise of any other remedy by the Authority.

The Center irrevocably appoints the Authority as the agent and attorney-in-fact of the Center to enter upon and re-lease the Project in the event of default by the Center in the performance of any covenants contained in the Lease Agreement to be performed by the Center and to remove all personal property whatsoever situated upon the Project to place such property in storage or other suitable place in Santa Cruz County, for the account of and at the expense of the Center, and the Center exempts and agrees in the Lease Agreement to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Project and the removal and storage of such property by the Authority or its duly authorized agents in accordance with the provisions contained in the Lease Agreement.

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

The Center agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Authority to re-lease the Project in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Authority in effecting such re-leasing shall constitute a surrender or termination of the Lease Agreement irrespective of the term for which such re-leasing is made or the terms and conditions of such releasing, or otherwise.

The Center further waives the right to any rental obtained by the Authority in excess of the Lease Payments and conveys and releases such excess to the Authority as compensation to the Authority for its services in re-leasing the Project.

No Remedy Exclusive. No remedy in the Lease Agreement conferred upon or reserved to the Authority is intended to be exclusive and every such remedy shall be cumulative and shall, except as expressly provided to the contrary in the Lease Agreement, be in addition to every other remedy given under the Lease Agreement or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power to shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Authority to exercise any remedy reserved to it in the Lease Agreement, it shall not be necessary to give any notice, other than such notice as may be required in the Lease Agreement or by law.

THE USE AGREEMENT

Term of the Agreement

The Term of the Use Agreement shall commence as of May 15, 2012 and shall end on June 15, 2034, unless such term is extended as provided therein. If on June 15, 2034, the Indenture and the Lease Agreement shall not be discharged by their terms, or if the Lease Payments payable under the Lease Agreement shall have been abated at any time and for any reason, then the Term of the Use Agreement shall be extended until June 15, 2044 or until the Indenture and the Lease Agreement shall be discharged by their terms. If prior to June 15, 2034, the Indenture and the Lease Agreement shall be discharged by their terms, the Term of the Use Agreement shall thereupon end.

Notwithstanding the foregoing, it is intended that the Project will terminate upon payment of the principal portions of the Lease Payments set forth in the Lease Agreement.

Use Payments

(a) **Obligation to Pay.** In consideration of the use of the Project, subject to the provisions of the Use Agreement, the Participants agree to pay to the Center, its successors and assigns, as compensation for the use and occupancy of the Project during each Rental Period, the Use Payments for the Project to be due and payable on each November 15 and May 15, commencing November 15, 2012 (the "Use Payment Dates"). Each Participant has agreed to pay Use Payments based on a pro rata share of Lease Payments. The Participants will receive a credit against each Use Payment due equal to the amount of any credit received by the Center against its Lease Payment for amounts on deposit in the Bond Fund (including proceeds of the Bonds representing advance Lease Payments) including amounts in excess of the Reserve Requirement as well as the amount on deposit in the Lease Payment Fund. The Use Payments for the Project payable in any Rental Period shall be for the use of the Project for such Rental Period.

(b) **Rate on Overdue Payments.** In the event the Participants, or any of them, should fail to make any of the payments required in the Use Agreement, the payment in default shall continue as an obligation of the respective Participant until the amount in default shall have been fully paid, and the Participants agree to pay the same with interest thereon, to the extent permitted by law, from the date of default to the date of payment at the interest rate payable by the Authority of the Bonds. Such interest, if received, shall be deposited in the Lease Payment Fund.

(c) **Source of Payment; Budget and Appropriation.** Each Participant covenants to take such action as may be necessary to include all Use Payments due under the Use Agreement in each of its budgets during the Term of the Use Agreement and to make the necessary annual appropriations for all such Use Payments. The covenants on the part of the Participants contained in the Use Agreement shall be deemed to be and shall be construed to be ministerial duties imposed by law and it shall be the duty of each and every public official of the Participants to take such action and do such things as are required by law in the performance of the official duty of such official to enable the Participants and the Center to carry out and perform the covenants and agreements in the Use Agreement agreed to be carried out and performed by the Participants and the Center.

(d) **Additional Payments.** In addition to the Use Payments, the Participants, and each of them, in the same percentage as their individual portion of the Use Payments bears to the total Use Payments, shall pay when due, the Additional Payments payable by the Center under the Lease Agreement or indicating their individual proportionate shares thereof.

Optional Prepayment

Each Participant has the right at any time, to prepay all or any part of the Use Payments, and the Center and the Authority agree that the Trustee shall accept such prepayments when the same are tendered by such Participant. The Participants, or any of them, may prepay their proportionate share of Use Payments by depositing with the Center for transfer to the Trustee for deposit in the Redemption Fund, the "Prepayment Amount," which is calculated as follows:

(a) Divide the Participant's total remaining Use Payments by the total of all remaining Use Payments and multiply the result by the principal amount of any Outstanding Bonds. Round the result up to the nearest $5,000.

(b) Multiply this amount by the redemption premium, if any, on the Bonds and add to such amount the amount determined by the Controller of the Center to be the difference between the amount needed to pay Debt Service on the Bonds to be redeemed and the amount to be derived from the reinvestment of the prepaid Use Payments pending the redemption of such Bonds (subject to any limitations imposed by the Tax Code on such earnings). Add this amount to the amount determined in (a) above.

(c) The administrative fees of the Center as are determined by the Controller of the Center, which include the costs of the computation of the Prepayment Amount, the costs of redeeming the Bonds, the costs of any fiduciary, and the costs of recording or publishing any notices of redemption. Add these costs to the total of the amounts determined in (a) and (b) above.

(d) The Reserve Account credit, if any, is computed by deducting the Reserve Requirement for the Bonds to remain Outstanding following such redemption from the current Reserve Requirement. Deduct the result from the total of the amounts determined in (a), (b) and (c) above. This represents the Prepayment Amount.

(e) The Prepayment Amount will be deposited in the Redemption Fund and used to redeem Bonds in accordance with a Certificate of the Center and the Authority; provided that the administrative fees of the Center determined in (c) above will be retained by the Center.

All such prepayments shall be deposited upon receipt in the Redemption Fund, and applied to redeem or purchase Bonds pursuant to the Indenture.

Each Participant also shall have the right to surrender Bonds acquired by it in any manner whatsoever to the Trustee for cancellation and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and surrendered, and shall be allocated to Use Payments as specified in a Certificate of the Center. Notwithstanding any such prepayment or surrender of Bonds, as long as any Bonds remain Outstanding or any Additional Payments remain unpaid, the Participants shall not be relieved of their obligations under the Use Agreement.

In the event a Participant deposits with the Trustee or the Center, the full amount of any prepayment of the Use Payments pursuant to the Use Agreement, the Authority shall at the request of the Participant forthwith take all steps that may be necessary under the Indenture to cause the redemption of all or a portion of the Bonds under and in accordance with the Indenture.

Use Payments due after any such partial prepayment shall be in the amounts set forth in a revised Use Payment schedule which shall be provided by, or caused to be provided by the Authority to the Trustee and the Center and which shall represent an adjustment to the schedule set forth in an exhibit to the Use Agreement taking into account said partial prepayment.

Amendment of the Use Agreement

Neither the Center nor the Participants will alter, modify or cancel, or agree to consent to alter, modify or cancel the Use Agreement without the prior written consent of the Trustee, except for the following purposes:

(a) issuing Additional Bonds pursuant to the Indenture;

(b) substituting the Project pursuant to the Lease Agreement; or

(c) modifying the percentage that each Participant's individual portion of the Use Payments bears to the total Use Payment, or to add or remove Participants, or any of them.

Events of Default and Remedies

Use Default Events. The following shall be "Use Default Events" under the Use Agreement:

(a) Failure by the Participants, or any of them, to pay any Use Payment required to be paid thereunder at the time specified therein.

(b) Failure by the Participants, or any of them, to make any Additional Payment required thereunder and the continuation of such failure for a period of 30 days.

(c) Failure by the Participants, or any of them, to observe and perform any covenant, condition or agreement on its part to be observed or performed under the Use Agreement, other than as referred to in paragraph (a) or paragraph (b) above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the Participants by the Center, the Authority or the Trustee; provided, however, if the failure stated in the notice can be corrected, but not within the applicable period, the Authority, the Center and the Trustee shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Participants within the applicable period and diligently pursued until the default is corrected.

(d) The filing by the Participants, or any of them, of a voluntary petition in bankruptcy, or failure by the Participants, or any of them, promptly to lift any execution, garnishment or attachment, or adjudication of the Participants, or any of them, as a bankrupt, or assignment by the Participants, or any of them, for the benefit of creditors, or the entry by the Participants, or any of them, into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Participants, or any of them, in any proceedings instituted under the provisions of the Federal Bankruptcy Act, as amended, or under any similar acts which may hereafter be enacted.

Remedies on Default. Whenever any Use Default Event referred to in the Use Agreement shall have happened and be continuing, it shall be lawful for the Center to exercise any and all remedies available pursuant to law or granted pursuant to the Use Agreement; provided, however, that notwithstanding anything to the contrary in the Use Agreement, the Lease Agreement or in the Indenture, there shall be no right under any circumstances to accelerate the Use Payments or otherwise declare any Use Payments not then in default to be immediately due and payable or to terminate the Use Agreement. Each and every covenant thereof to be kept and performed by the Participants is expressly made a condition and upon the breach thereof the Authority or the Center may exercise any and all rights of entry and re-entry upon the Project. In the event of such default and notwithstanding any re-entry by the Authority or the Center, the Participants shall, as therein expressly provided, continue to remain liable for the payment of the Use Payments and/or damages for breach of the Use Agreement and the performance of all conditions therein contained and, in any event, such rent and/or damages shall be payable to the Authority or the Center at the time and in the manner as provided in the Use Agreement, to wit:

(a) The Participants agree to and shall remain liable for the payment of all Use Payments and the performance of all conditions contained in the Use Agreement and shall reimburse the Center and the Authority for any deficiency arising out of the reletting of the Project, or, in the event the Authority is unable to relet the Project, then for the full amount of all Use Payments to the end of the Term of the Use Agreement, but said Use Payments and/or deficiency shall be payable only at the same time and in the same manner as described above for the payment of Use Payments under the Use Agreement, notwithstanding such entry or re-entry by the Authority and the Center or any suit in unlawful detainer, or otherwise, brought by the Authority for the purpose of effecting such re-entry or obtaining possession of the Project or the exercise of any other remedy by the Authority.

(b) The Participants irrevocably appoint the Authority as the agent and attorney-in-fact of the Center to enter upon and relet the Project in the event of default by the Participants in the performance of any covenants contained in the Use Agreement to be performed by the Participants and to remove all personal property whatsoever situated upon the Project to place such property in storage or other suitable place in Santa Cruz County, for the account of and at the expense of the Participants, and the Participants exempt and agree in the Use Agreement to save harmless the Authority and the Center from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and reletting of the Project and the removal and storage of such property by the Authority or the Center or its duly authorized agents in accordance with the provisions contained in the Use Agreement.

(c) The Participants waive any and all claims for damages caused or which may be caused by the Authority or the Center in reletting and taking possession of the Project as provided in the Use Agreement and all claims for damages that may result from the destruction of or injury to the Project and all claims for damages to or loss of any property belonging to the Participants that may be in or upon the Project.

(d) The Participants agree that the terms of the Use Agreement constitute full and sufficient notice of the right of the Authority or the Center to use the Project in the event of such re-entry without effecting a surrender of the Use Agreement, and further agree that no acts of the Authority or the Center in effecting such use shall constitute a surrender or termination of the Use Agreement irrespective of the term for which such use is made or the terms and conditions of such use, or otherwise.

(e) The Participants further waive the right to any rental obtained by the Authority or the Center in excess of the Use Payments and convey and release such excess to the Authority as compensation to the Authority for its services in reletting the Project.

If and to the extent that any Participant fails to make timely payment of any Use Payment, or any portion thereof, in addition to any other remedy available to the Center, the Authority and/or the Trustee provided in the Use Agreement, any of the Participants may bring an action for collection, or exercise any other remedy available to it under applicable law, pursuant to the terms of the Use Agreement against the defaulting Participant, as the Participants declare that the obligations to make Use Payments is one for the benefit of the Bondholders, the Center and each Participant. The obligation to make Use Payments is one which is owed by the Participants, and each of them, to the Center and each other. Any Participant collecting Use Payments from any other Participant, by whatever means, shall promptly pay such amounts to the Center for deposit in the Lease Payment Fund as payment of the Use Payment by the Participant in default.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE CENTER

COUNTY OF SANTA CRUZ

REPORT ON AUDIT OF SANTA CRUZ REGIONAL 911

FOR THE YEAR ENDED JUNE 30, 2011

Prepared By:
County of Santa Cruz
Auditor-Controller

February 2012

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COUNTY OF SANTA CRUZ

MARY JO WALKER, AUDITOR-CONTROLLER
701 OCEAN STREET, SUITE 100, SANTA CRUZ, CA 95060-4073
(831) 454-2500 FAX (831) 454-2660

Edith Driscoll, Chief Deputy Auditor-Controller
Pam Silbaugh, General Accounting Manager
Mark Huett, Audit and Systems Manager
Marianne Ellis, Property Tax Accounting Manager

February 5, 2012

To the Board of Directors of the
Santa Cruz Regional 911
Santa Cruz, California 95065

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Santa Cruz Regional 911 (SCR 911) as of and for the year ended June 30, 2011, as listed in the Table of Contents. These financial statements are the responsibility of the SCR 911's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In connection with our audit contained herein, there are certain disclosures that are necessary pursuant to *Government Auditing Standards* sections 3.20 through 3.30. As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair *Government Auditing Standards* independence standards. Specifically, "Auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant or material to the subject matter of the audit." Although the office of the Auditor-Controller is statutorily obligated to maintain accounts of departments, district or funds that are contained within the County Treasury, we believe that the following safeguards and divisions of responsibility exist. Staff that has the responsibility to perform audits within the Auditor-Controller's Audit Division has no other responsibilities for the accounts and records being audited including the approval or posting of financial transactions. Therefore, we believe that subject to this qualification and disclosure, the reader can rely on the auditor's opinion contained in this report.

