

NEW ISSUE – BOOK-ENTRY

RATINGS

S&P: SP-1+

Moody's: MIG 1

(See "CONCLUDING INFORMATION – Ratings" herein)

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Notes 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, although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 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 "TAX MATTERS" herein.

\$45,000,000

**COUNTY OF SANTA CRUZ, CALIFORNIA
2018–2019 TAX AND REVENUE ANTICIPATION NOTES**

Dated: July 2, 2018

Due: July 1, 2019

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

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

<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP</u>
4.00%	1.45%	801818DU6

The Notes are by statute a general obligation of the County of Santa Cruz (the "County") payable from unrestricted taxes, income, revenue, cash receipts and other moneys of the County received or accrued to the Fiscal Year 2018–19 and legally available for payment thereof pursuant to the Resolution (as defined herein). The Notes and interest thereon are secured by a pledge of Unrestricted Revenues received by the County during certain periods in Fiscal Year 2018–19 ("Unrestricted Revenues") and, if such amounts are insufficient to permit the deposit into the Repayment Account of the full amount of the Unrestricted Revenues required to be deposited therein in any such period, available Unrestricted Revenues that have not been deposited previously into the Note Repayment Account, as more particularly described herein. As provided in Article 7.6, Chapter 4, Part 1, Division 2, Title 5, Sections 53850 et seq. of the California Government Code (the "Act"), the Notes and the interest thereon will be a lien and charge against, and will be payable from the first moneys received by the County constituting Pledged Moneys. See "SOURCES OF PAYMENT FOR THE NOTES" and "RISK FACTORS" herein.

The Notes are offered when, as and if issued and received by the Underwriter, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the County by its Disclosure Counsel, Norton Rose Fulbright US LLP, Los Angeles, California and by Dana McRae, County Counsel. It is anticipated that the Notes, in book-entry form, will be available for delivery through the facilities of The Depository Trust Company, New York, New York on or about July 2, 2018 (see "APPENDIX E – THE BOOK-ENTRY SYSTEM" herein).

The date of the Official Statement is June 13, 2018.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the offer and sale of the Notes 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 Notes.

Effective Date. This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Notes will, under any circumstances, create any implication that there has been no change in the affairs of the County or any other parties described in this Official Statement.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the County, any press release and any oral statement made with the approval of an authorized officer of the County 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 County to give any information or to make any representations in connection with the offer or sale of the Notes other than those contained herein and if given or made, such other information or representation must not be relied upon as having been authorized by the County or the Municipal Advisor. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

Preparation of this Official Statement. The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof. This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the Notes, the Resolution or other documents, are made subject to the provisions of such documents and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the County Clerk of the Board for further information. See “INTRODUCTION – Summaries Not Definitive.”

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

Notes are Exempt from Securities Laws Registration. The issuance, sale and delivery of the Notes has not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the execution, sale and delivery of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

Stabilization of Prices. In connection with this offering, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Notes 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 Notes to certain dealers and others at prices lower than the public offering price set forth on the cover page hereof and said public offering price may be changed from time to time by the Underwriter.

County Website. The County maintains a website. The information on such website is not part of this Official Statement and is not intended to be relied on by investors with respect to the Notes unless specifically set forth or incorporated herein.

CUSIP® is a registered trademark of the American Bankers Association. CUSIP data on the cover page hereof is provided by CUSIP Global Services, operated by S&P Capital IQ on behalf of the American Bankers Association. The CUSIP number has been assigned by an independent company not affiliated with the County or the Municipal Advisor and is included solely for the convenience of the holders of the Notes. The County and the Municipal Advisor are not responsible for the selection or use of the CUSIP number, and no representation is made as to its correctness on the Notes or as indicated above.

COUNTY OF SANTA CRUZ, CALIFORNIA

BOARD OF SUPERVISORS

John Leopold, Supervisor, 1st District
Zach Friend, Supervisor, 2nd District
Ryan Coonerty, Supervisor, 3rd District
Greg Caput, Supervisor, 4th District
Bruce McPherson, Supervisor, 5th District

COUNTY KEY ADMINISTRATIVE PERSONNEL

Carlos Palacios, County Administrative Officer
Edith Driscoll, Auditor–Controller–Treasurer–Tax Collector
Sean Saldavia, Assessor–Recorder
Dana McRae, County Counsel
Elissa Benson, Assistant County Administrative Officer

PROFESSIONAL SERVICES

Bond Counsel
Jones Hall
A Professional Law Corporation
San Francisco, California

Municipal Advisor
Harrell & Company Advisors, LLC
Orange, California

Disclosure Counsel
Norton Rose Fulbright US LLP
Los Angeles, California

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

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OFFICIAL STATEMENT
\$45,000,000
COUNTY OF SANTA CRUZ, CALIFORNIA
2018-2019 TAX AND REVENUE ANTICIPATION NOTES

This Official Statement, which includes the cover page and appendices (the “Official Statement”), is provided to furnish certain information concerning the County of Santa Cruz, California (the “County”) 2018-2019 Tax and Revenue Anticipation Notes (the “Notes”) issued in the aggregate principal amount of \$45,000,000.

INTRODUCTION

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

The County

The County was incorporated in 1850. It has a general law form of government (see “COUNTY OF SANTA CRUZ – Government Organization” herein). It is located on the coast of California, between the San Francisco Bay area and the Monterey Bay Peninsula, 65 miles south of San Francisco (see “COUNTY OF SANTA CRUZ” herein).

Security and Sources of Repayment

The Notes are authorized by and being issued in accordance with the Act and a Resolution adopted by the County Board of Supervisors on May 22, 2018 (the “Resolution”). Pursuant to California Law, the Notes and the interest thereon are general obligations of the County payable from unrestricted taxes, income, revenue, cash receipts and other moneys of the County received or attributable to the 2018-19 Fiscal Year and lawfully available therefor (see “SOURCES OF PAYMENT FOR THE NOTES” herein).

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

Purpose

The Notes are being issued to provide funds to help meet current County General Fund expenditures for the Fiscal Year of the County ending June 30, 2019 including current expenses, capital expenditures and the discharge of other obligations or indebtedness of the County.

Offering of the Notes

The Notes are offered, when, as and if issued, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, Bond Counsel. Such opinion, and certain tax consequences incident to the ownership of the Notes, including certain exceptions to the tax treatment of interest, are described more fully under the heading “TAX MATTERS” herein. It is anticipated that the Notes will be available in book-entry form for delivery through the facilities of The Depository Trust Company (“DTC”) on or about July 2, 2018.

Summaries Not Definitive

The summaries and references contained herein with respect to the Resolution, the Notes and other statutes or documents do not purport to be comprehensive or definitive and are qualified by reference to each such document or statute, and references to the Notes are qualified in their entirety by reference to the form thereof included in the Resolution. Copies of these documents described herein may be obtained from the Auditor–Controller–Treasurer–Tax Collector of the County at Government Center, 701 Ocean Street, Santa Cruz, California 95060, telephone (831) 454-2500.

THE NOTES

General

Registration. The Notes will be issued in the aggregate principal amount of \$45,000,000 and mature on July 1, 2019. When issued, the Notes will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Notes. Purchasers will not receive certificates representing their ownership interest in the Notes (see "Book-Entry System" below). Beneficial ownership interests in any Notes which are held in book-entry form on the records of a securities depository may be transferred only in accordance with the rules and procedure of such securities depository.

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

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

Book-Entry System. DTC will act as securities depository for the Notes. The Notes will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. Interest on and principal of the Notes will be payable when due by wire of the Paying Agent to DTC which will in turn remit such interest and principal to DTC Participants, which will in turn remit such interest and principal to Beneficial Owners of the Notes (see "APPENDIX E –THE BOOK-ENTRY SYSTEM" herein). As long as DTC is the registered owner of the Notes and DTC's book-entry method is used for the Notes, the Trustee will send any notices to Note Owners only to DTC. Any failure of DTC to advise any Participant, or of any Participant to notify the Beneficial Owner, of any such notice and its content or effect will not affect the validity of any action premised on such notice. Beneficial Owners may desire to make arrangements with a Participant so that all notices or other communications to DTC which affect such Beneficial Owners, and notification of all interest payments, will be forwarded in writing by such Participant.

Investment of Funds

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

SOURCES OF PAYMENT FOR THE NOTES

General

The Notes, in accordance with California Law, are general obligations of the County payable from the taxes, income, revenue, cash receipts and other moneys of the County attributable solely to Fiscal Year 2018-19 and legally available for payment thereof. Pursuant to the Government Code, the principal of and interest on the Notes may not exceed 85 percent of the estimated amount of the then-uncollected taxes, income, revenue, cash receipts and other moneys which will be available for the payment of such principal and interest.

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

Repayment of the Notes

In accordance with the terms of the Resolution, the County will create a special fund, the 2018-2019 Tax and Revenue Anticipation Note Repayment Account (the "Repayment Account"). The County is required to deposit moneys pledged for the payment of the Notes into the Repayment Account. Moneys in the Repayment Account will be retained therein until applied to the payment of the principal and interest on the Notes; provided once the Repayment Account is fully funded, any additional interest earned on amounts in the Repayment Account shall be periodically transferred to the County's General Fund. The Resolution provides that such amounts may not be used for any other purposes. Any balance in the Repayment Account after the Notes and the interest thereon have been paid, or provision for such payment has been made, will be transferred to the County's General Fund.

Payment of the principal and interest on the Notes is secured by a pledge of taxes, income, revenue, cash receipts and other moneys received by the County for the General Fund of the County for Fiscal Year 2018-19 and which are lawfully available for the payment of current expenses and other obligations of the County (the "Unrestricted Revenues"). Accordingly, pursuant to the Act, the Notes and the interest thereon are a lien and charge against, and are payable from, such Unrestricted Revenues. In addition to such Unrestricted Revenues, pursuant to the Act, the Notes and the interest thereon are general obligations of the County payable from other moneys of the County attributable to Fiscal Year 2018-19 and legally available for the payment thereof.

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

- (i) \$25,000,000 from the first Unrestricted Revenues received by the County during the period commencing on January 1, 2019 and ending January 31, 2019 (a "Pledge Period");
- (ii) \$20,000,000 plus an amount equal to the interest due on the Notes at maturity from the first Unrestricted Revenues received by the County during the period commencing on April 1, 2019 and ending April 30, 2019 (also a "Pledge Period") together with an amount sufficient (net of earnings on moneys in the Repayment Account) to satisfy and make up any deficiency in the Repayment Account with respect to the prior Pledge Period;

- (iii) from the first Unrestricted Revenues received by the County during the period commencing on May 1, 2019 and ending May 31, 2019, an amount sufficient (net of earnings on moneys in the Repayment Account) to satisfy and make up any deficiency in the Repayment Account with respect to the prior Pledge Periods; and
- (iv) from the first Unrestricted Revenues received by the County during the period commencing on June 1, 2019 and ending June 30, 2019, an amount sufficient (net of earnings on moneys in the Repayment Account) to satisfy and make up any deficiency in the Repayment Account with respect to the prior Pledge Periods from the first Unrestricted Revenues received by the County during the period commencing on June 1, 2019 and ending June 30, 2019.

COUNTY OF SANTA CRUZ

General Information

The County is situated at the northern tip of Monterey Bay, 65 miles south of San Francisco, 35 miles north of Monterey, and 35 miles south of the Silicon Valley. The County is the gateway to the Monterey Bay National Marine Sanctuary, has 29 miles of beaches and includes seven state parks and seven state beaches. It is the second smallest county in California in land area, containing a total of 440 square miles. 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 county seat of the County and is the location of the Santa Cruz campus of the University of California. The City of Watsonville, established in 1868, lies 18 miles southeast of the City of Santa Cruz. The City of Watsonville is the center of the County's agriculture region transporting fresh and processed farm crops to worldwide destinations. The City of Capitola stretches along the coast east and south of the City of Santa Cruz. It was incorporated in 1949 and is a tourist destination. The City of Scotts Valley, incorporated in 1966, lies north of the City of Santa Cruz and includes community commercial areas serving local residents and a mix of industrial sites that have supported light manufacturing and research development firms predominantly in the electronics and technology industries.

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

Government Organization

The County was incorporated in 1850 as one of the original 27 counties of the State with the City of Santa Cruz as the county seat. It has a general law form of government. A five-member Board of Supervisors elected to four-year terms serves as the legislative body. Also elected are the Auditor-Controller-Treasurer-Tax Collector, District Attorney-Public Administrator, Sheriff-Coroner, Registrar of Voters-Clerk and Assessor-Recorder. The County Administrative Officer and County Counsel are appointed by the Board of Supervisors.

The members of the Board of Supervisors, the expiration dates of their terms and key administrative personnel are set forth below.

BOARD OF SUPERVISORS

<u>Board Member</u>	<u>Term Expires</u>
John Leopold, Supervisor, 1st District	January 2021
Zach Friend, Supervisor, 2nd District	January 2021
Ryan Coonerty, Supervisor, 3rd District	January 2019
Greg Caput, Supervisor, 4th District	January 2019
Bruce McPherson, Supervisor, 5th District	January 2021

KEY ADMINISTRATIVE PERSONNEL

Carlos Palacios	County Administrative Officer
Edith Driscoll	Auditor-Controller-Treasurer-Tax Collector
Sean Saldavia	Assessor-Recorder
Dana McRae	County Counsel
Elissa Benson	Assistant County Administrative Officer

Governmental Services

The County's departments are grouped by service function for budget and reporting purposes.

General Government

General Government includes the departments of the Assessor-Recorder, Auditor-Controller-Treasurer-Tax Collector, Board of Supervisors, the County Administrative Office, County Clerk, County Counsel, General Services, Information Services and Personnel & Risk Management. These departments primarily oversee the administration and financial functions of the County. The County is responsible for the administration of the property tax system, including property assessment, assessment appeals, collection of taxes and distribution of taxes to cities, former redevelopment agencies, special districts, local school districts and the County. A second major function is the County's voter registration and election system. In addition, the County provides contributions to other agencies such as Association of Monterey Bay Area Governments (AMBAG).

Health and Human Services

Health and Human Services includes the Health Services Agency, the Human Services Department, and the Department of Child Support Services. The County's Health Services Agency was established to provide central administration for various health-related programs operated or sponsored by the County. These programs include mental health, public health, medical outpatient clinics, medical care for indigents and drug and alcohol treatment services. Most programs operated by the Health Services Agency are mandated by State law and are funded through State subsidies, grants and fees for services. State and federal laws also mandate that counties provide certain human services including Aid to Families with Dependent Children, CalFresh program, Adult Protective Services, public guardian, Child Protective Services, foster care and adoption services and job training. The Patient Protection and Affordable Care Act ("Affordable Care Act") is administered by the County's Human Services Department (social services) and by the Health Services Agency. The Department of Child Support Services works with parents and guardians to ensure children and families receive court-ordered financial and medical support. In addition, the County provides funding to community non-profits under the CORE Investments budget.

Public Safety & Justice

The County criminal justice system is supported primarily by local County revenues, and consists of the Sheriff-Coroner, the Probation Department, the District Attorney, the Public Defender and a contribution to Superior Court and the Grand Jury. Public Safety is supported primarily through fees for service and includes fire protection, flood control and water conservation, as well as animal control services.

In addition to countywide law enforcement services, the Sheriff provides narcotics enforcement, investigation of arson, homicides, consumer fraud and crime scene investigation, and acts as coroner for the County and all incorporated cities. The Sheriff operates three jail facilities throughout the County.

The County coordinates an entire emergency network to handle floods, fires, earthquakes and other major disasters through the Emergency Services Department. The Santa Cruz County Flood Control and Water Conservation District provides flood control and water conservation planning. Fire protection services in the County are provided by the cities of Santa Cruz and Watsonville, ten fire protection districts and the University of California, Santa Cruz. The Santa Cruz County Fire Department in cooperation with the California Department of Forestry and Fire Protection (CALFIRE) is responsible for fire protection and first responder emergency medical services, in all five unincorporated areas outside the boundaries of the fire protection districts. The County is a participant in a joint powers emergency communications agency which provides public safety dispatchers who coordinate multi-agency mutual aid response, as well as dispatch the Sheriff's Department, ambulance/paramedic services and most fire protection agencies operating within the County. The County of Santa Cruz Animal Shelter is a joint powers authority that includes the County and the cities of Santa Cruz, Watsonville and Scotts Valley to provide animal control services to residents.

Land Use and Community Services

The departments included in this category include the Agricultural Commissioner, Agricultural Extension, Parks, Open Space and Cultural Services ("POSCS"), Planning, Public Works and the Redevelopment Successor Agency. The Agricultural Commissioner provides for the protection of agriculture, enforcement of weights and measures and vector control. Planning develops implements and enforces county land use policies and ordinances, administers environmental review and protection programs, processes and issues building, zoning, and other developmental permits, code compliance and oversees affordable housing and community development efforts. The Department of Public Works provides for the maintenance of public infrastructure for transportation, solid waste, real property, sanitation, parking, drainage, and solid waste/recycling. POSCS is responsible for operation and maintenance of the County's park system, and currently operates 1,400 acres of parkland, multiple beach access points, and the Simpkins Family swim Center. POSCS offers a wide variety of recreational and cultural programs, events and services year-round. In addition, the County provides contributions to Local Area Formation Commission (LAFCO), Monterey Unified Air Pollution Control District and receives library services and funding from the Library Fund.

Community Information

Public school education is available through 35 elementary schools, 21 secondary schools and 10 unified school districts as well as numerous charter and alternative education programs. The University of California (the "University") established its Santa Cruz campus in 1965. The University is structured into ten independent undergraduate colleges and offers graduate study in numerous academic fields. The Lick Observatory, a multi-campus research facility for astronomers, is headquartered at the University. The 2,000-acre campus, set among redwood groves and meadows, lies on the northwest boundary of the City of Santa Cruz.

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

The County also hosts the Seymour Marine Discovery Center, the Long Marine Laboratory, the National Oceanic and Atmospheric Administration (NOAA) Fisheries, the Oiled Wildlife Veterinary Care and Research Center, and the Monterey Bay National Marine Sanctuary Exploration Center.

There are two full-service hospitals in the County. Dignity Health Dominican Hospital is located east of the City of Santa Cruz and Watsonville Community Hospital is located in Watsonville. A maternity and outpatient surgery center, Sutter Hospital, is also located in the County.

Cultural amenities in the area include Open Studios, the Tannery Arts Center, the Santa Cruz County Symphony, the Cabrillo Music Festival, Shakespeare Santa Cruz, the 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 the County with adjacent counties. Highway 1 leads along the coast from San Francisco south to the City of Santa Cruz and on to Monterey. Highways 9 and 17 traverse the County from the City of Santa Cruz across the Santa Cruz Mountains into Santa Clara County. The City of Watsonville is joined with Santa Clara County by Highway 152 and with San Benito County by Highway 129. Highways 17, 152 and 129 connect with U.S. 101, a major north-south route. Highway 236 provides access to Big Basin State Park.

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

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

Population

Approximately 51.5% 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
2014 – 2018

January 1 Year	Incorporated Cities		Unincorporated Communities		Santa Cruz County	
	Population	Percentage Change	Population	Percentage Change	Population	Percentage Change
2014	138,552		132,582		271,134	
2015	140,718	1.6%	133,248	0.5%	273,966	1.0%
2016	142,003	0.9	133,734	0.4	275,737	0.6
2017	142,383	0.3	134,121	0.3	276,504	0.3
2018	142,646	0.2	134,218	0.1	276,864	0.1
% Increase Between						
2014 – 2018		3.0	1.2		2.1	

The County is adjacent to Santa Clara and Monterey counties. The following table sets forth the population for the County, Santa Clara County and Monterey County between 2014 and 2018.

TABLE NO. 2
POPULATION
COUNTIES OF SANTA CRUZ, SANTA CLARA AND MONTEREY
2014 – 2018

January 1 Year	SANTA CRUZ COUNTY		SANTA CLARA COUNTY		MONTEREY COUNTY	
	Population	Percentage Change	Population	Percentage Change	Population	Percentage Change
2014	271,134		1,880,197		429,308	
2015	273,966	1.0%	1,905,156	1.3%	432,740	0.8%
2016	275,737	0.6	1,924,582	1.0	438,175	1.3
2017	276,504	0.3	1,937,473	0.7	442,149	0.9
2018	276,864	0.1	1,956,598	1.0	443,281	0.3
% Increase Between						
2014 – 2018		2.1	4.1		3.3	

Source: State of California, Department of Finance, "E-4 Population Estimates for Cities, Counties and the State, 2011-2018, with 2010 Census Benchmark," Sacramento, California, May 2018.

Per Capita Personal Income

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

TABLE NO. 3
PER CAPITA PERSONAL INCOME ⁽¹⁾
COUNTY OF SANTA CRUZ, STATE OF CALIFORNIA AND UNITED STATES
2012 – 2016 ⁽²⁾

<u>Year</u>	<u>County of Santa Cruz</u>	<u>State of California</u>	<u>United States</u>
2012	\$52,288	\$48,369	\$44,282
2013	52,972	48,570	44,493
2014	55,043	51,344	46,494
2015	58,151	54,718	48,451
2016	59,455	56,374	49,246

(1) Per capita personal income was computed using Census Bureau midyear population estimates. Estimates for 2012-2016 reflect county population estimates available as of March 2017.

(2) Most recent year for which full year statistics are available.

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

Last updated: November 16, 2017 – new estimates for 2016; revised estimates for prior years.

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

Employment and Industry

Services

Analysis prepared by the Santa Cruz County Workforce Development Board identified five major economic clusters that contribute significantly to the regional economy: technology, tourism, lifestyle enterprises, agriculture, and environmental technology.

The services sector is the largest economic sector in the County, and includes a wide range of activity. Hotels, other lodging places, business and finance services, personal services, automotive 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, and the County's location on the Monterey Bay National Marine Sanctuary contributes to growth in marine sciences' research and development.

Agriculture

Agriculture is an important industry in the region. The gross value of crops has increased steadily in recent years, as some segments of the industry have adapted successfully to changing consumer tastes, adopted new technologies and taken advantage of growing overseas markets. 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 crops produced (by sales volume) are strawberries, raspberries, cut flowers, nursery plants and blackberries. There are 100 organic growers in the County.

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, several State parks and beaches, U-pick farms, wineries, and the presence of a diverse music and art scene, all in close proximity to the Bay Area.

Commercial

In addition to traditional commercial and retail businesses, Santa Cruz County is home to many recreation and personal lifestyle businesses started by local entrepreneurs with nationally-recognized brands and products, including O'Neill Wetsuits, Santa Cruz Skateboards, Annieglass, Driscoll Berries, Santa Cruz Guitars and Santa Cruz Bicycles. The County also has a diverse and productive arts community anchored by the Tannery Arts Center in Santa Cruz, the Visual, Applied and Performing Arts Division at Cabrillo College, and the Digital Arts and New Media Program at the University of California, Santa Cruz.

The County is located in the Santa Cruz-Watsonville Metropolitan Statistical Area (“MSA”). The March 2018 unemployment rate in the Santa Cruz-Watsonville MSA was 6.3% (not seasonally adjusted to account for agricultural employment). The State of California March 2018 unemployment rate (unadjusted) was 4.2%.

The employment in the Santa Cruz-Watsonville MSA is presented in the following table.

TABLE NO. 4
SANTA CRUZ-WATSONVILLE MSA
WAGE AND SALARY WORKERS BY INDUSTRY ⁽¹⁾
(in thousands)

<u>Industry</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Government	22.2	22.1	22.0	22.6	24.1
Other Services	4.2	4.3	4.5	4.6	4.9
Leisure and Hospitality	12.3	13.1	13.2	13.7	13.9
Educational and Health Services	16.9	17.1	17.4	17.5	18.1
Professional and Business Services	9.4	9.7	9.7	10.2	10.4
Financial Activities	3.4	3.4	3.6	3.5	3.5
Information	0.8	0.8	0.8	0.8	0.8
Transportation, Warehousing and Utilities	1.3	1.4	1.4	1.5	1.6
Service Producing					
Retail Trade	11.6	11.7	12.3	12.3	11.9
Wholesale Trade	3.5	3.4	3.4	3.2	3.1
Manufacturing					
Nondurable Goods	2.8	3.0	3.5	3.3	3.2
Durable Goods	3.2	3.5	3.7	3.7	3.8
Goods Producing					
Mining, Logging and Construction	<u>3.3</u>	<u>3.5</u>	<u>4.1</u>	<u>4.3</u>	<u>4.8</u>
Total Nonfarm	94.9	97.0	99.6	101.2	104.1
Farm	<u>4.8</u>	<u>5.2</u>	<u>4.5</u>	<u>5.0</u>	<u>4.5</u>
Total (all industries)	<u>99.7</u>	<u>102.2</u>	<u>104.1</u>	<u>106.2</u>	<u>108.6</u>

⁽¹⁾ Annually, as of March.

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

Source: State of California Employment Development Department, Labor Market Information Division, “Industry Employment & Labor Force – by month, March 2017 Benchmark.”

The principal employers operating within the County during the Fiscal Year ended June 30, 2017 are as follows:

TABLE NO. 5
 COUNTY OF SANTA CRUZ
 PRINCIPAL EMPLOYERS
 FISCAL YEAR 2016-17

<u>Name of Company</u>	<u>Number of Employees ⁽¹⁾</u>	<u>Product/Service</u>
University of California at Santa Cruz	1,000-4,999	Education
Pajaro Valley Unified School District	1,000-4,999	Education
County of Santa Cruz	1,000-4,999	County Services
Dominican Hospital	1,000-4,999	Hospital
Santa Cruz Beach Boardwalk	1,000-4,999	Amusement/Recreation
Dutra Farms	1,000-4,999	Grocery/W/wholesale
Granite Rock	500-999	Excavating Contractors
Cabrillo College	500-999	Education
City of Santa Cruz	500-999	City Services
Watsonville Community Hospital	500-999	Hospital
West Marine	500-999	Retail
Plantronics	500-999	Telephone Apparatus Manufacturer

⁽¹⁾ Number of Employees reflects an average range based on California Employment Development Department data.

Source: County of Santa Cruz Comprehensive Annual Financial Report.

The County is not aware of any significant change since June 30, 2017 to the principal employers shown in Table No. 5.

Commercial Activity

The following table summarizes the volume of retail and food services sales and taxable transactions for the County for calendar years 2012 through 2016 (the most recent year for which full-year statistics are available).

TABLE NO. 6
COUNTY OF SANTA CRUZ
TOTAL TAXABLE TRANSACTIONS
(in thousands)
2012 – 2016

<u>Year</u>	<u>Retail and Food Services (\$000's)</u>	<u>% Change</u>	<u>Total Taxable Transactions (\$000's)</u>	<u>% Change</u>
2012	\$2,375,320		\$3,056,694	
2013	2,525,183	6.3%	3,270,766	7.0%
2014	2,610,443	3.4	3,382,117	3.4
2015	2,679,131	2.6	3,546,784	4.9
2016	2,724,303	1.7	3,611,274	1.8

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

The following table sets forth taxable transactions in the County and surrounding counties for 2012 through 2016 (the most recent year for which full-year statistics are available).

TABLE NO. 7
TOTAL TAXABLE TRANSACTIONS
COUNTY OF SANTA CRUZ AND SURROUNDING COUNTIES
(in thousands)
2012 – 2016

<u>County</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>% Change from 2012 – 2016</u>
SANTA CRUZ	\$ 3,056,694	\$ 3,270,766	\$ 3,382,117	\$ 3,546,784	\$ 3,611,274	18.1%
San Mateo	13,906,978	14,611,618	15,298,434	15,478,010	15,658,573	12.6
Santa Clara	36,220,445	37,621,606	39,628,655	41,237,759	41,831,669	15.5
San Benito	530,017	560,238	560,376	607,831	664,452	25.4
Monterey	5,637,445	5,910,531	6,200,747	6,406,117	6,665,936	18.2

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

Taxable transactions by type of business for the County are summarized below for 2012 through 2016 (the most recent year for which full-year statistics are available).

TABLE NO. 8
COUNTY OF SANTA CRUZ
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
(in thousands)
2012 – 2016

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015 ⁽¹⁾</u>	<u>2016 ⁽¹⁾</u>
Retail and Food Services					
Motor Vehicle and Parts Dealers	\$ 272,189	\$ 300,257	\$ 303,969	-	-
Furniture and Home Furnishings Stores	47,659	52,238	56,212	-	-
Electronics and Appliance Stores	68,525	66,165	65,301	-	-
Building Material, Garden Equip. and Supplies	251,652	279,264	290,117	-	-
Food and Beverage Stores	237,420	243,935	254,794	-	-
Health and Personal Care Stores	99,767	106,698	113,219	-	-
Gasoline Stations	363,261	354,464	348,016	-	-
Clothing and Accessories Stores	147,701	160,507	166,076	-	-
Sporting Goods, Hobby, Books, Music Stores	80,702	84,288	80,739	-	-
General Merchandise Stores	260,340	272,124	278,434	-	-
Miscellaneous Store Retailers	136,364	140,321	146,764	-	-
Nonstore Retailers	26,359	51,546	58,799	-	-
Food Services and Drinking Places	<u>383,382</u>	<u>413,375</u>	<u>448,005</u>	-	-
Total Retail and Food Services	2,375,320	2,525,183	2,610,443	\$2,679,131	\$2,724,303
All Other Outlets	<u>681,374</u>	<u>745,583</u>	<u>771,673</u>	<u>867,653</u>	<u>886,971</u>
Total All Outlets	<u>\$3,056,694</u>	<u>\$3,270,766</u>	<u>\$3,382,117</u>	<u>\$3,546,784</u>	<u>\$3,611,274</u>

⁽¹⁾ Beginning in 2015, the State Board of Equalization no longer publishes detail retail sales information.

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

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

Building Activity

The following table summarizes building activity valuations for the County for the five calendar years from 2013 through 2017.

TABLE NO. 9
COUNTY OF SANTA CRUZ
BUILDING ACTIVITY AND VALUATION
(in \$ thousands)
2013 – 2017

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Residential	\$ 69,559	\$ 70,444	\$ 72,859	\$102,391	\$120,210
Non-Residential	<u>44,708</u>	<u>79,183</u>	<u>42,428</u>	<u>93,011</u>	<u>36,810</u>
Total Valuation	<u>\$114,267</u>	<u>\$149,627</u>	<u>\$115,287</u>	<u>\$195,402</u>	<u>\$157,020</u>
No. of New Dwelling Units:					
Single-Dwelling	94	113	101	116	222
Multi-Dwelling	<u>32</u>	<u>5</u>	<u>62</u>	<u>202</u>	<u>156</u>
Total New Units	126	118	163	318	378

Source: County of Santa Cruz

FINANCIAL INFORMATION

Economic Conditions and Outlook

The County's Budget for Fiscal Year 2018-19 (the "Proposed Budget") is supported by healthy Bay Area and County economies. Job growth and unemployment are moving in positive directions, contributing to better jobs for County residents. Housing assessed values have recovered from reductions resulting from the 2008 recession. Although income growth in the County has not kept pace with housing prices, the healthcare and professional services industries are forecast as fast-growing, well-paying sectors of the local economy.

The local economic recovery has brought back into focus longstanding County challenges such as transportation, infrastructure and housing needs. With the passage of Measure D, County voters supported local funding for transportation infrastructure. The Board of Supervisors (the "Board") championed the passage of SB1 (transportation funding), and the County continues to work proactively with its local, regional and State partners to combat the perennial problem of sufficient and affordable housing in the community.

The County considers many economic and demographic factors when projecting revenue for the Proposed Budget. In particular, the property tax, sales tax and transient occupancy tax represent 95% of the County's discretionary revenue.

Property Tax. Assessed values reversed their declines from the recession beginning in Fiscal Year 2013-14, which included the recapture of some of the market value reductions in real estate in prior years as discussed under the caption "Taxable Property and Assessed Valuation" below. Recapture of prior years' market value reductions continued in subsequent years and total value exceeded pre-recession levels by 2014-15. The County is projecting an overall 4% increase in assessed values for 2018-19, after an increase of 5.8% in 2017-18. These increased assessed values also impact property taxes in-lieu of vehicle license fees (see "Other Local Taxes" below).

Sales Tax. The County has seen a relatively consistent, although small, growth in sales tax over the last 4 years, after taking into account the effect of \$1.4 million one-time revenue from the end of the “triple flip” (see “Other Local Taxes – Sales and Use Taxes” herein). In Fiscal Year 2017-18, the County anticipated growth in total sales tax revenue from the prior year to be 3.6% in its proposed budget but reduced that estimate to 1% in the final budget. Actual growth in sales tax in 2017-18 is expected to be 4.7%. In 2018-19, sales tax is expected to remain flat compared to 2017-18.

Transient Occupancy Tax. Tourism is important to the County’s economy. The County continues to experience significant annual increases in transient occupancy tax collections, due to both increasing occupancy and institution of audit compliance procedures. In November 2012, voters approved a 1.5% increase to the transient occupancy tax rate which, together with higher occupancy rates, increased revenue by 22% in Fiscal Year 2013-14. During 2014-15 to 2016-17, actual transient occupancy tax for Fiscal increased by a total 45%. The County entered into an agreement with Airbnb to collect transient occupancy tax from its customers in 2016-17. The Proposed Budget includes a 10% increase in transient occupancy tax in 2018-19 after an estimated increase of 12.2% in 2017-18.

Voter-Approved Taxes.

- Measure F. The voters approved Measure F in June 2014, authorizing a parcel tax on all improved parcels of land in the unincorporated County at a rate of \$8.50 per parcel. The annual revenue is estimated at \$343,000 and is earmarked for cleaning and maintaining park restrooms, County parks and recreational areas, beaches and other open space areas.
- Cannabis Business Tax. The voters in the County approved Measure K in November 2014, authorizing up to a 10% tax of the gross receipts of medical marijuana businesses in the unincorporated County. Initially the tax is levied at 7%. The Cannabis Business tax generated \$978,000 in Fiscal Year 2014-15 and \$2.5 million in Fiscal Year 2015-16, the first full year of the tax. The tax is expected to generate approximately \$2.7 million in Fiscal Year 2018-19. In November 2016, voters in the County approved Measure E, expanding the tax to apply to all cannabis-related businesses. The Board also reduced the rate applicable to manufacturers and cultivators from 7% to 5% for periods beginning January 1, 2018, with future incremental increases to achieve 7% by January 1, 2022. This component of the tax generated approximately \$250,000 in Fiscal Year 2016-17, and is expected to generate \$880,000 in Fiscal Year 2017-18, the first full year of the tax. This component of the tax is anticipated to double in Fiscal Year 2018-19.
- Measure D. The voters in the County approved Measure D in November 2016, a one-half cent additional sales tax for transportation-related expenditures, to be levied for 30 years. Local jurisdictions, such as the County, will share in 30% of the annual sales tax for local transportation purposes, with the balance used for regional projects.