In our opinion, except for the disclosure for *Government Auditing Standards* section 3.20 through 3.30 as noted on page 1, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the SCR 911 at June 30, 2011, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2012, on our consideration of the SCR 911's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 29 through 32 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion on or provide any other assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Sincerely,

Mary Jo Walker

Mary Jo Walker, CPA
Auditor-Controller

Management's Discussion and Analysis
(Required Supplementary Information)

SANTA CRUZ REGIONAL 911
Management's Discussion and Analysis
For the Year Ended June 30, 2011

The Santa Cruz Regional 911 (SCR 911) is a Joint Powers Authority (JPA) providing 9-1-1 and public safety dispatch services for the County of Santa Cruz and the cities of Capitola, Santa Cruz, and Watsonville. For fiscal year 2010-2011, the SCR 911 also provided service to American Medical Response West (the local paramedic and ambulance transport provider), County Animal Services Authority, UCSC Fire Department, Santa Cruz County Fire and nine (9) fire districts.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the SC 911's basic financial statements. The SCR 911's basic financial statements comprise three components: (1) Government-wide financial statements, (2) Fund financial statements, and (3) Notes to the basic financial statements.

Government-wide Financial Statements

Government-wide financial statements are designed to provide readers with a broad overview of the SCR 911 finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all SCR 911 assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the SCR 911 is improving or deteriorating.

The *statement of activities* presents information showing how the SCR 911's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as expenses pertaining to earned but unused vacation and sick leave.

Both of these government-wide financial statements would distinguish functions of the SCR 911 that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The only business-type activities conducted by the SCR 911 are those associated with records requests. Since these activities are an intricate part of the SCR 911's operations and the results of these activities are immaterial, the results of these activities are included in the governmental activities.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related funds, which are used to account for resources that have been segregated for specific activities or objectives. The SCR 911, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the SCR 911 are classified as governmental funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. The governmental funds financial statements focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the CSR 911's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The SCR 911 maintains three individual governmental funds organized according to their type (general, capital projects, and debt service). Information is presented separately in the governmental funds balance sheet and the statement of revenues, expenditures and changes in fund balance for the general fund, the capital projects fund, and the debt service fund, which are all considered to be major funds.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the SCR 911's general fund budgetary comparison schedule and progress in funding its obligation to provide pension benefits to its employees and other post-employment obligations to retirees.

Annual Report of Financial Transactions to State Controller

The combining financial statements are presented as required supplementary information for State Controller's Annual Report of Financial Transactions.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

	Governmental Activities 2011	Governmental Activities 2010	Variance (%)
Assets			
Current assets	$ 1,706,865	$ 1,832,617	(6.86)
Capital assets	2,381,746	2,698,546	(11.74)
Total assets	4,088,611	4,531,163	(9.77)
Liabilities:			
Current liabilities	446,797	540,375	(17.32)
Long-term liabilities	3,452,731	3,458,471	(0.17)
Total liabilities	3,899,528	3,998,846	(2.48)
Net Assets:			
Invested in capital assets, net of related debt	(480,670)	(441,454)	(8.88)
Restricted	440,604	440,695	(0.02)
Unrestricted	229,149	533,076	(57.01)
Total Net Assets	$ 189,083	$ 532,317	(64.48)

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. In the case of the Regional 911, assets exceeded liabilities by $189,083 at the close of the most recent fiscal year.

A portion of the SCR 911's net assets reflects its investment in capital assets (e.g. structures and improvements, and other equipment), less any related debt to acquire those assets that is still outstanding, ($480,670). The SCR 911 uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the SCR 911's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the SCR 911's net assets, $440,604, represents resources that are subject to external restrictions on how they may be used.

At the end of the current fiscal year, the SCR 911 reported a negative balance in the amount invested in capital assets, net of related debt.

Changes in Net Assets

	Governmental Activities		
	2011	2010	Variance (%)
Revenues:			
Program Revenues:			
Member contributions	$ 4,519,989	$ 4,945,622	(8.61)
General Revenues:			
Interest income	11,643	13,438	(13.36)
Rents and concessions	93,095	92,969	0.14
Other charges – current services	713,254	736,318	(3.13)
Other revenues	636,993	629,653	1.17
Total revenues	5,974,974	6,418,000	(6.90)
Expenses			
Governmental activities	6,318,208	5,639,552	(12.03)
Total expenses	6,318,208	5,639,552	(12.03)
Change in net assets	(343,234)	778,448	(144.09)
Net assets, beginning	532,317	(394,960)	(234.78)
Prior Period Adjustment	-	148,829	(100.00)
Net assets, ending	$ 189,083	$ 532,317	(64.48)

Analysis of Change in Net Assets

The SCR 911's net assets decreased by $343,234 for the fiscal year ended June 30, 2011. This decrease was the result of refunding undesignated funds to the Member Agencies.

FINANCIAL ANALYSIS OF THE SANTA CRUZ REGIONAL 911'S FUNDS

As noted earlier, the SCR 911 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The SCR 911's governmental fund financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

At June 30, 2011, the SCR 911's governmental funds reported combined ending fund balances of $1,420,068. Approximately 54% of the combined ending fund balances constitutes unreserved fund balance, which is available to meet the SCR 911's current and future needs.

Revenues for governmental functions totaled $5,974,974 in the fiscal year 2010-2011. Expenditures for governmental functions amounted to $6,117,149. In the fiscal year 2010-2011, expenditures for governmental functions exceeded revenues by $142,174.

The following table shows actual revenue from various sources:

Revenues Classified by Source
Governmental Funds

	2011		2010		Increase/(Decrease)	
Revenues by Source	Amount	% of Total	Amount	% of Total	Amount	% of Change
Use of money/property	$ 104,738	1.75	$ 106,407	1.66	$ (1,669)	(1.57)
Charges of services	5,233,243	87.59	5,863,055	91.35	(629,812)	(10.74)
Miscellaneous revenues	636,993	10.66	448,538	6.99	188,455	42.02
Total	$ 5,974,974	100.00	$ 6,418,000	100.00	$ (443,026)	(6.90)

The following provides explanations of significant changes in revenues by source:

- The decrease in Charges for services is made up of a decrease of both member contributions and user fees. These decreases were due to a continued reduction in funding dispatch positions and delay of any capital replacement projects. The member contributions and user fees are calculated based on a cost sharing formula and the individual agency cost reductions are a byproduct of this formula. Additionally, revenue experienced by the San Benito/Hollister dispatch project to produce a feasibility study were unanticipated at the beginning of the budget cycle.

The current year excess of expenditures over revenues is presented below:

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds

	Major Funds			
	General Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues	$ 5,407,154	$ 136,986	$ 430,835	$ 5,974,975
Expenditures	(5,546,060)	(140,164)	(430,925)	(6,117,149)
Net change in fund balances	(138,906)	(3,178)	(90)	(142,174)
Fund balances, beginning	901,791	219,757	440,694	1,562,242
Fund balances, ending	$ 762,885	$ 216,579	$ 440,604	$ 1,420,068

CAPITAL ASSETS

The SCR 911's investment in capital assets for its governmental activities as of June 30, 2011, amounted to $2,381,746 (net of accumulated depreciation). This investment in capital assets includes structures and improvements, and equipment.

Capital assets for the governmental activities are presented below to illustrate changes from the prior year:

	Governmental Activities		
	2011	2010	Increase/ (Decrease) % of Change
Structures and Improvements	$ 3,753,089	$ 3,753,089	0.00
Equipment	3,433,840	3,581,318	(4.12)
Less: Accumulated Depreciation	4,805,183	4,635,861	3.65
Total Capital Assets, Net	$ 2,381,746	$ 2,698,546	(11.74)

Additional information on the SCR 911's capital assets can be found in Note 5 of this report.

Long-term debt

At June 30, 2011, the SCR 911 had long-term debt outstanding of $3,208,084 as compared to $3,331,541 in the prior year. This amount was comprised of $2,710,000 of capital lease principal payments (less current portion of $160,000), and $498,084 of compensated absences payable.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The SCR 911 is funded by Member Contributions and User Agency Service Agreements. The County of Santa Cruz has a 9-1-1 Response Fee Ordinance in place, which provides funding to partially offset their Member Contributions. As this fee has been upheld in past years, at this time it is anticipated that there will be no effect on this fee in future years.

Next year's budget will reflect an increase in revenues and expenses directly related to the assumption of dispatch responsibility for the County of San Benito and City of Hollister. Also, total budgetary expenditures are expected to remain flat in fiscal year 2012-2013 compared to the previous year. The continued decrease in expenditures is substantially the result of continued 1) voluntary furloughs by management and administrative staff, 2) reduction in the work force through retirements and attrition, 3) negotiated compensation reductions to represented dispatcher wages, and 4) an increase in revenue offsetting operational expenses resulting from the additional dispatch responsibility beginning in fiscal year 2011-2012.

The SCR 911's employer rate for California Public Employees Retirement System retirement contributions was 11.511% and 11.763% for fiscal years ended June 30, 2010 and June 30, 2011, respectively and is 13.113% for the fiscal year ending June 30, 2012.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the SCR 911's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Santa Cruz Regional 911 General Manager.

Basic Financial Statements–
Government-wide Financial Statements

SANTA CRUZ REGIONAL 911
Statement of Net Assets
June 30, 2011

Assets	
Cash	$ 1,139,663
Restricted cash	440,604
Accounts receivable	126,598
Capital assets, net	2,381,746
Total Assets	$ 4,088,611
Liabilities	
Current	
Accounts payable - Claims	$ 55,092
Accounts payable - Payroll	231,705
Capital Lease payable, current portion	160,000
Long-term	
Captial Lease payable	2,710,000
Compensated absences	498,084
Other Post-Employment Benefits	244,647
Total Liabilities	3,899,528
Net Assets	
Invested in capital assets, net of related debt	(480,670)
Restricted for:	
Debt service	440,604
Unrestricted	229,149
Total Net Assets	189,083
Total Liabilities and Net Assets	$ 4,088,611

The accompanying notes are an integral part of these financial statements.

SANTA CRUZ REGIONAL 911
Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs	
Governmental activities	
General Government	$ (6,318,208)
Total Governmental Activities	(6,318,208)
Program Revenues	
Member contributions	4,519,989
Subtotal Program Revenues	4,519,989
General Revenues	
Interest income	11,643
Rents and concessions	93,095
Other charges - current services	713,254
Other revenues	636,993
Subtotal General Revenues	1,454,985
Total Revenues	5,974,974
Change in Net Assets	(343,234)
Net Assets - Beginning	532,317
Net Assets - Ending	$ 189,083

The accompanying notes are an integral part of these financial statements.

Basic Financial Statements–
Fund Financial Statements

SANTA CRUZ REGIONAL 911
Balance Sheet - Governmental Funds
June 30, 2011

	General Fund	Capital Projects Fund	Debt Services Fund	Total
Assets				
Cash	$ 1,040,947	$ 98,716	$ -	$ 1,139,663
Restricted cash	-	-	440,604	440,604
Accounts receivable	2,643	117,863	-	120,506
Other receivable	6,092	-	-	6,092
Total Assets	$ 1,049,682	$ 216,579	$ 440,604	$ 1,706,865
Liabilities				
Accounts payable - Claims	$ 55,092	$ -	$ -	$ 55,092
Accounts payable - Payroll	231,705	-	-	231,705
Total Liabilities	286,797	-	-	286,797
Fund Balances				
Restricted for:				
Debt Service	-	-	440,604	440,604
Capital asset acquisition	-	216,579	-	216,579
Assigned to:				
Eliminate projected budgetary deficit in subsequent year's budget	650,651	-	-	650,651
Unassigned	112,234	-	-	112,234
Total Fund Balance	762,885	216,579	440,604	1,420,068
Total Liabilities and Fund Balance	$ 1,049,682	$ 216,579	$ 440,604	$ 1,706,865

The accompanying notes are an integral part of these financial statements.

SANTA CRUZ REGIONAL 911
Reconciliation of the Governmental Fund Balance Sheet to the Government-wide Statement of Net Assets - Governmental Activities
June 30, 2011

Fund Balance - Total Governmental Fund		$ 1,420,068
Amounts to be reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds		2,381,746
Long-term liabilities, including bonds payable, are not due and payable in the current period and are therefore not reported in the governmental funds		
Bond payable	$ (2,870,000)	
Compensated absences	(498,084)	
Other Post-Employment Benefits	(244,647)	(3,612,731)
Net Assets of Governmental Activities		$ 189,083

The accompanying notes are an integral part of these financial statements.

SANTA CRUZ REGIONAL 911
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Capital Projects Fund	Debt Service Fund	Total
Revenues				
Use of money and property	$ 102,860	$ 1,080	$ 798	$ 104,738
Charges for services	4,803,255	-	429,988	5,233,243
Miscellaneous revenues	501,039	135,906	49	636,994
Total Revenues	5,407,154	136,986	430,835	5,974,975
Expenditures				
Salaries and benefits	4,766,158	-	-	4,766,158
Services and supplies	779,902	57,631	3,940	841,473
Other charges	-	-	426,985	426,985
Fixed assets	-	82,533	-	82,533
Total Expenditures	5,546,060	140,164	430,925	6,117,149
Net Change in Fund Balance	(138,906)	(3,178)	(90)	(142,174)
Fund Balance - Beginning	901,791	219,757	440,694	1,562,242
Fund Balance - Ending	$ 762,885	$ 216,579	$ 440,604	$ 1,420,068

The accompanying notes are an integral part of these financial statements.

Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities - Governmental Activities
For the Year Ended June 30, 2011

Net Change in Fund Balance		$ (142,174)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Expenditure for general capital assets and other related capital asset adjustment	$ 84,358	
Less current year depreciation	(401,157)	(316,799)
Repayments of debt principal is an expenditure in the governmental funds, but the repayment reduces the long-term liabilities in the statement of net assets.		
Principal repayments		
Capital Lease payable		270,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in compensated absences	$ (36,543)	
Change in other post-employment benefits	(117,717)	(154,260)
Change in Net Assets of Governmental Activities		$ (343,233)

The accompanying notes are an integral part of these financial statements.

Basic Financial Statements – Notes to the Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Santa Cruz Regional 911 Joint Powers Authority (SCR 911) was formed on July 1, 1991, by the execution of a joint powers agreement by and among the cities of Capitola, Santa Cruz, and Watsonville, and the County of Santa Cruz. The SCR 911 is governed by a four-member board.

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the primary government. These statements include the financial activities of the overall government except for fiduciary activities. The SCR 911 does not have fiduciary activities. Eliminations would have been made to eliminate the double counting of internal service fund activities but the SCR 911 has no internal service fund activities. Governmental activities are normally supported by intergovernmental revenues.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the SCR 911's governmental activities. Direct expenses are those that are specifically associated with the SCR 911. Program revenues include contributions from other governmental agencies that are restricted for meeting the operational or capital requirements of the SCR 911. Revenues that are not classified as program revenues, including investment income, are presented instead as general revenues.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

Fund Financial Statements

Fund financial statements are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. Separate statements for each fund category would be presented if applicable. The emphasis of fund financial statements is on major governmental and enterprise funds rather than reporting funds by type. Each major fund is presented in a separate column. The internal service fund is presented in a single column in the proprietary fund financial statements. The SCR 911 has no proprietary or fiduciary funds, only governmental funds. Therefore, only one statement is prepared.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental Funds

The SCR 911 reports three major governmental funds. Those funds are:

General Fund – The General Fund is the general operating fund of the SCR 911. It is used to account for all financial resources, which are not required to be accounted for in another fund.

Capital Projects Fund – The Capital Projects Fund was created during fiscal year 1993-1994, for the purpose of accounting for the construction of the SCR 911 building, and is maintained for the purchase of equipment.

Debt Service Fund – The Debt Service fund was created during fiscal year 2005-2006, for the purpose of periodic payment of interest and principal on the SCR 911's long-term liabilities.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The government-wide, proprietary, and fiduciary financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between government-wide statements and the statements for governmental funds. The SCR 911 has no proprietary or fiduciary funds.

The accounting objectives of the economic resources measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Fund equity is classified as net assets.

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The governmental fund financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

In the current financial resources measurement focus, only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of funds available for financial resources during a given period. The fund balance is used as the measure of available financial resources at the end of the period.

Under the modified accrual basis of accounting, revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means having been earned and collectible within the current period. Expenditures (including capital outlay) are recorded when the related liability is incurred, except for debt service expenditures (principal and interest), as well as expenditures related to compensated absences which are reported when due.

D. Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of $5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Equipment	3-15 years
Buildings and structures	20-40 years

E. Net Assets and Fund Balances

Government-Wide Financial Statements – In the Government-Wide Financial Statements, net assets are classified in the following:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvements of the assets.

Restricted Net Assets – This amount is restricted by external creditors.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Fund Financial Statements – Restricted fund balance represent the portion of fund balance that is designated for expenditures which are legally segregated for a specific use. Assigned fund balance includes amounts that are constrained by the SCR 911's intent to be used for specific purposes. The SCR 911's Board has the authority to remove or change the assignment of the funds. Unassigned fund balance represents the fund balance which is available for appropriation in future periods.

Debt Service – To reflect the funds held by trustees or fiscal agents for future payment of bond principal and interest. These funds are not available for general operations.

NOTE 2. POOLED CASH AND INVESTMENTS

Cash balances of the SCR 911's funds are deposited with the County of Santa Cruz where the available balances beyond immediate needs are invested in various securities by the County Treasurer. These cash balances do not include the restricted cash maintained in separate bank accounts as described in Note 4. Pooled balances are restricted to legally stipulated investments consistent with state statutes and the County's Investment Policy. In accordance with GASB Statement No. 31, the County calculated the fair value of all investments included in the pooled investments based on quoted market prices. Any material unrealized gains or losses are reported along with investment income (interest). At June 30, 2011, the unrealized losses applicable to the SCR 911 are considered to be immaterial and, therefore, no adjustments have been made to the financial statements.

NOTE 3. COMPENSATED ABSENCES PAYABLE

Compensated absences are those absences for which employees will be paid, such as vacation, sick, compensation time and administrative leave. A liability for compensated absences that are attributable for services already rendered that are not contingent on a special event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. On June 30, 2011, the liability for compensated absences included $189,031 of vacation pay, $249,533 of vested sick leave and $59,520 of compensation time for a total of $498,084.

SANTA CRUZ REGIONAL 911
Notes to the Financial Statements
Year Ended June 30, 2011

NOTE 4. RESTRICTED ASSETS

Certain proceeds of the SCR 911's lease-purchase agreement with the Santa Cruz Public Financing Authority, as well as certain resources set aside for lease payments, are classified as restricted assets on the balance sheet because the majority of the assets are maintained in a separate bank account and the use of all of these assets is limited by applicable lease terms. The Reserve Account is used to report resources set aside to subsidize lease payments made from the Debt Service Fund. See Note 6 for further details of the lease-purchase agreement.

NOTE 5. CAPITAL ASSETS

The following is a summary of capital assets activity for the fiscal year ended June 30, 2011:

	Balance 7/1/2010	Additions	Deletions	Balance 6/30/2011
Capital assets				
Structures/Improvements	$ 3,753,089	$ -	$ -	$ 3,753,089
Equipment	3,581,318	84,358	231,836	3,433,840
Less accumulated depreciation for				
Structures/Improvements	1,832,539	126,177	-	1,958,717
Equipment	2,803,322	274,980	231,836	2,846,466
Total capital assets, net	$ 2,698,546	$ (316,799)	$ -	$ 2,381,746

NOTE 6. LONG TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2011:

	Balance 7/1/2010	Additions/ Delations, net	Balance 6/30/2011	Current Portion	Long-Term Portion
Capital lease	$ 3,140,000	$ (270,000)	$ 2,870,000	$ 160,000	$ 2,710,000
Compensated absences	461,541	36,543	498,084	-	498,084
Totals	$ 3,601,541	$ (233,457)	$ 3,368,084	$ 160,000	$ 3,208,084

NOTE 6. LONG TERM DEBT – Continued

On January 8, 2003, the SCR 911 entered into a lease-purchase agreement with the Santa Cruz County Public Financing Authority in the amount of $5,760,000 to refund the 1994 lease purchase agreement and for the purchase of additional equipment. The initial term of the lease is over 20 years and will terminate on the payment of all sums required. Principal payments are due annually in June and interest payments are due semi-annually in December and June.

The future lease obligations, including interest, are as follows:

Year ended June 30	Principal	Interest	Total
2012	$ 160,000	$ 147,875	$ 307,875
2013	170,000	142,275	312,275
2014	175,000	133,350	308,350
2015	190,000	124,163	314,163
2016	195,000	114,188	309,188
2017-2021	1,145,000	404,250	1,549,250
2022-2024	835,000	89,250	924,250
Total	$ 2,870,000	$ 1,155,351	$ 4,025,351

NOTE 7. OPERATING LEASES

On March 30, 1994, the SCR 911 executed an agreement as *lessee* to lease its property from the City of Santa Cruz for $1.00 per year, for a period of 50 years. At the end of this period the SCR 911 will have the option to extend the lease for an additional 49 years. The sum total of lease payments was prepaid to the City of Santa Cruz at the inception of the lease.

On March 23, 2006, the SCR 911 executed an agreement as *lessee* to lease property for an alternative dispatch area from the City of Watsonville. The initial base rent under the lease was $1,137.09 per month, with the rent being subject to an annual adjustment each August 1st during the term of the lease. The initial term of the lease is for a period of five (5) years commencing on August 1, 2006. At the end of this period the SCR 911 will have the option to extend the lease for an additional five (5) years.

NOTE 7. OPERATING LEASES - Continued

On August 16, 1994, the SCR 911 entered into an operating sublease agreement as *lessor* with what was then GTE Mobilenet. GTE Mobilenet agreed to sublease space on the transmitting tower as a cellular transceiving site for an initial term of five (5) years, beginning on January 1, 1995, with an option to extend the lease for three (3) additional periods of five (5) years each. The agreement calls for GTE Mobilenet to pay the SCR 911 an initial Base Rent of $17,484 per year (in monthly installments) for the first year, with the rent being subject to an annual adjustment each January 1st during the term of the sublease. Since the inception of the sublease, GTE Mobilenet has become Verizon Wireless. Verizon Wireless has exercised the option to extend the sublease through December 31, 2014.

On October 19, 1995, the SCR 911 entered into an operating lease agreement as *lessor* with the County of Santa Cruz (County) Emergency Operations Center (EOC). The County EOC agreed to lease space at the main SCR 911 facility for 50 years, beginning on July 1, 1996, with an option to extend the lease for an additional 49 years. The County EOC entered into the lease for the purposes of operating the EOC at the SCR 911 whenever necessary, as their operations are complimentary with those of the SCR 911. The agreement calls for the County to pay the SCR 911 $66,528 per year (in quarterly installments) for the first 30 years, and $1 per year for the next 20 years, and for any extended time of the lease. This lease can only be terminated with mutual written agreement from the lessee and the lessor.

NOTE 8. DEFINED BENEFIT PENSION PLAN

Plan Description

The SCR 911 contributes to the California Public Employees' Retirement System (CalPERS). CalPERS is a cost-sharing multiple-employer defined benefit retirement plan that acts as a common investment and administrative agent for various local and state governmental agencies within the state. CalPERS provides retirement, disability, and death benefits based on employees' years of service, age and final compensation. Employees vest after five years of CalPERS-credited service and they are eligible for service retirement if they are 50 years old or over and have at least 5-years of CalPERS-credited service. These provisions and all other requirements are established by State statute and SCR 911 resolutions. CalPERS' annual financial reports and the required 10-year trend information may be obtained from CalPERS' executive office at 400 Q Street, Sacramento, CA, 95814.

NOTE 8. DEFINED BENEFIT PENSION PLAN - Continued

Funding Policy

Active plan members are required by SCR 911 policy to contribute 7% of annual covered salary. The SCR 911 is required to contribute at an actuarially determined rate. The employer contribution rate for the SCR 911 for the 2010-2011 fiscal year was 11.763% of the current year covered payroll. The plan is not Superfunded. The contribution requirements of plan members and the SCR 911 are established by and may be amended by CalPERS.

Annual Pension Costs

The SCR 911's annual pension cost for the current and previous years were \$609,339, \$587,801, and \$662,099 respectively. These were equal to the annually required contribution. The current year's required contribution was determined as part of the June 30, 2008, actuarial valuation using a modification of the Entry Age Normal Cost Method. The actuarial assumptions included: (a) a rate of return on investment of 7.75%; and (b) projected salary increases of 3.25% to 14.45% depending on age, service and type of employment. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of the pension plan's assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The average remaining period of amortization at June 30, 2008, (the valuation date) was 16 years.

Three-year trend information for CalPERS:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2009	$ 662,099	100%	$ -
June 30, 2010	587,801	100%	-
June 30, 2011	609,339	100%	-

NOTE 8. DEFINED BENEFIT PENSION PLAN - Continued

The SCR 911 contributes to the California Public Employees' Retirement System (CalPERS), under an agent multiple – employer public employee defined benefit pension plan. As part of the program to smooth the changes in required employer contributions for smaller plans, resulting from changes in actuarial assumptions and short-term market experiences, CalPERS placed plans of 100 or fewer members onto "Risk Pools". Formation of the Risk Pools required the establishment of "Side Funds" to account for the differences between the funded status of the Risk Pool and the funded status of the member districts plan. The Side Fund represents unfunded liabilities to be amortized on an annual basis over a closed period.

The table below displays a schedule of funding progress for the recent history of the Risk Pool's accrued liability, actuarial value of assets, unfunded liability, funded status (i.e. the ratio of the actuarial value of assets to accrued liability), the estimated annual covered payroll for the Risk Pool, and the unfunded actuarial accrued liability (UAAL) as a percentage of the covered payroll.

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Liability as a Percentage of Covered Payroll
2010	$ 2,946,408,106	$ 3,309,064,934	$ 362,656,828	89.0%	$ 748,401,352	48.5%

NOTE 9. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 8, the SCR 911 provides post-retirement pre-Medicare health care benefits for retirees and their dependents in accordance with the various employee representation units' agreements. These benefits are provided for retirees who:

- Are enrolled in a medical plan at the time of retirement, and
- File an application for monthly retirement through CalPERS at the time of separation.

Contributions for these benefits are funded on a pay-as-you-go basis. During fiscal year 2010-2011, sixteen retirees were eligible to receive such benefits. SCR 911 contributions for post-retirement health care benefits for fiscal year 2011 were $90,995.

NOTE 9. POST-RETIREMENT HEALTH CARE BENEFITS - Continued

Plan Description. Employees of the SCR 911 who retire through CalPERS, their spouse, and eligible dependents may receive health plan coverage through the Public Employees' Medical & Hospital Care Program (PEMHCA) Plan (Plan). The Plan is a defined benefit plan, which provides the retirees a monthly medical contribution that is not to exceed the cost of the plan selected. The cost of the plan to the SCR 911 for each bargaining group will be determined through PERS regulations and requirements.

Effective January 1, 2010, SCR 911 contributes to CalPERS PEMHCA Plan or any other CalPERS approved alternate medical plans $500.00 a month for active and retired eligible employees who have elected to participate in such programs.

Eligibility. All of the SCR 911's employees became participants in accordance with the Memorandum of Understanding (MOU) as negotiated by each group or bargaining unit. In order to receive benefits, eligible employees must meet the minimum requirements defined in their MOU.

PEMHCA Plan - the plan is eligible to plan members who retire directly from the SCR 911 through CalPERS at age 50 with at least 5 years of service.

The numbers of participants in the Plans are as follows:

Participants as of January 1, 2008*	**Total**
Active Employees	53
Retires < 65	8
Total	61

* Most recent information available

Funding Policy. The contribution requirements for the SCR 911 are established by a Memorandum of Understanding as negotiated by each group or bargaining unit. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2010-2011, the SCR 911 contributed $90,995 to the plan.