Salaries and Benefits. The County continues to employ personnel cost control measures to reduce budget imbalances. However, the California Public Employees’ Retirement Plan (“CalPERS”) continues to revise their actuarial assumptions and increase contribution rates, significantly impacting past budgets and the current Fiscal Year 2018-19 Proposed Budget.

Personnel. A total of 2,470.12 full-time equivalent (“FTE”) positions County-wide are recommended in the Proposed Budget, of which 2,054.27 positions are financed by the General Fund. The Proposed Budget shows a net increase of 19.47 FTE positions compared to the 2017-18 adopted budget. The net change results 24.75 FTE mid-year additions in Health and Human Services, District Attorney’s office, Public Works, Sheriff’s Office and Agricultural Commission, 11.72 FTE new 2018-19 positions in various departments, less 4 deleted positions in Health Service and Probation. No filled positions are proposed to be deleted. Further, there remain 10 unfunded positions in the Proposed Budget.

Sequestration. One factor not in the control of the County, and not estimated at this time, are any impacts of potential further federal sequestration spending cuts which, with respect to the County, target discretionary programs such as funding for United States Department of Agriculture Rural Development and Community Development Block Grant Programs, as well as the interest payment subsidy for the County's Clean Renewable Energy Bonds issued in 2017. There is also proposed elimination of State Criminal Alien Assistance Program funds, which is a Department of Justice program that reimburses states and counties for the costs of incarcerating undocumented individuals. The County has made and continues to make supplemental budget changes as details of the federal budget are available, and to reduce programs in line with any funding cuts.

State Budget. The Governor of California released the "May Revision" to the State's 2018-19 budget (see "RISK FACTORS –State Budget" herein). There are certain changes proposed in the May Revision whose potential financial impact on the County is not known at this time. As in prior years, the County expects to make supplemental budget changes when the State budget is adopted, and to reduce programs if any funding cuts are adopted or increase program costs in line with available funding increases, if any.

Fund Balance. Historically, the County has closed the fiscal year with actual General Fund fund balance in excess of the estimates reflected in its budget document. The County cannot guarantee this will be the case again in Fiscal Year 2018-19. See discussion below under "Fiscal Year 2017-18 Estimated Results" for special factors that contributed to the significant differences between 2017-18 budgeted revenues and expenditures and estimated actual revenues and expenditures resulting in an estimated increase in fund balance at the end of 2017-18. There is additional information under the heading "Fiscal Year 2018-19 Proposed Budget Assumptions" below that describes significant changes between the 2017-18 estimated results and the Proposed Budget.

Fiscal Year 2018-19. The County continues to make progress to reduce the operating budget structural imbalance within the General Fund. The General Fund imbalance decreases 16% from \$6,310,845 in the previous fiscal year to \$5,315,608 in the Proposed Budget. The structural imbalance continues to be funded, as in prior years, from budget savings realized in the prior year, primarily salary savings from vacant staff positions or unused amounts budgeted for contingencies.

The County projects committed and assigned fund balance of 10% of budgeted revenues at the end of Fiscal Year 2018-19.

Budgetary Process and Administration

In accordance with the provisions of Chapter 1, Division 3, Title 3, of the Government Code of the State of California, the County prepares and adopts a budget for each fiscal year. The County Administrative Officer is required to submit to the Board a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. On or before June 30, public hearings are conducted to obtain public comments. On or before October 2, the final budget is prepared by the Auditor-Controller-Treasurer-Tax Collector and is legally enacted by adoption of a resolution.

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

Budget Policy

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

- encouraging public input,
- balanced budgeting,
- targeting the use of Fund Balance for one-time costs and cyclical rather than structural budgetary imbalances,
- maintaining prudent reserves for cashflow, and for unforeseen or emergency events,
- prioritizing funding decisions,
- responding to changing conditions,
- developing strategic approach to address unfunded liabilities,
- maintaining a five-year Capital Improvement Program, and
- seeking cost recovery.

Fund Balance Policy

The County believes that sound financial management principles require that sufficient funds be retained by the County to provide a stable financial base at all times. To retain this stable financial base, the County needs to maintain unrestricted fund balance sufficient to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned and unassigned fund balances (described below under “Financial Statements – GASB Statement No. 54”) are considered unrestricted.

The purpose of the County’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

The policy is designed to achieve and maintain committed and assigned fund balance categories of no less than 10% of the upcoming year’s estimated General Fund budgetary revenues. The County Board increased this percentage from 7% to 10% during Fiscal Year 2014-15, with the increase to be phased in over a period of seven years, by Fiscal Year 2021-22. The County is budgeting the fund balance to be 10% of budgetary revenues by the end of Fiscal Year 2018-19, and has achieved its policy target earlier than anticipated. Budgetary revenues are typically 5% to 6% higher than actual revenues shown in its General Fund financial statements because the budget includes revenue from interdepartmental transfers that are eliminated in the preparation of the audited financial statements as described below under “General Fund Revenues and Expenditures – Transfers In (Realignment).” The table following provides the budgetary and actual revenues for Fiscal Years 2015-16 and 2016-17.

	<u>2015-16</u>		<u>2016-17</u>	
	<u>Budgetary</u>	<u>Actual</u>	<u>Budgetary</u>	<u>Actual</u>
Intergovernmental Transfers	\$ 28,467,547	\$ 4,025,238	\$ 26,806,210	\$ 3,595,209
All Other Revenues	<u>435,729,233</u>	<u>422,115,569</u>	<u>459,092,299</u>	<u>442,735,627</u>
Total Revenues	\$464,196,780	\$426,140,807	\$485,898,509	\$446,330,836

General Fund Cash Flow

The General Fund County Budget includes programs which are provided on a largely countywide basis (health care, welfare, courts and detention facilities) and municipal services to the unincorporated areas not otherwise included in a special district. The programs and services are financed primarily by the County’s

share of property taxes, revenues from the State and federal government, and charges for services provided. (See “RISK FACTORS –State Budget” herein).

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

The County’s Auditor–Controller–Treasurer–Tax Collector has prepared a detailed analysis of the Fiscal Year 2017–18 General Fund cash flow (which includes actual figures through March 2018) and of the projected cash flow for Fiscal Year 2018–19. The cash flow projections are based on the County’s Proposed Budget, submitted to the Board on May 8, 2018. During the month of June 2018, the Board may make changes to the Proposed Budget to include additional expenditures and the source of funding for such additional expenditures. The County does not expect to update the cash flow projections contained in the Official Statement to reflect any supplemental items added to the Proposed Budget, but will provide a summary of such items as part of its disclosure obligation with respect to the Notes (see “APPENDIX C –FORM OF CONTINUING DISCLOSURE CERTIFICATE”).

General Fund Revenues and Expenditures

The receipts in tables that follow are categorized as:

- Taxes, detailed in Table No. 18 “Tax Revenues by Source,” which includes general property tax, property tax in-lieu of motor vehicle license fees, sales tax, property tax in-lieu of sales tax and transient occupancy taxes;
- Licenses and Permits, which includes construction and grading permits, franchise fees (cable, utility, trash) and food vendor permits;
- Fines and Forfeitures, which includes municipal and vehicle code violations and criminal fines;
- Revenue from Use of Money, which includes interest income and rent and concessions;
- Intergovernmental Revenue, detailed in Table No. 19 “State and Federal Funds” which includes Proposition 172 sales tax, motor vehicle license fees (health realignment portion), and state and federal reimbursements for health and welfare services;
- Charges for Services, comprised of outpatient clinic fees and patient revenue (52%), County overhead charges (3.1%), property tax administration fees (2.6%), consumer fraud penalties and other charges such as booking fees, court filing fees, fees for dispatch services and alarm response, recoding fees, plan checking, building inspection, park and recreation fees and other municipal services (42.3%);
- Miscellaneous Revenue; and
- Transfers In (Realignment), are State realignment revenues that the County receives for public health, mental health and social services that are required to be recorded first in a trust fund and transferred in for the intended General Fund purpose.

The disbursements in the tables that follow are categorized as Salaries and Benefits, Services and Supplies, Other Charges, Fixed Asset Acquisition and an Interdepartment Cost Allocation to offset the cost of services provided by various General Fund departments to other General Fund functions.

Salaries and Benefits include direct personnel costs, pension and post-retirement benefits, health insurance costs and workers' compensation and unemployment insurance costs.

Services and Supplies include non-personnel operating costs and contract professional services, of which approximately 45% relates to the Health Services Agency operations and 13% relates to the Human Services department.

Other Charges primarily consist of non-personnel related costs, of which approximately 28% is related to health services and 62% is associated with social services, as well as debt service, including interest on the Notes, and operating transfers in.

Disbursements shown as "Interfund Loans/Repayments" represent advances to other County governmental entities (such as Fire Districts) or County funds that get reimbursed to the General Fund when property taxes are available to such entities, or at year-end through the County's accounting process. In certain months, the County uses short-term intrafund borrowing to provide such funds (see "Intrafund Borrowing and Cashflow" below).

Fiscal Year 2018-19 Proposed Budget Assumptions

The County's Proposed Budget for 2018-19 reflects the County's assessment of the continuing impact on salaries and benefits of rising pension costs as well as the permanent elimination of certain positions, offset by additional staffing requirements.

Some key assumptions incorporated into the Proposed Budget, and related variances from Fiscal Year 2017-18 estimates, are as follows:

- Assessed value increase of 4% , resulting in a net 2.3% increase in general property tax (due to a \$1 million reduction in transfers from the Tax Losses Reserve Fund surplus compared to 2017-18) and a 4% increase in property taxes in lieu of vehicle license fees.
- No growth in overall sales tax revenue compared to 2017-18, after slightly higher than expected revenue in 2017-18.
- Transient occupancy tax increase of 10% .
- Measure K cannabis business tax increase of 3% , Measure E cannabis business tax increase of \$880,000 to reflect full year of collection and cannabis Licenses fee revenue increase of \$703,000 to reflect full year of collection.
- Increased Salary and Benefit costs for current staff under existing employee contractual agreements and increased costs for retirement based on rising CalPERS rates.
- Assumed all funded vacant positions are filled, less a vacancy factor between 2% and 7% , depending on the department.
- A total of 69 budgeted positions are unfunded.
- Use of \$5.3 million budget surplus from Fiscal Year 2017-18 to offset budget shortfall in Fiscal Year 2018-19.

As previously described the County's health and mental health programs are largely paid for with State and federal funding or by charging for services. The County's Health Services Agency's budget for Fiscal Year 2018-19 is funded by Federal and State revenue (55.7%), charges for services (27.8%), service-related revenues (10.6%) with only 5.9% funded with other General Fund resources. Social services provided by the Health Services Department require approximately 10% funding by the General Fund, with the balance

funded through Federal and State revenue. Typically, an increase in the cost to provide particular programs or an increase in services provided will result in an offsetting increase in “Intergovernmental Revenues” or “Charges for Services” revenues. Similarly, if a program cost decreases, as a result of serving fewer patients, revenue from reimbursement of the costs will decrease.

The significant changes in the Proposed Budget are:

- Intergovernmental Revenues (net \$15.6 million increase):
 - \$4.2 million increase in Short/Doyle mental health reimbursement.
 - \$10.5 million increase in Drug Medi-Cal Pilot Program.
 - \$1 million increase in VLF Realignment and Proposition 172 taxes.
 - \$690,000 reduction in SB 678 probation funding.
 - \$2 million reduction following Fiscal Year 2017–18 receipt of \$2.0 million CDBG grant.
- Charges for Services (net \$4.8 million increase):
 - \$2 million increase in outpatient clinic fees.
 - \$500,000 charges for the November 2018 consolidated election.
 - \$700,000 increase for accounting and planning services.
 - \$325,000 increase in Successor Agency services.
- Miscellaneous Revenue: \$7.2 million reduction following Fiscal Year 2017–18 receipt of one-time grants.
- Transfers In: \$2.8 million reduction following Fiscal Year 2017–18 one-time transfer from the Mental Health Trust Fund to establish a prudent reserve for Mental Health expenditures.
- Salaries and Benefits:
 - Health Services Agency: Increase of \$5.6 million to fill 87 vacant positions for outpatient clinics, mental health services and public health services and costs increases for existing staff.
 - Human Services Department: Net increase of \$4.7 million to fill 49 vacant positions and costs increases for existing staff.
 - Sheriff-Coroner: Net increase of \$3.7 million in costs increases for existing staff.
 - \$7 million increase across all other departments for contract cost increases for existing staff.
- Services and Supplies: Increase of \$8 million for costs associated with Drug Medi-Cal Pilot Program and \$1.2 million increase for Whole Person Care program, offset by \$577,000 decrease in software purchases, \$800,000 decrease in professional/special services and \$638,000 decrease in public defender (special) services relating to one-time expenses incurred in 2017–18.
- Other Charges (net decrease of \$1.4 million):

- \$1.7 million increase in In-Home Supportive Services.
 - \$1 million increase in adoption expenditures.
 - \$1 million increase in County overhead charges.
 - \$3.3 million increase in health service cost allocations.
 - \$1.7 million decrease in CDBG grant spending.
 - Offsetting increase in referral services and decrease on foster care services.
 - \$5 million decrease in capital projects for various health facility grant funded projects completed in 2017-18.
- Costs Applied (net \$5.2 million increase):
 - Health Services Agency: Increase of \$3.2 million primarily from increased cost allocations between for County Overhead shared between the Health divisions.
 - General County Revenues: Increase of \$1 million for increased budget to actual savings estimated.
 - All Other Departments: Increase of \$1 million in various cost recovery attributed to increased Auditor, General Services and Planning billings to Departments for services provided.

The following Table No. 10 compares the annual estimated actual receipts and disbursements for Fiscal Year 2017-18 with the annual budgeted receipts and disbursements for Fiscal Year 2018-19. Table No. 11 presents the monthly projected receipts and disbursements for Fiscal Year 2018-19.

TABLE NO. 10
GENERAL FUND CASH FLOW SUMMARY
COMPARISON OF 2017-18 ESTIMATED ACTUAL ANNUAL CASHFLOW
WITH FISCAL YEAR 2018-19 PROPOSED BUDGET

	2017-18 ESTIMATED <u>ACTUAL ⁽¹⁾</u>	2018-19 PROPOSED <u>BUDGET</u>	<u>CHANGE</u>	%
				<u>CHANGE</u>
BEGINNING BALANCE	\$49,839,941	\$51,504,614	\$ 1,664,673	3.3%
RECEIPTS:				
PROPERTY TAXES	\$ 67,768,480	\$69,359,476	\$ 1,590,996	2.3
PROPERTY TAX IN LIEU OF VLF	31,678,874	32,946,029	1,267,155	4.0
SALES TAXES	11,385,183	11,296,117	(89,066)	(0.8)
OTHER TAXES	15,221,993	17,077,431	1,855,438	12.2
LICENSES AND PERMITS	12,882,238	15,106,367	2,224,129	17.3
FINES AND FORFEITURES	4,609,396	4,608,373	(1,023)	0.0
REVENUE FROM USE OF MONEY	3,226,215	3,441,157	214,942	6.7
INTERGOVERNMENTAL REVENUES	235,482,729	251,114,669	15,631,940	6.6
CHARGES FOR SERVICES	72,831,989	77,598,469	4,766,480	6.5
MISCELLANEOUS REVENUES	11,948,361	4,682,667	(7,265,694)	(60.8)
TRANSFERS IN (REALIGN)	<u>29,765,191</u>	<u>26,988,674</u>	<u>(2,776,517)</u>	(9.3)
TOTAL RECEIPTS	\$496,800,649	\$514,219,429	\$17,418,780	3.5
DISBURSEMENTS:				
SALARIES AND BENEFITS	\$271,594,543	\$292,645,951	\$21,051,408	7.8
SERVICES AND SUPPLIES	148,886,276	156,023,531	7,137,255	4.8
OTHER CHARGES	106,852,018	105,441,655	(1,410,363)	(1.3)
FIXED ASSETS	1,418,470	1,061,905	(356,565)	(25.1)
COST APPLIED	(33,615,331)	(38,850,004)	(5,234,673)	15.6
CONTINGENCY	<u>—</u>	<u>3,211,997</u>	<u>3,211,997</u>	100.0
TOTAL DISBURSEMENTS	\$495,135,976	\$519,535,035 ⁽²⁾	\$24,399,059	4.9
NET RECEIPTS/DISBURSEMENTS	<u>1,664,673</u>	<u>(5,315,606)</u>	<u>(6,980,279)</u>	
ENDING CASH BALANCE	\$ 51,504,614	\$ 46,189,008	\$ (5,315,606)	(10.3)
ALTERNATIVE LIQUIDITY ⁽³⁾	\$ 40,931,000	\$ 38,950,000		

(1) Actual through March 2018; estimated April – June 2018.

(2) Excluding \$2,659,909 budgeted transfer to assigned fund balance in 2018-19.

(3) The County has alternative liquidity sources that are available for short-term borrowing. See “FINANCIAL INFORMATION – Alternative Liquidity” herein.

**TABLE NO. 11
GENERAL FUND CASH FLOW SUMMARY
FISCAL YEAR 2018-19 PROJECTION**

	<u>July</u>	<u>August</u>	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Total</u>
BEGINNING BALANCE	\$ 51,504,614	\$ 68,051,557	\$ 40,777,818	\$ 36,150,265	\$ 16,905,047	\$ 777,293	\$ 43,800,929	\$ 8,022,968	\$ 6,591,732	\$ 6,824,758	\$ 29,522,289	\$ 20,966,599	\$ 51,504,614
RECEIPTS:													
PROPERTY TAXES	389,987	198,694	53,435	1,401,377	167,942	29,304,816	1,201,688	166,034	190,494	25,429,682	4,594,697	6,260,631	69,359,476
PROPERTY TAX IN LIEU OF VLF	-	-	-	-	-	16,473,015	-	-	-	16,473,015	-	-	32,946,029
SALES TAXES	(953,383)	978,683	1,194,091	767,449	1,023,331	1,198,644	736,394	981,858	1,118,522	1,105,781	1,309,196	1,835,549	11,296,117
OTHER TAXES	(276,066)	2,086,035	1,676,311	1,383,913	1,844,150	650,822	1,541,488	902,517	890,806	2,104,468	1,420,830	2,852,157	17,077,431
LICENSES AND PERMITS	98,941	1,804,877	905,216	845,654	1,574,943	1,315,865	845,989	1,468,015	800,003	1,901,771	1,648,102	1,896,990	15,106,367
FINES AND FORFEITURES	13,769	203,520	183,484	344,539	213,808	355,840	181,394	604,112	173,164	656,923	603,509	1,074,313	4,608,373
REVENUE FROM USE OF MONEY	213,486	180,186	336,117	324,539	328,067	328,437	302,646	198,575	247,272	281,531	256,337	443,964	3,441,157
INTERGOVERNMENTAL REVENUES	(2,583,144)	12,044,714	21,398,699	11,349,640	12,742,995	26,031,067	18,122,499	26,149,289	20,227,632	43,146,657	31,974,061	30,510,559	251,114,669
CHARGES FOR SERVICES	(152,651)	2,762,103	4,169,871	7,216,169	6,215,699	7,799,648	4,092,287	6,440,712	4,143,501	10,740,372	9,825,332	14,345,425	77,598,469
MISCELLANEOUS REVENUES	(66,367)	147,785	82,275	125,579	92,150	100,103	140,250	81,727	516,106	865,954	1,112,237	1,484,868	4,682,667
TRANSFERS IN (REALIGNMENT)	<u>330,580</u>	<u>1,573,870</u>	<u>1,873,419</u>	<u>1,925,942</u>	<u>2,317,030</u>	<u>1,828,450</u>	<u>1,824,148</u>	<u>2,243,934</u>	<u>1,869,193</u>	<u>3,402,801</u>	<u>3,049,324</u>	<u>4,749,983</u>	<u>26,988,674</u>
TOTAL RECEIPTS	(2,984,848)	21,980,467	31,872,918	25,684,801	26,520,114	85,386,707	28,988,783	39,236,773	30,176,693	106,108,956	55,793,626	65,454,439	514,219,429
DISBURSEMENTS:													
SALARIES AND BENEFITS	10,505,244	30,198,768	18,969,943	26,837,981	27,847,380	21,645,505	31,811,120	21,258,418	19,896,026	25,446,999	25,407,559	32,821,008	292,645,951
SERVICES AND SUPPLIES	(3,091,531)	8,434,365	10,950,564	14,252,874	13,565,943	11,134,299	12,355,229	11,605,363	11,259,375	19,030,236	23,058,112	23,468,703	156,023,531
OTHER CHARGES	4,211,379	7,444,666	8,254,037	5,873,426	6,518,669	6,613,517	8,580,997	4,478,952	6,102,132	17,786,279	18,067,298	11,510,303	105,441,655
FIXED ASSETS	-	(49,713)	22,507	194,466	47,277	131,955	7,718	30,259	98,903	81,836	203,549	293,147	1,061,905
COST APPLIED	1,287,513	(258,915)	(1,841,881)	(2,650,120)	(1,546,504)	(1,236,787)	(2,704,433)	(1,604,348)	(1,916,176)	(2,711,478)	(2,619,531)	(21,047,344)	(38,850,004)
CONTINGENCY RESERVES	<u>115,303</u>	<u>331,453</u>	<u>208,209</u>	<u>294,566</u>	<u>305,645</u>	<u>237,575</u>	<u>349,150</u>	<u>233,326</u>	<u>218,373</u>	<u>279,299</u>	<u>278,866</u>	<u>360,234</u>	<u>3,211,997</u>
TOTAL DISBURSEMENTS	13,027,908	46,100,624	36,563,378	44,803,193	46,738,410	38,526,063	50,399,780	36,001,970	35,658,634	59,913,171	64,395,854	47,406,051	519,535,035
INTERFUND LOANS/REPAYMENTS	(12,440,301)	(3,153,581)	62,906	(126,826)	90,542	162,992	10,633,036	(4,666,040)	5,714,968	(3,498,255)	46,538	7,174,021	-
INTRA FUND BORROWING ⁽¹⁾	-	-	-	-	4,000,000	(4,000,000)	-	-	-	-	-	-	-
TRAN PROCEEDS	45,000,000	-	-	-	-	-	-	-	-	-	-	-	45,000,000
TRAN REPAYMENT FUND ⁽²⁾	-	-	-	-	-	-	(25,000,000)	-	-	(20,000,000)	-	-	(45,000,000)
ENDING CASH BALANCE	<u>\$ 68,051,557</u>	<u>\$ 40,777,818</u>	<u>\$ 36,150,265</u>	<u>\$ 16,905,047</u>	<u>\$ 777,293</u>	<u>\$ 43,800,929</u>	<u>\$ 8,022,968</u>	<u>\$ 6,591,732</u>	<u>\$ 6,824,758</u>	<u>\$ 29,522,289</u>	<u>\$ 20,966,599</u>	<u>\$ 46,189,008</u>	<u>\$ 46,189,008</u>

(1) See "FINANCIAL INFORMATION – Intrafund Borrowing and Cashflow" and "Alternative Liquidity" herein.

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

Fiscal Year 2017-18 Estimated Results

Table No. 12 compares the Fiscal Year 2017-18 proposed and final budget projections with estimated actual results for Fiscal Year 2017-18 (which includes actual results through March 2018, with projections for April, May and June 2018). Table No. 13 presents the monthly estimated actual receipts and disbursements for Fiscal Year 2017-18.

The largest increases or decreases between adopted budget and estimated actual results for Fiscal Year 2017-18 result from the following:

- License and Permits: \$958,000 reduced construction-related permits due to delay in large projects, late implementation of cannabis licensing.
- Intergovernmental Revenues: \$2.7 million increase in AB 118/AB 109 realignment revenues offset by \$460,000 decrease in food stamps, \$2.1 million decrease in aid to families with dependent children (AFDC) and \$1.1 million decrease in foster care funding.
- Charges for Services: \$385,000 decrease in public safety fees, \$202,000 decrease in recording fees, \$338,000 decrease in Successor Agency service fees and \$300,000 decrease in accounting and legal fees.
- Miscellaneous Revenue: \$5 million in grants for health services building improvements.
- Transfers In: \$3.6 million one-time transfer of Mental Health Trust Fund reserves.
- Salaries and Benefits: 10% vacancy in funded positions, offset by higher PERS and new employee contracts.
- Services and Supplies: \$550,000 increase for new phone system, \$700,000 increase in professional services.
- Other Charges: Increases for \$6.3 million behavioral health grant-funded project, \$1 million for In Home Supportive Services and \$875,000 for public authority offset by \$2.5 million reduction in foster care and juvenile service costs and \$1 million decrease in AFDC costs.

TABLE NO. 12
GENERAL FUND CASH FLOW SUMMARY
COMPARISON OF 2017-18 ESTIMATED ACTUAL ANNUAL CASHFLOW
WITH 2017-18 PROJECTION

	2017-18 PROPOSED <u>BUDGET</u>	2017-18 FINAL <u>BUDGET</u>	2017-18 ESTIMATED <u>ACTUAL</u>	CHANGE FROM FINAL <u>BUDGET</u>
BEGINNING CASH BALANCE	\$ 37,194,253	\$ 37,194,253	\$ 49,839,941	\$ 12,645,688
RECEIPTS:				
PROPERTY TAXES	\$ 62,547,178	\$ 67,479,311	\$ 67,768,480	\$ 289,169
PROPERTY TAX IN LIEU OF VLF	31,154,637	31,678,874	31,678,874	-
SALES TAXES	11,149,000	10,874,000	11,385,183	511,183
OTHER TAXES	14,274,036	14,620,023	15,221,993	601,970
LICENSES AND PERMITS	14,501,485	14,819,294	12,882,238	(1,937,056)
FINES AND FORFEITURES	4,728,520	4,743,520	4,609,396	(134,124)
REVENUE FROM USE OF MONEY	2,565,024	2,628,752	3,226,215	597,463
INTERGOVERNMENTAL REVENUES	227,841,391	236,645,854	235,482,729	(1,163,125)
CHARGES FOR SERVICES	73,098,738	74,259,282	72,831,989	(1,427,293)
MISCELLANEOUS REVENUES	6,107,737	6,679,141	11,948,361	5,269,220
TRANSFERS IN (REALIGNMENT)	<u>25,119,388</u>	<u>25,368,707</u>	<u>29,765,191</u>	<u>4,396,484</u>
TOTAL RECEIPTS	\$473,087,134	\$489,796,758	\$496,800,649	\$ 7,003,891
DISBURSEMENTS:				
SALARIES AND BENEFITS	\$270,092,523	\$273,706,526	\$271,594,543	\$ (2,111,983)
SERVICES AND SUPPLIES	138,823,461	146,622,253	148,886,276	2,264,023
OTHER CHARGES	99,212,067	101,395,941	106,852,018	5,456,077
FIXED ASSETS	224,000	1,380,012	1,418,470	38,458
COST APPLIED	(33,481,791)	(33,649,894)	(33,615,331)	34,563
CONTINGENCY	<u>5,624,618</u>	<u>6,652,763</u>	<u>-</u>	<u>(6,652,763)</u>
TOTAL DISBURSEMENTS	\$480,494,878	\$496,107,601	\$495,135,976	\$ (971,625)
NET RECEIPTS/DISBURSEMENTS	<u>(7,407,744)</u>	<u>(6,310,843)</u>	<u>1,664,673</u>	<u>7,975,516</u>
ENDING CASH BALANCE ⁽¹⁾	\$ 29,786,509	\$ 30,883,410	\$ 51,504,614	\$ 20,621,204

⁽¹⁾ Excluding budgeted increase in assigned and committed fund balance.

**TABLE NO. 13
GENERAL FUND CASH FLOW SUMMARY
ESTIMATED FISCAL YEAR 2017-18**

	July	August	September	October	November	December	January	February	March	April	May	June	Total
BEGINNING BALANCE	\$49,839,941	\$69,317,483	\$43,787,556	\$39,272,229	\$21,325,770	\$2,574,314	\$48,265,710	\$18,902,449	\$17,490,474	\$18,769,858	\$40,432,757	\$26,315,178	\$49,839,941
RECEIPTS:													
PROPERTY TAXES	381,041	194,136	52,209	1,369,232	164,090	28,632,610	1,174,123	162,225	186,124	24,846,366	4,489,302	6,117,021	67,768,480
PROPERTY TAX IN LIEU OF VLF	-	-	-	-	-	15,839,437	-	-	-	15,839,437	-	-	31,678,874
SALES TAXES	(960,900)	986,400	1,203,506	773,500	1,031,400	1,208,095	742,200	989,600	1,127,341	1,114,500	1,319,519	1,850,023	11,385,183
OTHER TAXES	(246,076)	1,859,390	1,494,182	1,233,553	1,643,786	580,111	1,374,008	804,460	794,021	1,875,821	1,266,459	2,542,277	15,221,993
LICENSES AND PERMITS	84,374	1,539,143	771,940	721,147	1,343,062	1,122,129	721,433	1,251,877	682,218	1,621,771	1,405,450	1,617,695	12,882,238
FINES AND FORFEITURES	13,772	203,565	183,525	344,615	213,855	355,919	181,434	604,246	173,202	657,069	603,643	1,074,552	4,609,396
REVENUE FROM USE OF MONEY	200,151	168,931	315,122	304,268	307,575	307,922	283,742	186,172	231,827	263,946	240,326	416,232	3,226,215
INTERGOVERNMENTAL REVENUES	(2,422,343)	11,294,928	20,066,626	10,643,123	11,949,741	24,410,628	16,994,370	24,521,490	18,968,458	40,460,769	29,983,669	28,611,270	235,482,729
CHARGES FOR SERVICES	(143,274)	2,592,441	3,913,737	6,772,916	5,833,900	7,320,555	3,840,919	6,045,092	3,888,987	10,080,646	9,221,812	13,464,258	72,831,989
MISCELLANEOUS REVENUES	(172,582)	377,221	210,007	320,540	235,212	255,512	357,986	208,607	1,317,356	2,210,339	2,838,975	3,789,188	11,948,361
TRANSFERS IN (REALIGNMENT)	<u>364,589</u>	<u>1,735,785</u>	<u>2,066,151</u>	<u>2,124,077</u>	<u>2,555,399</u>	<u>2,016,556</u>	<u>2,011,811</u>	<u>2,474,784</u>	<u>2,061,490</u>	<u>3,752,871</u>	<u>3,363,030</u>	<u>5,238,649</u>	<u>29,765,191</u>
TOTAL RECEIPTS	(2,901,247)	20,951,941	30,277,005	24,606,970	25,278,020	82,049,474	27,682,026	37,248,553	29,431,023	102,723,534	54,732,185	64,721,167	496,800,649
DISBURSEMENTS:													
SALARIES AND BENEFITS	9,749,552	28,026,428	17,605,345	24,907,398	25,844,186	20,088,441	29,522,796	19,729,199	18,464,811	23,616,476	23,579,873	30,460,037	271,594,543
SERVICES AND SUPPLIES	(2,950,110)	8,048,537	10,449,633	13,600,880	12,945,373	10,624,963	11,790,042	11,074,479	10,744,318	18,159,703	22,003,325	22,395,133	148,886,276
OTHER CHARGES	4,267,434	7,543,757	8,363,901	5,951,603	6,605,434	6,701,545	8,695,212	4,538,568	6,183,353	18,023,019	18,307,779	11,670,413	106,852,018
FIXED ASSETS	-	(66,405)	30,064	259,763	63,152	176,263	10,309	40,419	132,113	109,315	271,897	391,580	1,418,470
COST APPLIED	<u>1,114,033</u>	<u>(224,029)</u>	<u>(1,593,705)</u>	<u>(2,293,041)</u>	<u>(1,338,127)</u>	<u>(1,070,142)</u>	<u>(2,340,036)</u>	<u>(1,388,177)</u>	<u>(1,657,989)</u>	<u>(2,346,132)</u>	<u>(2,266,574)</u>	<u>(18,211,411)</u>	<u>(33,615,331)</u>
TOTAL DISBURSEMENTS	12,180,909	43,328,288	34,855,238	42,426,603	44,120,018	36,521,070	47,678,322	33,994,488	33,866,606	57,562,381	61,896,301	46,705,752	495,135,976
INTERFUND LOANS/REPAYMENTS	(12,440,301)	(3,153,581)	62,906	(126,826)	90,542	162,992	10,633,035	(4,666,039)	5,714,968	(3,498,255)	46,537	7,174,021	-
INTRA FUND BORROWING ⁽¹⁾	-	-	-	-	-	-	-	-	-	-	-	-	-
TRAN PROCEEDS	47,000,000	-	-	-	-	-	-	-	-	-	-	-	47,000,000
TRAN REPAYMENT FUND ⁽²⁾	-	-	-	-	-	-	(20,000,000)	-	-	(20,000,000)	(7,000,000)	-	(47,000,000)
ENDING CASH BALANCE	<u>\$ 69,317,483</u>	<u>\$ 43,787,556</u>	<u>\$ 39,272,229</u>	<u>\$ 21,325,770</u>	<u>\$ 2,574,314</u>	<u>\$ 48,265,710</u>	<u>\$ 18,902,449</u>	<u>\$ 17,490,474</u>	<u>\$ 18,769,858</u>	<u>\$ 40,432,757</u>	<u>\$ 26,315,178</u>	<u>\$ 51,504,614</u>	<u>\$ 51,504,614</u>

(1) See "FINANCIAL INFORMATION – Intrafund Borrowing and Cashflow" and "Alternative Liquidity" herein.

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

Ad Valorem Property Taxes

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment in addition to a \$20 cost on the second installment. On July 1 of each fiscal year any property which is delinquent will become defaulted. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption penalty of 1½% per month to the time of redemption, together with any other charges permitted by law. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll become delinquent, if unpaid on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1½% per month begins to accrue on November 1 of the fiscal year. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's Office, in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

The Teeter Plan

The County has adopted an alternate procedure authorized in Chapter 3, Part 8, Division 1 of the Revenue and Taxation Code of the State of California (comprising Sections 4701 through 4717, inclusive) commonly referred to as the "Teeter Plan," for distribution of certain property tax levies on the secured roll.