NOTE 9. POST-RETIREMENT HEALTH CARE BENEFITS - Continued

Annual OPEB Cost and Net OPEB Obligation. The SCR 911's annual OPEB cost (expense) is calculated based on the *Annual Required Contribution of the Employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The following table shows the components of the SCR 911's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the SCR 911's net OPEB obligation to the Plan:

	Total
Annual required contribution	$ 203,000
Interest on net OPEB obligation	5,712
Annual OPEB cost (expense)	208,712
Contributions made	(90,995)
Increase in net OPEB obligation	117,717
Net OPEB obligation - beginning of year	126,930
Net OPEB obligation - end of year	$ 244,647

The SCR 911's annual OPEB costs, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010-2011 is as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual Contribution	% of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	$ 186,000	$ 59,070	31.76%	$ 126,930
June 30, 2011	208,712	90,995	43.60%	244,647

NOTE 9. POST-RETIREMENT HEALTH CARE BENEFITS - Continued

Funded Status and Funding Progress. As of January 1, 2008, the most recent actuarial valuation date, the plan was zero percent funded. The Actuarial Accrued Liability for benefits was $1,480,000 and the actuarial value of assets was $0, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of $1,480,000. The covered payroll (annual payroll of active employees covered by the plan) was $3,610,000 and the ratio of UAAL to the covered payroll was 41%.

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

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

In the January 1, 2008, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 4.5% investment rate of return which is based on the expected return on funds invested in the County Treasury, and an annual healthcare cost trend rate ranging from 9% to 11% initially and reduced to an ultimate rate of 4.5% thereafter. The actuarial assumption for inflation was 3%, and the aggregate payroll increases were 3.25%. The Unfunded Actuarial Accrued Liability (UAAL) is being amortized as level percentage of payroll over a 30-year fixed period. The remaining amortization as of 6/30/2011 was 26.5 years.

NOTE 9. POST-RETIREMENT HEALTH CARE BENEFITS - Continued

OTHER POSTEMPLOYMENT OBLIGATIONS

SCHEDULE OF FUNDING PROGRESS

The table below shows a one-year analysis of the actuarial value of assets as a percentage of the actuarial accrual liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30, 2011. This is the first year of the post employment obligation information being presented, so prior year's information is not available.

Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded (Overfunded) Liability as a Percentage of Covered Payroll
1/1/2008	$ -	$1,480,000	$ 1,480,000	0.0%	$ 3,610,000	41.0%

NOTE 10. DEFERRED COMPENSATION PLAN

The SCR 911 participates in the deferred compensation plan (the Plan) offered by the County of Santa Cruz. The Plan was created in accordance with Section 457 of the Internal Revenue Code. The Plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or emergency. Employees direct the investment of plan assets into various mutual funds. The SCR 911 has insignificant administrative duties.

The SCR 911 has implemented GASB Statement No. 32, *Accounting and Financial* Reporting *for Internal Revenue Code Section 457 Deferred Compensation Plans*. The Statement establishes reporting standards for deferred compensation plans. Under these requirements, the SCR 911 no longer owns the amount deferred by employees or related income on these amounts as long as all assets and income of the Plan are held in trust for the exclusive benefit of participants and their beneficiaries.

As of June 30, 2011, the Plan's assets of $104,226,074 are not recorded in the financial statements as they are deposited with a third party administrator independent of SCR 911.

Required Supplementary Information
(Other than MD&A)

SANTA CRUZ REGIONAL 911
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Budgetary Balances, Beginning	$ 901,791	$ 901,791	$ 901,791	$ -
Resources (inflows)				
Use of money and property	102,769	102,769	102,860	91
Charges for services	4,879,978	4,803,336	4,803,255	(81)
Miscellaneous revenues	431,664	463,236	501,039	37,803
Amounts Available for Appropriation	5,414,411	5,369,341	5,407,154	37,813
Charges to appropriations (outflows)				
Salaries and employee benefits	5,030,075	5,030,075	4,766,158	263,917
Services and supplies	885,905	885,905	779,902	106,003
Appropriations for contingencies	219,722	219,722	-	219,722
Total Charges to Appropriation	6,135,702	6,135,702	5,546,060	589,642
Budgetary Balances, Ending	$ 180,500	$ 135,430	$ 762,885	$ 627,455

SANTA CRUZ REGIONAL 911
Budgetary Comparison Schedule - Capital Projects Fund
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Positive (Negative)
Budgetary Balances, Beginning, as restated	$ 219,757	$ 219,757	$ 219,757	$ -
Resources (inflows)				
Use of money and property	2,500	2,500	1,080	(1,420)
Miscellaneous revenues	150,164	150,164	135,906	(14,258)
Amounts Available for Appropriation	152,664	152,664	136,986	(15,678)
Charges to appropriations (outflows)				
Services & Supplies	70,164	70,164	57,631	12,533
Fixed assets	87,125	87,125	82,533	4,592
Total Charges to Appropriation	157,289	157,289	140,164	17,125
Budgetary Balances, Ending	$ 215,132	$ 215,132	$ 216,579	$ 1,447

SANTA CRUZ REGIONAL 911
Budgetary Comparison Schedule - Debt Service Fund
For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Positive (Negative)
Budgetary Balances, Beginning	$ 440,694	$ 440,694	$ 440,694	$ -
Resources (inflows)				
Use of money and property	1,000	1,000	798	(202)
Charges for services	429,988	429,988	429,988	-
Miscellaneous revenues	-	-	49	49
Amounts Available for Appropriation	430,988	430,988	430,835	(153)
Charges to appropriations (outflows)				
Services and supplies	4,000	4,000	3,940	60
Other charges	426,988	426,988	426,985	3
Total Charges to Appropriation	430,988	430,988	430,925	63
Budgetary Balances, Ending	$ 440,694	$ 440,694	$ 440,604	$ (90)

SANTA CRUZ REGIONAL 911
Schedule of Funding Progress - Public Employees' Retirement System (CalPERS) and Other Post Employment Obligations
For the Year Ended June 30, 2011

PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CalPERS)

As part of the program to smooth the changes in required employer contributions for smaller plans, resulting from changes in actuarial assumptions and short-term market experiences, CalPERS placed plans of 100 or fewer members into "Risk Pools". Formation of the Risk Pools required the establishment of "Side Funds" to account for the differences between the funded status of the Risk Pool and the funded status of the member districts plan. The Side Fund represents unfunded liabilities to be amortized on an annual basis over a closed period.

The table below displays a three-year analysis of the Risk Pool's actuarial value of assets as a percentage of the actuarial accrual liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30 of each year indicated:

Actuarial Valuation Date	(A) Actuarial Value of Assets	(B) Entry Age Actuarial Accrued Liability	(C) Unfunded (Overfunded) Actuarial Accrued Liability [(B)-(A)]	(D) Funded Ratio [(A)/(B)]	(E) Covered Payroll	(F) Unfunded (Overfunded) Liability as a Percentage of Covered Payroll [(C)/(E)]
2008	$ 2,547,323,278	$ 2,780,280,768	$ 232,957,490	91.6%	$ 688,606,681	33.8%
2009	2,758,511,101	3,104,798,222	346,287,121	88.9%	742,981,488	46.6%
2010	2,946,408,106	3,309,064,934	362,656,828	89.0%	748,401,352	48.5%

OTHER POST EMPLOYMENT OBLIGATIONS

The table below shows a one-year analysis of Regional 911's actuarial value of assets as a percentage of the actuarial accrual liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30, 2011.

Actuarial Valuation Date	(A) Actuarial Value of Assets	(B) Entry Age Actuarial Accrued Liability	(C) Unfunded (Overfunded) Actuarial Accrued Liability [(B)-(A)]	(D) Funded Ratio [(A)/(B)]	(E) Covered Payroll	(F) Unfunded (Overfunded) Liability as a Percentage of Covered Payroll [(C)/(E)]
1/1/2008	$ -	$ 1,480,000	$ 1,480,000	0.0%	$ 3,610,000	41.0%

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

COUNTY OF SANTA CRUZ

MARY JO WALKER, AUDITOR-CONTROLLER
701 OCEAN STREET, SUITE 100, SANTA CRUZ, CA 95060-4073
(831) 454-2500 FAX (831) 454-2660

Edith Driscoll, Chief Deputy Auditor-Controller
Pam Silbaugh, General Accounting Manager
Mark Huett, Audit and Systems Manager
Marianne Ellis, Property Tax Accounting Manager

February 5, 2012

To the Board of Directors of the
Santa Cruz Regional 911
Santa Cruz, California 95065

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the governmental activities and each major fund of the Santa Cruz Regional 911 (SCR 911) as of and for the year ended June 30, 2011, and have issued a report thereon dated February 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the SCR 911's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SCR 911's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the SCR 911's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be a material weakness. However, we identified certain deficiencies in internal control over financial reporting, described in our separate letter to management dated February 5, 2012, that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the SCR 911's financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of the SCR 911 and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Mary Jo Walker

Mary Jo Walker, CPA
Auditor-Controller

General Information

SANTA CRUZ REGIONAL 911
General Information
Year Ended June 30, 2011

Organization

The SCR 911, formed by the execution of a joint powers agreement was established to operate a consolidated communications facility to provide 9-1-1 and public safety dispatching services for the law enforcement, fire, rescue and emergency medical providers of the participating agencies.

Directors and Officials

Each board official shall remain a board member until such member ceases to be an employee of the governing body of the participating entity. The following were in office June 30, 2011:

Susan A. Mauriello, County Administrative Officer, County of Santa Cruz, Chairperson
Jamie Goldstein, City Manager, City of Capitola, Vice-Chairperson
Martin Bernal, City Manager, City of Santa Cruz, Secretary
Carlos Palacios, City Manager, City of Watsonville

Other officials at June 30, 2011 were:

Scotty Douglass, General Manager
Sherry Paul, Senior Administrative Assistant

Accounts and Records

The official accounting records are maintained in the office of the County Auditor-Controller. Supporting documents are maintained in the SCR 911 files.

Minute Book

Minutes were recorded for meetings and contained approvals for disbursements.

Budgetary Procedures

The SCR 911 prepared fiscal year budgets in accordance with applicable laws and regulations.

SANTA CRUZ REGIONAL 911
Schedule of Insurance Coverage
Year Ended June 30, 2011

At June 30, 2011, the SCR 911's insurance coverage was as follows:

COVERAGE	INSURER	LIMITS
Property	SDRMA	$1,000,000,000 per occurrence, replacement cost for scheduled property
Boiler & Machinery	SDRMA	$100,000,000 per occurrence, replacement cost for scheduled property
Personal Injury and Property Damage Liability – General	SDRMA	$5,000,000 per occurrence
Personal Injury and Property Damage Liability – Auto	SDRMA	$5,000,000 per occurrence
Employment Practices Liability	SDRMA	$5,000,000 per occurrence; $5,000,000 general aggregate
Employee Benefits Liability	SDRMA	$5,000,000 per occurrence; $5,000,000 general aggregate
Employee Dishonesty	SDRMA	$400,000 per occurrence
Personal Liability for Board Members/Directors	SDRMA	$500,000 per occurrence; $500,000 general aggregate
Uninsured/Underinsured Motorists	SDRMA	$750,000 each accident
Public Officials and Employees Errors	SDRMA	$5,000,000 per occurrence; $5,000,000 general aggregate
Workers' Compensation and Employer's Liability	SDRMA	$5,000,000 per occurrence

APPENDIX C

CITY OF CAPITOLA FINANCIAL INFORMATION

This Appendix contains information provided by the City of Capitola (the "City"), unless otherwise noted. Such information relates to the City's general financial condition and includes tables setting forth summary budget and financial information for the City. Such financial and budget information is summary in nature and is not intended to present a detailed or comprehensive description of the financial situation of the City. The City's Audited Financial Statements for Fiscal Year Ended June 30, 2011 are available on the Municipal Securities Rulemaking Board (the "MSRB") Electronic Municipal Market Access system. See "- Financial Statements" herein. This Appendix contains summary information only.

General Representations

The City has certified that the following statements are true and correct to the best knowledge of an officer of such City.

- The City has not defaulted on a lease or debt obligation in the last ten (10) years.
- The City has not failed to comply with any disclosure obligations with respect to securities, including under SEC Rule 15c2-12 and/or a written undertaking.
- There has not been a material adverse change in the City's financial condition since June 30, 2011.
- The City does not have any sales tax or property tax payers which are expected to contribute in excess of 10% of the sales tax or property tax received by the City during the 2011/12 Fiscal Year.
- Proposition 218 or Proposition 62 will not materially impact any existing taxes, fees and assessments collected by the City. See "RISK FACTORS - The Use Payments - Proposition 218" and "- Proposition 62" in the forepart of this Official Statement.
- There have been no revenues collected by the City that have been challenged as a result of Proposition 218 or Proposition 62.
- The City does not have any funds invested in derivatives or reverse repurchase agreements, and the City does not have a leveraged portfolio.
- Over the last two years, the City has not experienced any significant losses, realized or unrealized, in its investment portfolio as a result of a ratings downgrade, bankruptcy, subprime mortgage exposure or decline in market value relating to such investments.
- The City does not have illiquid investments in its investment portfolio.
- There are no proposed items in the State's Proposed Fiscal Year 2012/13 budget that would result in a significant reduction (5% or greater) in the City's discretionary revenues.
- The City does not expect any increase in its pension funding costs over the next two years as a result of changes in the PERS actuarial assumptions, because certain rate increases are paid by employees pursuant to current labor agreements.
- The City has never contributed less than its Annual Required contribution (ARC) to its pension plan.
- The City does not plan to set up an OPEB trust fund to pre-fund its OPEB obligations.

- The City has not adopted, and does not plan to adopt, any significant change in accounting practices for Fiscal Years 2011/12 or 2012/13 that may have a material adverse impact on its finances or the presentation of its finances in its financial statements. The City's independent auditors' reports for the financial statements of the City for the last 5 years have been unqualified. See "Supplemental Financial Information for the City - Independent Auditors' Reports" for a description of these reports.

- The City expects there may be a negative impact on its finances in 2012/13 as a result of its redevelopment agency being eliminated. If so, the City may be required to adjust its 2012/13 budget to reduce costs.

- The City does not expect any significant impact to its finances or operations due to the elimination of ARRA funding or other federal funding changes.

- Neither the City nor its debt obligations have been audited by the IRS within the last ten years.

- There is no on-going or threatened litigation, proceeding, investigation or inquiry that may adversely affect the finances or operations of the City.

- There are no other conditions or events, including but not limited to hazardous materials which may adversely affect the finances of the City.

- The City does not have any outstanding variable rate or auction rate debt.

- The City is not a party to any swap agreement.

- The City does not expect any further significant impact on its finances as a consequence of downturns in the real estate market.

- The City does not have any other information which is necessary to be disclosed in order to make the statements above, in the light of the circumstances under which such statements are made, not misleading.

Use Payments

Pursuant to the Use Agreement, the City of Capitola will pay Use Payments to the Center in an amount equivalent to 11.96% of the Center's Lease Payments. The budgeted amount of the City's Use Payments in fiscal year 2011/12 are approximately $37,300 and the City's share of net operating and other capital costs, net of credits for user fees and other income are $393,448, for a total annual cost of approximately $430,748.

Financial Statements

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

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

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

The City retained the firm of Teaman, Ramirez & Smith, Inc., Certified Public Accountants, Riverside, California, to examine the general purpose financial statements of the City as of and for the year ended June 30, 2011. The following tables summarize the audited Balance Sheet and audited Statement of Revenues, Expenditures and Changes in Fund Balance of the City's General Fund for the last four fiscal years. The City has not requested, and the auditor has not provided, any review or update of such statements in connection with the inclusion in this Official Statement.

The City was required to implement GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition, for the Fiscal Year ending June 30, 2011. GASB No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. GASB No. 54 also provides for additional classification as "restricted," "committed," "assigned," and "unassigned" based on the relative strength of the constraints that control how specific amounts can be spent.

TABLE NO. C-1
CITY OF CAPITOLA
GENERAL FUND
BALANCE SHEET
As of June 30

	2008	2009	2010	2011
ASSETS				
Cash and Investments	$4,293,489	$4,451,697	$4,302,128	$3,404,776
Accounts Receivable	115,565	66,842	72,996	59,874
Due From Other Governments	1,128,127	641,353	1,192,556	1,102,819
Due From Other Funds	100,337	153,759	36,387	53,157
Advances to Other Funds	1,968,028	1,968,028	1,968,028	1,968,028
Prepaids	-	19,353	7,088	5,519
Total Assets	$7,605,546	$7,301,032	$7,579,183	$6,594,173
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	330,627	275,458	412,496	832,952
Accrued Liabilities	300,063	599,830	387,721	395,096
Deferred Revenue	253,017	245,541	346,768	368,671
Deposits Payable	218,461	183,613	178,866	238,001
Total Liabilities	1,102,168	1,304,442	1,325,851	1,834,720
Fund Balances:				
Reserved for:				
Prepaids	-	19,353	7,088	-
Advances to Other Funds	1,968,028	1,968,028	1,968,028	-
Unreserved	4,535,350	4,009,209	4,278,666	-
Nonspendable	-	-	-	1,973,547
Unassigned	-	-	-	2,785,906
Total Fund Balances	6,503,378	5,996,590	6,253,782	4,759,453
Total Liabilities and Fund Balances	$7,605,546	$7,301,032	$7,579,633	$6,594,173

Source: City of Capitola Financial Statements.

TABLE NO. C-2
CITY OF CAPITOLA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30

	2008	2009	2010	2011
REVENUES				
Taxes	$ 9,489,300	$ 7,574,595	$ 7,688,040	$ 7,624,970
Licenses and Permits	247,884	643,861	589,535	454,935
Fines and Forfeitures	671,668	701,767	803,198	702,045
Intergovernmental	218,435	834,319	1,090,705	1,118,889
Charges for Services	2,185,197	1,469,765	1,214,082	1,186,897
Use of Money and Property	561,163	541,322	475,348	384,744
Other Revenue	72,073	176,745	162,410	155,133
Total Revenues	$13,445,720	$11,942,374	$12,023,318	$11,627,613
EXPENDITURES				
Current:				
General Government	$ 2,488,131	$ 2,224,809	$ 2,143,986	$ 2,874,417
Public Safety	5,071,368	5,695,525	5,276,037	5,307,054
Community Development	891,618	879,669	767,123	700,953
Cultural and Recreation	1,539,377	901,505	906,222	898,752
Transportation	1,283,361	2,367,447	1,788,985	2,015,284
Capital Outlay	202,796	-	32,324	10,696
Total Expenditures	$11,476,651	$12,068,955	$10,914,677	$11,807,156
Excess (Deficiency) of Revenues Over Expenditures	1,969,069	(126,581)	1,108,641	(179,543)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	447,957	-	116,367
Transfers Out	(2,243,100)	(828,164)	(851,449)	(714,498)
Total Other Financing Sources (Uses)	(2,243,100)	(380,207)	(851,449)	(598,131)
EXTRAORDINARY ITEM				
Flood Disaster Loss [(1)]	-	-	-	(795,304)
Net Change in Fund Balances	(274,031)	(506,788)	257,192	(1,572,978)
Fund Balances - Beginning As Restated	6,777,409	6,503,378	5,996,590	6,332,431
Fund Balances - Ending	$ 6,503,378	$ 5,996,590	$ 6,253,782	$ 4,759,453

Source: City of Capitola Financial Statements.

(1) The City experienced a flood event in March 2011 due to a ruptured pipe carrying creek water under a City street. Costs include debris removal and other capital expenditures.

Budgetary Process and Administration

The City's budget ordinance requires that in April of each fiscal year, the City Manager must submit a preliminary budget that includes projected expenditures and the means of financing them, to the City Council for the fiscal year commencing the following July 1. As modified during public study sessions, the preliminary budget becomes the proposed budget. Following public hearings on the proposed budget, the final annual budget is adopted by the City Council in June. After adoption of the final budget, transfers of appropriations within a general fund department, or within each fund can be made by the City Manager. Budget modifications between funds, increases or decreases to a fund's overall budget, transfers between general fund departments or transfers that affect capital projects must be approved by the City Council.

The City's General Fund Budget includes programs which are provided on a largely city-wide basis. The programs and services are financed primarily by the City's share of property taxes, transient occupancy tax, sales tax, revenues from the State, and charges for services provided. The Fiscal Year 2011/12 Budget is shown in Table No. C-3. There are additional expenses in the Fiscal Year 2011/12 Budget relating to a flood event in March 2011 due to a ruptured pipe carrying creek water under a City street, but such expenditures are budgeted in the City's Emergency Reserve Fund, not in the General Fund.

TABLE NO. C-3
CITY OF CAPITOLA
FISCAL YEAR 2011/12 GENERAL FUND BUDGET

Revenues	
Taxes	$ 8,371,200
Licenses and Permits	229,500
Fines and Forfeitures	814,000
Intergovernmental	252,700
Charges for Services	2,276,400
Use of Money and Property	330,300
Other Revenue	59,500
Other Financing Sources	25,000
Total Revenues	12,358,600
Expenditures	
General Government	2,086,000
Public Safety	5,620,070
Community Development	722,685
Cultural and Recreation	979,260
Public Works	2,090,785
Expenditures Before Transfers	11,498,800
Transfers Out	832,500
Total Expenditures	12,331,300
Net Change in Fund Balances	27,300
Fund Balances - Beginning	4,759,453
Fund Balances - Ending	$ 4,786,753

Long-Term Obligations

The City had the following General Fund long-term liabilities as of June 30, 2011:

Obligation	Outstanding Balance	Average Annual Payment	Maturity
2007 Pension Obligation Bonds	$3,830,000	$670,000	2017
Note Payable	3,470	3,740	2012
Capital Lease	35,210	36,689	2011
Compensated Absences	651,007	N/A	N/A

The City entered into an additional capital lease in March 2012 in the amount of $2,390,000. The lease matures in 2032, with average annual payments of $193,000 for the first 10 years, with the interest rate resetting for the final 10 years.

Pension and Other Post-Retirement Benefits

The California Public Employees Retirement System (PERS) maintains two pension plans for the City, a Safety Plan and a Miscellaneous Plan. Since the City has less than 100 active members in its Safety and Miscellaneous Plans, the City is required to participate in the PERS Risk Pool for these members. Standalone information of the schedule of funding progress for the City is not available. For Fiscal Year 2010/11, the City's required contribution for the Safety Plan and Miscellaneous Plan was $405,773 (19.094% of covered payroll) and $430,383 (11.089% of covered payroll) respectively. The employer contribution for each fiscal year is calculated based on the actuarial value of the assets and subject to the actuarial assumptions and policies set by the PERS Board. The City's required contributions as a percent of payroll in future fiscal years is expected to increase.

The City also contributes to the Public Agency Retirement System (PARS), a defined contribution plan covering part-time, temporary or seasonal employees and all employees not covered by another retirement plan.

The City provides post-employment healthcare benefits its retirees, which are currently funded on a pay-as-you-go basis. As of July 1, 2011, the UAAL for these benefits was $1,006,369.

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APPENDIX D

CITY OF SANTA CRUZ FINANCIAL INFORMATION

This Appendix contains information provided by the City of Santa Cruz (the "City"), unless otherwise noted. Such information relates to the City's general financial condition and includes tables setting forth summary budget and financial information for the City. Such financial and budget information is summary in nature and is not intended to present a detailed or comprehensive description of the financial situation of the City. The City's Audited Financial Statements for Fiscal Year Ended June 30, 2011 are available on the Municipal Securities Rulemaking Board (the "MSRB") Electronic Municipal Market Access system. See "- Financial Statements" herein. This Appendix contains summary information only.

General Representations

The City has certified that the following statements are true and correct to the best knowledge of an officer of such City.

- The City has not defaulted on a lease or debt obligation in the last ten (10) years.
- The City has not failed to comply with any disclosure obligations with respect to securities, including under SEC Rule 15c2-12 and/or a written undertaking.
- There has not been a material adverse change in the City's financial condition since June 30, 2011.
- The City does not have any sales tax or property tax payers which are expected to contribute in excess of 10% of the sales tax or property tax received by the City during the 2011/12 Fiscal Year.
- Proposition 218 or Proposition 62 will not materially impact any existing taxes, fees and assessments collected by the City. See "RISK FACTORS - The Use Payments - Proposition 218" and "- Proposition 62" in the forepart of this Official Statement.
- There have been no revenues collected by the City that have been challenged as a result of Proposition 218 or Proposition 62.
- The City does not have any funds invested in derivatives or reverse repurchase agreements, and the City does not have a leveraged portfolio.
- Over the last two years, the City has not experienced any significant losses, realized or unrealized, in its investment portfolio as a result of a ratings downgrade, bankruptcy, subprime mortgage exposure or decline in market value relating to such investments.
- The City does not have illiquid investments in its investment portfolio.
- There are no proposed items in the State's Proposed Fiscal Year 2012/13 budget that would result in a significant reduction (5% or greater) in the City's discretionary revenues.
- The City expects an increase of 2.7% of payroll relating to its pension funding over the next two years as a result of changes in the PERS actuarial assumptions, but, does not anticipate any such increase would have a material adverse effect on the City's finances.
- The City has never contributed less than its Annual Required contribution (ARC) to its pension plan.
- The City does not plan to set up an OPEB trust fund to pre-fund its OPEB obligations.

- The City has not adopted, and does not plan to adopt, any significant change in accounting practices for Fiscal Years 2011/12 or 2012/13 that may have a material adverse impact on its finances or the presentation of its finances in its financial statements. The City's independent auditors' reports for the financial statements of the City for the last 5 years have been unqualified. See "Supplemental Financial Information for the City - Independent Auditors' Reports" for a description of these reports.

- The City expects a negative impact on its finances in 2012/13 as a result of its redevelopment agency being eliminated. The City expects to incorporate the additional costs into its budget for Fiscal Year 2012/13.

- The City does not expect any significant impact to its finances or operations due to the elimination of ARRA funding or other federal funding changes.

- Neither the City nor its debt obligations have been audited by the IRS within the last ten years.

- There is no on-going or threatened litigation, proceeding, investigation or inquiry that may adversely affect the finances or operations of the City.

- There are no other conditions or events, including but not limited to hazardous materials which may adversely affect the finances of the City.

- The City does not have any outstanding variable rate or auction rate debt.

- The City is not a party to any swap agreement.

- The City does not expect any further significant impact on its finances as a consequence of downturns in the real estate market.

- The City does not have any other information which is necessary to be disclosed in order to make the statements above, in the light of the circumstances under which such statements are made, not misleading.

Use Payments

Pursuant to the Use Agreement, the City of Santa Cruz will pay Use Payments to the Center in an amount equivalent to 22.86% of the Center's Lease Payments. The budgeted amount of the City's Use Payments in fiscal year 2011/12 are approximately $71,295 and the City's share of net operating and other capital costs, net of credits for user fees and other income, are $1,328,077, for a total annual cost of approximately $1,399,372.

Financial Statements

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

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

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

The City retained the firm of Lance, Soll & Lunghard, LLP, Certified Public Accountants, Brea, California, to examine the general purpose financial statements of the City as of and for the year ended June 30, 2011. The following tables summarize the audited Balance Sheet and audited Statement of Revenues, Expenditures and Changes in Fund Balance of the City's General Fund for the last four fiscal years. The City has not requested, and the auditor has not provided, any review or update of such statements in connection with the inclusion in this Official Statement.

The City was required to implement GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition, for the Fiscal Year ending June 30, 2011. GASB No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. GASB No. 54 also provides for additional classification as "restricted," "committed," "assigned," and "unassigned" based on the relative strength of the constraints that control how specific amounts can be spent.

Amounts shown as "committed" as of June 30, 2011 are designated for capital projects. Amounts shown as "assigned" as of June 30, 2011 are designated for a variety of purposes.