Pursuant to the Teeter Plan, the County adopted Resolution 541-93 on October 5, 1993 adopting the Teeter Plan. Generally, the Teeter Plan provides for a tax distribution procedure by which secured roll taxes are distributed to taxing agencies within the County included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all participating taxing agencies is avoided. All taxing agencies within the County are participating in the Teeter Plan. The County anticipates property taxes to be apportioned within Fiscal Year 2017-18 during December, April and June, with the balance of the levy to be apportioned on or before June 30, 2018. The historical and estimated current year and total delinquency rates (including prior years' tax roll delinquencies outstanding) in the County are as follows:

<u>Fiscal Year</u>	<u>Current Year's Delinquency Rate</u>	<u>Total Delinquency Rate</u>
2010-11	2.4%	3.98%
2011-12	1.9	3.92
2012-13	1.5	3.77
2013-14	1.2	2.94
2014-15	1.2	2.86
2015-16	1.1	2.33
2016-17	1.3	2.38
2017-18	1.5	2.33 (Estimate)
2018-19	1.5	2.38 (Proposed)

The delinquency rates represent the current year delinquencies (see "TABLE NO. 16" below) together with past years' delinquencies that continue to accrue interest until paid. The County bases budget estimates for penalties and interest on unpaid taxes on these delinquency rates.

In addition, pursuant to the Teeter Plan, the County is required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property (i.e., if the sale price of the property is less than the amount owed). The appropriate amount in the fund is determined by one of two methods: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. The County's tax losses reserve fund is fully funded in accordance with the County's most current election (on October 29, 2013) to be governed by the second alternative at \$2,929,382 as of June 30, 2017. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are available to be credited to the County's General Fund. The balance in the tax losses reserve fund is currently in excess of the minimum requirement.

Taxable Property and Assessed Valuation

Set forth in the tables below are assessed valuation for secured and unsecured property and tax levies and collections within the County. Article XIII A of the California Constitution prescribes the method for determining the full cash value of real property and the maximum ad valorem tax on real property. The full cash value, once established, is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the California Consumer Price Index. There may also be declines in valuations if the California Consumer Price Index is negative.

Proposition 8 provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions based on Proposition 8 do not establish new base year values, and the property may be reassessed as of the following lien date up to the lower of the then-current fair market value or the factored base year value. The County saw Proposition 8 reductions in property values between Fiscal Years 2008-09 and 2012-13. Such reduction are reflected in the assessed values shown below in Table No. 14. See "RISK FACTORS – Constitutional Limitation on Taxes and Appropriations – Article XIII A" and "– Proposition 8 Adjustments" herein.

TABLE NO. 14
COUNTY OF SANTA CRUZ
GROSS ASSESSED VALUE OF ALL TAXABLE PROPERTY
(INCORPORATED CITIES AND UNINCORPORATED COUNTY AREAS)

<u>Fiscal Year</u>	<u>Secured</u> ⁽¹⁾	<u>Unsecured</u>	<u>Total</u>	<u>Change</u>
2012-13	\$32,033,769,082	\$767,064,323	\$32,800,833,405	
2013-14	33,301,783,628	764,939,349	34,066,722,978	3.9%
2014-15	35,662,018,950	823,368,900	36,485,387,850	7.1
2015-16	37,958,881,477	873,141,038	38,832,022,515	6.4
2016-17	39,916,762,241	876,809,414	40,793,571,655	5.1
2017-18	42,203,970,597	936,889,955	43,140,860,552	5.8

⁽¹⁾ Including homeowners' exemption values.

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

Proposition 8 Adjustments. Proposition 8 (see "RISK FACTORS – Constitutional Limitation on Taxes and Appropriations – Proposition 8 Adjustments,") provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by an inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions based on Proposition 8 do not establish new base year values, and the property may be reassessed as of the following lien date up to the lower of the then-current fair market value or the factored base year value. There are always a minor number of properties in the County that are subject to Proposition 8 reductions, even before the great recession caused a larger number of properties to be reduced below their factored base year values. There are approximately 100,000 taxable secured parcels and 11,000 taxable unsecured parcels in the County. The highest number of parcels that were subject to Proposition 8 reductions in the last 10 years was 26,271 in Fiscal Year 2012-13. That number was reduced to 12,489 by 2014-15 and to 5,304 by 2017-18. The current number of parcels subject to Proposition 8 adjustments is a minor amount consistent with the pre-recession figures. In general, such parcels do not represent a significant portion of the County's assessed values.

Largest Taxpayers. The largest taxpayers in the County for the 2016-17 Fiscal Year are shown below.

TABLE NO. 15
COUNTY OF SANTA CRUZ
LARGEST TAXPAYERS

<u>Taxpayers</u>	<u>Type of Business</u>	2016-17 Assessed <u>Valuation</u>	% of Total Assessed Valuation <u>2016-17</u>
Pacific Gas & Electric Company	Gas & Electric Utility	\$272,331,891	0.63%
Santa Cruz Seaside Company	Amusement Park	111,243,992	0.26
Watsonville Hospital	Hospital	60,574,364	0.14
AT&T	Telephone Utility	60,499,386	0.14
Capitola Mall, LLC ⁽¹⁾	Property Management	59,779,061	0.14
Rancho Del Mar Center	Property Management	55,556,111	0.13
Safeway	Grocery Store	47,844,545	0.11
Bei-Scott Company, LLC	Property Management	46,272,692	0.11
Cypress Point Real Estate Investors	Real Estate	46,227,717	0.11
SC Beach Hotel Partners	Hotel Operator	<u>45,821,941</u>	<u>0.11</u>
		\$806,151,700	1.88%

⁽¹⁾ The properties owned by this taxpayer were sold in April 2016 to MGP XI Capitola LLC.

Source: County of Santa Cruz Comprehensive Annual Financial Report, Fiscal Year ended June 30, 2017.

Tax Collections. The County reports tax collection data on a County-wide basis for secured taxes only as set forth in Table No. 16.

TABLE NO. 16
COUNTY OF SANTA CRUZ
SECURED TAX LEVIES AND COLLECTIONS ⁽¹⁾
(in thousands)

Fiscal Year Ended <u>June 30</u>	Total Secured Tax Levy for <u>Fiscal Year</u>	Collections within the Fiscal Year of the Levy		Collections in Subsequent <u>Years</u>	Total Tax <u>Collections</u>	Percentage <u>of Levy</u>
		<u>Amount</u>	<u>Percentage</u>			
2013	\$399,146	\$393,223	98.5%	\$2,025	\$395,248	99.0%
2014	418,414	413,276	98.8	2,120	415,486	99.3
2015	443,002	437,476	98.8	2,695	440,171	99.4
2016	470,552	465,411	98.9	2,354	467,765	99.4
2017	503,093	496,571	98.7	-	496,571	98.7

⁽¹⁾ Secured tax levy for the County, school districts, cities and special districts in the County under the supervision of independent governing boards.

Source: County of Santa Cruz Comprehensive Annual Financial Report.

Redevelopment Agencies. The California Redevelopment Law (Part 1 of Division 24 of the Health & Safety Code of the State) authorized the redevelopment agency of any city or county to receive an allocation of tax revenues resulting from increases in assessed values of properties within designated redevelopment project areas (the "incremental value") occurring after the year the project area was formed. In effect, local taxing authorities, such as the County, realized tax revenues only on the assessed value of such property at the time the redevelopment project was created for the duration of such redevelopment project, except to the extent a redevelopment agency made payments by agreement or in some cases, pursuant to a statutory formula. There have been numerous redevelopment projects formed in the County. Table No. 17 sets forth total County assessed valuations and redevelopment project incremental values for all redevelopment projects County-wide.

TABLE NO. 17
COUNTY OF SANTA CRUZ
TOTAL AND NET PROPERTY TAX VALUATIONS

<u>Fiscal Year</u>	<u>Total Assessed Valuation</u>	<u>Redevelopment Agency Incremental Value</u>	<u>Net Value</u>
2013-14	\$34,066,722,978	\$6,416,711,625	\$27,650,011,353
2014-15	36,485,387,850	6,784,225,646	29,701,162,204
2015-16	38,832,022,515	7,374,079,739	31,457,942,776
2016-17	40,793,571,655	7,897,697,832	32,895,873,823
2017-18	43,140,860,552	8,522,791,842	34,618,068,710

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

The State Legislature approved a bill, AB X1 26, during the 2011-12 State budget process. AB X1 26 eliminated redevelopment agencies State-wide. On December 29, 2011, the California Supreme Court issued its opinion and upheld AB X1 26. As a result of the decision, all California redevelopment agencies, including the County's Redevelopment Agency and other redevelopment agencies formed by cities within the County, were dissolved as of February 1, 2012. Certain tax revenues allocable to the County's former Redevelopment Agency will continue to be available to the County, as successor agency to the County's Redevelopment Agency, to pay certain obligations of the former Redevelopment Agency, and any residual amounts available after payment of obligations is redirected to other taxing agencies, such as the County, school districts, and cities. This is also true for the former redevelopment agencies formed by cities within the County. As a result of redevelopment dissolution, the following one-time revenues and residual property taxes have been received or are budgeted to receive by the County.

<u>Fiscal Year</u>	<u>One-Time</u>	<u>Residual</u>
2011-12	\$ 74,000	\$ 184,000
2012-13	448,000	481,000
2013-14	-	761,000
2014-15	-	1,146,000
2015-16	-	1,549,000
2016-17	-	1,976,000
2017-18 (Estimate)	-	2,116,000
2018-19 (Budget)	-	2,116,000

Other Local Taxes

In addition to ad valorem taxes on real property, the County receives the following local taxes:

Transient Occupancy Taxes. The County levies a transient occupancy tax on hotel and motel bills. In November 2012, voters approved an increase in this tax from 9.5% to 11%.

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

Sales and Use Taxes. Sales tax is collected and distributed by the State Board of Equalization. Each local jurisdiction receives an amount equal to 1% of taxable sales within their jurisdiction.

On March 2, 2004, voters approved a bond initiative formally known as the “California Economic Recovery Act.” This act authorized the issuance of \$15 billion in bonds to finance the 2002-03 and 2003-04 State budget deficits, which would be payable from a fund to be established by the redirection of tax revenues through the Triple Flip as described more fully below.

Under the “Triple Flip,” one-quarter of local governments’ 1% share of the sales tax imposed on taxable transactions within their jurisdiction was redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation provided for property taxes in the ERAF to be redirected to local government. Because the ERAF moneys were previously earmarked for schools, the legislation provided for schools to receive other state general fund revenues. The swap of sales taxes for property taxes terminated once the deficit financing bonds were repaid during 2015-16. The County treated the Triple Flip property tax revenue as sales tax in its financial statements.

Cannabis Business Tax. In November 2014, voters approved a tax of up to 10% on the gross sales of medical marijuana businesses in the unincorporated County. The initial year tax was established at 7%, and collection began in December 2014. In November 2016, voters approved expanding the tax to apply to all cannabis-related businesses. The Board later reduced the rate applicable to manufacturers and cultivators to 5% for periods beginning January 1, 2018, with future incremental increases to achieve 7% by January 1, 2022.

Property Tax In-Lieu of Motor Vehicle License Fee. The payments of property tax in-lieu of Motor Vehicle license fees (“VLF”) are a State backfill from property tax revenues for a portion of the VLF fees collected statewide.

TABLE NO. 18
COUNTY OF SANTA CRUZ
TAX REVENUES BY SOURCE

<u>Source</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	Estimated <u>2017-18</u>	Proposed Budget <u>2018-19</u>
Transient Occupancy Tax	\$ 6,482,217	\$ 7,083,724	\$ 8,002,021	\$ 8,981,888	\$ 9,880,076
Property Transfer Tax	2,242,933	2,266,471	2,317,423	2,710,178	2,710,178
Cannabis Business Tax	978,009	2,504,043	2,805,386	3,470,931	4,428,181
Other Taxes	76,789	82,685	88,150	58,996	58,996
Sales Tax ⁽¹⁾	10,247,085	10,070,557	11,862,714	11,385,183	11,296,117
Property Tax In Lieu –VLF	26,793,487	28,516,308	29,957,692	31,678,874	32,946,029
Regular Property Taxes ⁽¹⁾⁽²⁾	<u>52,866,506</u>	<u>57,042,755</u>	<u>61,839,618</u>	<u>67,768,480</u>	<u>69,359,476</u>
Total Tax Revenues	<u>\$99,687,026</u>	<u>\$107,566,543</u>	<u>\$116,873,004</u>	<u>\$126,054,530</u>	<u>\$130,679,053</u>

(1) For years prior to Fiscal Year 2017-18, property taxes paid in lieu of sales tax under the “Triple Flip” are included in the Sales Tax figures. The “Triple Flip” payments ended in Fiscal Year 2016-17. See “Other Local Taxes – Sales and Use Taxes” above.

(2) Due to redevelopment dissolution (see “Taxable Property and Assessed Valuation – Redevelopment Agencies” above), the County receives ongoing residual property tax, included in Regular Property Taxes above.

Source: County of Santa Cruz

State and Federal Funds

A significant source of the County’s revenues comes from State and federal funds. Payment of State funds depends on the adoption by the State of its budget, including the appropriations therein providing for local assistance. These revenues are shown in the accompanying financial statements as “intergovernmental revenues” (see “RISK FACTORS –State Budget” herein). The following table sets forth the State and federal funds received by the County:

TABLE NO. 19
COUNTY OF SANTA CRUZ
STATE AND FEDERAL FUNDS

<u>Source</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	Estimated <u>2017-18</u>	Proposed Budget <u>2018-19</u>
State Funds:					
VLF In Lieu Taxes	\$ 6,332,401	\$ 4,884,287	\$ 5,201,286	\$ 4,981,276	\$ 5,625,277
Proposition 172	17,408,947	17,347,814	17,562,732	18,439,592	18,904,037
All Other State Funds	<u>132,892,723</u>	<u>134,682,171</u>	<u>128,411,257</u>	<u>139,654,899</u>	<u>152,981,804</u>
Total	\$156,634,071	\$156,914,272	\$151,175,275	\$163,075,768	\$177,511,119
Federal Funds	<u>\$ 63,099,261</u>	<u>\$ 63,740,129</u>	<u>\$ 68,560,540</u>	<u>\$ 72,406,96</u>	<u>\$ 71,590,094</u>
Total All Gov’t Agencies	<u>\$219,733,332</u>	<u>\$220,654,401</u>	<u>\$219,735,815</u>	<u>\$235,482,729</u>	<u>\$251,114,669</u>

Source: County of Santa Cruz Annual Budget.

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

Other Revenue Sources

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

Fines, Forfeitures and Penalties. These revenues include parking citations, municipal court fines, asset seizure proceeds and other fines for municipal code violations.

Use of Money and Property. These revenues consist primarily of investment earnings and rental/concession income.

Charges for Services. The County charges recording fees, booking fees, court filing fees, fees for dispatch services and alarm response, plan checking, building inspection and other municipal services.

Intrafund Borrowing and Cashflow

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

The County has used intrafund borrowing during some fiscal years. The County did not need to use intrafund borrowing during 2017-18, but expects it may use intrafund borrowing during Fiscal Year 2018-19 to fund a portion of its interfund loans. In general, the County's intrafund borrowing assists with funding loans the County provides during the year to other governmental agencies, such as fire districts. This allows such agencies to avoid issuing their own tax and revenue anticipation notes. Such loans to other governmental agencies are generally required to be repaid to the County from property taxes received in April of such fiscal year. The County General Fund also loans funds to other County funds if such funds have deficit cash balances due to timing of receipts and disbursements. At June 30, 2017, the County had approximately \$36.8 million of its own funds held in trust for county programs, available for the purpose of short-term intrafund borrowing (shown as advance from grantors and third parties on the General Fund balance sheet).

Alternative Liquidity

The County also has alternative liquidity sources that are available for short-term borrowing. As shown in Table No. 20, these funds include Internal Service Funds established for Information Services, Public Works, Employee Benefits, Dental/Health Self Insurance, Property Insurance, Public Works Heavy Equipment Insurance, Risk Management, State Unemployment Insurance and Workers' Compensation Self Insurance, as well as the County's Mental Health Trust Fund and amounts in the Tax Losses Reserve Fund in excess of the minimum required balance. In the event that there are insufficient receipts to make any required deposit in the Repayment Account, the internal service funds can be accessed immediately without

Board approval. The Tax Losses Reserve Fund and Mental Health Trust Fund require Board approval to use the moneys therein.

TABLE NO. 20
COUNTY OF SANTA CRUZ
SCHEDULE OF ALTERNATIVE LIQUIDITY

The actual balance of the sources as of June 30, 2017 and the projected balance of these sources as of June 30, 2018, and June 30, 2019 is set forth below.

<u>Fund</u>	<u>Actual June 30, 2017</u>	<u>Estimated June 30, 2018 ⁽¹⁾</u>	<u>Estimated June 30, 2019 ⁽¹⁾</u>
Information Services	\$ 2,420,313	\$ 2,000,000	\$ 2,000,000
Public Works	2,390,167	2,000,000	2,000,000
Vehicle Service Center	1,801,611	1,200,000	1,200,000
Central Duplicating	403,132	300,000	300,000
Employee Benefits –Staffing	399,015	500,000	500,000
Dental/Health Self Insurance	1,340,143	1,100,000	1,100,000
Liability & Property Insurance	12,202,269	10,500,000	10,500,000
DPW Heavy Equipment Insurance	359,936	350,000	350,000
Risk Management & Self Insurance	799,912	750,000	750,000
State Unemployment Insurance	435,129	350,000	350,000
Workers' Compensation Self Insurance	<u>14,639,344</u>	<u>13,000,000</u>	<u>13,000,000</u>
Subtotal Internal Service Funds ⁽²⁾	37,190,971	32,050,000	32,050,000
Mental Health Trust Fund ⁽³⁾	109,100	4,000,000	4,000,000
Tax Losses Reserve Fund ⁽⁴⁾	<u>7,827,631</u>	<u>4,881,000</u>	<u>2,900,000</u>
Total Alternative Liquidity ⁽⁵⁾	\$45,127,702	\$40,931,000	\$38,950,000

⁽¹⁾ June 30, 2018, balances are estimated at the April 30, 2018 actual balances, rounded and adjusted for activities expected to occur before year end. These amounts are also adjusted for activities expected to during 2018-19 to determine the estimated balances for June 30, 2019.

⁽²⁾ Internal Service Funds – Available to be transferred to the General Fund and does not need to be repaid. The majority of Internal Service Fund users are General Fund Departments.

⁽³⁾ Mental Health Trust Fund – Available to be transferred to the General Fund and does not need to be repaid. The purpose of the fund is to (1) provide a cushion to mitigate risk associated with mental health managed care programs, (2) provide an audit reserve for disallowed mental health costs, and (3) hold possible future repayment of grant funds.

⁽⁴⁾ This represents the amount in the Tax Losses Reserve Fund in excess of the minimum required balance and does not need to be repaid.

⁽⁵⁾ Excludes the County's Buena Vista Landfill Post Closure Fund, which is available for the General Fund to borrow, but must be repaid within the same fiscal year. The estimated balance at June 30, 2018 in the Buena Vista Landfill Post Closure Fund is \$5,800,000.

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

Short-Term Obligations

In each of the last five years, the County has issued tax and revenue anticipation notes. The notes for Fiscal Year 2017-18 are due on June 28, 2018, and the County has made the required set-asides for such notes as of May 31, 2018. All other notes have been repaid on their respective maturity dates.

Long-Term Obligations

General Obligation Debt. As of the date hereof, the County has no long-term general obligation bonded indebtedness outstanding and has never defaulted on any of its bonded indebtedness previously issued. The County has no authorized but unissued general obligation debt.

Lease Obligations. The County has made use of various lease arrangements with joint powers authorities to finance capital projects and purchase equipment through the issuance of certificates of participation and lease revenue bonds. Upon expiration of these leases, title to the projects or equipment vests in the County. There are currently ten outstanding certificates of participation, lease revenue bonds and long-term agreements aggregating \$72 million in principal amount. All issues are fixed rate obligations. The County also leases other assets under both operating and capital leases.

The County will have outstanding indebtedness shown in Table No. 21 as of June 30, 2018 payable from the County's General Fund, exclusive of obligations to be paid from specifically pledged revenues, such as tax allocation bonds and assessment bonds. It includes obligations that the County allocates internally to other special revenue funds, as described in the footnotes to Table No. 21.

TABLE NO. 21
SUMMARY OF LONG-AND INTERMEDIATE-TERM OBLIGATIONS
(in \$ millions)

	Original Issue	Principal to be Outstanding as of 6/30/18	Estimated 2018-19 Payments	Final Maturity
1996 Certificates of Participation	\$ 24.855	\$11.825	\$1.694	2026
2008 Certificates of Participation	4.625	1.565	0.461	2023
2011 Certificates of Participation	5.605	4.830	0.388	2036
2012 Use Payments	1.885	1.509	0.135	2034
2014 Refunding Certificates of Participation	6.285	5.235	0.498	2031
2014 Lease Revenue Bonds ⁽¹⁾	11.810	10.765	0.869	2034
2015 Taxable Lease Revenue Refunding Bonds, Series A ⁽²⁾	13.770	9.505	1.755	2025
2015 Lease Revenue Bonds, Series B ⁽³⁾	9.945	9.290	0.595	2035
2016 Refunding Certificates of Participation	10.500	9.680	1.159	2036
2017 Taxable Lease Revenue Bonds (CREBs)	7.940	7.940	0.651 ⁽⁴⁾	2035
	<u>97.220</u>	<u>72.144</u>	<u>8.205</u>	
Capital Leases	<u>9.922</u>	<u>5.042</u>	<u>1.073</u>	2027
TOTAL LONG-AND INTERMEDIATE-TERM OBLIGATIONS	\$107.142	\$77.186	\$9.278	

⁽¹⁾ Approximately 57% of annual debt service is reimbursed by County Service Area 9C.

⁽²⁾ Approximately \$800,000 of the annual debt service is reimbursed by the Santa Cruz County Flood Control and Water Conservation District and the Pajaro Storm Maintenance District.

⁽³⁾ Approximately \$65,000 of annual debt service is reimbursed by County Service Area 11.

⁽⁴⁾ The County expects to receive an interest payment subsidy of approximately \$198,000 to offset the interest cost on this financing in Fiscal Year 2018-19.

Contingent Liability. The County is a participant in the Monterey Bay Community Power joint powers authority ("MBCP"). MBCP is a regional project among 19 local government agencies in Santa Cruz, Monterey and San Benito counties that aims to provide electricity to residents and businesses through the

Community Choice Energy (CCE) model enabled by State in 2002. The MBCP was formed in early 2017 and started serving non-residential customers in March 2018, and expects to begin serving residential customers in July 2018. MBCP obtained a loan commitment from a bank to provide up to \$3 million in start-up costs. The bank required the three counties that are a party to the joint powers authority to each guaranty repayment of some or all of the \$3 million if MBCP is unable to repay the loan from operating net income. The cities in the County that are members of the MBCP have in turn provided the County with a guaranty of their individual shares. The County's share of the net guaranty is \$272,727. The MBCP loan bears interest at a variable rate and the balance drawn at the end of 12 months converts to a fixed rate with a repayment term of 5 years.

Retirement Program

This caption contains certain information relating to the California Public Employees Retirement System ("CalPERS"). The information is primarily derived from information produced by CalPERS, its independent accountants and its actuaries. The County has not independently verified the information provided by CalPERS and makes no representations nor expresses any opinion as to the accuracy of the information provided by CalPERS.

The comprehensive annual financial reports of CalPERS are available on its Internet website at www.calpers.ca.gov. The CalPERS website also contains CalPERS' most recent actuarial valuation reports and other information concerning benefits and other matters. The textual reference to such Internet website is provided for convenience only. None of the information on such Internet website is incorporated by reference herein. The County cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" statements that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may not materialize or be changed in the future.

Plan Description. The County provides retirement benefits, disability benefits, periodic cost-of-living adjustments, and death benefits to plan members and beneficiaries (the "Plans"). The Plans are part of CalPERS, an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State. Benefit provisions are established by State statute and by County contracts with employee bargaining groups. The Plans as described herein covers three separate employee groups - Miscellaneous, Safety and Safety Sheriff.

California Public Employees' Pension Reform Act of 2013. On September 12, 2012, the Governor signed into law the California Public Employees' Pension Reform Act of 2013 ("PEPRA"), which made changes to CalPERS Plans, most substantially affecting new employees hired on or after January 1, 2013 (the "Implementation Date"). For non-safety CalPERS participants hired on or after the Implementation Date, PEPRA changed the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increased the eligibility requirement for the maximum age factor of 2.5% to age 67.

PEPRA also: (i) requires all new participants enrolled in CalPERS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary to a maximum of 8% of salary, (ii) requires CalPERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date, and (iii) caps "pensionable compensation" for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for members not participating in social security, while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

Benefit Tiers. In 2012 the County established two tiers of benefits for employees in each of the employee plans (Miscellaneous, Safety and Safety Sheriff), based on date of hire ("Tier 1" and "Tier 2"). Benefits

were reduced for Tier 2 employees in the Safety and Safety Sheriff's Plans hired on or after June 9, 2012. Benefits were reduced for employees in the Tier 2 Miscellaneous Plan hired on or after December 17, 2012.

Due to PEPR A, the County added a benefit tier in each employee group for employees subject to PEPR A ("PEPR A Tier 3"). Ultimately, PEPR A is expected to reduce the County's long-term pension obligation as existing employees retire and new employees are hired to replace them.

The Plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	<u>Miscellaneous Plan</u>		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPR A Tier 3</u>
Benefit Formula	2% at 55	2% at 60	2% at 62
Benefit Vesting Schedule	5 years	5 years	5 years
Earliest Retirement Age	50	50	52
Maximum Benefit Factor	2.418% at 63	2.418% at 63	2.5% at 67
Final Compensation	12 months	36 months	36 months
Required Employee Contribution Rates	7%	7.0%	6.25%
2017 Employer Contribution Rates	18.7%	18.7%	18.7%

	<u>Safety Plan</u>		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPR A Tier 3</u>
Benefit Formula	2% at 50	2% at 50	2.7% at 57
Benefit Vesting Schedule	5 Years	5 Years	5 Years
Earliest Retirement Age	50	50	50
Maximum Benefit Factor	2.7% @ 55	2.7% @ 55	2.7% @ 57
Final Compensation	12 Months	36 Months	36 Months
Required Employee Contribution Rates	9.0%	9.0%	11%
2017 Employer Contribution Rates	25.6%	25.6%	25.6%

	<u>Safety Sheriff Plan</u>		
	<u>Tier 1</u>	<u>Tier 2</u>	<u>PEPR A Tier 3</u>
Benefit Formula	3% at 50	3% at 55	2.7% at 57
Benefit Vesting Schedule	5 Years	5 Years	5 Years
Earliest Retirement Age	50	50	50
Maximum Benefit Factor	3% @ 55	3% @ 55	2.7% @ 57
Final Compensation	12 Months	36 Months	36 Months
Required Employee Contribution Rates	9.0%	9.0%	12.0%
2017 Employer Contribution Rates	38.2%	38.2%	38.2%

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

For PEPR A Tier 3 active plan members in the Miscellaneous and Safety plans, the State statute requires a contribution of 6.25% and 11%, respectively of annual covered salary. However, as a result of labor negotiations PEPR A Tier 3 Miscellaneous members contribute 7% of annual covered salary up to \$117,200. If 7% is greater than one half the normal cost of the employees' retirement plan, any difference between 7% and one half the normal cost shall be considered an employee "pick up" of the employer contribution.

The employee contribution shall not fall below 7% even if one half of the normal cost of their retirement plan decreases. Also as a result of labor negotiations, Sheriff Safety members in the PEPRA Tier 3 contribute 12% of annual covered salary, up to a \$140,424 limit.

Actuarial Methods and Assumptions Used to Determine Total Pension Liability. The total pension liabilities in the June 30, 2015 actuarial valuations, rolled forward to June 30, 2016, using standard update procedures, were determined using the following actuarial assumptions:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies ⁽¹⁾
Investment Rate of Return	7.50% ⁽²⁾
Mortality	⁽³⁾
Post Retirement Benefit Increase	Contract cost of living adjustment up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

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

⁽²⁾ Net of pension plan investment expenses, including inflation.

⁽³⁾ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 Experience Study.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study ("Experience Study") for the period 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website under "Forms and Publications."

Changes in Actuarial Assumptions. Changes in actuarial assumptions generally take two years to affect the County's contribution rate due to the time required by CalPERS to calculate and implement the change. For example, a change made effective July 1, 2017 will be reflected in the County's contribution rates (normal cost or unfunded liability) for Fiscal Year 2019-20.

On March 14, 2012, the CalPERS Board of Administration approved a change in the inflation assumption used in the actuarial assumptions used to determine employer contribution rates. This reduced the assumed investment return from 7.75% to 7.50%, reduced the long-term payroll growth assumption from 3.25% to 3.0%, and adjusted the inflation component of individual salary scales from 3% to 2.75%.

On April 17, 2013, the CalPERS Board of Administration approved a plan: (i) to replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process; and (ii) to replace the current 30-year rolling amortization of unfunded liabilities with a 30-year fixed amortization period. CalPERS' Chief Actuary stated that the revised approach provides a single measure of funded status and unfunded liabilities, less rate volatility in extreme years, a faster path to full funding and more transparency to employers about future contribution rates. These changes accelerate the repayment of unfunded liabilities (including

CalPERS' Fiscal Year 2009 market losses) of the County's Plans in the near term. These changes are reflected beginning with the June 30, 2014 actuarial valuation, which affects contribution rates for Fiscal Year 2015-16 and thereafter.

On February 19, 2014, the CalPERS Board of Administration approved changes to actuarial assumptions and methods based upon a recently completed experience study. These changes include: moving from using smoothing of the market value of assets to obtain the actuarial value of assets to direct smoothing of employer contribution rates; increased life expectancy; changes to retirement ages (earlier for some groups and later for others); lower rates of disability retirement; and other changes.

On December 21, 2016, the CalPERS Board of Administration approved an incremental lowering of the discount rate from 7.5% to 7.0% over the following three Fiscal Years. For Fiscal Years 2017-18, 2018-19 and 2019-20, the Board of Administration approved discount rates of 7.375%, 7.25% and 7.0%, respectively. While the full impact of the discount rate changes on the County is not yet reflected in the County's contribution rates, CalPERS expects such changes to increase the County's employer rates by approximately 1.5% of normal cost as a percent of payroll for the Miscellaneous Plan and by approximately 2.5% for the Safety Plans compared to 2017-18 rates. CalPERS also expects the discount rate changes to result in increased unfunded accrued liability payments for employers, and estimates that the County will see such payments increase by at least 20% annually for each of the next two years, and in total, the County expects its annual payments to more than double by Fiscal Year 2021-22 compared to the amount paid in Fiscal Year 2017-18.

Table No. 23 shows the CalPERS projected impact of the actuarial assumption changes on the County's pension costs.

Further, on February 14, 2018, the CalPERS Board of Administration approved a change to amortize investment gains and losses over a 20 year period rather than the existing 30 year period. The shorter amortization period would be effective June 30, 2019 for any new amortization bases added to the unfunded accrued liability and affect contributions in Fiscal Year 2021-22. It does not affect the amortization of current accrued unfunded liabilities.

Contribution Rates. The contribution requirements of Plan members and the County are established by CalPERS and labor negotiations.

The County's percentage of payroll for CalPERS payments for Fiscal Years 2008-09 through 2016-17 are shown in Table No. 22. These rates do not include the employees' contribution rates. They include both the employer's normal cost and an unfunded actuarial liability component.

TABLE NO. 22
EMPLOYER RETIREMENT CONTRIBUTION RATES

<u>Fiscal Year</u>	<u>Miscellaneous</u>	<u>Safety</u>	<u>Sheriff Safety</u>
2008-09	12.197%	14.201%	25.642%
2009-10	12.051	13.784	25.823
2010-11	12.150	13.989	25.145
2011-12	13.776	17.046	28.749
2012-13	14.253	17.381	29.153
2013-14	15.099	19.094	30.534
2014-15	16.084	20.292	34.020
2015-16	17.338	21.526	35.587
2016-17	18.742	25.627	38.177

Source: California Public Employees' Retirement System.

CalPERS modified the calculation of the contribution rates beginning in Fiscal Year 2017-18. They now represent only the employer's normal cost as a percentage of payroll, and include a dollar amount for the amortization of the unfunded actuarial liability (UAL). Shown in Table No. 23 are the CalPERS projections of the normal cost and amortization of the UAL. For comparison, the normal cost for 2016-17 was 8.172% of payroll for the Miscellaneous Plan, 14.291% for the Safety Plan and 19.546% for the Sheriff Safety Plan.

TABLE NO. 23
ACTUAL AND PROJECTED EMPLOYER RETIREMENT CONTRIBUTIONS

<u>Fiscal Year</u>	<u>Miscellaneous</u>		<u>Safety Plan</u>		<u>Sheriff Safety Plan</u>	
	<u>Normal Cost</u>	<u>Amortize UAL</u>	<u>Normal Cost</u>	<u>Amortize UAL</u>	<u>Normal Cost</u>	<u>Amortize UAL</u>
2017-18	7.974%	\$17,989,274	13.964%	\$2,455,361	19.051%	\$3,243,326
2018-19	8.188	21,745,883	14.299	3,118,725	19.391	3,886,647
2019-20	8.600	26,039,000	15.000	3,876,000	20.200	4,623,000
2020-21	9.500	29,275,000	16.400	4,507,000	21.900	5,242,000
2021-22	9.500	33,644,000	16.400	5,188,000	21.900	5,927,000

Projected by CalPERS based on various assumptions as of August 2017, and reflects change in the discount rate approved in December 2016.

Source: California Public Employees' Retirement System.

Annual Pension Costs. A five-year history of the County's required annual pension costs is shown in the table below. The required contribution was determined as part of an annual actuarial valuation. The most recent actuarial assumptions are described under the caption "Actuarial Methods and Assumptions Used to Determine Total Pension Liability."

TABLE NO. 24
FIVE-YEAR TREND INFORMATION FOR ANNUAL PENSION COSTS
ALL TIERS COMBINED

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>
June 30, 2013	\$34,366,000
June 30, 2014	36,463,000
June 30, 2015	36,541,000
June 30, 2016	40,403,000
June 30, 2017	46,744,000

For Fiscal Years 2017-18 and 2018-19, the employer and employees' share of CalPERS costs for all personnel are shown below.