TABLE NO. D-1
CITY OF SANTA CRUZ
GENERAL FUND
BALANCE SHEET
As of June 30

	2008	2009	2010	2011
ASSETS				
Cash and Investments	$18,276,227	$10,733,823	$14,508,479	$18,126,982
Interest Receivable	187,288	44,543	41,702	48,714
Taxes Receivable	2,589,512	3,338,221	3,895,106	5,152,967
Accounts Receivable - Net	1,070,659	2,098,619	1,247,367	987,101
Due From Other Governments	175,873	187,444	362,093	-
Due From Other Funds	2,734,686	1,118,537	1,329,543	184,458
Grants Receivable	-	-	-	467,291
Prepaid Items	49,317	59,716	32,928	49,911
Deposits	70,063	70,233	70,304	70,374
Notes Receivable - Net	215,252	178,372	178,357	179,842
Loans Receivable - Net	-	430150	391,140	350,179
Advances to Other Funds	3,946,405	6,426,080	5,179,219	2,586,450
Total Assets	$29,315,282	$24,685,738	$27,236,238	$28,204,269
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable and Other Current Liabilities	$ 3,296,419	$ 3,916,015	$ 3,384,440	$ 2,071,528
Intergovernmental Payable	-	-	25,106	-
Deferred Revenue	77,567	89,836	93,403	366,910
Unearned Revenue	38,994	32,850	32,850	32,850
Deposits Payable	112,353	122,376	101,875	201,126
Claims and Judgments Payable	131,000	-	-	-
Total Liabilities	$ 3,656,333	$ 4,161,077	$ 3,637,674	$ 2,672,414
Fund Balances:				
Reserved/Non-Spendable:				
Encumbrances	$ 846,218	$ 816,939	$ 699,668	$ -
Noncurrent Receivables and Advances	4,161,658	6,950,467	5,655,314	3,059,354
Prepaid Items	49,317	59,716	32,928	49,911
General Plan Update	1,095,000	811,080	734,973	-
Restricted:				
Hardship Grants	291,812	300,142	303,782	306,299
Unreserved, Designated	8,480,033	4,709,120	6,240,772	-
Committed	-	-	-	6,219,767
Assigned	-	-	-	2,861,159
Unassigned/Undesignated	10,734,911	6,877,197	9,931,127	13,035,365
Total Fund Balances	25,658,949	20,524,661	23,598,564	25,531,855
Total Liabilities and Fund Balances	$29,315,282	$24,685,738	$27,236,238	$28,204,269

Source: City of Santa Cruz Comprehensive Annual Financial Report.

TABLE NO. D-2
CITY OF SANTA CRUZ
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30

	2008	2009	2010	2011 [1]
REVENUES:				
Taxes	$45,809,387	$45,830,628	$44,230,855	$47,258,855
Licenses and Permits	935,191	648,785	540,411	585,203
Intergovernmental	854,975	580,477	1,363,794	1,690,519
Charges for Services	22,559,336	21,574,770	21,044,223	20,856,471
Fines and Forfeitures	2,123,686	2,243,843	2,321,756	2,094,246
Use of Money and Property	3,062,604	2,772,858	4,853,186	4,950,464
Other Revenues	198,312	646,573	698,525	477,169
Total Revenues	$75,543,491	$74,297,934	$75,052,750	$77,912,927
EXPENDITURES:				
General Government	$13,982,305	$14,568,766	$13,765,834	$13,562,217
Public Safety	32,853,383	36,325,172	33,801,383	55,764,374
Parks and Recreation	10,464,762	9,906,360	8,309,864	8,046,410
Library	10,298,783	10,193,470	8,912,467	8,906,153
Public Works	4,642,061	4,793,841	4,115,520	4,213,213
Community and Economic Development	22,820	1,099,546	1,306,196	1,328,773
Social Services	1,816,741	1,713,831	1,111,827	1,134,352
Capital Outlay	1,024,209	403,562	437,516	422,984
Debt Service:				
Principal	146,019	151,302	156,781	860,839
Interest and Fiscal Charges	45,174	34,915	88,308	527,072
Bond Issuance Costs	-	-	-	1,141,628
Total Expenditures	$75,296,257	$79,190,765	$72,005,696	$95,908,015
REVENUES OVER (UNDER) EXPENDITURES	247,234	(4,892,831)	3,047,054	(17,995,088)
OTHER FINANCING SOURCES (USES):				
Proceeds From Asset Disposition	46,045	18,845	372,514	15,000
Capital Contributions - Other Funds	-	(25,628)	-	-
Debt Issuance	-	-	-	24,150,000
Interagency Transfer Out	-	-	-	(359,723)
Transfers In	74,240	125,362	83,297	43,668
Transfers Out	(1,127,990)	(360,036)	(428,962)	(4,785,366)
Total Other Financing Sources (Uses)	(1,007,705)	(241,457)	26,849	19,063,579
Net Change in Fund Balances	(760,471)	(5,134,288)	3,073,903	1,068,491
FUND BALANCES:				
Beginning of Year	26,419,420	25,658,949	20,524,661	23,598,564
Prior Period Adjustment	-	-	-	864,800
Beginning of Year, as Restated	26,419,420	25,658,949	20,524,661	24,463,364
End of Year	$25,658,949	$20,524,661	$23,598,564	$25,531,855

Source: City of Santa Cruz Comprehensive Annual Financial Report.

[1] The City issued $24.2 million Pension Obligation Bonds in December 2010 to payoff its police and fire PERS side fund unfunded liability which cost is reflected as a public safety expenditure in Fiscal Year 2010/11.

Budgetary Process and Administration

An annual budget is adopted by the City Council no later than the first regular meeting in July for the fiscal year beginning July 1st. A proposed budget is transmitted to the City Council and made available to the public for review. Study sessions and a public hearing are conducted before final adoption of the budget by the City Council.

Transfers of appropriations within any department require the approval of the Director of Finance for transfers up to $50,000, and the City Manager approval for all transfers over $50,000. Any new appropriation or appropriation transfer between departments requires approval by the City Council. Expenditures may not legally exceed appropriations at the department level.

The City's General Fund Budget includes programs which are provided on a largely city-wide basis. The programs and services are financed primarily by the City's share of property taxes, transient occupancy tax, utility users tax, sales tax, revenues from the State, and charges for services provided. The Fiscal Year 2011/12 Budget is shown in Table No. D-3. The City expects to end the Fiscal Year 2011/12 with a fund balance at or above the original budget.

TABLE NO. D-3
CITY OF SANTA CRUZ
FISCAL YEAR 2011/12 GENERAL FUND BUDGET

Revenues	
Taxes	$47,035,177
Licenses and Permits	724,500
Intergovernmental	1,413,964
Charges for Services	11,461,924
Fines and Forfeitures	2,324,600
Use of Money and Property	4,736,690
Other Revenues	40,961
Interfund Transfers	48,300
Total Revenues	67,786,116
Expenditures	
General Government	10,022,946
Public Safety	35,500,744
Parks and Recreation	9,481,513
Library	1,394,751
Public Works	6,012,713
Community and Economic Development	3,145,553
Social Services	1,027,172
Miscellaneous	2,112,089
Debt Service	126,718
Interfund Transfers	998,363
Total Expenditures	69,822,562
Net Change in Fund Balances	(2,036,446)
Fund Balance - Beginning of Year (1)	10,108,898
Fund Balance - End of Year	$ 8,072,452

(1) Excludes $2.3 million of Fund Balance designated for special programs and $6.1 million designated by City Council policy to meet extensive capital improvement needs of the City.

Long-Term Obligations

The City had the following General Fund long-term liabilities as of June 30, 2011:

Obligation	Outstanding Balance	Average Annual Payment	Maturity
2007 Lease Revenue Bonds *	$ 6,490,000	$ 430,000	2037
2010 Lease Revenue Bonds	3,685,000	185,000	2031
2010 Pension Obligation Bonds	23,340,000	2,500,000	2022
Note Payable	14,157	17,888	2012
Capital Lease	474,844	60,000	2021
Compensated Absences	3,309,852	N/A	N/A

* The City charges these payments to its Water Enterprise Fund and the Library Joint Powers Authority.

Pension and Other Post-Retirement Benefits

The California Public Employees Retirement System (PERS) maintains three pension plans for the City, a Police Safety Plan, a Fire Plan and a Miscellaneous Plan. As of the actuarial date of June 30, 2010 (prepared by PERS in October 2011), PERS reports that the City's unfunded accrued actuarial liability (UAAL) for its Miscellaneous Plan was approximately $37 million. Since the City has less than 100 active members in Fire and Police plans, the City is required to participate in the PERS Risk Pool for these members. Standalone information of the schedule of the funding progress for the City is not available for the Police Safety Plan and the Fire Plan. For Fiscal Year 2010/11, the City's required contribution for the Police Safety Plan, Fire Plan and Miscellaneous Plan was $2,277,128 (35.589% of covered payroll), $1,708,823 (39.774% of covered payroll) and $4,852,237 (13.422% of covered payroll) respectively. In December 2010, the City contributed a total of $22,989,831 to PERS to payoff the PERS

Police side fund obligation in the amount of $12,732,528 and the PERS Fire side fund obligation in the amount of $10,257,303. As a result, contributions for these plans were reduced to 20.88% of covered payroll. However, the employer contribution for each fiscal year is calculated based on the actuarial value of the assets and subject to the actuarial assumptions and policies set by the PERS Board. The City's required contributions as a percent of payroll in future fiscal years is expected to increase.

The City provides post-employment healthcare benefits its retirees, which are currently funded on a pay-as-you-go basis. As of July 1, 2010, the UAAL for these benefits was $18,343,000.

APPENDIX E

CITY OF WATSONVILLE FINANCIAL INFORMATION

This Appendix contains information provided by the City of Watsonville (the "City"), unless otherwise noted. Such information relates to the City's general financial condition and includes tables setting forth summary budget and financial information for the City. Such financial and budget information is summary in nature and is not intended to present a detailed or comprehensive description of the financial situation of the City. The City's Audited Financial Statements for Fiscal Year Ended June 30, 2011 are available on the Municipal Securities Rulemaking Board (the "MSRB") Electronic Municipal Market Access system. See "- Financial Statements" herein. This Appendix contains summary information only.

General Representations

The City has certified that the following statements are true and correct to the best knowledge of an officer of such City.

- The City has not defaulted on a lease or debt obligation in the last ten (10) years.
- The City has not failed to comply with any disclosure obligations with respect to securities, including under SEC Rule 15c2-12 and/or a written undertaking.
- There has not been a material adverse change in the City's financial condition since June 30, 2011.
- The City does not have any sales tax or property tax payers which are expected to contribute in excess of 10% of the sales tax or property tax received by the City during the 2011/12 Fiscal Year.
- Proposition 218 or Proposition 62 will not materially impact any existing taxes, fees and assessments collected by the City. See "RISK FACTORS - The Use Payments - Proposition 218" and "- Proposition 62" in the forepart of this Official Statement.
- There have been no revenues collected by the City that have been challenged as a result of Proposition 218 or Proposition 62.
- The City does not have any funds invested in derivatives or reverse repurchase agreements, and the City does not have a leveraged portfolio.
- Over the last two years, the City has not experienced any significant losses, realized or unrealized, in its investment portfolio as a result of a ratings downgrade, bankruptcy, subprime mortgage exposure or decline in market value relating to such investments.
- The City does not have illiquid investments in its investment portfolio.
- There are no proposed items in the State's Proposed Fiscal Year 2012/13 budget that would result in a significant reduction (5% or greater) in the City's discretionary revenues.
- The City expects an average increase of 2% of payroll relating to its pension funding over the next two years as a result of changes in the PERS actuarial assumptions, but, does not anticipate any such increase would have a material adverse effect on the City's finances.
- The City has never contributed less than its Annual Required contribution (ARC) to its pension plan.
- The City does not plan to set up an OPEB trust fund to pre-fund its OPEB obligations.

- The City has not adopted, and does not plan to adopt, any significant change in accounting practices for Fiscal Years 2011/12 or 2012/13 that may have a material adverse impact on its finances or the presentation of its finances in its financial statements. The City's independent auditors' reports for the financial statements of the City for the last 5 years have been unqualified. See "Supplemental Financial Information for the City - Independent Auditors' Reports" for a description of these reports.

- The City does not expect that there will be a material negative impact on its finances in 2012/13 as a result of its redevelopment agency being eliminated.

- The City does not expect any significant impact to its finances or operations due to the elimination of ARRA funding or other federal funding changes.

- Neither the City nor its debt obligations have been audited by the IRS within the last ten years.

- There is no on-going or threatened litigation, proceeding, investigation or inquiry that may adversely affect the finances or operations of the City.

- There are no other conditions or events, including but not limited to hazardous materials which may adversely affect the finances of the City.

- The City does not have any outstanding variable rate or auction rate debt.

- The City is not a party to any swap agreement.

- The City does not expect any further significant impact on its finances as a consequence of downturns in the real estate market.

- The City does not have any other information which is necessary to be disclosed in order to make the statements above, in the light of the circumstances under which such statements are made, not misleading.

Use Payments

Pursuant to the Use Agreement, the City of Watsonville will pay Use Payments to the Center in an amount equivalent to 17.65% of the Center's Lease Payments. The budgeted amount of the City's Use Payments in fiscal year 2011/12 are approximately $55,046 and the City's share of net operating and other capital costs, net of credits for user fees and other income are $885,731, for a total annual cost of approximately $940,777.

Financial Statements

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

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

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

The City retained the firm of Moss, Levy & Hartzheim, Certified Public Accountants, Santa Maria, California, to examine the general purpose financial statements of the City as of and for the year ended June 30, 2011. The following tables summarize the audited Balance Sheet and audited Statement of Revenues, Expenditures and Changes in Fund Balance of the City's General Fund for the last four fiscal years. The City has not requested, and the auditor has not provided, any review or update of such statements in connection with the inclusion in this Official Statement.

The City was required to implement GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition, for the Fiscal Year ending June 30, 2011. GASB No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. GASB No. 54 also provides for additional classification as "restricted," "committed," "assigned," and "unassigned" based on the relative strength of the constraints that control how specific amounts can be spent.

TABLE NO. E-1
CITY OF WATSONVILLE
GENERAL FUND
BALANCE SHEET
As of June 30

	2008	2009	2010	2011
ASSETS:				
Cash and Investments	$ 1,136,890	$ 396,731	$ 1,902,722	$ 1,714,477
Receivables:				
Interest	334,386	89,348	149,532	62,914
Taxes	2,095,253	1,773,277	1,759,880	2,099,835
Accounts	309,485	214,190	504,514	525,885
Intergovernmental	615,599	444,107	463,236	392,975
Due From Other Funds	6,875,430	4,521,097	1,776,461	7,287,116
Advances Receivable	26,556	26,556	26,556	-
Loans Receivable	3,750	77,212	260,731	151,096
Inventories	52,800	23,121	23,121	68,954
Total Assets	$11,450,149	$ 7,565,639	$ 6,866,753	$12,303,252
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 586,228	$ 590,038	$ 443,947	$ 520,242
Accrued Personnel Costs	2,587,979	2,930,831	3,119,920	3,378,720
Advances Payable	-	-	-	5,360,822
Deferred Revenue	648,589	312,485	514,349	508,817
Unearned Revenue	45,727	20,314	19,156	94,953
Deposits	930,314	891,261	872,811	841,110
Total Liabilities	4,798,837	4,744,929	4,970,183	10,704,664
Fund Balances:				
Reserved/Nonspendable:				
Encumbrances	$ 563,637	$ 248,694	$ 248,714	$ -
Insurance	2,314,155	-	-	-
Charter	2,450,000	2,450,000	2,450,000	-
Inventories	52,800	23,121	23,121	68,954
Advances	26,556	26,556	26,556	-
Unreserved/Unassigned	1,244,164	72,339	(851,821)	1,529,634
Total Fund Balances	6,651,312	2,820,710	1,896,570	1,598,588
Total Liabilities and Fund Balances	$11,450,149	$ 7,565,639	$ 6,866,753	$12,303,252

Source: City of Watsonville Comprehensive Annual Financial Report.