	<u>Estimated 2017-18</u>	<u>Proposed Budget 2018-19</u>
Employer Share	\$46,865,048	\$49,167,167
Employees' Share	13,649,750	14,320,258
Total Annual Pension Cost	<u>\$60,514,798</u>	<u>\$63,487,425</u>

Pension Liabilities. The County's net pension liability for the Plans is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plans is measured as of June 30, 2016, using the annual actuarial valuation as of June 30, 2015 rolled forward to June 30, 2016 using standard update procedures. The changes in the County's net pension liability for the Plans between June 30, 2015 and 2016 was as follows:

TABLE NO. 25
NET PENSION LIABILITY BY PLAN

	Miscellaneous Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	\$ 987,185,841	\$750,583,900	\$236,601,941
Changes in the Year:			
Service Cost	20,403,352	-	20,403,352
Interest on the Total Pension Liability	78,852,555	-	78,852,555
Differences Between Actual and Expected Experience	3,966,020	-	3,966,020
Plan to Plan Resource Movement	-	2,727	(2,727)
Contribution - Employer	-	24,836,370	(24,836,370)
Contribution - Employee	-	9,898,794	(9,898,794)
Net Investment Income	-	4,227,340	(4,227,340)
Benefit Payments, Including Refunds of Employee Contributions	(50,461,359)	(50,461,359)	-
Administrative Expenses	-	(482,672)	482,672
Net Changes	<u>52,760,568</u>	<u>(11,978,800)</u>	<u>64,739,368</u>
Balance at June 30, 2016	<u>\$1,039,946,409</u>	<u>\$738,605,100</u>	<u>\$301,341,309</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability			71.02%
Covered-Employee Payroll			\$142,900,632
Net Pension Liability as a Percentage of Covered Employee Payroll			210.87%

(Continued on following page)

	Safety Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	\$159,899,517	\$119,644,326	\$40,255,191
Changes in the Year:			
Service Cost	3,699,113	–	3,699,113
Interest on the Total Pension Liability	12,245,682	–	12,245,682
Differences Between Actual and Expected Experience	(115,359)	–	(115,359)
Plan to Plan Resource Movement	–	(106,353)	106,353
Contribution – Employer	–	3,731,613	(3,731,613)
Contribution – Employee	–	1,613,925	(1,613,925)
Net Investment Income	–	588,970	(588,970)
Benefit Payments, Including Refunds of Employee Contributions	(7,830,764)	(7,830,764)	–
Administrative Expenses	–	(75,328)	75,328
Net Changes	<u>7,998,672</u>	<u>7,998,672</u>	<u>10,076,609</u>
Balance at June 30, 2016	<u>\$167,898,189</u>	<u>\$117,566,389</u>	<u>\$50,331,800</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability			70.02%
Covered-Employee Payroll			\$16,451,469
Net Pension Liability as a Percentage of Covered Employee Payroll			305.94%

(Continued on following page)

	Safety Sheriff Plan		
	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2015	\$137,100,812	\$92,143,512	\$44,957,300
Changes in the Year:			
Service Cost	3,942,199	-	3,942,199
Interest on the Total Pension Liability	11,528,363	-	11,528,363
Differences Between Actual and Expected Experience	531,702	-	531,702
Plan to Plan Resource Movement	-	(3,877)	3,877
Contribution - Employer	-	5,279,477	(5,279,477)
Contribution - Employee	-	1,383,847	(1,383,847)
Net Investment Income	-	509,520	(509,520)
Benefit Payments, Including Refunds of Employee Contributions	(5,816,534)	(5,816,534)	-
Administrative Expenses	-	(60,831)	60,831
Net Changes	<u>10,185,730</u>	<u>1,291,602</u>	<u>8,894,128</u>
Balance at June 30, 2016	<u>\$147,286,542</u>	<u>\$93,435,114</u>	<u>\$53,851,428</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability

63.44%

Covered-Employee Payroll

\$14,432,887

Net Pension Liability as a Percentage of Covered Employee Payroll

373.12%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents what the County's net pension liability would be if it were calculated using a 6% discount rate, a 7% discount rate and an 8% discount rate.

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Safety Sheriff</u>
6% Discount Rate Net Pension Liability	\$576,782,716	\$92,418,821	\$105,264,285
7% Discount Rate Net Pension Liability	\$418,203,939	\$65,190,184	\$78,020,248
8% Discount Rate Net Pension Liability	\$286,239,669	\$42,911,944	\$55,900,225

See Note 14 of the County's Comprehensive Annual Financial Report included in "APPENDIX A" for further information about the Plan.

Deferred Compensation Plan

The County offers all of its employees a deferred compensation plan (the Deferred Compensation Plan) created in accordance with Section 457 of the Internal Revenue Code. The Deferred Compensation Plan permits employees to defer a portion of their salary until future years. The deferred compensation is not

available to employees until termination, retirement, death, or emergency. Employees direct the investment of plan assets into certificates of deposits and various mutual funds. The County has insignificant administrative duties.

As of June 30, 2017, the Deferred Compensation Plan's assets of \$166,661,913 were on deposit with a third-party administrator independent of the County.

Other Post-Employment Benefits

Plan Description. Employees of the County who retire through CalPERS, their spouse, and eligible dependents may receive health plan coverage through the Public Employees' Medical & Hospital Care Program Plan ("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 County for each bargaining group will be determined through CalPERS' regulations and requirements. For all bargaining units, the County contributions are based on longevity schedules with fixed dollar scaling that varies by bargaining unit. The Plan does not issue a financial report.

Funding Policy. The contribution requirements for the County are established by a Memorandum of Understanding as negotiated by each group or bargaining unit. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016-17, the County contributed \$5,811,000 to the Plan. The County's estimated contribution is \$5,777,200 for Fiscal Year 2017-18 and \$5,813,600 for Fiscal Year 2018-19.

Annual Other Post-Employment Benefits (OPEB) Cost and Net OPEB Obligation. The County's annual Other Post-Employment Benefits ("OPEB") cost (expense) is calculated based on the annual required contribution ("ARC") of the employer, 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 the normal annual cost. Any unfunded actuarial liability (or funding excess) is amortized over a period not to exceed thirty years. The current ARC rate of annual covered payroll is 10.2%.

The following table shows the components of the County's annual OPEB cost for the fiscal years 2014-15, 2015-16 and 2016-17, the amount actually contributed to the plan, and changes in the County's net OPEB obligation:

TABLE NO. 26
NET OPEB OBLIGATION

	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Annual required contribution	\$ 13,897,000	\$ 16,323,000	\$ 17,570,000
Interest on net OPEB obligation	4,011,392	4,286,079	4,598,402
Amortization of Net OPEB obligation	<u>(5,344,000)</u>	<u>(6,174,000)</u>	<u>(7,091,000)</u>
Annual OPEB cost (expense)	12,564,392	14,435,079	15,077,402
Contributions made	<u>(4,917,343)</u>	<u>(6,477,103)</u>	<u>(6,776,963)</u>
Increase in net OPEB obligation	7,647,049	7,957,976	8,300,439
Net OPEB obligation –beginning of year	<u>102,743,480</u>	<u>110,390,529</u>	<u>118,348,505</u>
Net OPEB obligation –end of year	\$110,390,529	\$118,348,505	\$126,648,944

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation/asset for the fiscal years 2014-15, 2015-16 and 2016-17 were as follows:

TABLE NO. 27
ANNUAL OPEB COST

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Annual Contribution</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014-15	\$12,564,392	\$4,917,343	39.1%	\$110,390,529
2015-16	14,435,079	6,477,103	44.9	118,348,505
2016-17	15,077,402	6,776,963	44.9	126,648,944

Funded Status and Funding Progress. 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 presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for the benefits.

TABLE NO. 28
OPEB FUNDING PROGRESS

<u>Valuation Date</u>	<u>Entry Age Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
1/1/2009	\$181,575,000	\$ -	\$181,575,000	0.0%	\$161,577,000	112.4%
1/1/2012	127,836,000	-	127,836,000	0.0	154,788,000	82.6
1/1/2014	145,013,000	-	145,013,000	0.0	153,879,000	94.2
1/1/2016	167,095,000	-	167,095,000	0.0	167,418,000	99.8

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.

The actuarial assumptions include a 4.0% investment rate of return which is based on the expected return on funds invested in County investments, and an annual healthcare cost trend of actual premiums initially and reduced to an ultimate rate of 5% thereafter. The actuarial assumption for inflation was 3%, and the aggregate payroll increases were 3.25%. The Unfunded Actuarial Accrued Liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization as of June 30, 2017 was 23 years.

See Note 15 in the County's Comprehensive Annual Financial Report included in "APPENDIX A" for further information about the Plan.

Employee Relations and Collective Bargaining

County employees are represented by ten bargaining units. The largest unit is the Service Employees International Union (Local 521), which represents approximately 70% of all County employees. Most County employees are covered by negotiated agreements.

<u>Bargaining Unit</u>	<u>Expiration Date</u>
Middle Management	September 16, 2021
District Attorney Association	June 30, 2021
Sheriff's Correctional Officers	November 30, 2018
Law Enforcement Middle Management	June 30, 2020
Law Enforcement	June 30, 2020
Sheriff Supervisory	June 30, 2020
General Representation Unit (SEIU)	September 18, 2020
District Attorney Inspectors	June 30, 2021
Physicians' Representation Unit	November 11, 2020
Probation Association	December 31, 2020

Self-Insurance Program

The County is self-insured for its general and auto liability, workers' compensation, medical malpractice and employees' dental coverage. Excess coverage is purchased through the California State Association of Counties Excess Insurance Authority ("CSAC-EIA"). Each self-insurance program is described below.

Workers' Compensation. Under the Workers' Compensation Self-Insurance Program the County is liable for the first \$500,000 and carries catastrophic insurance coverage for any amount required by statute. At June 30, 2017, this program had estimated future liabilities of \$29.8 million.

Dental. The County's self-insurance dental program had estimated future liability for dental benefits of \$406,120 as of June 30, 2017.

Liability and Property. The County has a \$1,000,000 self-insured retention with excess insurance for the general liability program. The County purchases commercial property insurance through CSAC-EIA. At June 30, 2017, the County had estimated future liabilities totaling \$6.5 million which included estimates for known claims and losses incurred but not reported.

Unemployment Insurance. The estimated future liabilities at June 30, 2017 were \$62,008.

Claims Liabilities. The change in the balance of claims liabilities during the fiscal years ended June 30, 2017, and two prior years for all Self-Insurance Internal Service Funds combined is as follows:

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Unpaid claims and claim adjustment expenses, beginning of the fiscal year	\$46,984,023	\$38,986,910	\$39,004,128
Incurred claims and claim adjustment expenses	10,618,009	12,049,811	15,815,693
Decrease in provision of insured events for prior years	(8,028,909)	-	(2,247,000)
Claim payments	<u>(10,586,213)</u>	<u>(12,032,553)</u>	<u>(15,815,693)</u>
Unpaid claims and claim adjustment expenses, end of the fiscal year	<u>\$38,986,910</u>	<u>\$39,004,128</u>	<u>\$36,757,128</u>

Source: County of Santa Cruz Comprehensive Annual Financial Reports.

Self-Insurance Funds. The County has established separate self-insurance funds. Summary financial information for the self-insurance funds is shown in Table No. 29. The County's Worker's Compensation Self-Insurance Fund accounts for the negative fund balance shown in Table No. 29. However, of the \$29.8 million of estimated future liabilities in the Worker's Compensation Self-Insurance Fund, the County expects that almost half of such claims, if required to be paid, will be charged to the applicable State or federal government program, because the claims relate to employees whose programs are funded by the State or federal government. As of June 30, 2017, the Self-Insurance funds held a total of \$30 million in cash.

TABLE NO. 29
COUNTY OF SANTA CRUZ
SELF-INSURANCE FUNDS

	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>
Operating Revenues:				
Charges for Services	\$ 16,067,879	\$ 15,592,846	\$ 17,497,653	\$ 18,290,132
Other Revenues	<u>593</u>	<u>1,606</u>	<u>30,600</u>	<u>5,107,129</u>
Total Operating Revenues	16,068,472	15,594,452	17,528,253	23,397,261
Operating Expenses:				
Salaries and Employee Benefits	1,074,992	1,209,413	1,203,584	1,312,616
Services and Supplies	3,261,835	3,643,500	4,219,196	4,295,678
Insurance and Compensation Claims	10,380,014	10,586,213	9,729,599	15,815,693
Provision for Prior Year Insured Event	<u>-</u>	<u>(8,028,909)</u>	<u>-</u>	<u>(2,247,000)</u>
Total Operating Expenses	14,716,841	7,410,217	15,152,379	19,176,987
Operating Income (Loss)	1,351,631	8,184,235	2,373,874	4,220,274
Non-Operating Revenues:				
Interest and Investment Income	173,484	117,716	161,348	244,732
Net Income	1,525,115	8,301,951	2,535,222	4,465,006
Net Assets - Beginning	(24,072,988)	(22,547,873)	(15,724,340)	(13,189,118)
Prior Period Adjustment	<u>-</u>	<u>(1,478,418)</u>	<u>-</u>	<u>-</u>
Net Assets - Ending	\$ (22,547,873)	\$ (15,724,340)	\$ (13,189,118)	\$ (8,724,112)

Source: County of Santa Cruz Comprehensive Annual Financial Reports.

County Treasurer's Investment Pool

As of March 31, 2018, the market value of the County Treasurer's investment pool was \$912.4 million. The diversification of the County Treasurer's investment pool's assets as of such date is shown in the following table.

TABLE NO. 30
COUNTY OF SANTA CRUZ
TREASURER'S PORTFOLIO

<u>Type of Investment</u>	<u>% of Combined Pool</u>
U.S. Government Agencies	25.1%
U.S. Treasuries	32.9
Supranationals	4.4
Medium-Term Notes	7.2
Negotiable CDs	20.7
Local Agency Investment Fund	5.7
Municipal Bonds	1.4
Money Market Mutual Funds	1.4
Checking	<u>1.2</u>
	100.0%

The weighted average maturity of all County Treasurer's investment pool moneys was 219 days. The current yield of the County Treasurer's investment pool at March 31, 2018 was 1.45% and the apportionment rate was 1.32%.

In general, all depositors in the County Treasurer's investment pool are required by law to deposit their funds in the County Treasurer's investment pool. This includes the County, school districts and other special districts in the County.

Financial Statements

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

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

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

The County retained the firm of Brown Armstrong Certified Public Accountants, Bakersfield, California, to examine the general purpose financial statements of the County as of and for the year ended June 30,

2017. The following tables summarize the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance of the County's General Fund for the last four fiscal years. The County received a Certificate of Achievement for Excellence in Financial Reporting for the Fiscal Year ended June 30, 2017.

GASB Statement No. 54. GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definition, establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, which are amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact. GASB Statement No. 54 also provides for additional classification as "restricted," "committed," "assigned," and "unassigned" based on the relative strength of the constraints that control how specific amounts can be spent.

Restricted – Restricted fund balance includes amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. The County currently has only a minor amount of "Restricted" fund balance.

Committed – Committed fund balance includes amounts that can only be used for a specific purpose determined by formal action of the Board of Supervisors and that remain binding unless removed in the same manner. The establishment of a "committed" fund balance requires (in accordance with the County's Fund Balance Policy) the passage of a resolution by a simple majority vote before June 30 of the applicable fiscal year.

The Board of Supervisors established a separate committed fund balance account known as the Reserve for Working Capital. Funding of the Reserve for Working Capital is established by resolution during the annual budget process. The purpose of the reserve is to assist the County in maintaining a minimal fund balance. In accordance with the County's Fund Balance Policy, any use of funds requires a four-fifths vote of the Board of Supervisors appropriating the funds and a resolution of the Board of Supervisors declaring a Fiscal Emergency.

The Board of Supervisors has also established a separate Committed fund balance account known as the Reserve for Economic Uncertainty. Funding of the Reserve for Economic Uncertainty is established by resolution during the annual budget process. The reserve is to be used only during recessions or periods of economic distress as measured by periods of time when the local unemployment rate exceeds 8% and/or the rate of inflation exceeds the growth in property taxes. In accordance with the County's Fund Balance Policy, any use of funds requires a four-fifths vote of the Board of Supervisors appropriating the funds.

The Board of Supervisors has also established a separate Committed fund balance account known as the Reserve for Natural Disasters. Funding of the Reserve for Natural Disasters is established by resolution during the annual budget process. The purpose of the reserve is to fund extraordinary operating costs, legal costs and cashflow associated with delays in State and federal reimbursements for any natural disaster. In accordance with the County's Fund Balance Policy, any use of funds requires a four-fifths vote of the Board of Supervisors appropriating the funds.

As of June 30, 2017, the County has Committed fund balances as follows:

<u>Committed to:</u>	
Natural Disasters	\$ 2,000,000
Working Capital	6,000,000
Economic Uncertainty	<u>10,000,000</u>
Total Committed fund balance	\$18,000,000

The County has budgeted an additional Committed reserve in the amount of \$3,557,098 to be funded in 2018-19 as a prudent reserve for mental health expenditures.

Assigned –Assigned fund balance includes amounts that are constrained by the County’s intent to be used for specific purposes. In accordance with the County’s Fund Balance Policy, the Board of Supervisors has the authority to assign funds for a specific purpose, or change or remove an assignment, with a simple majority vote.

The County Administrative Officer also has the authority to assign funds for specific purposes, and to change or remove the assignment, which action is to be reported to the Board of Supervisors at their next meeting. An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year’s budget may be classified as Assigned fund balance.

The County Administrative Officer has established and the Board of Supervisors has approved establishment of Assigned fund balance for federally qualified health program. The amount assigned is for revenue already recognized in the General Fund but assigned to (1) provide a cushion to mitigate risk associated with mental health managed care programs, (2) provide an audit reserve for disallowed mental health costs under State or federal programs, and (3) hold for possible future repayment of grant funds.

As of June 30, 2017, the County has “assigned” fund balances as follows:

<u>Assigned to:</u>	
MBCP Credit Guaranty	\$ 272,727
Federally qualified health program	14,229,750
Structural deficit	6,310,843
Eliminate projected budgetary deficit in subsequent year’s budget	6,310,843
Unanticipated liabilities	2,000,000
Human services	1,969,278
Salary Savings	<u>6,065,597</u>
Total Assigned fund balance	\$37,159,038

The County has budgeted a \$1,460,949 reduction in the Assigned reserve for Federally qualified health programs

The estimated 2017-18 Committed and Assigned ending fund balance is \$56.75 million, or 11.4% of 2017-18 budgetary revenues.

The 2018-19 Budget anticipates a total Committed and Assigned fund balance of \$51.44 million or 10% of 2018-19 budgetary revenues.

GASB Statement No. 68. Reporting obligations under Governmental Accounting Standards Board Statement No. 68 –Accounting and Financial Reporting for Pensions –an amendment of GASB Statement No. 27 (“GASB No. 68”), and GASB Statement No. 71 – Pension Transitions for Contributions Made Subsequent to the Measurement Date—an amendment of GASB No. 68, commenced with financial statements for Fiscal Year 2014-15. Under GASB No. 68, an employer reports the net pension liability, pension expense and deferred outflows/deferred inflows of related to pensions in its financial statements as part of its financial position. The result of the implementation of these standards was to decrease the net position at July 1, 2014 shown on the County’s Government-wide Financial Statements by \$339 million, which consists of net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. The audited financial statements of the County for the Fiscal Year ended June 30, 2017 included in “APPENDIX A” contain additional information about the retirement liability and the application of GASB No. 68.

TABLE NO. 31
COUNTY OF SANTA CRUZ
GENERAL FUND
BALANCE SHEET
As of June 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Assets				
Cash and Investments	\$113,643,756	\$128,374,124	\$113,047,344	\$134,211,921
Receivables, Net	31,336,409	25,033,754	32,290,501	26,031,182
Due from Other Funds	398,728	1,825,695	1,415,354	58,964
Due from Other Governments	-	-	38,250	-
Loans Receivable	-	128,000	128,000	100,113
Deposits with Others	90,000	90,000	90,000	90,000
Inventory	27,616	16,531	-	-
Prepays	<u>428,354</u>	<u>747,540</u>	<u>443,863</u>	<u>1,589,346</u>
Total Assets	<u>\$145,924,863</u>	<u>\$156,215,644</u>	<u>\$147,453,312</u>	<u>\$162,081,526</u>
Liabilities				
Payables	\$ 15,798,811	\$ 16,647,807	\$ 20,095,627	\$ 21,472,502
Tax and Revenue Anticipation Notes Payable	50,997,222	50,498,611	41,500,000	47,977,600
Advances from Grantors and Third Parties	<u>38,413,948</u>	<u>38,864,345</u>	<u>34,121,666</u>	<u>36,840,539</u>
Total Liabilities	<u>\$105,209,981</u>	<u>\$106,010,763</u>	<u>\$ 95,717,293</u>	<u>\$106,290,641</u>
Fund Balances ⁽¹⁾				
Nonspendable	\$ 872,268	\$ 1,135,435	\$ 751,039	\$ 703,306
Restricted	2,000	-	-	-
Committed	21,627,133	15,541,090	17,251,089	18,000,000
Assigned	18,213,481	33,599,812	33,767,098	37,159,038
Unassigned	<u>-</u>	<u>(71,456)</u>	<u>(33,207)</u>	<u>(71,459)</u>
Total Fund Balance	<u>\$ 40,714,882</u>	<u>\$ 50,204,881</u>	<u>\$ 51,736,019</u>	<u>\$ 55,790,885</u>
Total Liabilities and Fund Balances	<u>\$145,924,863</u>	<u>\$156,215,644</u>	<u>\$147,453,312</u>	<u>\$162,081,526</u>

(1) See "GASB Statement No. 54" above.

Source: County of Santa Cruz Comprehensive Annual Financial Reports.

TABLE NO. 32
COUNTY OF SANTA CRUZ
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the year ended June 30

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:				
Taxes	\$ 92,958,333	\$ 99,687,028	\$ 107,566,543	\$ 116,873,004
Licenses and Permits	9,848,179	11,050,811	11,875,855	13,258,981
Fines, Forfeits and Penalties	4,751,384	4,713,148	3,617,246	4,069,869
Use of Money and Property	2,891,836	2,005,411	3,620,166	2,708,279
Aid from Other Governments	218,825,254	232,578,980	234,772,832	235,816,827
Charges for Services	46,183,054	50,326,472	57,591,811	63,205,072
Other	<u>3,358,987</u>	<u>3,962,344</u>	<u>3,001,431</u>	<u>6,674,383</u>
Total Revenues	<u>\$378,817,027</u>	<u>\$404,324,194</u>	<u>\$422,045,884</u>	<u>\$442,606,415</u>
Expenditures:				
Current:				
General Government	\$ 28,536,007	\$ 30,999,229	\$ 29,664,592	\$ 32,659,003
Public Protection	117,970,260	124,019,686	133,115,694	141,971,929
Public Ways and Facilities	217,613	193,935	239,884	254,318
Health and Sanitation	108,080,235	111,482,429	117,006,779	122,803,793
Public Assistance	109,586,455	117,130,460	124,984,705	125,553,217
Education	114,039	113,540	123,569	123,619
Recreation and Cultural Services	6,071,566	6,082,284	7,188,886	8,400,769
Interest and Fiscal Charges	<u>178,727</u>	<u>162,213</u>	<u>(17,225)</u>	<u>153,669</u>
Total Expenditures	<u>\$370,754,902</u>	<u>\$390,183,776</u>	<u>\$412,306,884</u>	<u>\$431,920,317</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 8,062,125</u>	<u>\$ 14,140,418</u>	<u>\$ 9,739,000</u>	<u>\$ 10,686,098</u>
Other Financing Sources (Uses):				
Inception of Capital Lease	\$ 424,824	\$ 92,808	\$ 69,685	\$ 129,212
Operating Transfers In	2,423,227	3,987,479	4,025,238	3,595,209
Operating Transfers Out	<u>(10,764,216)</u>	<u>(8,730,706)</u>	<u>(12,302,785)</u>	<u>(10,355,653)</u>
Total Other Financing Sources (Uses)	<u>\$ (7,916,165)</u>	<u>\$ (4,650,419)</u>	<u>\$ (8,207,862)</u>	<u>\$ (6,631,232)</u>
Net Change in Fund Balances	<u>\$ 145,960</u>	<u>\$ 9,489,999</u>	<u>\$ 1,531,138</u>	<u>\$ 4,054,866</u>
Fund Balance – Beginning	<u>\$ 40,568,922</u>	<u>\$ 40,714,882</u>	<u>\$ 50,204,881</u>	<u>\$ 51,736,019</u>
Fund Balance – Ending	<u>\$ 40,714,882</u>	<u>\$ 50,204,881</u>	<u>\$ 51,736,019</u>	<u>\$ 55,790,885</u>

Source: County of Santa Cruz Comprehensive Annual Financial Reports.

RISK FACTORS

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

County's Note Payments and Other Payments

The Notes, in accordance with the Act, are general obligations of the County payable from the taxes, income, revenue, cash receipts and other moneys of the County attributable to Fiscal Year 2018-19 and legally available for payment thereof. Pursuant to the Act, the principal of and interest on the Notes may not exceed 85 percent of the estimated amount of the then uncollected taxes, income, revenue, cash receipts and other moneys which will be available for the payment of such principal and interest.

Constitutional Limitations on Taxes and Appropriations

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

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

Article XIII A. Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed 1% of the "full cash value" of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. "Full cash value" is defined as "the County assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." The "full cash value" is subject to annual adjustment to reflect inflation at a rate not to exceed 2% or a reduction in the consumer price index or comparable local data. Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by substantial damage, destruction or other factors, and to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other special circumstances. There may also be declines in valuations if the California Consumer Price Index is negative.

The foregoing limitation does not apply to ad valorem taxes or special assessments to pay the interest and prepayment charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of votes cast by the voters voting on the proposition.

In the general election held November 4, 1986, voters of the State of California approved two measures, Propositions 58 and 60, which further amend the terms "purchase" and "change of ownership," for purposes of determining full cash value of property under Article XIII A, to not include the purchase or transfer of (1) real property between spouses, and (2) the principal residence and the first \$1,000,000 of other property between parents and children. Proposition 60 amends Article XIII A to permit the Legislature to allow persons over age 55 who sell their residence and buy or build another of equal or lesser value within two years in the same city, to transfer the old residence's assessed value to the new residence. In the March 26, 1996 general election, voters approved Proposition 193, which extends the parents-children exception to

the reappraisal of assessed value. Proposition 193 amended Article XIII A so that grandparents may transfer to their grandchildren whose parents are deceased, their principal residences, and the first \$1,000,000 of other property without a reappraisal of assessed value.

Because the Revenue and Taxation Code does not distinguish between positive and negative changes in the California Consumer Price Index used for purposes of the inflation factor, there was a decrease of 0.237% in 2009-10 - applied to the 2010-11 tax roll - reflecting the actual change in the California Consumer Price Index, as reported by the State Department of Finance. For each fiscal year since Article XIII A has become effective (the 1978-79 Fiscal Year), the annual increase for inflation has been at least 2% except in 10 fiscal years (including for the future Fiscal Year 2016-17) as shown below:

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

Proposition 8 Adjustments. Proposition 8, approved in 1978, provides for the assessment of real property at the lesser of its originally determined (base year) full cash value compounded annually by the inflation factor, or its full cash value as of the lien date, taking into account reductions in value due to damage, destruction, obsolescence or other factors causing a decline in market value. Reductions based on Proposition 8 do not establish new base year values, and the property may be reassessed as of the following lien date up to the lower of the then-current fair market value or the factored base year value. The State Board of Equalization has approved this reassessment formula and such formula has been used by county assessors statewide. The County has seen Proposition 8 reductions from the maximum amount that could be assessed on property since 2009. See "FINANCIAL INFORMATION – Taxable Property and Assessed Valuation" herein.

Article XIII B. On November 6, 1979, California voters approved Proposition 4, or the Gann Initiative, which added Article XIII B to the California Constitution. Article XIII B limits the annual appropriations of the State and any city, county, city and county, school district, authority or other political subdivision of the State. The "base year" for establishing such appropriations limit is the 1978-79 Fiscal Year, and the limit is to be adjusted annually to reflect changes in population, consumer prices and certain increases in the cost of services provided by public agencies.

Appropriations subject to Article XIII B include generally the proceeds of taxes levied by or for the entity and the proceeds of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues, certain State subventions, and the proceeds to an entity of government, from (1) regulatory licenses, user charges and user fees, to the extent that such charges and fees exceed the costs reasonably borne in providing the regulation, product or service, and (2) the investment of tax revenues. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules within the next two subsequent fiscal years.

In the June 1990 election, the voters approved Proposition 111 amending the method of calculation of State and local appropriations limits. Proposition 111 made several changes to Article XIII B. First, the term "change in the cost of living" was redefined as the change in the California per capita personal income ("CPCPI") for the preceding year. Previously, the lower of the CPCPI or the United States Consumer Price Index was used. Second, the appropriations limit for the fiscal year was recomputed by adjusting the 1986-87 limit by the CPCPI for the three subsequent years. Third and lastly, Proposition 111 excluded

appropriations for “qualified capital outlay for fiscal 1990-91 as defined by the legislature” from proceeds of taxes.

Section 7910 of the Government Code requires the County to adopt a formal appropriations limit for each fiscal year. The County’s appropriations limit for 2017-18 is \$499,759,513. The County’s appropriations subject to the limit for 2017-18 are \$150,909,452.

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 XIIC and XIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIII A of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIII A the California Constitution, and (iii) assessments, fees, and charges for property related services as provided in Article XIID. 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.”

In November 2012, voters in the County approved an increase in the transient occupancy tax rate from 9.5% to 11%.

In June 2014, voters in the County approved Measure F, a parcel tax of \$8.50 on all improved parcels within the unincorporated area of the County outside of recreation and park districts.

In November 2014, voters in the County approved Measure K, the imposition of a tax on the gross sales of medical marijuana businesses in the unincorporated County of up to 10%, with 7% being levied in the initial year. In November 2016, voters in the County approved Measure E, expanding the tax to apply to all cannabis-related businesses. The Board reduced the rate applicable to manufacturers and cultivators from 7% to 5% for periods beginning January 1, 2018, with future incremental increases to achieve 7% by January 1, 2022.

In November 2016, voters in the County approved Measure D, the imposition of a sales and use tax of one-half cent, for a period of 30 years for transportation related expenditures. Local jurisdictions, such as the County, will share in 30% of the sales tax for local transportation purposes, with the remainder allocated for regional transportation projects.

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

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 10-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, 8% of the County's property tax revenues were diverted to the State as a result of a Proposition 1A suspension. The County participated in a Proposition 1A Securitization Program (the "Program") sponsored by the California Statewide Communities Development Authority. The Program allowed the County to exchange its anticipated State property tax receivable for cash.

Proposition 1A also provides that if the State reduces the vehicle license fee rate below 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State to suspend State mandates affecting cities, counties and special districts, excepting mandates relating to employee rights, schools or community colleges, in any year that the State does not fully reimburse local governments for their costs to comply with such mandates.

Proposition 22. On November 2, 2010, voters in the State approved Proposition 22. Proposition 22, known as the "Local Taxpayer, Public Safety, and Transportation Protection Act of 2010," eliminates or reduces the State's authority to (i) temporarily shift property taxes from cities, counties and special districts to schools, (ii) use vehicle license fee revenues to reimburse local governments for State-mandated costs (the State will have to use other revenues to reimburse local governments), (iii) redirect property tax increment

from redevelopment agencies to any other local government, (iv) use State fuel tax revenues to pay debt service on State transportation bonds, or (v) borrow or change the distribution of State fuel tax revenues.

Proposition 26. On November 2, 2010, voters in the State also approved Proposition 26. Proposition 26 amends Article XIII C 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 XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity. The County does not expect the provisions of Proposition 26 to materially impede its ability to pay the Notes when due.

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

Enforceability of Remedies

In addition to the limitations on remedies contained in the Resolution, the rights of the owners of the Notes are subject to the limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Notes, and the obligations incurred by the County, may become subject to bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect; equitable principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose; and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Notes to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

The Note proceeds and the amounts to be set aside in the Repayment Account are expected to be invested in the County Treasurer’s investment pool. Should the County file for Chapter 9 bankruptcy, a court might hold that the Owners do not have a valid and prior lien on the Unrestricted Revenues or on amounts set aside in the Repayment Account held in the County Treasurer’s investment pool. While the County Treasurer’s practice is to maintain separate records for Unrestricted Revenues and amounts set aside in the Repayment Account held in the investment pool, if the Owners cannot “trace” such funds, they may not be available in a bankruptcy for payment of principal and interest on the Notes. There can be no assurance that the Owners will be able to successfully “trace” such funds in the County Treasurer’s investment pool in the future.

State Budget

Information regarding the State Budget is regularly available at various State-maintained websites. The Proposed Fiscal Year 2017-18 State Budget further described below may be found at the website of the Department of Finance, www.dof.ca.gov, under the heading “California Budget.” Additionally, an analysis of the State’s Budgets is posted by the Office of the Legislative Analyst (the “LAO”) at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the County, and the County takes 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.

State Budget. Information about the State budget and State spending is available at various State-maintained websites. Text of proposed and adopted budgets may be found at the website of the State Department of Finance, www.dof.ca.gov, under the heading “California Budget.” An impartial analysis of the budget is posted by the Office of the Legislative Analyst (“LAO”) at www.lao.ca.gov. In addition, various State official statements, many of which contain a summary of the current and past State budgets may be found at the website of the State Treasurer, www.treasurer.ca.gov. None of the websites or webpages referenced above is in any way incorporated into this Official Statement. They are cited for informational purposes only. The County makes no representation whatsoever as to the accuracy or completeness of any of the information on such websites.

According to the State Constitution, the Governor of the State (the “Governor”) is required to propose a budget to the State Legislature (the “Legislature”) by no later than January 10 of each year, and a final budget must be adopted by the vote of each house of the Legislature no later than June 15, although this deadline has been routinely breached in the past. The State budget becomes law upon the signature of the Governor, who may veto specific items of expenditure.

The State budget must be adopted by a majority vote of each house of the Legislature. Voters of the State passed Proposition 25 in November 2010, which provides that there will be no appropriation from the current budget or future budget to pay any salary or reimbursement for travel or living expenses for members of the Legislature for the period during which the budget was presented late to the Governor.

Proposed 2018-19 State Budget. The Governor approved the Proposed Fiscal Year 2018-19 State Budget (the “Proposed 2018-19 Budget”) on January 10, 2018, including a plan to fully fund California’s “rainy-day” cash reserve fund to \$13.5 billion and an increase in K-12 education funding to a total \$78.3 billion, mostly from earmarked funding from annual tax revenues. Significant features of the Proposed 2018-19 Budget affecting cities, counties and other local agencies include:

- Transportation Agency Funding – The Proposed 2018-19 Budget includes total funding of \$18.7 billion for all programs administered within the Transportation Agency. In addition, the shared revenues budget in the General Government area allocates over \$2.7 billion in fuel excise tax to cities and counties for local streets and roads, including \$1.2 billion from SB 1, the Road Repair and Accountability Act of 2017 which provides long-term funding for both state and local transportation infrastructure priorities investing more than \$5 billion per year in highway, bridge, road, and transit improvements. Over the next decade, the \$55 billion transportation package will provide \$15 billion for state highway repairs and maintenance, \$4 billion in state bridge repairs, \$3.3 billion for state trade corridors, and \$2.5 billion for the state’s most congested commute corridors. Local roads will receive more than \$15 billion in new funding for maintenance and repairs and \$2 billion in matching funds for local partnership projects. Transit and intercity rail will receive \$7.6 billion in additional funding, and local governments will have access to \$1 billion for active transportation projects. Over the next 5 years, SB 1 will increase the resources available for new state highway repair projects from \$9 billion to \$17 billion.

- Local Streets and Roads –The State’s final 2017–18 Budget provided \$451 million to cities and counties for projects that begin addressing their highest repair needs on local streets and roads. The Proposed 2018–19 Budget provides \$1.2 billion in new revenues to cities and counties to continue addressing the backlog of local road repairs.
- Transit and Intercity Rail Capital Program – The upcoming five-year program from new SB 1 revenues and existing Cap and Trade auction proceeds will provide \$2.4 billion in new transit project funding. The program was created to fund transformative projects such as the BART Silicon Valley extension and expanded Los Angeles Union Station capacity, growing ridership and to reduce greenhouse gas emissions. The Proposed 2018–19 Budget provides \$330 million in SB 1 funds for these and other transportation projects as well as \$36 million from increased diesel sales tax revenues to be allocated by the Transportation Agency for operations and capital improvements of intercity and commuter rail services.
- Property Tax Backfill –The Proposed 2018–19 Budget includes \$23.7 million General Fund moneys to backfill the property tax revenue losses that cities, counties, and special districts incurred or will incur in 2017–18 and 2018–19 due to the October 2017 wildfires in Northern California. This funding estimate will be adjusted as part of the 2018–19 May Revision as more information becomes available from county assessors and will also include backfills for the property tax revenue losses incurred by cities, counties, and special districts in 2017–18 and 2018–19 due to the Southern California wildfires that started in December 2017.
- Redevelopment Agency Dissolutions –The Proposed 2018–19 Budget anticipates that from the dissolution of redevelopment agencies cities will receive an additional \$926 million in general purpose revenues in fiscal years 2017–18 and 2018–19 combined, with counties receiving \$990 million and special districts receiving \$282 million. The Proposed 2018–19 Budget anticipates that average annual property tax revenues of more than \$1.2 billion will be distributed to cities, counties, and special districts through 2021–22, a significant amount of unrestricted funding that can be used by local governments to fund police, fire, housing, and other public services.
- Temporary Assistance for Needy Families (“TANF”) –Total TANF expenditures are projected to be \$7.4 billion (State, Local, and Federal Funds) in fiscal year 2018–19 and the amount budgeted in the Proposed 2018–19 Budget includes \$5.1 billion for the CalWORKs program expenditures and \$2.3 billion in other programs, including expenditures for Cal Grants, Department of Education Child Care, Child Welfare Services, Foster Care, Department of Developmental Services programs, the Statewide Automated Welfare System, Work Incentive Nutritional Supplement, California Community Colleges Child Care and Education Services, and the Department of Child Support Services. The Proposed 2018–19 Budget includes \$26.7 million for a voluntary Home Visiting pilot program, which will continue through 2021 for young, first-time parents in the CalWORKs program. A total of \$158.5 million in one-time TANF funds is being reserved for the pilot’s total costs through calendar year 2021.
- Indigent Health –The Proposed 2018–19 Budget estimates county savings related to federal health care reform are estimated to be \$657.1 million in 2017–18 and \$530.5 million in 2018–19 and includes a one-time General Fund decrease of \$231.2 million in the CalWORKs program resulting from additional 2015–16 county savings. These additional county savings are redirected to the CalWORKs program to offset General Fund costs.
- Local Public Safety –The Community Corrections Performance Incentive Grant, Chapter 608, Statutes of 2009 (SB 678), was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. The Proposed 2018–19 Budget includes \$106.4 million to continue this program and also includes \$29 million General Fund moneys for county probation departments to supervise the temporary increase in the average daily population of offenders on Post-Release Community Supervision (as a result of the implementation of Proposition 57). The

Proposed 2018–19 Budget also includes \$47.8 million to be allocated to trial courts that are below 76.9 percent of their overall need according to what is known as the Workload-Based Allocation and Funding Methodology.

- Mental Health – The Proposed 2018–19 Budget includes \$20.1 million General Fund moneys to address mental health treatment bed capacity issues as well as resources needed to monitor health care data reporting and patient referrals and addresses mental health treatment bed capacity issues by adding capacity for females and leveraging and relocating existing male bed capacity to maximize flexibility. The Proposed 2018–19 Budget also dedicates \$3.1 billion in General Fund monies to inmate health care services programs, so that inmates have access to mental health, medical and dental care that is consistent with the standards and scope of services appropriate within a custodial environment.

2018–19 May Revision. The 2018–19 May Revision to the Proposed 2018–19 Budget (the “May Revision”) was announced on May 11, 2018 and reflects the estimated receipt of \$8 billion in higher revenues through Fiscal Year 2018–19 compared to the Proposed 2018–19 Budget. From this amount, the State must pay for substantially higher program costs and ongoing commitments it has made and expanded in recent years, such as Medi-Cal, Cal Grants, child care, In-Home Supportive Services and foster care reform. With the remaining funds, the May Revision proposes nearly \$4 billion in one-time General Fund spending, focused in three areas:

- Infrastructure (\$2 billion) – The state has massive liabilities from years of deferred maintenance. The proposal will target these funds to the universities, courts, state facilities and flood control. Investments are also proposed for high-priority capital expenditures.
- Homelessness (\$359 million) – In the coming year, new revenues dedicated to addressing the rising cost of housing will begin to flow (from a bond and a fee on real estate transactions). As a bridge to these funds, the May Revision includes a \$359 million package of funding to focus on the state’s most vulnerable populations and assist local governments in their immediate efforts to address homelessness, including \$50 million for individuals with mental illness.
- Mental Health (\$312 million) – The May Revision includes funding for enhanced early detection of mental health problems and the education of mental health professionals. The proposals include the repayment of \$254 million plus interest in mandate claims to give counties additional resources for youth with mental illness. The May Revision also proposes to place the \$2 billion ‘No Place Like Home’ bond on the November 2018 ballot to accelerate the delivery of housing projects to serve the mentally ill.

The May Revision also provides \$47.3 million in increased General Fund resources in Fiscal year 2018–19, increasing to \$63.7 million in Fiscal Year 2019–20, for the following county programs:

- CalWORKs Housing Support Program – An increase of \$24.2 million to help CalWORKs families secure permanent housing. With an additional augmentation in Fiscal Year 2019–20, the total program funding will increase from \$47 million to \$95 million annually. This program provides counties with flexibility to address the needs of each family, including move-in assistance, temporary rental subsidies, and intensive case management.
- CalWORKs Homeless Assistance Program – An increase in the daily payment rate for temporary assistance for families who are homeless or face imminent eviction. This program provides up to 16 days of temporary housing each year by issuing eligible families a voucher for either a temporary shelter or hotel/motel. For a family of four, the rate will increase from \$65 to \$85 beginning January 1, 2019. This daily rate was last increased more than ten years ago. The May Revision includes \$8.1 million in Fiscal Year 2018–19, increasing to \$15.3 million in Fiscal Year 2019–20.

- Home Safe Pilot Program – \$15 million, on a one-time basis, to fund a pilot program within Adult Protective Services. The pilot provides housing-related support to seniors experiencing homelessness or at risk of losing their homes by providing temporary rental or utility assistance, housing repairs, landlord mediation, and case management. The funding will be available to participating counties over a three-year period with a local match.

Other significant features of the May Revision affecting counties include:

- Flood Protection – An increase of \$100 million General Fund moneys on a one-time basis to address deferred maintenance projects on flood levees, prioritized to address identified critical and serious sites, including repair and rehabilitation of damaged levees and infrastructure as a result of the 2017 storms, and an increase of \$25 million General Fund moneys to support ongoing levee maintenance to provide incentives for cost-sharing with local maintaining agencies.
- CalWORKs – Expanding the existing \$47 million CalWORKs housing support program with an increase of \$24.2 million in Fiscal Year 2018–19, increasing funding for the CalWORKs Homelessness Assistance program by \$8.1 million in Fiscal Year 2018–19 and \$15.3 million ongoing to raise the payment from \$65 per day to \$85 per day to provide families with up to 16 days of temporary shelter.
- Emergency Aid – Create a one-time Homelessness Emergency Aid block grant of \$250 million administered through ‘Continuums of Care’ for cities, counties or joint powers authorities that declare a local shelter crisis and identify city-county coordination to be used for emergency housing vouchers, rapid rehousing, emergency shelter construction, and use of armories to provide temporary shelters, among other activities.
- Local Property Tax Backfill – \$32.8 million General Fund moneys to backfill the property tax revenue losses that cities, counties, and special districts incurred or will incur in Fiscal Years 2017–18 and 2018–19 due to the 2017 wildfires and resulting mudslides in Southern California. Of this amount, \$21.8 million is for Northern California jurisdictions and \$11 million is for Southern California jurisdictions.
- Agricultural Energy – An increase of \$30 million General Fund moneys on a one-time basis to the Air Resources Board to replace existing diesel agricultural vehicles and equipment with the cleanest available diesel or advanced technologies and an increase of \$30 million General Fund moneys on a one-time basis for the Energy Commission to fund innovative projects that reduce energy costs, increase efficiency, and reduce greenhouse gas emissions in the food processing sector.
- Payment of Expired and Repealed State Mandates – A one-time payment of \$282.2 million General Fund moneys plus interest to repay local agencies for costs incurred for 14 state mandates that have expired or been repealed. The majority of the repayment, \$253.9 million plus interest, is owed as a result of mandates associated with mental health services for severely emotionally disturbed children (AB 3632). Of this repayment amount, the County has been allocated \$3.6 million plus interest.

Ongoing State Budget Risks. State 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 the County.

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.

There can be no assurances that, as a result of the current or any future State financial stress, the State will not significantly reduce or delay revenues to local governments (including the County) or shift financial responsibility for programs to local governments as part of its efforts to address the State financial difficulties. For example, in Fiscal Years 2008-09 and 2009-10 the State either deferred payments or issued IOU's which could not immediately be cashed (see "RISK FACTORS –CONSTITUTIONAL LIMITATION ON TAXES AND APPROPRIATIONS –Proposition 1A" herein). No prediction can be made by the County as to what measures the State will adopt to respond to the current or potential future financial difficulties. The County cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on the County's 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 County has no control. There can be no assurances that State actions to respond to State financial difficulties will not adversely affect the financial condition of the County.

Natural Hazards

The County has adopted a Natural Hazards Mitigation Plan. This plan includes a hazard analysis for earthquake, flood, landslide and fire risk, and is required to comply with Federal Emergency Management Agency ("FEMA") requirements for disaster relief funding. If such events described below occurred during Fiscal Year 2018-19, the County's emergency response to such an event may add unanticipated expenditures to the General Fund budget in Fiscal Year 2018-19, some or all of which may not be reimbursed by federal or state disaster funding, and, if reimbursed, may not be received by the County in a timely manner. This could lead to reduced ability by the County to make payments on the Notes. For example, during winter 2017, the County experienced significant storm damage due to fallen trees and failed roads as a result of above-average, prolonged rainfall. The County declared an emergency on February 7, 2017 and is eligible for disaster relief funding from the State and FEMA. Repair cost of the damage is estimated to be in excess of \$100 million and the repair effort will be over a period of several years. The County expects its share of the damage repair cost will be funded by (1) \$1,000,000 from the General Fund (encumbered in Fiscal Year 2017-18) and (2) the increased State-wide gas tax. No impact on the Proposed Budget is anticipated at this time.

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

According to the Public Safety and Noise Element of the County's General Plan, the County is located in a seismically active region and could be impacted by a major earthquake originating from the numerous faults in the area. Surface rupture, ground shaking and liquefaction are the primary seismic risk to Santa Cruz County from a major earthquake along the San Andreas fault or within the Butano, Sargent, Zayante and Corralitos fault zones. Slope instability could result in landslides during ground shaking in some portions of the County. In particular, the epicenter of the 7.1 magnitude Loma Prieta earthquake, which struck in 1989, was located approximately 10 miles east-northeast of the City of Santa Cruz. In Santa Cruz County, 674 dwelling units, 32 mobile homes and 310 businesses were destroyed in the earthquake, with an estimate of \$274 million in damages. Repair of infrastructure was financed in part by a voter-approved one-half cent sales tax levied over six years.

Landslides. There are areas of the County that are mountainous and prone to localized landslides during periods of heavy or prolonged rain. Several such landslides occurred during winter 2017 as a result of above-average rainfall. For a time, these slides impacted travel on State Highways 9, 152, and 126 and

various local roads, but most notably impacted travel on State Highway 17, the primary transportation corridor between the County and the San Francisco Bay Area.

Wildfire Conditions. The County includes areas where there is high or extreme danger of wildfires during dry months and during periods of prolonged drought. During calendar years 2008 and 2009, there were 5 significant wildfires, resulting in a total 327 structures or mobile homes destroyed. In October 2017, 29 structures or mobile homes were destroyed and 391 acres burned in the Bear Fire.

Flooding and Tsunamis. Portions of the County are located in a 100-year flood plain. A flood occurred in 1995 when storm water breached the protective levees of the Pajaro River, and flooded approximately 3,280 acres adjacent to the river. Portions of the County are located along the Pacific Ocean. The County could be subject to impacts from tsunamis in the event of an earthquake occurring off-shore.

TAX MATTERS

Federal Tax Status. In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Notes 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, although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the County comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code") relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Notes. The County has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Notes.

Tax Treatment of Original Issue Discount and Premium. If the initial offering price to the public at which a Note 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 at which a Note 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 and original issue premium are disregarded.

Under the Tax Code, original issue discount is generally 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. However, in the case of short-term tax-exempt obligations (such as the Notes), Notice 94-84 issued by the Internal Revenue Service provides generally that, until the Service provides further guidance, taxpayers may treat stated interest on certain short-term obligations, such as the Notes, either as includible in stated redemption price at maturity or as not included in stated redemption price at maturity. A taxpayer, however, must treat stated interest payable at maturity on all short-term tax-exempt notes in a consistent manner. A short-term tax-exempt bond is defined as a tax-exempt bond with a term that is not more than one year from the date of issue. Owners of discount Notes, 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 Notes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Note (said term being the shorter of the Note'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 Note for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Note is amortized each year over the term to maturity of the Note on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Note premium is not deductible for federal income tax purposes. Owners of premium Notes, 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 Notes.

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

Other Tax Considerations. Current and future legislative proposals, if enacted into law, clarification of the Tax Code or court decisions may cause interest on the Notes to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals, clarification of the Tax Code or court decisions may also affect the market price for, or marketability of, the Notes. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, such legislation would apply to debt issued prior to enactment.

The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of such opinion, and Bond Counsel has expressed no opinion with respect to any proposed legislation or as to the tax treatment of interest on the Notes, or as to the consequences of owning or receiving interest on the Notes, as of any future date. Prospective purchasers of the Notes should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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

LEGAL MATTERS

Approval of Legal Proceedings

Jones Hall, A Professional Law Corporation, San Francisco, California, as Bond Counsel, will render an opinion which states that the Notes are valid and binding obligations of the County and are enforceable in accordance with their terms. The legal opinion of Bond Counsel will be subject to the effect of bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights and to the exercise of judicial discretion in accordance with general principles of equity.

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

Certain legal matters will be passed on for the County by County Counsel and by Norton Rose Fulbright US LLP, Los Angeles, California, as Disclosure Counsel. Fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Notes.

Absence of Litigation

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

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

CONCLUDING INFORMATION

Ratings

S&P Global Ratings and Moody's have assigned the rating of "SP-1+" and "MIG 1" respectively to the Notes. Such ratings reflect only the views of the rating agencies and any desired explanation of the significance of such ratings should be obtained from the respective rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Except as otherwise required in the Continuing Disclosure Certificate, the County undertakes no responsibility either to bring to the attention of the owners of the Notes any downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. There is no assurance such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Underwriting

The Notes were sold to Morgan Stanley & Co. LLC (the "Purchaser") at a purchase price of \$46,118,250 representing the aggregate principal amount of the Notes plus an original issue premium of \$1,127,700, less an underwriter's discount of \$9,450. The Notes may be offered and sold by the Purchaser to certain dealers and others at prices lower than such public offering prices and such public offering prices may be changed, from time to time, by the Purchaser.

Morgan Stanley & Co. LLC, an underwriter of the Bonds, has entered into a distribution agreement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

The Municipal Advisor

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

Continuing Disclosure

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

In the previous 5 years, the County believes it has complied in all material respects with any undertaking made pursuant to the Rule. However, with respect to one outstanding issue of certificates of participation issued in 1997, the notice of a bond insurer's rating downgrade on January 17, 2018 was not filed on the EMMA system until February 14, 2018, 28 days after the event.

References

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

Execution

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

COUNTY OF SANTA CRUZ

By: 
Auditor-Controller-Treasurer-Tax Collector

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APPENDIX A
COUNTY OF SANTA CRUZ
AUDITED FINANCIAL STATEMENTS

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THE COUNTY OF SANTA CRUZ
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2017

Prepared Under the Direction of Edith Driscoll
Auditor-Controller-Treasurer-Tax Collector

DAVENPORT

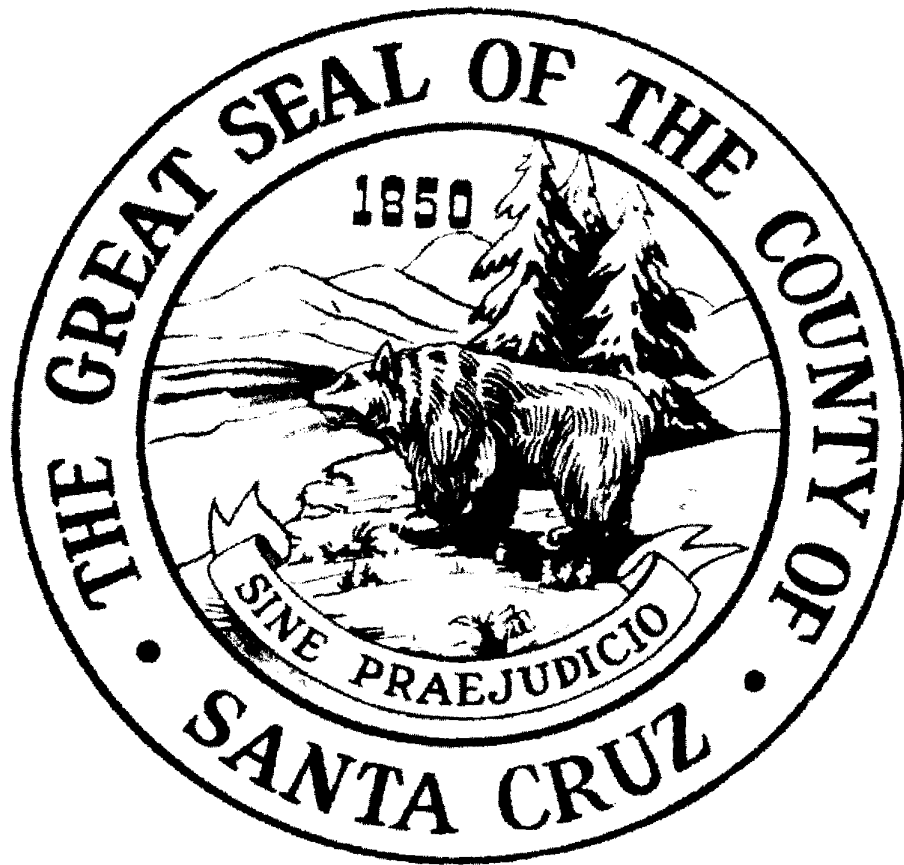
At Santa Cruz County's northernmost end lies the quaint town of Davenport, boasting long pale beaches, breathtaking open spaces, and a history that reflects the adaptability of the town and its residents. Davenport was built by the logging industry, which flourished in the late 19th century. Initially, lumberjacks constructed a 400 ft. wharf at the foot of the town, allowing huge redwood logs to be loaded on steam ships and transported up and down the coast. Eventually the area around the wharf filled with silt making the log transportation activities unworkable. Despite a slow downturn, the logging industry is still present in Davenport, with Big Creek Lumber's sawmill operations still churning out timber today. The 20th century brought the construction of a cement plant in Davenport which was owned and operated by a variety of companies over the years and produced concrete used in construction of such iconic structures as Pearl Harbor, the Golden Gate Bridge, and the Panama Canal. In 2010, the owner of the plant, Cemex, shuttered the doors of the cement plant permanently. But where industry has flagged, the natural beauty of the surrounding area has moved in, drawing tourists and nearby residents alike year round. Much of the area around Davenport has been converted to public protected land which will preserve the beauty of Santa Cruz County's northern reaches for generations to come.

Photo by Neil Simmons Photography

County of Santa Cruz, California

Comprehensive Annual Financial Report
For the Fiscal Year Ended
June 30, 2017

Prepared Under the Direction of
Edith Driscoll
Auditor-Controller



COUNTY OF SANTA CRUZ
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 JUNE 30, 2017

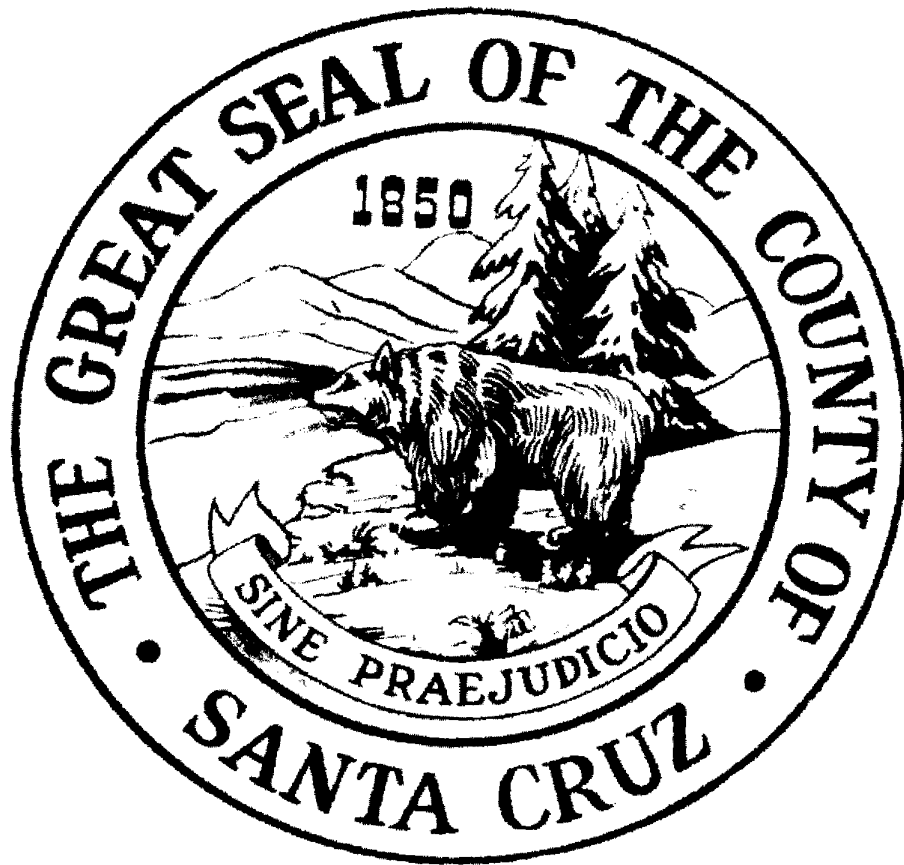
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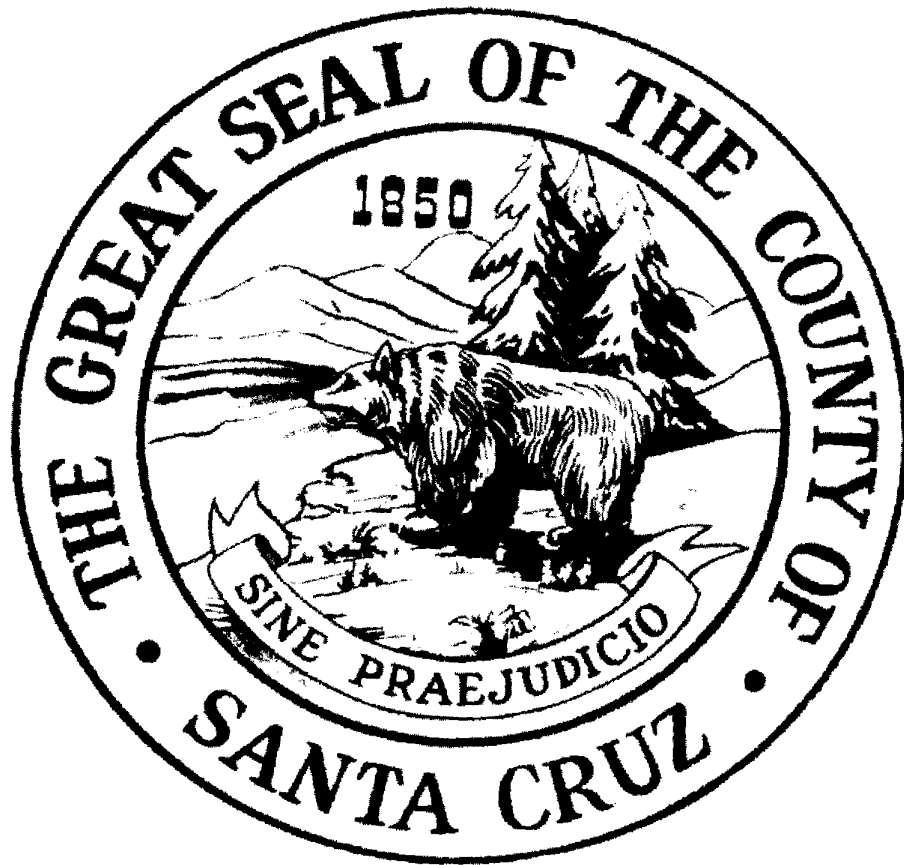
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INTRODUCTORY SECTION





COUNTY OF SANTA CRUZ

EDITH DRISCOLL
AUDITOR-CONTROLLER-TREASURER-TAX COLLECTOR
701 OCEAN STREET, SUITE 100, SANTA CRUZ, CA 95060-4073
(831) 454-2500 FAX (831) 454-2660

December 28, 2017

The Honorable Board of Supervisors
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

Members of the Board and Fellow Citizens:

The Comprehensive Annual Financial Report (CAFR) of the County of Santa Cruz (the County) for the fiscal year ended June 30, 2017 is hereby submitted in accordance with the statutes of the State of California. The CAFR represents the culmination of all budgeting and accounting activities during the year and covers all funds of the County, its component units and its financial transactions.

Management assumes full responsibility for the completeness and reliability of the information contained in this report which is based upon a comprehensive internal control framework established for this purpose. To the best of our knowledge, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the County. The independent auditors, Brown Armstrong Accountancy Corporation, who have rendered an unmodified opinion thereon, have audited these statements. Their report is provided herein.

The Governmental Accounting Standards Board (GASB) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 as amended and U.S. Office of Management and Budget (OMB) Uniform Guidance designated to meet the special needs of federal grantor agencies. These reports are available in the County's separately issued Single Audit Report.

FINANCIAL INFORMATION

Management of the County is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). Because the cost of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

PROFILE OF THE COUNTY

The County of Santa Cruz was established by an act of the State Legislature in 1850 as one of the original 27 counties of the State of California. The County is a general law county and is governed by a five-member Board of Supervisors who are elected by district to serve alternating four-year terms. The Board of Supervisors appoints a County Administrative Officer (Chief Executive) to carry out its policies as set forth by County Ordinance. The Assessor-Recorder, Auditor-Controller-Treasurer-Tax Collector, County Clerk, District Attorney and Sheriff-Coroner are elected officials and all other department heads are appointed officials.

The County's principal functions include seven major areas: general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and cultural services. In the public assistance and health areas, the state and federal governments mandate certain minimum levels of service. These functions are required by County ordinance or by state or federal law.

Santa Cruz is located on the Central Coast of California, and is bordered by San Mateo County to the North, Santa Clara County to the East, San Benito and Monterey Counties to the South and the Monterey Bay National Marine Sanctuary to the West. The County of Santa Cruz is the second smallest county in California in terms of land mass and the 23rd of 58 counties in terms of population. The County's population is 276,603. Approximately half of the County residents live in one of the County's four cities; Capitola, Santa Cruz, Scotts Valley, or Watsonville, with the other half living in the unincorporated County area.

In accordance with the County Budget Act in the California Government Code, the County must adopt a budget on or before October 2 for each fiscal year. The County maintains budgetary controls, the objective of which is to ensure compliance with legal provisions embodied in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is at the character level of salaries and benefits, services and supplies for each budget unit within each budgeted fund. Other charges, land, plant and improvements, and equipment are controlled by line item within each budget unit.

The encumbrance system is employed by the County to record amounts committed for purchase orders or contracts. If appropriations are not sufficient, the Board of Supervisors must approve amendments or transfers of appropriations between funds or departments.

Factors Effecting Financial Conditions

The Santa Cruz local economy has continued to recover after the global recession in the real estate and construction industry and the financial market meltdown. Beginning in 2007, the subprime mortgage lending crisis significantly reduced home sales across the nation and in Santa Cruz County. Assessed values reversed their declines from the recession beginning in Fiscal Year 2013-2014, which included the recapture of some of the market value reductions in real estate in prior years.

Property-related tax revenues in Santa Cruz County have experienced steady growth. Property taxes are determined based upon assessed values. The assessed values of secured property in Santa Cruz County increased by 5.16% in 2016-2017 and have had a positive increase for the last four years with an annual average growth over the last five years of 5.66%. These revenues comprise approximately 80% of the County's total tax revenues.

An important indicator of the local economy is retail sales. Sales tax receipts in the unincorporated County comprise approximately 8% of the County's total tax revenues. Sales tax receipts increased by 1.79% in fiscal year 2016-2017, however, the total increase over the last five years reflects an 8.32% annual average growth. The County voters passed a Cannabis Business Tax effective November 2014. The tax, currently set at 7%, resulted in the collection of \$2.8 million in taxes in 2016-2017.

Tourism is important to the local economy. Transient Occupancy Tax (TOT) collections, which comprise approximately 5.9% of the County's total tax revenues, have increased an average of 14.76% over the past five years, with an increase in fiscal year 2016-2017 of 12.96%. On July 1, 2013, the voters passed a TOT rate increase on lodging facilities in the unincorporated area from 9.5% to 11%.

The County's population is estimated to be 274,673 as of July 1, 2016, increasing by 12,311 residents or 4.7% since the April 2010 Census. The County's unemployment rate at June 30, 2017, was 6.9%, 0.06% lower than it was one year ago at 7.5%, and much lower than the high of 13.3% in 2011-2012.

The County's General Fund revenues increased by \$20.6 million from \$422.0 million in fiscal year 2015-2016 to \$442.6 million in fiscal year 2016-2017, an increase of approximately 4.9%. There were revenue increases in taxes, licenses and permits sold, fines, forfeits and penalties, as well as charges for services which increased primarily due to outpatient clinic fees and other patient revenues. Intergovernmental revenue increased by \$1.0 million primarily due to Assembly Bill 109, the Public Safety Realignment Act.

The County General Fund increased its expenditures by \$19.6 million from \$412.3 million in fiscal year 2015-2016 to \$431.9 million in fiscal year 2016-2017, approximately 4.7%. The increases were primarily in General Government, Public Protection, Health and Sanitation and Recreation and Cultural Services. The increased expenditures in the health and human services program have relied on considerable growth in federal and state grants.

Long Term Financial Planning

The County is committed to building and maintaining a strategic reserve. The County has maintained its General Fund reserves within the minimum level.

- Total General Fund balance was \$55.8 million at June 30, 2017, an increase of \$4.1 million from \$51.7 million at June 30, 2016.
- General Fund committed and assigned designations totaled \$55.1 million at June 30, 2017, an increase of \$12.2 million from \$42.9 million at June 30, 2016, not including \$6.3 million assigned to fund next year's budget.

In November 2014, the County Board of Supervisors adopted a modified Fund Balance Policy which revised the Policy originally adopted in 2011 by increasing the minimum fund balance in the General Fund from 7% to 10% over the following seven years. The original 2011 Fund Balance Reserve Policy established a minimum balance in the committed and assigned categories for the County General Fund at 7% of the upcoming budget year's estimated revenues. This policy has helped the County maintain a stronger fiscal position to weather economic trends while still preserving flexibility.

The committed and assigned fund balance designations of the County's General Fund at June 30, 2017, of \$55.1 million (excluding liabilities and the amount assigned to fund the fiscal year 2017-2018 budget) were at 9.8% of fiscal year 2017-2018 budgeted revenues.

The County's fiscal year 2017-2018 adopted budget reflects some economic improvements. However, the County has yet to recover from the ongoing structural deficit. The County continues to rely on fund balance to address the deficit. In addition to reducing the ongoing structural budget deficit, the fiscal year 2017-2018 adopted budget focuses on maintaining operations, budgeting for increases in the cost of doing business including salaries and benefits, responding to numerous statutory changes including the Affordable Care Act and Public Safety Realignment, improving reserves, restoring public safety services, expanding economic development in the County, and beginning to address the many deferred maintenance projects. While the County receives only 13% of the property tax dollar, approximately 79% of the County's general purpose revenues are related to real estate, either through property tax revenues or vehicle license fee revenues which change lock-step with property tax revenues. Although the local economy is in recovery, the County continues to employ strict cost control measures to balance its budget.

At the State level, California voters approved Proposition 30 in November 2012 to temporarily increase the statewide sales tax rate and the income tax rates on wealthier individuals. This Proposition was re-authorized through Measure 55 "Tax Extension for Education and Healthcare" approved by voters in November 2016. Voters also approved Proposition 39 to close a loophole for out-of-state businesses, projected to raise about \$1 billion a year. These tax measures, coupled with the State's economic recovery and past budget cuts, provided California a positive economic outlook for fiscal year 2016-2017.

The independent California Legislative Analyst's Office (LAO) projected a \$2.0 billion operating deficit (revenues less expenditures) in fiscal year 2016-2017, resulting in a \$7.5 billion reserve at June 30, 2017. For the following fiscal year 2017-2018, the LAO is projecting \$2.0 billion surplus, resulting in a \$11.5 billion reserve at June 30, 2018. The LAO estimates that revenues and transfers will increase \$8.1 billion, or 6.8%, in 2017-2018 when the State's projected operating surpluses reach \$11.5 billion.