TABLE NO. E-2
CITY OF WATSONVILLE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30

	2008	2009	2010	2011
REVENUES:				
Taxes	$22,625,513	$20,726,122	$19,415,752	$20,120,218
Licenses, Permits and Fees	2,454,386	2,729,327	2,175,815	2,508,791
Intergovernmental	885,717	1,493,507	1,696,642	1,260,231
Charges for Services	3,948,985	3,580,999	4,326,332	5,243,372
Fines	608,518	666,192	983,753	757,463
Interest	1,440,824	1,126,051	1,245,406	873,103
Miscellaneous	720,832	392,558	1,556,484	314,232
Total Revenues	32,684,775	30,714,756	31,400,184	31,077,410
EXPENDITURES:				
Current:				
General Government	7,415,827	7,030,645	6,158,855	5,223,953
Public Safety	21,712,521	22,113,225	21,461,653	21,115,443
Streets	4,823,578	4,159,066	3,446,947	3,466,555
Culture and Recreation	4,173,499	4,421,765	4,129,336	3,681,568
Capital Outlay	772,287	344,018	-	-
Debt Service [(1)]	-	-	-	6,484,196
Total Expenditures	38,897,712	38,068,719	35,196,791	39,971,715
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,212,937)	(7,353,963)	(3,796,607)	(8,894,305)
OTHER FINANCING SOURCES (USES)				
Transfers In	3,266,674	3,131,186	2,711,000	8,256,955
Total Other Financing Sources (Uses)	3,266,674	3,131,186	2,711,000	8,256,955
Net Change in Fund Balances	(2,946,263)	(4,222,777)	(1,085,607)	(637,350)
Fund Balances, July 1	6,983,724	6,651,312	2,820,710	1,896,570
Prior Period Adjustment	2,613,851	392,175	161,467	339,368
Fund Balances, July 1 as Restated	9,597,575	7,043,487	2,982,177	2,235,938
Fund Balances, June 30	$ 6,651,312	$ 2,820,710	$ 1,896,570	$ 1,598,588

Source: City of Watsonville Comprehensive Annual Financial Report.

[(1)] The City paid off its police and fire PERS side fund unfunded liability, which cost is reflected as a debt service expenditure in Fiscal Year 2010/11.

Budgetary Process and Administration

On or before March 31 of each fiscal year all departments of the City are required to submit requests for appropriations to the government's management so that a budget may be prepared. Before May 31 the proposed budget is presented to the government’s council for review. The council holds public hearings and a final budget must be prepared and adopted no later than June 30. The appropriated budget is prepared by fund, department, and division. The government department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Manager. The legal level of budgetary control is the fund level.

The City’s General Fund Budget includes programs which are provided on a largely city-wide basis. The programs and services are financed primarily by the City’s share of property taxes, transient occupancy tax, sales tax, revenues from the State, and charges for services provided. The Fiscal Year 2011/12 Budget is shown in Table No. E-3.

TABLE NO. E-3
CITY OF WATSONVILLE
FISCAL YEAR 2011/12 GENERAL FUND BUDGET

Revenues	
Taxes	$19,238,085
Franchise Fees	438,000
General Fees	586,000
Use of Money and Property	1,790,400
Other Revenues	111,000
Cost Allocation Reimbursements	2,659,585
Community Development Fees	629,000
Police Services Fees	2,199,097
Fire Services Fees	287,000
Parks and Recreation Fees	513,185
Public Works Charges and Reimbursements	2,515,738
Transfers In	2,199,724
Total Revenues	33,166,814
Expenditures	
General Government	$ 4,039,359
Public Safety	20,290,630
Public Works	3,498,819
Community Development	1,210,550
Parks, Library and Community Services	4,127,456
Capital Outlay	200,000
Total Expenditures	33,366,814
Net Change in Fund Balances	(200,000)
Unassigned Fund Balance - Beginning	, 1,529,634
Unassigned Fund Balance - Ending	$ 1,329,634

Long-Term Obligations

The City had the following General Fund long-term liabilities as of June 30, 2011:

Obligation	Outstanding Balance	Average Annual Payment	Maturity
Capital Lease	$100,049	$23,140	2016

The City entered into an additional capital lease in April 2012 in the amount of $3,014,285. The lease matures in 2027, with annual payments of $293,628. The majority of these payments (88% to 90%) will be charged to the City's utility funds.

Pension and Other Post-Retirement Benefits

The California Public Employees Retirement System (PERS) maintains three pension plans for the City, a Police Safety Plan, a Fire Plan and a Miscellaneous Plan. As of the actuarial date of June 30, 2010 (prepared by PERS in October 2011), PERS reports that the City's unfunded accrued actuarial liability (UAAL) for its Miscellaneous Plan was approximately $28.6 million. Since the City has less than 100 active members in Fire and Police plans, the City is required to participate in the PERS Risk Pool for these members. Standalone information of the schedule of the funding progress for the City is not available for the Police Safety Plan and the Fire Plan. For Fiscal Year 2010/11, the City's required contribution for the Police Safety Plan, Fire Plan and Miscellaneous Plan was $1,820,417 (27.183% of covered payroll), $949,516 (26.905% of covered payroll) and $1,467,925 (9.116% of covered payroll) respectively. The employer contribution for each fiscal year is calculated based on the actuarial value of the assets and subject to the actuarial assumptions and policies set by the PERS Board. The City's required contributions as a percent of payroll in future fiscal years is expected to increase.

The City only provides COBRA post-employment healthcare benefits to eligible former employees and dependents.

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APPENDIX F

COUNTY OF SANTA CRUZ FINANCIAL INFORMATION

This Appendix contains information provided by the County of Santa Cruz (the "County"), unless otherwise noted. Such information relates to the County's general and financial condition and includes tables setting forth summary budget and financial information for the County. Such financial and budget information is summary in nature and is not intended to present a detailed or comprehensive description of the financial situation of the County. The County's Audited Financial Statements for Fiscal Year Ended June 30, 2011 are available on the Municipal Securities Rulemaking Board (the "MSRB") Electronic Municipal Market Access system. See "- Financial Statements" herein. This Appendix contains summary information only.

General Representations

The County has certified that the following statements are true and correct to the best knowledge of an officer of such County.

- The County has not defaulted on a lease or debt obligation in the last ten (10) years.

- Except as described in the following sentence, the County has not failed to comply with any disclosure obligations with respect to securities, including under SEC Rule 15c2-12 and/or a written undertaking. With respect to the annual reports required to be filed for Fiscal Year 2006/07, for all of the County's outstanding certificates of participation issues the County filed the reports with the trustee/dissemination agent on January 7, 2008 but the trustee/dissemination agent did not file the reports with the repositories until February 20, 2008, 5 days after the February 15, 2008 required filing date.

- There has not been a material adverse change in the County's financial condition since June 30, 2011.

- The County does not have any sales tax or property tax payers which are expected to contribute in excess of 10% of the sales tax or property tax received by the County during the 2011/12 Fiscal Year.

- Proposition 218 or Proposition 62 will not materially impact any existing taxes, fees and assessments collected by the County. See "RISK FACTORS - The Use Payments - Proposition 218" and "- Proposition 62" in the forepart of this Official Statement.

- There have been no revenues collected by the County that have been challenged as a result of Proposition 218 or Proposition 62.

- The County does not have any funds invested in derivatives or reverse repurchase agreements, and the County does not have a leveraged portfolio.

- Over the last two years, the County has not experienced any significant losses, realized or unrealized, in its investment portfolio as a result of a ratings downgrade, bankruptcy, subprime mortgage exposure or decline in market value relating to such investments.

- The County does not have illiquid investments in its investment portfolio.

- There are no proposed items in the State's Proposed Fiscal Year 2012/13 budget that would result in a significant reduction (5% or greater) in the County's discretionary revenues. The County's finances will be affected by certain realignments of services from the State level to the County level. However, the County expects that funding will be available to offset the costs of such realigned services.

- The County expects an increase of 2 to 3% of payroll relating to its pension funding over the next two years for its non-safety and safety employee plans respectively, as a result of changes in the PERS actuarial assumptions, but, does not anticipate any such increase would have a material adverse effect on the County's finances.

- The County has never contributed less than its Annual Required contribution (ARC) to its pension plan.

- The County does not plan to set up an OPEB trust fund to pre-fund its OPEB obligations.

- The County has not adopted, and does not plan to adopt, any significant change in accounting practices for Fiscal Years 2011/12 or 2012/13 that may have a material adverse impact on its finances or the presentation of its finances in its financial statements. The County's independent auditors' reports for the financial statements of the County for the last 5 years have been unqualified. See "Supplemental Financial Information for the County - Independent Auditors' Reports" for a description of these reports.

- The County expects no impact on its finances in 2012/13 as a result of its redevelopment agency being eliminated.

- The County does not expect any significant impact to its finances or operations due to the elimination of ARRA funding or other federal funding changes.

- Neither the County nor its debt obligations have been audited by the IRS within the last ten years.

- There is no on-going or threatened litigation, proceeding, investigation or inquiry that may adversely affect the finances or operations of the County.

- There are no other conditions or events, including but not limited to hazardous materials which may adversely affect the finances of the County.

- The County does not have any outstanding variable rate or auction rate debt.

- The County is not a party to any swap agreement.

- The County does not expect any further significant impact on its finances as a consequence of downturns in the real estate market.

- The County does not have any other information which is necessary to be disclosed in order to make the statements above, in the light of the circumstances under which such statements are made, not misleading.

Use Payments

Pursuant to the Use Agreement, the County of Santa Cruz will pay Use Payments to the Center in an amount equivalent to 47.53% of the Center's Lease Payments. The County also subleases a portion of the Center for use as an emergency operations center, which will end in approximately 2 years. The budgeted amount of the County's Use Payments in fiscal year 2011/12 are approximately $148,234, the County's share of net operating and other capital costs, net of credits for user fees and other income are $1,314,007 and the County's sublease payments were $66,528, for a total annual cost of approximately $1,528,769.

Financial Statements

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

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

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

The County retained the firm of Caporicci & Larson, Inc., a Subsidiary of Marcum LLP, Certified Public Accountants, San Francisco, California, to examine the general purpose financial statements of the County as of and for the year ended June 30, 2011. The following tables summarize the audited Balance Sheet and audited Statement of Revenues, Expenditures and Changes in Fund Balance of the County's General Fund for the last four fiscal years. The County has not requested, and the auditor has not provided, any review or update of such statements in connection with the inclusion in this Official Statement.

The County was required to implement GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition, for the Fiscal Year ending June 30, 2011. GASB No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. GASB No. 54 also provides for additional classification as "restricted," "committed," "assigned," and "unassigned" based on the relative strength of the constraints that control how specific amounts can be spent.

Amounts designated as "committed" as of June 30, 2011 total $12,846,730 and include $10,407,609 for working capital, natural disaster emergencies and economic uncertainties. Amounts designated as "assigned" as of June 30, 2011 total $22,231,367 and include $14,227,750 for potential health services costs, $1,900,000 in liability reserves and $5,701,617 to be applied to Fiscal Year 2011/12 operating expenses.

TABLE NO. F-1
COUNTY OF SANTA CRUZ
GENERAL FUND
BALANCE SHEET
As of June 30

	2008	2009	2010	2011
ASSETS				
Cash and Investments	$101,187,364	$ 95,566,815	$102,541,391	$ 68,136,786
Restricted Cash	764,250	108,369	-	-
Receivables, Net	26,255,803	21,476,466	20,098,514	24,958,457
Due from Other Funds	373,231	1,147,037	409,524	43,443
Deposits with Others	92,000	92,000	92,000	90,000
Inventory	125,186	104,589	28,144	21,643
Prepaids	144,920	133,477	1,448,057	1,436,757
Land Held for Resale				2,043,970
Advances to Other Entities	50,000	50,000	-	-
Total Assets	$128,992,754	$118,678,753	$124,617,630	$ 96,731,056
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables and Accrued Expenses	$ 18,670,426	$ 16,542,246	$ 17,248,827	$ 21,213,641
Tax and Revenue Anticipation Notes (1)	50,154,000	51,495,833	50,997,222	-
Due to Other Funds	373231	373231	544557	-
Deferred Revenue (2)	32,636,295	32,674,047	27,124,235	36,150,445
Total Liabilities	$101,833,952	$101,085,357	$ 95,914,841	$ 57,364,086
Fund Balances:				
Reserved For:				
Encumbrances	$ 1,782,529	$ 2,582,815	$ 4,203,012	$ -
Advances and Loans	50,000	50,000	-	-
Inventory, Prepaids and Imprest Cash	318,686	286,096	1,524,945	-
Working Capital	6,000,000	5,000,000	5,400,000	-
Unreserved:				
Designated, Reported in:				
General Fund				
Health Services Facility	499,600	499,600	499,600	-
Designated for Economic Uncertainty	1,337,332	1,337,332	394,393	-
Liabilities Reserve	1,000,000	1,000,000	1,200,000	-
Emergency Reserve	1,251,089	1,251,089	1,251,089	-
Federal Qualified Health Program	508,489	-	-	-
Mental Health and Medicruz (2)	-	-	14,229,750	-
Undesignated	14,411,077	5,586,464	-	-
Nonspendable	-	-	-	4,117,547
Committed	-	-	-	12,846,730
Assigned	-	-	-	22,231,367
Unassigned	-	-	-	171,326
Total Fund Balances	$ 27,158,802	$ 17,593,396	$ 28,702,789	$ 39,366,970
Total Liabilities and Fund Liabilities	$128,992,754	$118,678,753	$124,617,630	$ 96,731,056

Source: County of Santa Cruz Comprehensive Annual Financial Report.