The state's temporary personal income tax and sales tax rate increases under Proposition 30 expire at the end of 2018, resulting in a more gradual ramping down of these revenues after that year. This helps prevent a "cliff effect" in the LAO's forecast, as projected operating surpluses continue to grow in 2017-2018 through 2019-2020.

Employees' Retirement Plan

The California Public Employees Retirement System (CalPERS) pension fund, in which Santa Cruz County employees participate, has made significant and important changes in costs and benefits. In August 2012, the State legislature adopted changes including an increased retirement age and a lowered benefit formula for new employees, a cap on the annual pension payout, and a requirement for workers to pay half of their costs. CalPERS realized a gain of just 0.61% on its investments for the year ended June 30, 2017, following gains of 2.4%, 18.40%, 12.5%, 1.0%, and 20.7% in the five prior years.

CalPERS stated long-term 20-year investment return remains at 7.5%. In 2013 CalPERS approved a revised rate smoothing policy to reduce the rate volatility caused in prior years. It is designed to amortize investment gains and losses from earlier fiscal years over a fixed 30-year period with the increases and decreases in the rate spread over a five year period.

County employees also participate in the CalPERS health insurance program, whose average premiums increased by 9.74% in 2017, and will increase by 3.71% for 2018.

MAJOR INITIATIVES

During the last fiscal year, under the leadership of the Board of Supervisors, several key programs and projects were successfully undertaken by the County:

- The offices of the Auditor-Controller and the Treasurer-Tax Collector were consolidated in January 2015. The Office led a multi-year effort to implement a comprehensive new financial and procurement system. The core modules went live in May 2015 with the remaining modules following. The modules emphasize the use of modern technology and paperless workflows. The Office, with the assistance from the Information Services Department, launched a Transient Occupancy Tax and Cannabis Business Tax online payment system to streamline the payment of those taxes online rather than mailing or dropping off in person the payment of these taxes. The Office held a successful sale of tax delinquent properties in March 2017.
- The County Administrative Office (CAO) and the Clerk of the Board (COB) transitioned to new leadership due to the retirement of the CAO after 28 years. The CAO continued to provide oversight for County Departments, ensure the effective operation of County

programs and initiatives, and identify and pursue new cost-savings and sources of revenue. In addition, the Office extended its public outreach efforts, joined with partners across the County and the Monterey Bay region to create successful partnerships that benefit residents, and oversaw the establishment and advancement of two new County divisions, Cannabis Licensing and Economic Development. In addition, the CAO created a new budget document and provided a new online tool to provide greater depth of information and clarity, refinanced bonds saving millions of dollars, and increased the general fund reserve to 10%. The Clerk of the Board improved electronic access to Board agendas and materials, advanced our efforts to become paperless and provided services to various County boards and commissions.

- The County Clerk/Elections Department conducted the November 8, 2016 Presidential General Election, as well as the August 30, 2016 Branciforte Fire Protection District Special Election and the March 7, 2017 Lakeside School District Special Election. Furthermore, we held four Passport Saturdays and conducted 18 weddings on Valentine's Day, in addition to our daily passport and wedding services.
- The Assessor's Office, along with the Auditor-Controller-Treasurer-Tax Collector, continued to incorporate and refine the new property tax system to create efficiencies in these departments.
- The County Recorder's Office expanded the use of e-Recording with the approval of over 406 document submitters which allows for quicker receipt of recordable documents.
- The Child Support Services Department continued to expand payment options for our customers and now has a TouchPay Kiosk in its office lobby in addition to our other payment options which include MoneyGram located in CVS stores and PayNearMe located in 7-Eleven stores. In an effort to increase efficiencies and provide more rapid service to customers, the department will implement e-filing of documents with the Superior Court in November of this year. In fiscal year 2016-2017, the combined Santa Cruz-San Benito department collected over \$18 million in child support payments. The Santa Cruz-San Benito region continued to excel on the key federal performance measures.
- The Office of the County Counsel recently led the revision of the County's Public Records Act policies and continues to work heavily on the development of the County's cannabis licensing program and regulatory scheme. The Office worked on the creation of the Monterey Bay Community Power JPA and has successfully litigated a number of cases over the last year, obtaining judgments and administrative decisions favorable for the County in the areas of land use, child protective services, and public employment. The Office continues to represent the County in the defense of general civil litigation at all stages of case presentation.
- The District Attorney's Office (DAO) faced a significant number of complex cases, including homicides and other violent felonies which occurred and went to trial. The DAO also resumed leadership of the Santa Cruz County Anti-Crime Team (SCCACT) and continued to be an integral member of the Community Corrections Partnership which was established to develop and implement plans for Assembly Bill 109, the Public Safety Realignment Act. The District Attorney's Office also continues to lead and staff the Bob

Lee Community Partnership for Accountability, Connection and Treatment (PACT). Our Office is currently collaborating with Health and Human Services and other stakeholders about redesigning that program to better leverage available resources. Finally, the DAO was successful in implementing its goal of establishing a Multi-Disciplinary Interview Center (MDIC) to ensure an organized, effective team response to cases of child sexual and physical abuse. This concept ensures that child victims are only interviewed once instead of reliving his or her story and trauma multiple times as they are taken from agency to agency.

- The General Services Department continues its efforts in furthering the goals of the Climate Action Strategy by partnering with Monterey and San Benito Counties and 16 cities within to form Monterey Bay Community Power Authority. The Facilities Division's work included implementing additional energy efficiency projects including installing LED lighting at the Government Center and the installation of rooftop and carport solar panels at seven County sites. In collaboration with the Parks Department, the General Services Department completed the Eagle Ridge Reroof Project, Polo Grounds Electrical Upgrade and Aldridge Court Resurface Project as well as building improvements at 1040 and 1020 Emeline.
- The Department of Parks, Open Space, and Cultural Services continued to work in collaboration with other agencies, departments and non-profit organizations to provide high quality Park Facilities, Recreation and Arts throughout the community. The department managed major capital improvement projects which were completed in 2016-17, including the Polo Grounds Park restroom/concession building, Seascape Park renovation, turf renovations at four parks, Aldridge Lane Park court resurfacing, and Brommer Park court renovation, adding Pickleball courts.
- The Information Services Department (ISD) received the Innovation Award from the California County Information Services Directors Association (CCISDA) at its October 2016 conference for the Neighborhood Video Partnership application built to support the County of Santa Cruz Sheriff's Office 21st Century Policing Initiative. Affecting almost every department in the County, ISD upgraded hundreds of desktop PCs to Windows 10 in less than 6 months to take advantage of Microsoft's free operating system upgrade. The GIS division within ISD processed close to 1 TB of new Aerial Imagery data which is available via the GIS open data portal.
- The Planning Department work efforts during the past year included preparation of an Environmental Impact Report for the proposed Commercial Cannabis Cultivation and Manufacturing Regulations and Licensing Program, with adoption of the Program to be considered in early 2018. Amendment of the County Code to implement new State laws that remove obstacles to the creation of Accessory Dwelling Units was completed, while additional work to complete Guidance documents and identify further code amendments to assist homeowners was ongoing, with completion anticipated by the end of 2017. Further refinements to the County's Vacation Rental (VR) regulations were completed, including addition of Davenport/Swanton as a Designated Area, establishing a 5-year term for all permits, and increasing permit requirements for VRs of 4 or more bedrooms. Consultants were hired to assist with creation of Pleasure Point Commercial Area Vision and Guiding Principles, County Commercial and Mixed Use Design Guidelines, and a Portola Drive Street and Streetscape Design Concept. The disposition process for the

Harper Street affordable housing real property asset was carried out, with Habitat for Humanity selected as the developer and Guiding Principles adopted by the Board of Supervisors for development of the site with affordable housing units. Grants totaling \$2 million were awarded for providing First Time Homebuyer and Tenant Based Rental Assistance funds. The department also administered contracts that provided funding assistance to the new St. Stephens (40 units) and Pippin Orchard (26 units) affordable housing projects constructed during the year.

- The Probation Department promotes public safety, reduces recidivism, and supports victims and all those impacted by crime. In partnership with our community, we provide balanced supervision, accountability, and opportunities for positive change through results driven practices.

The department is an integral part of the criminal justice system and is responsible for services required by the Courts. These services include custody alternative programs, probation supervision, collections, post-trial alternative custody and juvenile detention. The department is staffed by 127.25 employees who are organized around three service divisions: Adult, Juvenile, and Juvenile Hall. In 2016, the department completed a five-year Strategic Plan which resulted in our new mission statement and three strategic priorities: Operational Excellence, Public Safety, and Staff Development & Engagement. The strategic plan will guide our efforts to remain a data driven and innovative department.

The department continues to focus on research-based probation strategies to ensure public safety through the reduction of recidivism and victimization, and maximizing completion of supervision terms. This is accomplished through risk-based supervision; addressing issues that drive criminal behavior; consideration for custody alternatives; and providing services and interventions which are proven to reduce reoffending by matching the programs with individual needs.

- The Public Works Department is responsible for the administration, engineering, maintenance, and construction of the County's roads, bridges, bikeways, sanitation, drainage, and flood control facilities, and the oversight and engineering for solid waste disposal services, recycling programs, and construction management services. The department administers the real property, surveyor, and development review programs, as well as manages various Board-governed special districts, County road and sanitation service areas, and the Live Oak Parking Program.
- The Sheriff's Office implemented a Body Worn Camera program in 2016-2017 for all front-line patrol personnel. This program required the purchase and deployment of over 120 cameras as well as management of the resultant footage to ensure timely transmittal to the District Attorney's Office for prosecution and internal auditing and review.

The Rountree Reentry and Rehabilitation Facility is nearing completion and expected to open in March 2018. The construction for this project was funded by a \$25 million grant from the California Board of State and Community Corrections. This newly completed facility will allow us to better serve the needs of long-term inmates in developing pro-social and basic life skills to facilitate their return to society.

The grant funding for the Recovery Center is ending and the Sheriff's Office is committed to maintaining the facility as an effective diversionary tool for jail bookings. The center diverts about 20% of low-level alcohol offenses from the jail and provides the offenders with a safe, medically supervised environment to sober up with a subsequent referral for further services and treatment options.

- The office of the Agricultural Commissioner worked to prevent the spread of pests, the introduction of new pests, and to protect the ability of the industry to export commodities, while Santa Cruz County remained under quarantine for Light Brown Apple Moth and Sudden Oak Death.
- The Health Services Agency (HSA) service areas include: Public Health, Environmental Health, Federally Qualified Health Centers (FQHC), Behavioral Health treatment, and indigent health care.

Over 200,000 health visits were provided to approximately 90,000 Santa Cruz residents. Environmental Health provided 8,035 inspections as well as provided oversight of site monitoring and clean-up activities at 91 contaminated properties.

HSA is the recipient of multiple capital improvement grants totaling over \$6 million that are being used to expand service capacity for the Medi-cal population for both Watsonville and Santa Cruz locations.

- The Human Services Department is heavily leveraged by federal and state funding and provides a wide range of safety net services to protect the County's most vulnerable populations and provide assistance to those struggling financially. Approximately 93,774 people within the County struggle with poverty, the lack of health insurance, and receive benefits from one or more public assistance programs, including food assistance (CalFresh), medical insurance (Medi-Cal), and cash aid (CalWORKs and General Assistance). Legislative changes repealed the Maximum Family Grant (MFG), allowing CalWORKs families to receive cash assistance for children who were not previously aided.

Within the Family and Children's Services division, phase I of the Continuum of Care Reform (CCR), which significantly changed child welfare service delivery, was implemented in January 2017 with phase II implementation beginning December 2017. This change in congregate care requires a strong emphasis on placing children and youth in family-based care with individualized mental health plans as appropriate. The department will continue to meet with stakeholder groups to plan and prepare and create new resources.

Lastly, the department's In-Home Supportive Services (IHSS) program which provides in-home care to the needy and disabled has undergone significant changes with regards to the County Maintenance of Effort funding structure. Wage and benefit negotiations are ongoing between the County and IHSS providers.

- The Personnel Department has focused their efforts towards: 1) achieving long-term collective bargaining agreements with labor unions and associations, 2) expanding the on-line "Santa Cruz County Learns" Training Program to all County employees, 3)

modernizing New Employee Orientation to an on-line forum that provides relevant resources for new employees, and 4) retooling recruitment strategies to incorporate talent focused acquisition.

OTHER INFORMATION

State statutes require an annual audit by independent Certified Public Accountants. The firm of Brown Armstrong Accountancy Corporation was selected to audit the financial statements of the County's various funds and account groups, and has issued an unmodified ("Clean") opinion thereon. In addition to meeting the requirements of State law, the audit was also designed to comply with the federal Single Audit Act of 1984, and related Uniform Guidance. The auditor's report on the financial statements is included in the financial section of this report. The auditor's reports related specifically to the single audit are included in a separate Single Audit Report.

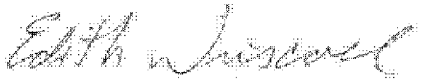
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Santa Cruz for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

AUDITOR-CONTROLLER ACKNOWLEDGMENTS

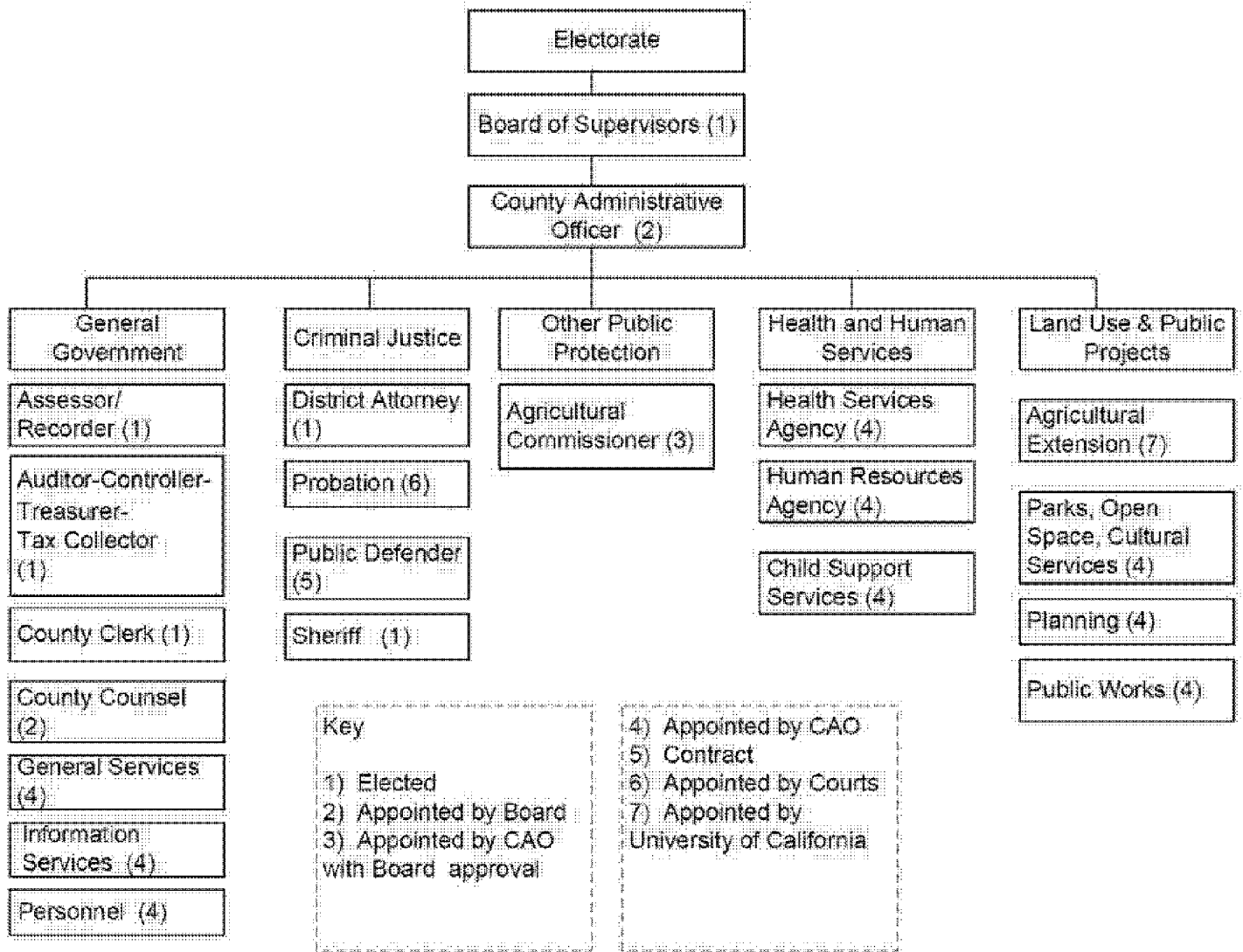
I wish to express my appreciation to my Accounting Division and Audit Division, the County departments that participated in the audit process, and Brown Armstrong Accountancy Corporation for their contributions, assistance, and guidance in the preparation of this report.

Respectfully submitted,



Edith Driscoll
Auditor-Controller-Treasurer-Tax Collector

COUNTY OF SANTA CRUZ



Directory of Public Officials

Elective Officers

		<u>Term ends</u>
Supervisor, 1st District	John Leopold	January 2021
Supervisor, 2nd District	Zach Friend	January 2021
Supervisor, 3rd District	Ryan Coonerty	January 2019
Supervisor, 4th District	Greg Caput	January 2019
Supervisor, 5th District	Bruce McPherson	January 2021
State Senator, 17 th District	Bill Monning	December 2020
State Assemblyman, 29 th District	Mark Stone	December 2018
State Assemblyman, 30 th District	Anna M. Caballero	December 2018
U.S. Congressman, 20 th District	Jimmy Panetta	January 2019
U.S. Senator	Dianne Feinstein	January 2019
U.S. Senator	Kamala Harris	January 2023
U.S. Congresswoman, 18 th District	Anna G. Eshoo	January 2019
Assessor-Recorder	Sean Saldavia	January 2019
Auditor-Controller-Treasurer-Tax Collector	Edith Driscoll	January 2019
County Clerk-Elections	Gail Pellerin	January 2019
District Attorney-Public Administrator	Jeff Rosell	January 2019
Sheriff-Coroner	Jim Hart	January 2019

Appointed Officers

Administrative Officer	Carlos J. Palacios
Agricultural Commissioner	Juan Hidalgo
County Counsel	Dana McRae
Director of Agricultural Extension	Mark Bolda
Director of Child Support Services	Jamie Murray
Director of General Services	Nancy Gordon
Director of Information Services	Kevin Bowling
Director of Human Services Department	Ellen Timberlake
Director of Planning	Kathy Previsich
Director of Public Works/Road Commissioner	John J. Presleigh
Director of Parks, Recreation and Cultural Services	Jeff Gaffney
Health Officer	Dr. Arnold Leff
Health Services Administrator	Giang Nguyen
Personnel Director	Michael McDougall
Probation Officer	Fernando Giraldo
Veterans' Services Officer	Dean Kaufman



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

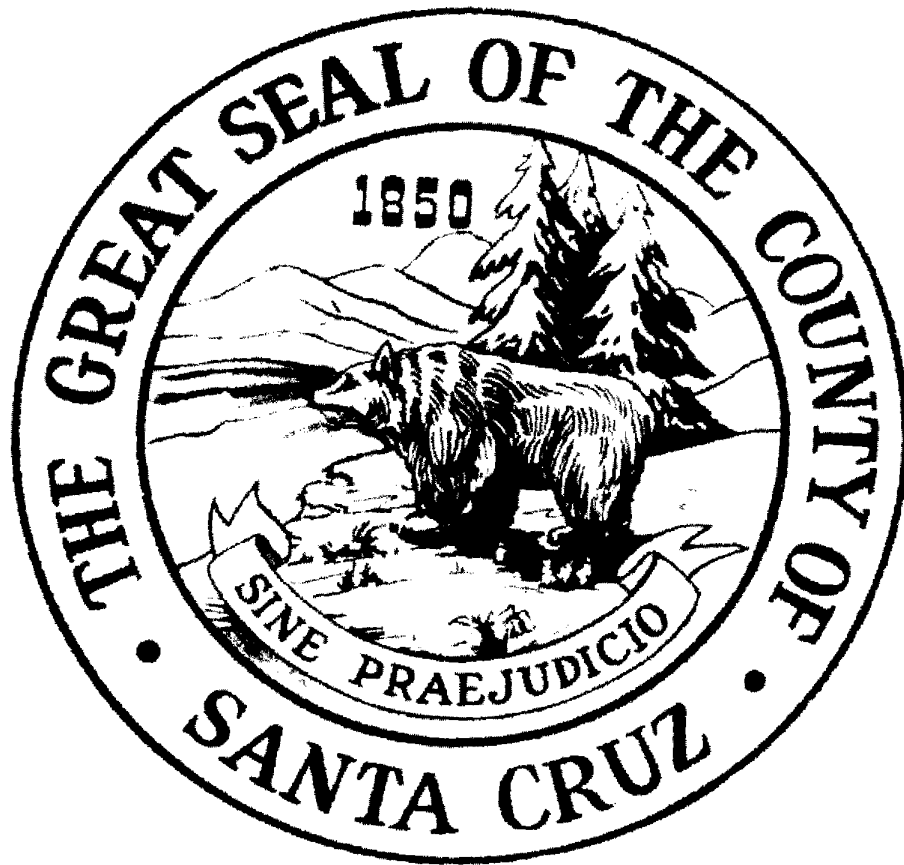
Santa Cruz County
California

For its Comprehensive Annual

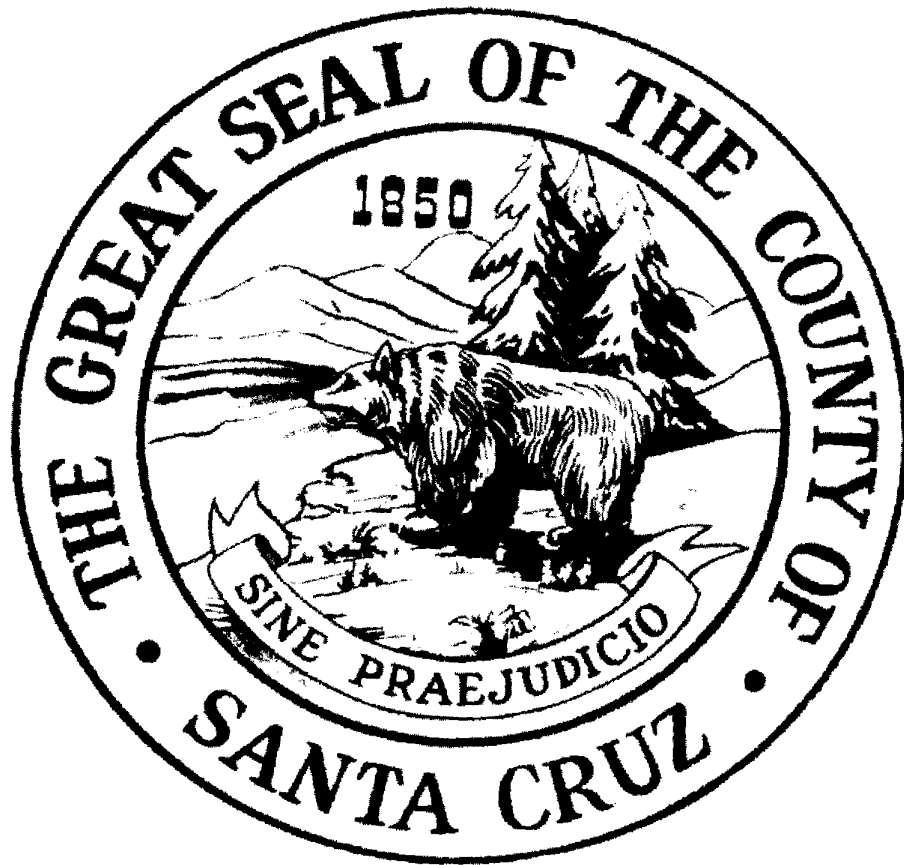
Financial Report
for the Fiscal Year Ended

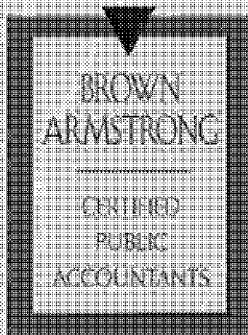
June 30, 2016

Executive Director/CEO



FINANCIAL
SECTION





BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Supervisors
of the County of Santa Cruz
Santa Cruz, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Santa Cruz, California (County), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these 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 involves performing procedures to obtain audit evidence about the amount and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BAKERSFIELD OFFICE
(MAIN OFFICE)
4200 TROMPTON AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL: 661.224.4975
FAX: 661.224.4997
EMAIL: info@bapcpas.com

FRESNO OFFICE
10 RIVER PARK PLACE
EAST SUITE 208
FRESNO, CA 93720
TEL: 559.476.3592

LAGUNA HILLS OFFICE
21272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92653
TEL: 949.682.5422

STOCKTON OFFICE
5250 CLAREMONT
AVENUE
SUITE 150
STOCKTON, CA 95207
TEL: 209.451.4833

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis pages 7-19, the respective Budgetary Comparison for the General Fund and the Housing Fund on pages 112-124, the County's Retirement Plans' Schedule of Changes in the Net Pension Liability and Related Ratios and the Schedule of Contributions on pages 125-132, and Other Postemployment Benefit (OPEB) schedules of funding progress on page 153 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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 historical 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 or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

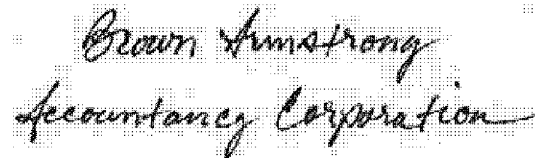
The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and schedules and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 28, 2017, on our consideration of the County's internal control over financial reporting and on 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 in considering the County's internal control over financial reporting and compliance.

Bakersfield, California
December 28, 2017

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in cursive script that reads "Brown Armstrong Accountancy Corporation". The signature is written in black ink and is positioned below the printed name of the firm.

MANAGEMENT'S DISCUSSION AND ANALYSIS



COUNTY OF SANTA CRUZ
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

This section of the County of Santa Cruz (the "County") Comprehensive Annual Financial Report presents a discussion and analysis of the County's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the transmittal letter at the front of this report and the County's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The assets plus deferred outflows of resources of the County exceeded liabilities plus deferred inflows of resources at the close of the 2017 fiscal year by \$197,135,408 (net position). Of this amount, \$(357,785,230) is unrestricted, \$57,740,130 is restricted for specific purposes (restricted net position), and \$497,180,508 is the net investment in capital assets.
- The County's total net position increased by \$11,503,852. This increase was primarily due to the County's General Revenues of \$146.7 million exceeding the net operating expense of \$135.2 million.
- As of June 30, 2017, the County's governmental funds reported combined ending fund balances of \$171,943,077, a decrease of \$4,562,364 in comparison with the prior year. Revenues increased by approximately \$33.7 million, \$10.3 million from taxes, \$1.4 million from licenses and permits, \$16.9 million from Federal and State Aid, and \$6.4 million from charges for services. Expenditures increased by \$39.7 million. Increases in expenditures for salaries and employee benefits of \$14.8 million accounted for the largest portion of the increase. Expenditures for services and supplies increased by \$5.3 million and other charges increased by \$3.6 million. Part of the change was a result of additional capital outlay of \$7.3 million.
- At the end of the fiscal year, the general fund reported an ending fund balance of \$55,790,885, of which \$703,306 was nonspendable, \$18,000,000 was committed, \$37,159,038 was assigned, and \$(71,459) was unassigned, as shown on page 33.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: (1) Government-wide financial statements, (2) Fund financial statements, and (3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all County assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference in assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether or not the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the 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 revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of these government-wide financial statements distinguish functions of the County 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 governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education, and recreation and culture. The business-type activities of the County include the County Disposal Sites CSA 9C and the following Board of Supervisors Governed Districts: Boulder Creek CSA 7, Rolling Woods CSA 10, Septic Tank Maintenance CSA 12, Freedom County Sanitation District, Davenport Sanitation District, Place de Mer CSA 2, Sand Dollar Beach CSA 5, Trestle Beach CSA 20, Summit West CSA 54, and Graham Hill CSA 57 operations.

Component units are included in our basic financial statements and consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. The Santa Cruz County Sanitation District (Sanitation District) is reported as a discretely presented component unit of the County. The Sanitation District is managed by the County Department of Public Works and provides sanitation services to a portion of the unincorporated areas of the County. For more detail, please refer to the Sanitation District's separately issued financial statements.

The government-wide financial statements can be found on pages 25-27 of this report

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 County, 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 County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the County's basic services are reported in the governmental funds. 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 County'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 the governmental funds and governmental activities.

The County maintains several individual governmental funds organized according to their type (general, special revenue, and capital projects). Information is presented separately in the governmental funds balance sheet and the statement of revenues, expenditures, and changes in fund balances for the General Fund, Housing Fund, and the Capital Projects Fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The governmental funds financial statements can be found on pages 33-36 of this report

Proprietary funds are used to account for services for which the County charges customers—either outside customers or internal units or departments of the County. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The County maintains the following two types of proprietary funds:

- Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County enterprise funds used to account for the operations of the County include the County Disposal Sites CSA 9C and the following Board of Supervisors Governed Districts: Boulder Creek CSA 7, Rolling Woods CSA 10, Septic Tank Maintenance CSA 12, Freedom County Sanitation District, Davenport Sanitation District, Place de Mer CSA 2, Sand Dollar Beach CSA 5, Trestle Beach CSA 20, Summit West CSA 54, and Graham Hill CSA 57 operations.
- Internal Service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its central duplicating, information services, public works, service center, and insurance (risk management, dental and health, liability and property, workers' compensation, employee benefit staffing, and state unemployment insurance) functions. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The proprietary funds financial statements can be found on pages 39-43 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The fiduciary funds the County maintains are agency, investment trust funds, and private purpose trust funds. Since these funds are custodial in nature, they do not involve the measurement of results of operations.

The fiduciary funds financial statements can be found on pages 47-49 of this report.

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. The notes to the basic financial statements can be found on pages 53-109 of this report.

Required Supplementary Information (other than MD&A)

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the County'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.

The County adopts an annual budget, which is a compilation of operating budgets from individual functional units within the General Fund, Special Revenue Funds, Capital Projects Fund, and Proprietary Funds. Budgets are adopted for all funds except for Fiduciary Funds and certain special revenue funds, namely the Financing Authorities and the Geological Hazard Abatement Districts. A budgetary comparison schedule has been provided for the General Fund and Housing Fund to demonstrate compliance with these budgets. These can be found on pages 112-133 of this report.

Combining Statements and Schedules

The combining and individual fund statements and schedules referred to earlier in connection with nonmajor governmental funds, enterprise and internal service funds, and fiduciary funds are presented immediately following the required supplementary information.

	Analysis of Net Position						Dollar Change
	Governmental Activities		Business-Type Activities		Total		
	2017	2016	2017	2016	2017	2016	
Assets:							
Current and other assets	\$ 332,947,589	\$ 311,584,401	\$ 18,869,848	\$ 18,056,250	\$ 351,817,437	\$ 329,640,651	\$ 22,176,786
Capital assets	538,883,944	523,811,841	27,452,539	28,681,307	566,336,483	552,493,238	13,843,245
Total assets	871,831,533	835,396,242	46,322,387	46,737,647	918,153,920	882,133,889	36,020,031
Deferred outflows of resources	129,914,913	76,241,498	2,266,694	1,349,869	132,181,607	77,591,367	54,590,240
Liabilities:							
Current and other liabilities	165,031,196	138,499,186	1,238,148	1,319,588	166,269,344	139,818,774	26,450,570
Long-term liabilities	619,786,775	540,332,568	20,067,225	18,548,908	639,854,000	558,361,476	80,972,524
Total liabilities	784,817,971	678,831,754	21,305,373	19,868,496	806,123,344	698,200,250	107,423,094
Deferred inflows of resources	46,230,451	74,068,177	846,324	1,325,273	47,076,775	75,393,450	(28,316,675)
Net position:							
Net investment in capital assets	476,456,050	468,998,543	20,724,458	28,466,313	497,180,508	497,461,816	(284,378)
Restricted	57,359,492	63,879,879	380,638	389,781	57,740,130	64,269,660	(6,529,530)
Unrestricted	(363,117,518)	(374,140,613)	5,332,288	(1,962,377)	(357,785,230)	(376,102,990)	18,317,760
Total net position	\$ 170,698,024	\$ 158,737,809	\$ 26,437,384	\$ 26,893,747	\$ 197,135,408	\$ 185,631,556	\$ 11,503,852

Analysis of Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the County, assets plus deferred outflows of resources exceed liabilities plus deferred inflows of resources by \$197,135,408 at the close of the 2016-2017 fiscal year.

The portion of the County's net investment in capital assets, \$497,180,508 (252%), reflects its investment in capital assets (e.g., land, building and structures, and equipment) less accumulated depreciation, less the related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its 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 County's net position, \$57,740,130 (29%), represents resources that are subject to external restrictions on how they may be used. Of the total, 29% is restricted for capital asset acquisition, 48% is dedicated to public roads and facilities, 14% is restricted for public safety, and the rest is restricted for debt service, health, and various County imposed purposes.

The County's unrestricted net position of \$(357,785,230) increased by \$18,317,760 from the prior year. This amount consists of all net position that does not meet the definition of restricted net position or net investment in capital assets. The majority of negative unrestricted net position is primarily the result of the County's unfunded pension and other post-employment benefit (OPEB) obligations, due to the implementation of Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 71, offset by positive unrestricted net position predominantly in the County's General Fund.