(1) The County's tax and revenue anticipation notes for Fiscal Year 2010/11 matured on June 30, 2011.
(2) The County recognized certain deferred revenues in Fiscal Year 2009/10 and designated a portion of fund balance for certain health service costs.

TABLE NO. F-2
COUNTY OF SANTA CRUZ
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30

	2008	2009	2010	2011
REVENUES:				
Taxes	$ 89,724,832	$ 91,079,481	$ 87,156,987	$ 88,653,860
Licenses and Permits	10,084,237	9,176,400	9,246,818	9,046,275
Fines, Forfeits and Penalties	4,873,062	5,169,016	5,180,367	5,180,066
Use of Money and Property	4,256,544	2,414,717	1,778,940	1,583,053
Aid from Other Governments	196,290,269	181,584,172	201,982,839	192,247,551
Charges for Services	46,128,487	52,997,868	47,438,213	51,824,875
Other	6,252,147	2,912,316	3,405,555	4,056,259
Total Revenues	$357,609,578	$345,333,970	$356,189,719	$352,591,939
EXPENDITURES:				
Current:				
General Government	33,470,839	29,538,325	25,114,281	24,801,509
Public Protection	111,377,765	113,556,706	107,399,908	105,940,805
Health and Sanitation	109,151,693	103,863,113	102,047,638	104,190,892
Public Assistance	101,541,517	101,125,843	99,775,414	98,932,035
Education	159,344	163,427	157,187	117,724
Recreation and Culture	6,915,775	6,668,758	6,276,595	5,822,538
Public Ways and Facilities	216,318	205,904	197,129	201,314
Interest and Fiscal Charges	1,522,643	827,982	389,282	2,876
Total Expenditures	364,355,894	355,950,058	341,357,434	340,009,693
REVENUES OVER (UNDER) EXPENDITURES	($ 6,746,316)	($ 10,616,088)	$ 14,832,285	$ 12,582,246
OTHER FINANCING SOURCES (USES):				
Inception of Capital Lease	93,636	110,563	-	123,484
Operating Transfers In	1,474,039	7,449,585	2,734,556	$4,712,314
Operating Transfers Out	(8,671,025)	(6,509,466)	(6,325,784)	(6,753,863)
Total Other Financing Sources (Uses)	(7,103,350)	1,050,682	(3,591,228)	(1,918,065)
Net Change in Fund Balances	(13,849,666)	(9,565,406)	11,241,057	10,664,181
FUND BALANCES:				
Fund Balance - Beginning	$ 41,008,468	$ 27,158,802	$ 17,461,732	$ 28,702,789
Fund Balance - Ending	$ 27,158,802	$ 17,593,396	$ 28,702,789	$ 39,366,970

Source: County of Santa Cruz Comprehensive Annual Financial Report.

Budgetary Process and Administration

In accordance with the provisions of Chapter 1, Division 3, Title 3, of the Government Code of the State of California, the County prepares and adopts a budget for each fiscal year. Prior to July 1, the Auditor-Controller submits to the Board of Supervisors a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. On or before August 20, public hearings are conducted to obtain public comments. On or before August 30, the budget is legally enacted through the passage of a resolution.

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

The County's General Fund Budget includes programs which are provided on a largely County-wide basis. The programs and services are financed primarily by the County's share of property taxes, transient occupancy tax, sales tax, revenues from the State, and charges for services provided. The Fiscal Year 2011/12 Budget is shown in Table No. F-3.

TABLE NO. F-3
COUNTY OF SANTA CRUZ
FISCAL YEAR 2011/12 GENERAL FUND BUDGET

Beginning Undesignated Fund Balance	$ 6,551,617
Revenues	
Taxes	87,948,052
Licenses, Permits and Franchises	9,275,727
Fines and Forfeitures	4,505,169
Use of Money and Property	1,591,167
Intergovernment Revenues	193,927,707
Charges for Current Services	47,379,896
Other Revenues	2,924,663
Other Financing Sources	26,464,980
Total Revenues	374,017,361
Total Available Financing	$383,008,099
Expenditures	
General Government	$ 29,298,501
Public Protection	110,044,515
Public Ways and Facilities	213,137
Health and Sanitation	128,225,299
Public Assistance	100,241,549
Education	123,013
Recreation and Culture	5,929,182
Debt Service	6,575,366
Appropriation for Contingency	1,507,537
Total Expenditures	382,158,099
Increase Reserves	850,000
Total Requirements	$383,008,099
Ending Undesignated Fund Balance [1]	$ -
Ending Designated Fund Balance [1]	$ 26,937,359

[1] The County's budgeted unreserved but designated fund balance was comprised of the following:

Working Capital	$ 5,900,000
Emergency Reserve	1,251,089
Reserve of Economic Uncertainties	3,256,520
Liability Reserve	1,900,000
Mental Health and MediCruz Risk	14,229,750
Human Services	400,000
	$26,937,359

Long-Term Obligations

The County had the following General Fund long-term liabilities as of June 30, 2011:

Obligation	Outstanding Balance	Average Annual Payment	Maturity
1996 Refunding Certificates of Participation	$17,865,000	$1,710,000	2026
2001 Lease Revenue Bonds	6,885,000	525,000	2031
2002 Refunding Certificates of Participation	2,135,000	165,000	2032
2002 Use Agreement	1,364,000	146,000	2024
2004 Certificates of Participation	17,290,000	1,810,000	2024
2005 Refunding Certificates of Participation	7,285,000	860,000	2020
2006 Certificates of Participation	7,750,000	665,000	2036
2008 Certificates of Participation	4,020,000	465,000	2023
Capital Leases	5,543,789	535,000	2030
Compensated Absences	21,030,087	N/A	N/A

The County issued $5,605,000 Certificates of Participation in October 2011, maturing in 2036, with average annual payments of $390,000.

Pension and Other Post-Retirement Benefits

The California Public Employees Retirement System (PERS) maintains three pension plans for the County, a Safety Plan, a Sheriff Safety Plan and a Miscellaneous Plan. As of the actuarial date of June 30, 2010 (prepared by PERS in October 2011), PERS reports that the County's unfunded accrued actuarial liability (UAAL) for its Safety Plan was approximately $14.7 million, the UAAL for its Sheriff Safety Plan was approximately $24.2 million and the UAAL for its Miscellaneous Plan was approximately $140.5 million. For Fiscal Year 2010/11, the County's required contribution for the Safety Plan, the Sheriff Safety Plan and Miscellaneous Plan was $3,349,088 (25.823% of covered payroll), $4,103,370 (13.784% of covered payroll) and $23,622,389 (12.051% of covered payroll) respectively. The employer contribution for each fiscal year is calculated based on the actuarial value of the assets and subject to the actuarial assumptions and policies set by the PERS Board. The County's required contributions as a percent of payroll in future fiscal years is expected to increase.

The County provides post-employment healthcare benefits its retirees, which are currently funded on a pay-as-you-go basis. As of January 1, 2009, the most recent actuarial valuation, the UAAL for these benefits was $181,575,000.

APPENDIX G

FORM OF BOND COUNSEL OPINION

May 15, 2012

Santa Cruz County
Public Financing Authority
Government Center
701 Ocean Street
Santa Cruz, CA 95060

OPINION: Santa Cruz County Public Financing Authority
2012 Lease Revenue Bonds, Series A
(Santa Cruz Regional 9-1-1)

Members of the Authority:

We have acted as Bond Counsel in connection with the issuance by the Santa Cruz County Public Financing Authority (the "Authority") of 2012 Lease Revenue Bonds, Series A (Santa Cruz Regional 9-1-1), dated the Date of Delivery (the "Bonds"), pursuant to the Marks-Roos Local Bond Pooling Act of 1985, as amended, constituting Article 4 (commencing with Section 6584) of Chapter 5, Division 7, Title 1 of the Government Code of the State (the "Act"), a Resolution of the Authority, an Indenture of Trust, dated as of April 1, 2012 by and between the Authority, and The Bank of New York Mellon Trust Company, N.A., as Trustee (the "Indenture") a Lease Agreement dated as of April 1, 2012, by and between the Authority and the Santa Cruz Consolidated Emergency Communications Center (the "Center") (the "2012 Lease Agreement") and a Use Agreement, dated as of April 1, 2012 by and among the Center, the County of Santa Cruz, and the cities of Capitola, Santa Cruz and Watsonville (the "Use Agreement"). We have examined the Act and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation. Terms not herein defined shall be as defined in the Indenture.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Authority is duly created and validly existing as a public body, corporate and politic, with the power to enter into the Indenture and the Lease Agreement, perform the agreements on its part contained therein, and issue the Bonds.

2. The Indenture, the Lease Agreement and the Use Agreement have been duly approved by the parties thereto and constitute valid and binding obligations of the parties thereto enforceable upon the parties thereto.

3. The Indenture, the Lease Agreement and the Use Agreement create valid liens on the funds pledged by the Indenture, the Lease Agreement and the Use Agreement, respectively, for the security of the Bonds, subject to no other prior lien granted under the Act except as expressly provided therein.

4. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Indenture, the Lease Agreement and the Use Agreement.

5. The interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on such corporations (as defined for federal income tax purposes), such interest is taken into account in determining current earnings. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the Center comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the Center covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California. The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

RUTAN & TUCKER

APPENDIX H

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate"), dated as of May 15, 2012, is executed and delivered by the _________________ (the "Obligated Person") in connection with the issuance of the Santa Cruz County Public Financing Authority 2012 Lease Revenue Bonds, Series A (Santa Cruz Regional 9-1-1) (the "Bonds") in the aggregate principal amount of $3,965,000. The Bonds are being issued pursuant to an Indenture of Trust, dated as of April 1, 2012 (the "Indenture"), by and between the Santa Cruz County Public Financing Authority and The Bank of New York Mellon Trust Company, N.A., as trustee. The Obligated Person covenants and agree as follows:

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

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

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

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

"Disclosure Representative" shall mean the ___________ of the Obligated Person or his or her designee, or such other officer or employee as the Obligated Person shall designate in writing to the Dissemination Agent (if other than the Obligated Person) from time to time.

"Dissemination Agent" shall mean Harrell & Company Advisors, LLC, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Obligated Person and which has filed with the Obligated Person a written acceptance of such designation.

"EMMA" or "Electronic Municipal Market Access" means the centralized on-line repository system located at www.emma.msrb.org for documents filed with the MSRB pursuant to the Rule, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

"Listed Events" shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Certificate. [Only the Center will provide notice of Listed Events.]

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

"Participating Underwriter" shall mean Stone & Youngberg, a division of Stifel Nicolaus, or any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

"State" shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The Obligated Person shall, or shall cause the Dissemination Agent to, not later than March 31 of each year, commencing March 31, 2013, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. If the Obligated Person's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(e).

(b) Not later than 5 Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Obligated Person shall provide the Annual Report to the Dissemination Agent (if other than the Obligated Person). The Obligated Person shall provide, or cause the preparer of the Annual Report to provide, a written certificate with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished to it hereunder. The Dissemination Agent may conclusively rely upon such certification and shall have no duty or obligation to review such Annual Report.

(c) If the Obligated Person is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Obligated Person shall send a notice to the MSRB, in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the Authority, file a report with the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

SECTION 4. Content of Annual Reports. The Obligated Person Annual Report shall contain or include by reference the audited financial statements of the Obligated Person, prepared in accordance with generally accepted accounting principles in effect from time to time. If any of such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

With respect to Santa Cruz Consolidated Emergency Communications Center Joint Powers Authority Annual Report only, unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided in Section 3 above, financial and operating date substantially similar to that provided in Table Nos. 12 and 13 of the Official Statement for the Bonds.

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

SECTION 5. <u>Reporting of Significant Events</u>.

(a) <u>Reporting of Significant Events</u>.

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

(1) Principal and interest payment delinquencies.

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

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

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

(5) Defeasances.

(6) Rating changes.

(7) Tender offers.

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

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

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

(1) Non-payment related defaults.

(2) Modifications to rights of security holders.

(3) Bond calls.

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

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

(6) Appointment of a successor or additional trustee, or the change of name of a trustee.

(c) *Determination of Materiality of Listed Events*. Whenever the Authority obtains knowledge of the occurrence of a Listed Event, the Authority shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) *Notice to Dissemination Agent*. If the Authority has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Authority shall promptly notify the Dissemination Agent (if other than the Authority) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (d).

(e) *Notice of Listed Events*. The Authority shall file, or cause the Dissemination Agent to file, a notice of the occurrence of a Listed Event, (only if material, when applicable) with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Certificate holders of affected Bonds.

SECTION 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Obligated Person's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Obligated Person shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 8. Dissemination Agent. The Obligated Person may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing 30 days written notice to the Obligated Person.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Obligated Person may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of a nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

(d) Any amendment that modifies or increases the duties or obligations of the Dissemination Agent shall be agreed to in writing by the Dissemination Agent.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Obligated Person shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Obligated Person.

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

SECTION 11. Default. In the event of a failure of the Obligated Person to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Obligated Person to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the Obligated Person or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Obligated Person agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Obligated Person for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The obligations of the Obligated Person under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 13. Notices. Any notices or communications to the Obligated Person or the Dissemination Agent may be given as follows:

To the Obligated Person:	______________ ______________ ______________ Attn: [Disclosure Representative]
To the Dissemination Agent:	Harrell & Company Advisors, LLC 333 City Boulevard West, Suite 1430 Orange, CA 92868

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Obligated Person, the Dissemination Agent, the Participating Underwriter and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

[OBLIGATED PERSON]

By ______________________________
[DISCLOSURE REPRESENTATIVE]

AGREED AND ACCEPTED:

HARRELL & COMPANY ADVISORS, LLC,
as Dissemination Agent

By ______________________________
Authorized Officer

EXHIBIT A
NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party: ________________________

Name of Bonds: Santa Cruz County Public Financing Authority
2012 Lease Revenue Bonds, Series A
(Santa Cruz Regional 9-1-1)

Date of Delivery: May 15, 2012

NOTICE IS HEREBY GIVEN that the Obligated Person has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated as of ________, 2012, with respect to the Bonds. [The Obligated Person anticipates that the Annual Report will be filed by _____________.]

Dated: _______________

[OBLIGATED PERSON]

By _______________________________

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APPENDIX I

DTC AND THE BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. *The information contained on these Internet sites is not incorporated herein by reference.*

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

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

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

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

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

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

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

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

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

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