Change in Net Position

	Governmental Activities		Business-Type Activities		Total		Dollar Change	%
	2017	2016	2017	2016	2017	2016		
Revenues								
Program Revenues:								
Charges for services	\$ 92,492,686	\$ 84,244,059	\$ 15,637,513	\$ 14,753,104	\$ 108,130,199	\$ 99,007,969	\$ 9,122,236	9.2%
Operating grants and contributions	261,567,078	244,015,870	342,089	489,547	261,909,167	244,505,417	17,403,750	7.1%
Capital grants and contributions	8,192,673	6,757,122	32,737	128,950	8,520,050	6,906,872	(406,822)	-4.6%
General Revenues:								
Property taxes	107,283,370	100,143,100	31,861	29,007	107,315,231	100,172,107	7,143,126	7.1%
Other taxes	27,409,953	24,256,163	-	-	27,409,953	24,256,163	3,153,590	13.0%
Investment earnings	3,740,469	4,696,111	(231,747)	(170,079)	3,508,722	4,906,032	(417,310)	-10.6%
Miscellaneous	7,572,873	9,459,671	719,834	332,031	8,292,707	9,791,702	(1,498,995)	-15.3%
Gain on sale of assets	6,450	97,900	-	-	6,450	97,900	(91,540)	-93.4%
Total revenues	508,265,552	475,111,696	16,826,927	15,572,558	525,092,479	490,684,444	34,408,035	7.0%
Expenses:								
General government	43,566,451	35,668,404	-	-	43,566,451	35,668,404	8,498,047	24.2%
Public protection	157,414,434	141,869,586	-	-	157,414,434	141,869,586	16,044,848	11.3%
Public ways and facilities	24,715,771	28,271,471	-	-	24,715,771	28,271,471	(3,555,700)	-12.6%
Health and sanitation	123,519,200	114,208,716	-	-	123,519,200	114,208,716	9,310,484	8.2%
Public assistance	129,000,259	126,894,479	-	-	129,000,259	126,894,479	2,165,831	1.7%
Education	5,745,697	6,004,573	-	-	5,745,697	6,004,573	(258,876)	-4.3%
Recreation and cultural services	10,784,246	8,893,980	-	-	10,784,246	8,893,980	1,884,266	21.2%
Interest on long-term debt	2,210,128	2,763,791	-	-	2,210,128	2,763,791	(553,663)	-20.0%
County Disposal Sites CSA	-	-	13,283,158	12,017,848	13,283,158	12,017,848	1,265,310	10.5%
Boulder Creek CSA	-	-	308,098	362,488	308,098	362,488	(54,390)	-15.0%
Rolling Woods CSA	-	-	31,478	14,939	31,478	14,939	16,539	110.7%
Septic Tank Maintenance CSA	-	-	1,016,302	1,089,609	1,016,302	1,089,609	(73,307)	-6.7%
Freedom County Sanitation District	-	-	1,090,284	807,796	1,090,284	807,796	282,488	35.0%
Davenport Sanitation District	-	-	555,804	518,219	555,804	518,219	37,585	7.3%
Place De Mer CSA	-	-	30,248	38,231	30,248	38,231	(7,988)	-20.9%
Sand Dollar Beach CSA	-	-	246,684	236,652	246,684	236,652	10,032	4.2%
Trestle Beach CSA	-	-	62,131	45,085	62,131	45,085	17,046	37.8%
Summit West CSA	-	-	135	121	135	121	14	11.6%
Graham Hill CSA	-	-	8,124	10,552	8,124	10,552	(2,428)	-23.0%
Total expenses	496,956,186	463,420,949	16,632,441	15,414,540	513,588,627	478,562,489	35,026,138	7.3%
Revenues over expenditures	11,309,366	11,690,937	194,486	461,018	11,503,852	12,121,955	(618,103)	-5.1%
Transfers	386,892	-	(386,892)	-	-	-	-	0.0%
Change in net position	11,696,258	11,690,937	(192,406)	461,018	11,503,852	12,121,955	(618,103)	-5.1%
Net position, beginning of year	158,737,809	141,169,982	26,899,747	22,465,243	185,631,556	173,634,811	11,996,745	6.9%
Prior period adjustment	263,957	5,877,104	(263,957)	(6,002,114)	-	(115,210)	125,210	-100.0%
Net position, end of year	\$ 170,698,024	\$ 158,737,809	\$ 26,437,384	\$ 26,899,747	\$ 197,135,408	\$ 185,631,556	\$ 11,503,852	6.2%

Analysis of Change in Net Position

During the current fiscal year, the County's net position increased by \$11,503,852. This increase is explained in the governmental and business-type activity discussion below.

- Governmental activities increased the County's net position by \$11,960,215, accounting for 104% of the total \$11,503,852 increase in net position of the County. The County recorded a prior period adjustment in the amount of \$263,957 for the realignment of costs associated with long-term liabilities related to the County Disposal Sites CSA 9C.

Revenues increased by \$33.3 million from the prior year primarily due to increases in operating and capital grants and contributions of \$16.9 million. Property taxes increased by \$7.1 million, other taxes increased by \$3.2 million, and charges for services also increased by \$8.2 million primarily due to increases in medical and clinic charges.

- Expenses increased by \$33.7 million. The majority of increases were in public protection, which increased by \$16 million. General government increased by \$8.7 million and health and sanitation increased by \$9.3 million. Public assistance and recreation and cultural services also had moderate increases of \$2.2 million and \$1.9 million, respectively. All increases were primarily due to increases in salaries and benefits. However, public protection also saw significant increases in expenditures for services and supplies.

- Business-type activities had a decrease in net position of \$456,363 compared to the prior year. Expenses increased by \$1.5 million and revenues increased \$1.4 million. The difference in net position was partially due to a prior period adjustment of \$(263,957) resulting from the realignment of expenses related to the issuance of debt. The remainder was a result of a modest increase in expenses over revenue.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with financial related legal requirements.

Governmental Funds

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the County include the general fund, special revenue funds, debt service funds, and capital projects funds.

At June 30, 2017, the County's governmental funds reported combined ending fund balances of \$171,943,077, a decrease of \$4,562,364 in comparison with the prior year. The components of total fund balance are as follows (see Note 19 – Fund Balances).

- Nonspendable fund balance, \$62,261,154, consists of amounts that are not spendable in form, or are legally or contractually required to be maintained intact, and are made up of (1) inventory, prepaids, and imprest cash of \$475,193, (2) advances and loans of \$60,619,070, and (3) assets held for sale of \$1,166,891.
- Restricted fund balance, \$54,594,344, consists of amounts with externally imposed constraints put on their use by creditors, grantors, contributors, laws, regulations, or enabling legislation. Examples of restrictions on funds are those for (1) purpose of fund (i.e., flood control, library) of \$35,469,555, (2) debt service of \$2,378,349, and (3) amounts restricted for capital asset acquisition of \$16,746,440.
- Committed fund balance, \$18,000,000, consists of amounts for specific purposes determined by the Board of Supervisors, which include Natural Disasters of \$2,000,000, Working Capital of \$6,000,000, and Economic Uncertainty of \$10,000,000.
- Assigned fund balance of \$37,159,038 represents amounts that are intended for specific purposes and are established by the Board of Supervisors or an official or body delegated by the Board of Supervisors. Examples of assigned fund balances are (1) MBCP Credit Guaranty of \$272,727, (2) federally qualified health programs of \$14,229,750, (3) structural deficit of \$6,310,843, (4) projected budgetary deficit of \$6,310,843, (5) liabilities of \$2,000,000, (6) human services of \$1,969,278, and (7) salary savings of \$6,065,597.
- Unassigned fund balance is currently \$(71,459).

Revenues for governmental functions totaled \$508,881,577 in fiscal year 2016–2017, which represents an increase of \$33,655,480, or 7.1% from fiscal year 2015–2016. Expenditures for governmental functions totaling \$514,506,592 increased by \$39,752,549, or 8.4%, from fiscal year 2015–2016. In the fiscal year 2016–2017, expenditures for governmental functions exceeded revenues by \$5,625,015.

The General Fund is the primary operating fund of the County. At June 30, 2017, the General Fund's total fund balance was \$55,790,885, of which \$703,306 was nonspendable and \$55,087,579 was spendable. The spendable fund balance consists of \$18,000,000 in committed fund balance, \$37,159,038 in assigned fund balance, and \$(71,459) in unassigned fund balance. As a measure of the General Fund's

liquidity, it may be useful to compare both total fund balance and spendable fund balance to total fund expenditures. Total fund balance is 12.9% of total General Fund expenditures while spendable fund balance is 12.4% of total General Fund expenditures.

The Housing Fund is a major fund of the County. At June 30, 2017, the Housing Fund's total fund balance was \$77,503,336, of which \$61,557,848 was nonspendable. The spendable (restricted) fund balance amount was \$15,945,488, a decrease of \$63,654,691 from the prior year. The decrease was primarily due to a reclassification of fund balance to nonspendable fund balance for advances, loans, and assets held for resale.

The Capital Projects Fund fund balance of \$7,654,906 was spendable (restricted) at June 30, 2017, an increase of \$864,132 from the prior year. The increase was due to increases in transfers in from other governmental funds and increases in revenue in excess of capital outlay expenses.

The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year for all governmental funds:

	2017	% of Total	2016	% of Total	Change
Taxes	\$ 134,693,325	26.47%	\$ 124,399,463	26.18%	\$ 10,293,862
Licenses and permits	13,267,926	2.61%	11,880,505	2.50%	1,387,421
Fines, forfeits, and penalties	4,100,792	0.81%	3,630,182	0.76%	470,610
Use of money and property	3,622,536	0.71%	4,082,536	0.86%	(460,000)
Aid from other governments	269,759,749	53.01%	252,813,792	53.20%	16,945,957
Charges for services	75,123,968	14.76%	68,734,172	14.46%	6,389,796
Other	8,313,281	1.63%	9,685,447	2.04%	(1,372,166)
Total	\$ 508,881,577	100.00%	\$ 475,226,097	100.00%	\$ 33,655,480

Revenues increased \$33.7 million over the prior year. There was a \$10.3 million increase in taxes, consisting of \$6.6 million in property taxes, \$0.9 million in transient occupancy taxes, \$1.8 million in sales and use taxes, and the rest in various other taxes. Licenses and permits increased by \$1.4 million, aid from other governments increased by \$16.9 million, and charges for services increased by \$6.4 million. The majority of the increase in charges for services was outpatient clinic fees, which increased by \$5.7 million.

The following table presents expenditures by function compared to prior year amounts for all governmental funds:

	2017	% of Total	2016	% of Total	Change
General government	\$ 33,188,505	6.45%	\$ 31,414,275	6.62%	\$ 1,774,230
Public protection	156,581,616	30.43%	146,434,409	30.84%	10,147,207
Public ways and facilities	34,217,089	6.65%	20,248,707	4.27%	13,968,382
Health and sanitation	122,842,428	23.88%	117,040,655	24.65%	5,801,773
Public assistance	129,505,276	25.17%	130,035,199	27.39%	(529,923)
Education	5,534,789	1.08%	5,792,972	1.22%	(258,183)
Recreation and cultural services	10,013,962	1.95%	8,666,549	1.83%	1,347,413
Capital outlay	14,861,969	2.89%	7,607,154	1.60%	7,254,815
Debt service – bond redemption	4,856,542	0.94%	4,744,166	1.00%	112,376
Debt service – interest and fiscal charges	2,904,416	0.56%	2,769,957	0.58%	134,459
Total	\$ 514,506,592	100.00%	\$ 474,754,043	100.00%	\$ 39,752,549

Overall expenditures increased by \$39.8 million. General government expenditures increased by \$1.7 million, public protection increased by \$10.1 million, public ways and facilities increased by \$14 million, health and sanitation increased by \$5.8 million, and recreation and cultural services increased by \$1.3 million. The increases were primarily due to increases in salaries and benefits. However, public protection also has had significant increases in expenditures for services and supplies. Capital outlay increased by \$7.3 million and debt service increased slightly by just over \$200,000.

Other financing sources and uses are presented below, including changes from the prior year. In 2016-17 there was a refunding of the 2002, 2005, and 2006 certificates of participation. The amount of \$10,620,000 was paid to the escrow agent for the refunded certificates and 2016 certificates of participation were issued in the amount of \$10,500,000. Refer to Note 10 for more information on long-term debt.

Transfers in and out are detailed in Note 5.

Expenditures Classified by Source Governmental Funds					
	2017	% of Total	2016	% of Total	Change
Bonds issued	\$ 10,500,000	1314.65%	\$ 9,945,000	93.53%	\$ 555,000
Bond premium/discount	950,674	119.03%	60,130	0.57%	890,544
Inception of capital lease	129,212	16.18%	69,685	0.66%	59,527
Sale of general capital assets	6,450	0.81%	97,990	0.92%	(91,540)
Miscellaneous	(7)	0.00%	-	0.00%	(7)
Issuance of refunding bonds	-	0.00%	13,770,000	129.50%	(13,770,000)
Payment to refunding escrow agent	(10,620,000)	-1329.67%	(13,097,459)	-123.17%	2,477,459
Transfers in	21,581,902	2702.15%	17,488,965	164.47%	4,092,937
Transfers out	(21,749,537)	-2723.14%	(17,700,819)	-166.46%	(4,048,718)
Total	<u>\$ 798,694</u>	<u>100.00%</u>	<u>\$ 10,633,492</u>	<u>100.00%</u>	<u>\$ (9,834,798)</u>

The current year excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses is presented below:

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Housing Fund	Capital Projects Fund		
Revenues	\$ 442,606,415	\$ 1,855,216	\$ 12,190,228	\$ 52,229,718	\$ 508,881,577
Expenditures	(431,920,317)	(3,952,059)	(14,861,969)	(63,772,247)	(514,506,592)
Net other financing sources (uses)	(6,631,232)	-	3,535,873	3,894,053	798,694
Net change in fund balances	4,054,866	(2,096,843)	864,132	(7,648,476)	(4,826,321)
Fund balances, beginning (restated)	51,736,019	79,600,179	6,790,774	38,642,426	176,769,398
Fund balances, ending	<u>\$ 55,790,885</u>	<u>\$ 77,503,336</u>	<u>\$ 7,654,906</u>	<u>\$ 30,993,950</u>	<u>\$ 171,943,077</u>

Proprietary Funds

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The business-type activities had total net position of \$26,437,384 at June 30, 2017, of which \$4,303,324 was unrestricted.

The following table shows the enterprise funds' actual revenues, expenses, and results of operations for the current fiscal year:

	<u>Major Fund</u>		<u>Total</u>	<u>Internal Service Funds</u>
	<u>County Disposal Sites CSA 9C</u>	<u>Nonmajor Funds</u>		
Operating revenues	\$ 13,029,081	\$ 3,328,266	\$ 16,357,347	\$ 78,943,499
Operating expenditures	(13,505,524)	(3,383,325)	(16,888,849)	(73,387,141)
Net operating loss	(476,443)	(55,059)	(531,502)	5,556,358
Net nonoperating revenues (expenditures)	(274,339)	74,452	(199,887)	120,033
Transfers and capital contributions	(45,010)	327,585	282,575	554,527
Change in net position	(795,792)	346,978	(448,814)	6,230,918
Net position –beginning of year, as restated	10,169,695	15,687,539	25,857,234	(37,773,970)
Net position –end of year	<u>\$ 9,373,903</u>	<u>\$ 16,034,517</u>	<u>\$ 25,408,420</u>	<u>\$ (31,543,052)</u>

Total enterprise fund net position decreased by \$712,771. Operating revenues of \$16,357,347 increased by \$1,254,520 over the prior fiscal year. Operating expenses of \$16,888,849 increased by \$1,339,927 over the prior year; about half of the change was due to an increase in interest expense resulting from new debt issued the prior year. The remainder was caused by a modest increase in expenses over revenues.

There was a restatement of the beginning net position in the amount of \$(263,957) as a result of the prior period adjustment for expenses related to the realignment of expenses related to the issuance of debt as mentioned above.

The Internal Service fund net position increased by \$6,230,918 over the prior fiscal year. This was due to increases in revenue for internal billings from Public Works, Service Center, and the Self-Insurance funds.

RETIREMENT COSTS AND OBLIGATIONS

Retirement Costs

The County's current retirement costs consist of several components, including pension costs, OPEB costs, and social security costs. For the 2017 fiscal year, total retirement costs for the County were \$77,345,537. Of the \$77.3 million in retirement costs, the County contributed \$52.5 million. Employee contributions account for the remaining \$24.8 million. Total retirement costs included pension costs of \$46.7 million, OPEB of \$6.8 million, and social security costs of \$23.8 million. These costs reflect an increase of \$8.1 million, or 11.8%, compared to the prior year. Most of the change resulted from an increase in pension costs of \$6.3 million. Social security costs also increased \$1.5 million over the prior year.

Retirement Obligations

Obligations to pay pension and OPEB benefits in the future make up the County's retirement obligation. Total retirement obligations of the County were \$532,173,480 as of 2017; \$405.5 million was the liability for pension benefits and \$126.6 was the liability for OPEB. Total retirement obligations increased by \$92 million, or 20.9%, over the prior year. The total increase was made up of an increase in the pension liability of \$83.7 million and an increase in the OPEB liability of \$8.3 million.

Pension plan costs and obligations are presented below to illustrate changes from the prior two years.

Annual Summary of Total Retirement Costs and Obligations

	FY 2014/15	FY 2015/16	FY 2016/17
Total Pension Cost	\$ 36,540,999	\$ 40,402,558	\$ 46,744,026
Total OPEB Cost	4,917,343	6,477,103	6,776,963
Total Social Security Cost	20,822,743	22,330,939	23,824,548
Total Retirement Cost	\$ 62,281,085	\$ 69,210,600	\$ 77,345,537
<hr/>			
Total Employee Contribution	\$ 21,899,950	\$ 23,063,788	\$ 24,808,840
Total County Contribution	40,381,135	46,146,812	52,536,697
Total Retirement Cost	\$ 62,281,085	\$ 69,210,600	\$ 77,345,537
<hr/>			
Unfunded County Pension Liability Obligation	\$ 299,464,765	\$ 321,814,432	\$ 405,524,537
Unfunded County OPEB Liability Obligation	110,390,529	118,348,505	126,648,944
Total County Unfunded Liabilities	\$ 409,855,294	\$ 440,162,937	\$ 532,173,481
<hr/>			
Miscellaneous Pension Plan Funded Ratio Market Value of Assets (MVA)	73.4%	78.0%	74.3%
Safety Pension Plan Funded Ratio MVA	76.3%	78.4%	74.7%
Safety Sheriff Pension Plan Funded Ratio MVA	64.9%	67.0%	64.4%

Additional information on Pension Plans and Post-Retirement Health Care Benefits can be found in Notes 14 and 15 of this report.

Fund financial statements record contributions to the County's pension and OPEB liabilities as expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

After the adoption of the 2016-2017 fiscal year budget, the original General Fund budget was increased by \$7,218,917 during the year, not including transfers out.

The General Government budget was increased by approximately \$1.5 million primarily due to mid-year budget realignments.

Approximately \$2.6 million was from the Public Protection division. Of the \$2.6 million of unanticipated revenue received by Public Protection, the Sheriff-Coroner received \$0.7 million for the Board of State and Community Corrections Justice Assistance Grant. Proceeds of the grant fund salaries and benefits for staff to operate a 24 hour recovery center. The remainder of the \$2.6 million came from various small grants and mid-year budget adjustments.

The final budget for Health and Sanitation increased by approximately \$0.6 million over the adopted budget due primarily to \$0.5 million grant revenue received to establish the Nurse-Family Partnership program. The balance was a result of mid-year budget adjustments.

Public Assistance saw an increase of \$1.5 million resulting from approximately \$280 thousand dollars of unanticipated revenue received from the California Employment Development Department under the Workforce Innovation and Opportunity Act (WIOA) to implement WIOA locally; \$396 thousand dollars from the California Department of Social Services to support staffing costs associated with implementation of Continuum of Care Reform programs including Foster Parent Recruitment, Retention and Support and Child and Family Team program; and \$312 thousand dollars came from the California Department of Social Services for the Child Welfare program.

Finally, Recreation and Culture received unanticipated revenue of approximately \$0.9 million from the Federal Emergency Management Agency (FEMA) and the California Office of Emergency Services (CalOES) for 2016-17 storm damage.

The 2016-2017 total expenditures were 19,613,433, or 5% , greater than the prior fiscal year, not including transfers. General Government spending increased by \$3.0 million due to increases of \$1.3 million in other charges, \$1.9 million in salaries expenditures and \$0.7 million in services and supplies. Increases were offset by decreases in spending for fixed assets and intra fund transfers. An increase of \$5.8 million came from Health and Sanitation due to increased spending of \$5 million for salaries expenditures and \$2.3 million for services and supplies offset by decreases in spending for other charges. Public Protection had increased spending of \$8.9 million primarily due to increased spending in salaries expenditures of \$6.4 million and increased spending for services and supplies of \$3.4 million.

General Fund actual revenues were \$25,080,887 lower than the original budget. The majority of this was due to a difference of \$23 million from the original budget originating from Transfers In, plus \$12.1 million less than budget for Aid from other governments and \$8.4 difference in revenue from other sources. These were offset by a \$5.2 million increase in tax revenue over budget.

For additional information, readers should refer to the letter of transmittal.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental and business-type activities as of June 30, 2017 totaled \$566,336,483 (net of accumulated depreciation of \$459,447,606). These capital assets include land, construction in progress, infrastructure, buildings and structures, and equipment. There was a 2.5% increase in the County's capital assets for the 2016-2017 fiscal year in the amount of \$13,843,249.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the 2016-2017 fiscal year.

Fund financial statements record capital asset purchases as expenditures.

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 64,038,616	\$ 63,588,616	\$ 1,858,849	\$ 1,858,849	\$ 65,897,465	\$ 65,447,465
Construction in progress	17,006,669	9,232,835	752,030	496,335	17,758,699	9,729,170
Infrastructure	640,345,911	618,898,271	-	-	640,345,911	618,898,271
Buildings and structures	190,890,203	184,039,984	51,534,976	51,235,394	242,425,179	235,275,378
Equipment	49,604,381	48,944,905	9,752,454	9,644,051	59,356,835	58,588,956
Accumulated depreciation	(423,001,836)	(400,892,770)	(36,445,770)	(34,553,232)	(459,447,606)	(435,446,002)
Total	\$ 538,883,944	\$ 523,811,841	\$ 27,452,539	\$ 28,681,397	\$ 566,336,483	\$ 552,493,238

Capital Assets in Governmental Activities increased by \$15.1 million. Additions of \$37.2 million were offset by a change in depreciation of \$22.1 million. All categories of capital assets increased. However, most of the change was in Infrastructure, which increased by \$21.4 million.

Business-type capital assets decreased by \$1.2 million. Additions of \$0.7 million to capital assets were offset by a change in depreciation of \$1.9 million.

Additional information on the County's capital assets can be found in Note 7 on pages 79-81 of this report.

Long-Term Debt

The County's long-term debt for governmental and business-type activities is presented below to illustrate changes from the prior year:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Refunding certificates of participation	\$ 40,896,230	\$ 38,094,531	\$ -	\$ -	\$ 40,896,230	\$ 38,094,531
Lease revenue bonds	14,504,461	14,927,484	6,549,724	6,799,431	21,054,185	21,726,915
Lease revenue refunding bonds	1,561,349	1,627,052	-	-	1,561,349	1,627,052
Certificates of participation	6,990,744	13,389,529	-	-	6,990,744	13,389,529
Revenue bonds	105,000	135,000	-	-	105,000	135,000
Loans payable	15,641	57,668	240,021	286,714	255,662	344,382
Capital leases	5,968,454	6,739,249	3,472	4,614	5,971,926	6,743,863
Total	\$ 70,041,879	\$ 74,970,513	\$ 6,793,217	\$ 7,090,759	\$ 76,835,096	\$ 82,061,272

For the governmental activities, the County had total long-term debt outstanding of \$70,041,879 as compared to \$74,970,513 the prior year (excluding compensated absences and estimated claims), a decrease of \$4,928,634. Refunding certificates of participation in the amount of \$10,500,000 were issued to retire the balance of the 2002 and 2005 certificates of participation and the 2006 certificates of participation in the amounts of \$1,830,000, \$4,105,000, and \$5,900,000, respectively, plus issuance costs.

For the business-type activities, the County had total long-term debt outstanding of \$6,793,217 as compared to \$7,090,759 in the prior year (excluding post-closure liability), a decrease of \$297,542 due to bond debt retirement.

The County's total debt for all primary government activities decreased by \$5,226,176 or 6.4% during the current fiscal year (excluding compensated absences, estimated claims, and post-closure liability).

The County maintains a Standard & Poor's 'SP-1+' and a Moody's 'MIG 1' rating for short-term notes. Moody's has assigned its long-term rating on the County's general fund certificates of participation and lease revenue bonds of "A1" and its Issuer Rating of "Aa3." This rating was last reviewed by Moody's in October 2016. Standard & Poor's has assigned its long-term rating on the County's general fund certificates of participation and lease revenue bonds of "AA+." This rating was last reviewed by Standard & Poor's in November 2017. Such ratings reflect only the views of the rating agency and any desired explanation of the significance of such ratings should be obtained from the rating agency.

The component unit, Santa Cruz Sanitation District, had total long-term debt outstanding of \$14,372,342 as compared to \$17,373,151 in the prior year. This amount was comprised of \$1,312,874 of Waste Water Revenue Refunding Bonds (including unamortized bond premium), \$175,000 of Limited Obligation Refunding Improvement Bonds, and \$12,880,920 of Loans Payable and \$3,548 of Capital Leases. During the year, retirement of debt amounted to \$3,084,858.

Additional information on the County's long-term debt can be found in Note 10 on pages 85-93 of this report.

FISCAL YEAR 2017-2018 BUDGET AND ECONOMIC CONDITIONS

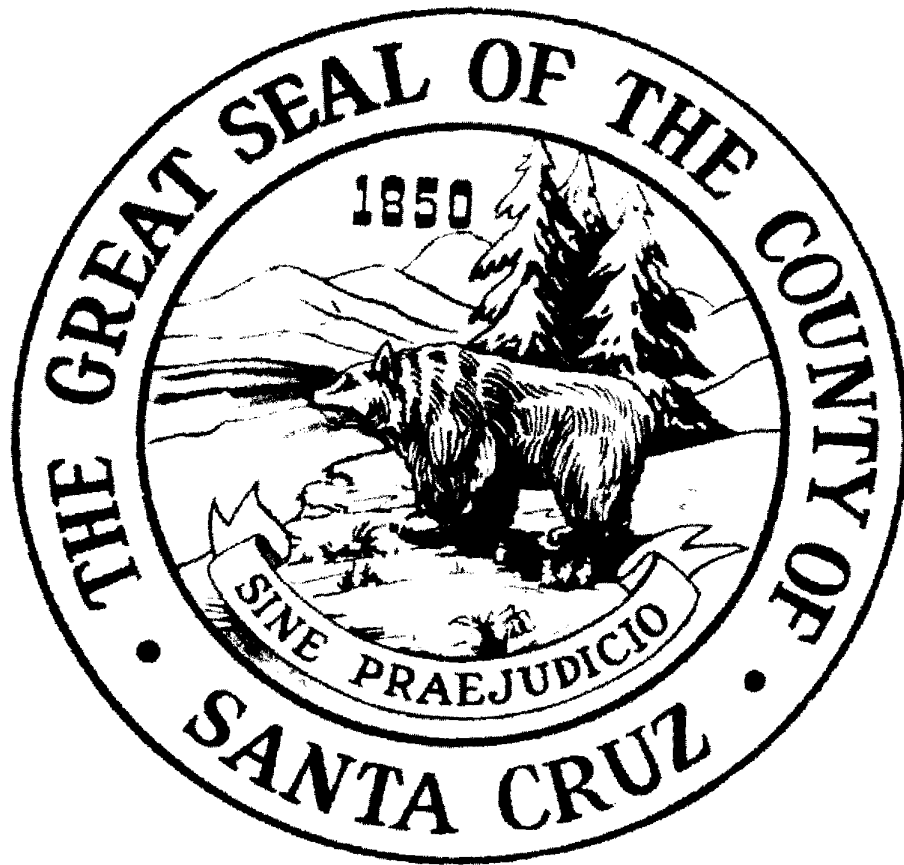
The following factors were considered in preparing the County's operating budget for fiscal year 2017-2018:

- The budget continues to project a steady improvement in County revenue. For budget year 2017-2018 the proposed budget reflects modest increases including \$8.9 million in local Property Taxes, \$0.5 million in Transient Occupancy Taxes, \$0.9 million in Sales Taxes and \$0.5 million in Cannabis Business Taxes. Revenues from charges for services, permits, licenses and from other agencies are not expecting significant growth.

- Total Governmental Fund budgeted revenues reflects a projected increase of 16% , or \$76 million, comparing 2017-2018 budget to 2016-2017 actual revenues. The 2017-2018 budget shows a projected increase in General Fund total revenues of 8% , or \$35 million, compared to 2016-2017 actual revenues.
- The budget appropriations for total Governmental Fund expenditures for FY 2017-2018 includes a 19% increase, or \$92.5 million, when compared to 2016-2017 actual expenditures.
- As of J une 30, 2017, the available spendable General Fund balance was \$55.9 million. Of this amount, \$18 million is Committed and \$37.1 million is Assigned, but remains available for appropriation.
- There was a decrease of 14.4 positions. The Human Services Department eliminated 39.5 positions while Health Services added 18.6 positions.

REQUEST FOR INFORMATION

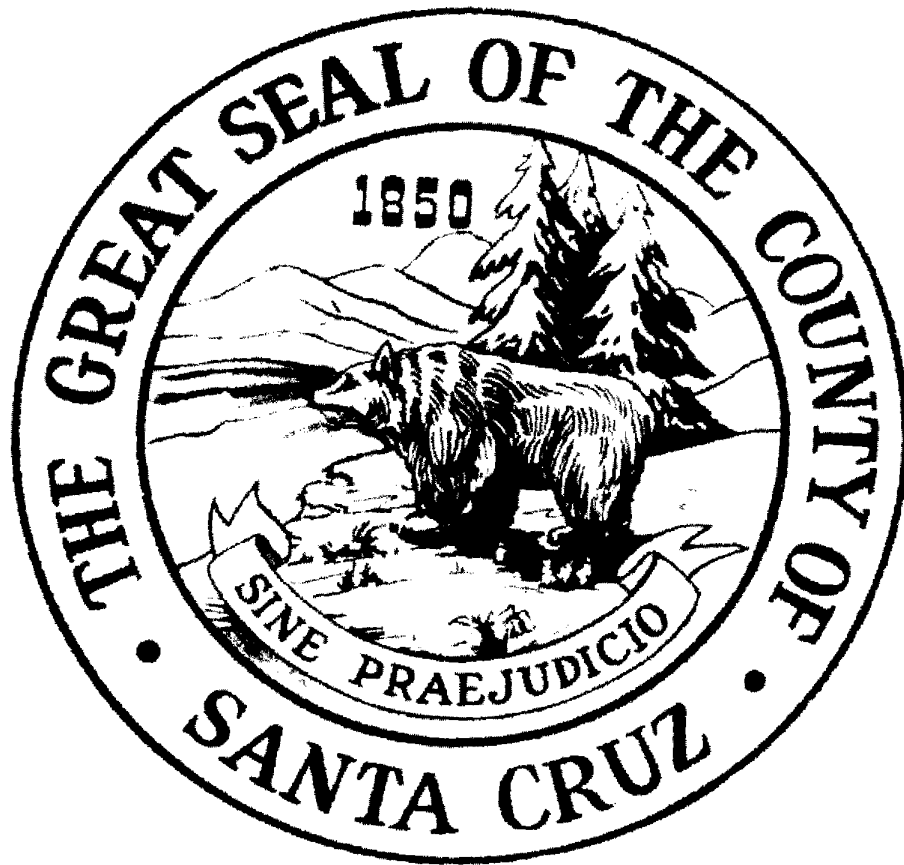
This financial report is designed to provide a general overview of the County's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Auditor-Controller's Office, County of Santa Cruz, 701 Ocean Street, Room 100, Santa Cruz, CA 95060.



BASIC FINANCIAL STATEMENTS



GOVERNMENT-WIDE FINANCIAL STATEMENTS



COUNTY OF SANTA CRUZ
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET POSITION
JUNE 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and investments	\$ 211,407,554	\$ 9,321,184	\$ 220,728,738	\$ 10,385,721
Restricted cash	11,750,266	7,356,690	19,106,956	969,937
Loans receivable	60,373,083	48,837	60,421,920	-
Receivables, net	46,921,475	984,934	47,906,409	186,604
Deposits with others	240,000	-	240,000	-
Inventory	446,504	129,239	575,743	13,212
Prepaid items	1,670,780	-	1,670,780	6,429
Land held for resale	1,166,891	-	1,166,891	-
Notes receivable	-	-	-	55,077
Internal balances	(1,028,964)	1,028,964	-	-
Capital Assets:				
Nondepreciable assets	81,045,285	2,610,879	83,656,164	7,973,861
Depreciable assets, net	457,838,659	24,841,660	482,680,319	127,339,957
Total assets	<u>871,831,533</u>	<u>46,322,387</u>	<u>918,153,920</u>	<u>146,930,798</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on bond refunding	1,127,739	-	1,127,739	39,230
Deferred pensions	128,787,174	2,266,694	131,053,868	-
Total deferred outflows of resources	<u>129,914,913</u>	<u>2,266,694</u>	<u>132,181,607</u>	<u>39,230</u>
LIABILITIES				
Payables	39,222,465	826,140	40,048,605	1,378,915
Accrued interest payable	754,009	108,067	862,076	151,293
Tax and revenue anticipation notes payable	47,977,600	-	47,977,600	-
Advances from grantors and third parties	37,415,024	-	37,415,024	-
Compensated absences:				
Due within one year	23,634,577	-	23,634,577	-
Due in more than one year	3,915,066	-	3,915,066	-
Estimated claims:				
Due within one year	10,424,128	-	10,424,128	-
Due in more than one year	26,333,000	-	26,333,000	-
Other long-term liabilities:				
Due within one year	5,604,235	303,901	5,908,136	2,723,358
Due in more than one year	64,437,644	12,994,007	77,431,651	11,648,984
OPEB liability	126,648,944	-	126,648,944	-
Net pension liability	398,451,279	7,073,258	405,524,537	-
Total liabilities	<u>784,817,971</u>	<u>21,305,373</u>	<u>806,123,344</u>	<u>15,902,550</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pensions	46,230,451	846,324	47,076,775	-
Total deferred inflows of resources	<u>46,230,451</u>	<u>846,324</u>	<u>47,076,775</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	476,456,050	20,724,458	497,180,508	120,980,706
Restricted for:				
Debt service	2,378,349	-	2,378,349	969,937
Capital asset acquisition	16,746,440	-	16,746,440	-
Public safety	8,268,779	-	8,268,779	-
Health and public assistance	1,978,044	-	1,978,044	-
Public ways and facilities	27,987,880	-	27,987,880	-
Other	-	380,638	380,638	-
Unrestricted	(363,117,518)	5,332,288	(357,785,230)	9,116,835
Total net position	<u>\$ 170,698,024</u>	<u>\$ 26,437,384</u>	<u>\$ 197,135,408</u>	<u>\$ 131,067,478</u>

See accompanying Notes to Basic Financial Statements.

COUNTY OF SANTA CRUZ
GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions /Programs	Expenses	Program Revenues			Total
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 43,566,451	\$ 21,378,999	\$ 14,333,017	\$ 541,637	\$ 36,253,653
Public protection	157,414,434	22,877,170	50,590,844	1,009,981	74,477,995
Public ways and facilities	24,715,771	6,129,337	11,782,394	6,641,055	24,552,786
Health and sanitation	123,519,200	38,413,072	70,706,092	-	109,119,164
Public assistance	129,000,259	414,759	113,642,979	-	114,057,738
Education	5,745,697	-	94,628	-	94,628
Recreation and cultural services	10,784,246	3,279,349	243,616	-	3,522,965
Debt service	2,210,128	-	173,508	-	173,508
Total governmental activities	496,956,186	92,492,686	261,567,078	8,192,673	362,252,437
Business-type activities:					
County Disposal Sites CSA 9C	13,283,158	12,309,247	341,881	-	12,651,128
Boulder Creek CSA 7	308,098	474,870	-	-	474,870
Rolling Woods CSA 10	31,478	102,909	-	-	102,909
Septic Tank Maintenance CSA 12	1,016,302	1,050,832	-	-	1,050,832
Freedom County Sanitation District	1,090,284	844,752	-	-	844,752
Davenport Sanitation District	555,804	414,993	208	327,377	742,578
Place de Mer CSA 2	30,243	88,580	-	-	88,580
Sand Dollar Beach CSA 5	246,684	269,464	-	-	269,464
Trestle Beach CSA 20	62,131	47,061	-	-	47,061
Summit West CSA 54	135	-	-	-	-
Graham Hill CSA 57	8,124	34,805	-	-	34,805
Total business-type activities	16,632,441	15,637,513	342,089	327,377	16,306,979
Total primary government	\$ 513,588,627	\$ 108,130,199	\$ 261,909,167	\$ 8,520,050	\$ 378,559,416
Component unit:					
Santa Cruz County Sanitation District	\$ 20,390,741	\$ 23,814,123	\$ (1,279,016)	\$ 1,586,016	\$ 24,121,123

General Revenues:

Taxes:

Property taxes
Property transfer fees
Sales and use taxes
Transient occupancy taxes
Other taxes

Total taxes

Interest and investment earnings
Gain on disposal of capital assets
Miscellaneous
Transfers

Total general revenues

Change in net position before prior period adjustment

Net position -beginning of year

Prior period adjustment (Note 21)

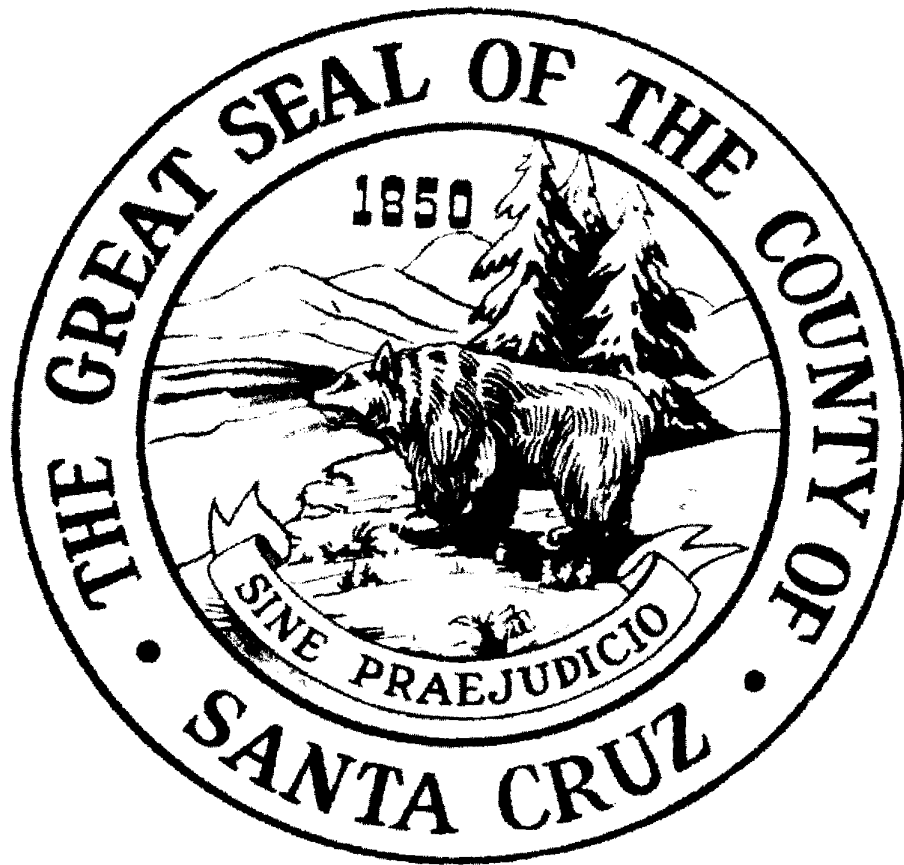
Net position -beginning, as restated

Net position -end of year

See accompanying Notes to Basic Financial Statements.

COUNTY OF SANTA CRUZ
 GOVERNMENT-WIDE FINANCIAL STATEMENTS
 STATEMENT OF ACTIVITIES (CONTINUED)
 FOR THE YEAR ENDED JUNE 30, 2017

Net (Expense) Revenue and Changes in Net Position			Component Unit
Governmental Activities	Business-Type Activities	Total	
\$ (7,312,798)	\$ -	\$ (7,312,798)	
(82,936,439)	-	(82,936,439)	
(162,985)	-	(162,985)	
(14,400,036)	-	(14,400,036)	
(14,942,521)	-	(14,942,521)	
(5,651,069)	-	(5,651,069)	
(7,261,281)	-	(7,261,281)	
(2,036,620)	-	(2,036,620)	
<u>(134,703,749)</u>	<u>-</u>	<u>(134,703,749)</u>	
-	(632,030)	(632,030)	
-	166,772	166,772	
-	71,431	71,431	
-	34,530	34,530	
-	(245,532)	(245,532)	
-	186,774	186,774	
-	58,337	58,337	
-	22,780	22,780	
-	(15,070)	(15,070)	
-	(135)	(135)	
-	26,681	26,681	
<u>-</u>	<u>(325,462)</u>	<u>(325,462)</u>	
<u>\$ (134,703,749)</u>	<u>\$ (325,462)</u>	<u>\$ (135,029,211)</u>	
			<u>\$ 3,730,382</u>
107,283,370	31,861	107,315,231	91,703
2,317,423	-	2,317,423	-
11,862,932	-	11,862,932	-
8,002,020	-	8,002,020	-
5,227,578	-	5,227,578	-
<u>134,693,323</u>	<u>31,861</u>	<u>134,725,184</u>	<u>91,703</u>
3,740,469	(231,747)	3,508,722	116,239
6,450	-	6,450	-
7,572,873	719,834	8,292,707	-
386,892	(386,892)	-	-
<u>146,400,007</u>	<u>133,056</u>	<u>146,533,063</u>	<u>207,942</u>
<u>11,696,258</u>	<u>(192,406)</u>	<u>11,503,852</u>	<u>3,938,324</u>
158,737,809	26,893,747	185,631,556	127,129,154
263,957	(263,957)	-	-
<u>159,001,766</u>	<u>26,629,790</u>	<u>185,631,556</u>	<u>127,129,154</u>
<u>\$ 170,698,024</u>	<u>\$ 26,437,384</u>	<u>\$ 197,135,408</u>	<u>\$ 131,067,478</u>



FUND FINANCIAL STATEMENTS



GOVERNMENTAL FUND

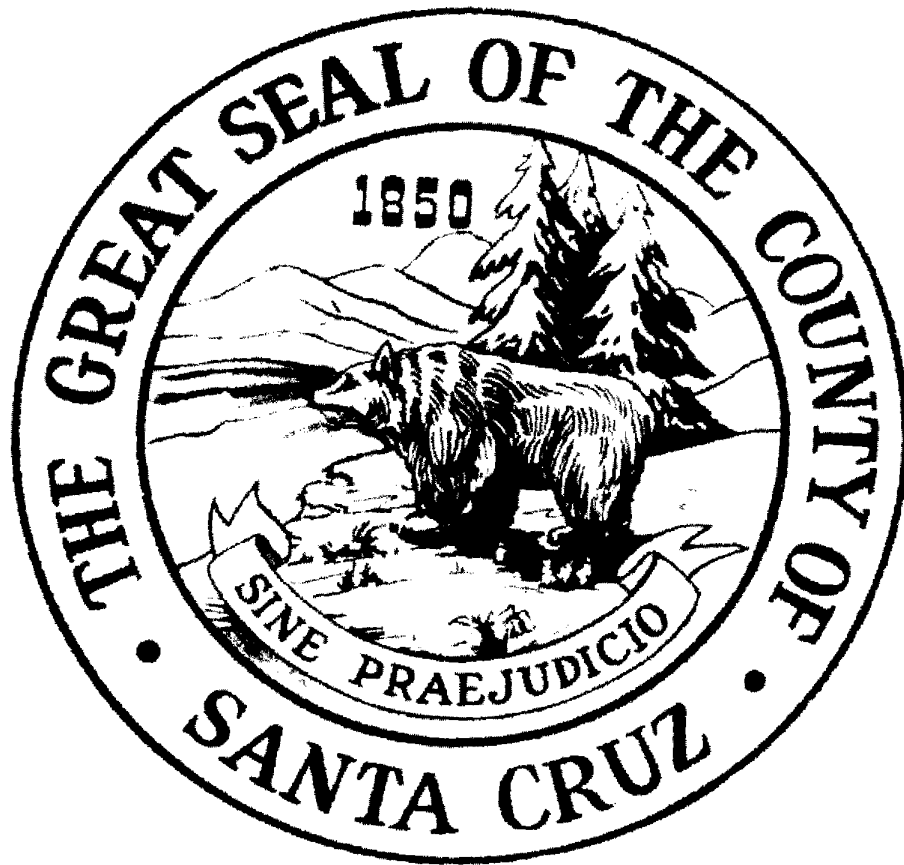
FINANCIAL STATEMENTS

General Fund – The General Fund is used to account for sources and uses of financial resources traditionally associated with governments, and which are not required to be accounted for in another fund.

Housing Fund – The Housing Fund is primarily used to account for Community Development Block Grant Programs. The principal sources of revenues are State grants and housing rehabilitation loan repayments.

Capital Projects Fund – The Capital Projects Fund is used to account for financial resources to be used for the acquisition of land, and acquisition and construction of major facilities other than those financed by the proprietary funds.

Nonmajor Governmental Funds – Nonmajor Governmental Funds is the aggregate of all the nonmajor governmental funds.



COUNTY OF SANTA CRUZ
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Housing Fund	Capital Projects Fund		
ASSETS					
Cash and investments	\$ 134,211,921	\$ 16,103,811	\$ 3,150,596	\$ 20,750,255	\$ 174,216,583
Restricted cash and investments	-	-	-	11,750,266	11,750,266
Receivables, net	26,031,182	124,488	7,210,959	9,709,735	43,076,364
Due from other funds	58,964	-	264,841	-	323,805
Loans receivable	100,113	60,272,970	-	-	60,373,083
Deposits with others	90,000	-	-	-	90,000
Prepays	1,589,346	-	-	-	1,589,346
Land held for resale	-	1,166,891	-	-	1,166,891
Total assets	<u>162,081,526</u>	<u>77,668,160</u>	<u>10,626,396</u>	<u>42,210,256</u>	<u>292,586,338</u>
LIABILITIES					
Payables	\$ 21,472,502	\$ 164,824	\$ 2,971,490	\$ 8,409,431	\$ 33,018,247
Tax and revenue anticipation notes payable	47,977,600	-	-	-	47,977,600
Due to other funds	-	-	-	2,232,390	2,232,390
Advances from grantors and third parties	36,840,539	-	-	574,485	37,415,024
Total liabilities	<u>106,290,641</u>	<u>164,824</u>	<u>2,971,490</u>	<u>11,216,306</u>	<u>120,643,261</u>
FUND BALANCES					
Nonspendable	703,306	61,557,848	-	-	62,261,154
Restricted	-	15,945,488	7,654,906	30,993,950	54,594,344
Committed	18,000,000	-	-	-	18,000,000
Assigned	37,159,038	-	-	-	37,159,038
Unassigned	(71,459)	-	-	-	(71,459)
Total fund balances	<u>55,790,885</u>	<u>77,503,336</u>	<u>7,654,906</u>	<u>30,993,950</u>	<u>171,943,077</u>
Total liabilities and fund balances	<u>\$ 162,081,526</u>	<u>\$ 77,668,160</u>	<u>\$ 10,626,396</u>	<u>\$ 42,210,256</u>	<u>\$ 292,586,338</u>

See accompanying Notes to Basic Financial Statements.

COUNTY OF SANTA CRUZ
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2017

Total Fund Balances – Total Governmental Funds		\$ 171,943,077
Amounts reported for Governmental Activities in the Statement of Net Position were different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. (Net of \$10,512,498 of internal service fund capital assets.)		528,371,446
Deferred outflows of resources reported in the Statement of Net Position are not reported in the governmental funds.		116,168,937
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the internal service funds are included in governmental activities in the Government-Wide Statement of Net Position:		
Internal service funds included in governmental activities		(31,543,052)
Transfer of internal service funds to business-type activities		(1,028,964)
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental funds.		
Refunding certificates of participation, including premium	\$ (40,896,230)	
Lease revenue bonds	(14,504,461)	
Lease revenue refunding bonds, including premium	(1,561,349)	
Certificates of participation, including premium	(6,990,744)	
Revenue bonds	(105,000)	
California Energy Resources Conservation and Development Commission	(15,641)	
Pension liability	(354,091,100)	
Other post-employment benefits (OPEB) liability	(126,648,944)	
Compensated absences	(22,906,027)	
Capital leases	(4,011,575)	(571,731,071)
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the governmental funds.		(754,009)
Deferred inflows of resources reported in the Statement of Net Position are not reported in the governmental funds.		(40,728,340)
Net Position of Governmental Activities		<u>\$ 170,698,024</u>

See accompanying Notes to Basic Financial Statements.

COUNTY OF SANTA CRUZ
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Major Funds			Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Housing Fund	Capital Projects Fund		
REVENUES:					
Taxes	\$ 116,873,004	\$ -	\$ -	\$ 17,820,321	\$ 134,693,325
Licenses and permits	13,258,981	-	-	8,945	13,267,926
Fines, forfeits, and penalties	4,069,869	-	17,443	13,480	4,100,792
Use of money and property	2,708,279	653,614	39,707	220,936	3,622,536
Aid from other governments	235,816,827	1,047,595	12,111,829	20,783,498	269,759,749
Charges for services	63,205,072	138,258	17,000	11,763,638	75,123,968
Other	6,674,383	15,749	4,249	1,618,900	8,313,281
Total revenues	<u>442,606,415</u>	<u>1,855,216</u>	<u>12,190,228</u>	<u>52,229,718</u>	<u>508,881,577</u>
EXPENDITURES:					
Current:					
General government	32,659,003	-	-	529,502	33,188,505
Public protection	141,971,929	-	-	14,609,687	156,581,616
Public ways and facilities	254,318	-	-	33,962,771	34,217,089
Health and sanitation	122,803,793	-	-	38,635	122,842,428
Public assistance	125,553,217	3,952,059	-	-	129,505,276
Education	123,619	-	-	5,411,170	5,534,789
Recreation and cultural services	8,400,769	-	-	1,613,193	10,013,962
Debt service:					
Principal	-	-	-	4,856,542	4,856,542
Interest and fiscal charges	153,669	-	-	2,750,747	2,904,416
Capital outlay	-	-	14,861,969	-	14,861,969
Total expenditures	<u>431,920,317</u>	<u>3,952,059</u>	<u>14,861,969</u>	<u>63,772,247</u>	<u>514,506,592</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>10,686,098</u>	<u>(2,096,843)</u>	<u>(2,671,741)</u>	<u>(11,542,529)</u>	<u>(5,625,015)</u>
OTHER FINANCING SOURCES (USES):					
Transfers in	3,595,209	-	7,118,324	10,868,369	21,581,902
Transfers out	(10,355,653)	-	(3,582,451)	(7,811,433)	(21,749,537)
Bonds issued	-	-	-	10,500,000	10,500,000
Bond premium/discount	-	-	-	950,674	950,674
Payment to bond refunding escrow agent	-	-	-	(10,620,000)	(10,620,000)
Inception of capital lease	129,212	-	-	-	129,212
Sale of general capital assets	-	-	-	6,450	6,450
Miscellaneous	-	-	-	(7)	(7)
Total other financing sources (uses)	<u>(6,631,232)</u>	<u>-</u>	<u>3,535,873</u>	<u>3,894,053</u>	<u>798,694</u>
Net change in fund balances	4,054,866	(2,096,843)	864,132	(7,648,476)	(4,826,321)
Fund balances –beginning	51,736,019	79,600,179	6,790,774	38,378,469	176,505,441
Prior period adjustment	-	-	-	263,957	263,957
Fund balances –beginning, as restated	<u>51,736,019</u>	<u>79,600,179</u>	<u>6,790,774</u>	<u>38,642,426</u>	<u>176,769,398</u>
Fund balances –ending	<u>\$ 55,790,885</u>	<u>\$ 77,503,336</u>	<u>\$ 7,654,906</u>	<u>\$ 30,993,950</u>	<u>\$ 171,943,077</u>

See accompanying Notes to Basic Financial Statements.

COUNTY OF SANTA CRUZ
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net Change in Fund Balances – Total Governmental Funds \$ (4,826,321)

Amounts reported for governmental activities in the Statement of Activities were different because:

Governmental funds reported acquisitions of capital assets as part of capital outlay expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets was allocated over their estimated useful lives as depreciation expense:

Expenditures for general capital assets, infrastructure, and other related capital assets	\$ 37,415,419	
Retirement of capital assets	(4,947)	
Less current year depreciation	<u>(22,209,645)</u>	15,200,827

Issuance of long-term debt provided current financial resources to the governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Position. Also, the governmental funds report the effect of issuance costs, premiums, and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:

Inception of capital lease	(129,212)	
Premium on long-term debt	(950,674)	
Refunding certificates of participation issued	<u>(10,500,000)</u>	(11,579,886)

Repayment of debt principal was an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position:

Refunding certificates of participation	8,535,000	
Certificates of participation	6,435,000	
Lease revenue bonds	410,000	
Lease revenue refunding bonds	66,542	
Revenue bonds	30,000	
California Energy Resources Conservation and Development Commission	42,027	
Capital leases	<u>463,394</u>	15,981,963

Some expenses reported in the Government-Wide Statement of Activities do not require the use of current financial resources. Therefore, they are not reported as expenditures in the governmental funds:

Amortization of bond premium/discount	89,944	
Change in accrued interest payable	206,041	
Change in compensated absences	(387,736)	
Change in deferred loss on bond refunding	385,239	
Change in net pension liability	<u>(1,047,884)</u>	(754,396)

OPEB obligation costs do not require current resources, so they are not reported in the governmental funds. (8,300,439)

Internal service funds were used by management to charge the costs of certain activities to individual funds. The net income of the internal service funds was reported with governmental activities. 6,230,918

Reverse of prior year transfer of internal service funds to business-type activities. 772,556
Transfer of internal service funds to business-type activities. (1,028,964)

Change in Net Position of Governmental Activities \$ 11,696,258

PROPRIETARY FUND

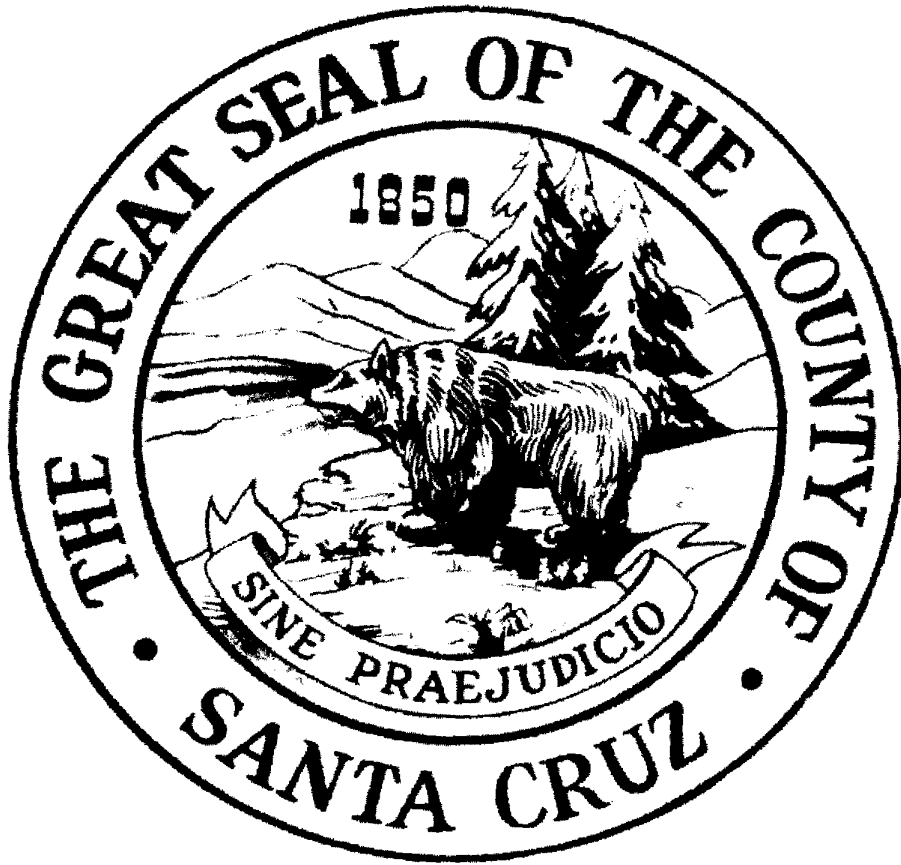
FINANCIAL STATEMENTS

Proprietary Funds – Proprietary Funds consist of Enterprise Funds and Internal Service Funds.

Enterprise Funds – The Enterprise Funds are used to account for County operations that are financed and operated in a manner similar to private business enterprises. The intent of the County in using this type of fund is to determine that the costs (expenses, including depreciation) of providing these services to the general public on a continuing basis are financed or recovered primarily through user charges.

County Disposal Sites CSA 9C – The County Disposal Sites CSA 9C Fund is used to account for the activities of the County's refuse utility, which provides refuse pick-up services, recycling services, and a sanitary landfill for residents of the County.

Internal Service Funds – The Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.



COUNTY OF SANTA CRUZ
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2017

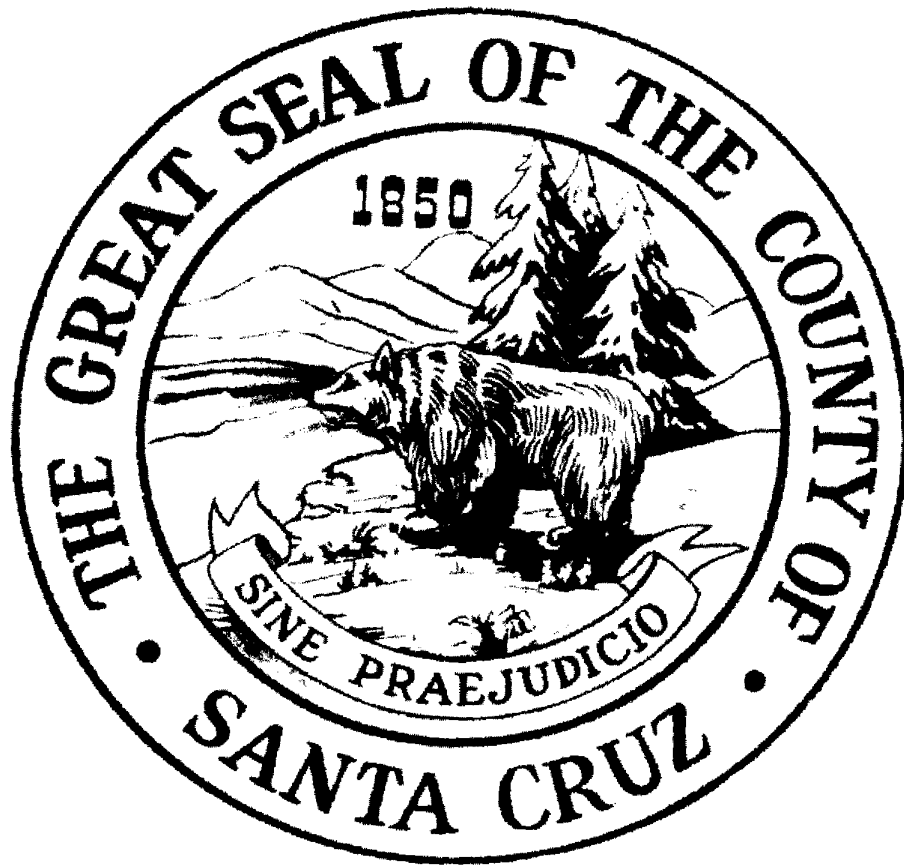
	Business-Type Activities –Enterprise Funds			Governmental Activities Internal Service Funds
	County Disposal Sites C S A 9C	Nonmajor Enterprise Funds	Total	
ASSETS				
Current assets:				
Cash and investments	\$ 3,501,933	\$ 5,819,251	\$ 9,321,184	\$ 37,190,971
Restricted cash	7,340,022	16,668	7,356,690	-
Receivables	814,180	170,754	984,934	3,845,111
Due from other funds	-	-	-	1,908,585
Deposits with others	-	-	-	150,000
Inventory	129,239	-	129,239	446,504
Prepaid items	-	-	-	81,434
Total current assets	11,785,374	6,006,673	17,792,047	43,622,605
Noncurrent assets:				
Loans receivable	-	48,837	48,837	-
Capital assets:				
Non-depreciable:				
Land	1,858,849	-	1,858,849	97,087
Construction in progress	-	752,030	752,030	409,152
Depreciable:				
Buildings and structures	32,454,380	19,080,596	51,534,976	3,711,604
Equipment	9,539,104	213,350	9,752,454	29,669,012
Accumulated depreciation	(26,916,497)	(9,529,273)	(36,445,770)	(23,374,357)
Capital assets, net	16,935,836	10,516,703	27,452,539	10,512,498
Total noncurrent assets	16,935,836	10,565,540	27,501,376	10,512,498
Total assets	28,721,210	16,572,213	45,293,423	54,135,103
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension	2,266,694	-	2,266,694	13,745,976
Total deferred outflows of resources	2,266,694	-	2,266,694	13,745,976
LIABILITIES				
Current liabilities:				
Payables	528,465	297,675	826,140	6,204,218
Advances from other funds	108,067	-	108,067	-
Current portion of long-term liabilities	254,707	47,919	302,626	-
Capital leases	1,275	-	1,275	457,790
Claims liability	-	-	-	10,424,128
Compensated absences, due within one year	-	-	-	3,472,681
Total current liabilities	892,514	345,594	1,238,108	20,558,817
Noncurrent liabilities:				
Long-term liabilities	6,295,017	192,102	6,487,119	-
Capital leases	2,197	-	2,197	1,499,089
Claims liability	-	-	-	26,333,000
Closure and postclosure care costs liability	6,504,691	-	6,504,691	-
Compensated absences, due in more than one year	-	-	-	1,170,935
Net pension liability	7,073,258	-	7,073,258	44,360,179
Total noncurrent liabilities	19,875,163	192,102	20,067,265	73,363,203
Total liabilities	20,767,677	537,696	21,305,373	93,922,020
DEFERRED INFLOWS OF RESOURCES				
Deferred pension	846,324	-	846,324	5,502,111
Total deferred inflows of resources	846,324	-	846,324	5,502,111
NET POSITION				
Net investment in capital assets	10,382,640	10,341,818	20,724,458	7,466,905
Restricted for:				
Debt service	337,211	43,427	380,638	-
Unrestricted	(1,345,948)	5,649,272	4,303,324	(39,009,957)
Total net position	\$ 9,373,903	\$ 16,034,517	25,408,420	\$ (31,543,052)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			1,028,964	
Net Position of Business-Type Activities per Government-Wide Financial Statements			<u>\$ 26,437,384</u>	

See accompanying Notes to Basic Financial Statements.

COUNTY OF SANTA CRUZ
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities – Enterprise Funds			Governmental Activities Internal Service Funds
	County Disposal Sites CSA 9C	Nonmajor Enterprise Funds	Total	
OPERATING REVENUES:				
Charges for services	\$ 12,309,247	\$ 3,328,266	\$ 15,637,513	\$ 71,404,618
Provision of insured events for prior years	-	-	-	2,247,000
Other revenues	719,834	-	719,834	5,291,881
Total operating revenues	<u>13,029,081</u>	<u>3,328,266</u>	<u>16,357,347</u>	<u>78,943,499</u>
OPERATING EXPENSES:				
Salaries and employee benefits	-	-	-	38,447,248
Services and supplies	12,106,514	2,889,798	14,996,312	14,466,907
Insurance and compensation claims	-	-	-	18,154,151
Depreciation and amortization	1,399,010	493,527	1,892,537	2,318,835
Total operating expenses	<u>13,505,524</u>	<u>3,383,325</u>	<u>16,888,849</u>	<u>73,387,141</u>
Operating income (loss)	<u>(476,443)</u>	<u>(55,059)</u>	<u>(531,502)</u>	<u>5,556,358</u>
NONOPERATING REVENUES (EXPENSES):				
Interest and investment income	83,592	50,394	133,986	244,733
Property taxes	-	31,861	31,861	-
Gain on disposal of capital assets	-	-	-	2,100
Interest expense	(357,931)	(7,803)	(365,734)	(126,800)
Total nonoperating revenues (expenses)	<u>(274,339)</u>	<u>74,452</u>	<u>(199,887)</u>	<u>120,033</u>
Income (loss) before contributions and transfers	<u>(750,782)</u>	<u>19,393</u>	<u>(731,389)</u>	<u>5,676,391</u>
Capital contributions	341,882	327,585	669,467	-
Transfers in	-	-	-	554,527
Transfers out	(386,892)	-	(386,892)	-
Change in net position	<u>(795,792)</u>	<u>346,978</u>	<u>(448,814)</u>	<u>6,230,918</u>
Net position –beginning	10,433,652	15,687,539	26,121,191	(37,773,970)
Prior period adjustment	<u>(263,957)</u>	<u>-</u>	<u>(263,957)</u>	<u>-</u>
Net position –beginning, as restated	<u>10,169,695</u>	<u>15,687,539</u>	<u>25,857,234</u>	<u>(37,773,970)</u>
Net position –ending	<u>\$ 9,373,903</u>	<u>\$ 16,034,517</u>	<u>25,408,420</u>	<u>\$ (31,543,052)</u>
Change in Net Position of Business-Type Activities			(448,814)	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>256,408</u>	
Change in Net Position of Business-Type Activities per Government-Wide Financial Statements			<u>\$ (192,406)</u>	

See accompanying Notes to Basic Financial Statements.



COUNTY OF SANTA CRUZ
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

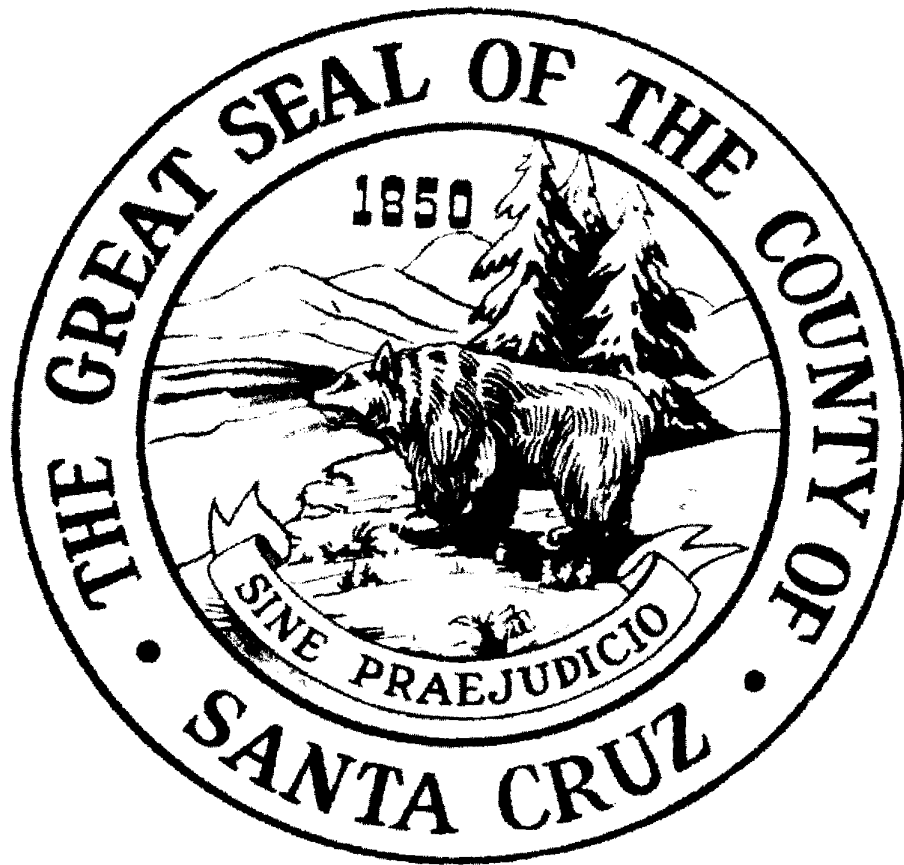
	Business-Type Activities – Enterprise Funds			Governmental Activities Internal Service Funds
	County Disposal Sites CSA 9C	Nonmajor Enterprise Funds	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 12,723,959	\$ 3,646,269	\$ 16,370,228	\$ 30,079,059
Receipts from interfund charges for services	-	-	-	39,054,984
Payments to suppliers for goods and services	(4,820,969)	(1,992,411)	(6,813,380)	(20,577,184)
Payments to employees for salaries and benefits	-	-	-	(36,736,211)
Payments to other funds for services provided	(7,089,260)	(1,020,092)	(8,109,352)	-
Payments for judgments and claims	-	-	-	(10,586,154)
Other payments	-	-	-	4,258,544
Net cash provided by operating activities	<u>813,730</u>	<u>633,766</u>	<u>1,447,496</u>	<u>5,493,038</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers from other funds	(386,892)	-	(386,892)	554,527
Operating grants	398,059	-	398,059	-
Property taxes	-	31,861	31,861	-
Subsidies from other governmental agencies	-	157,316	157,316	-
Net cash provided by noncapital financing activities	<u>11,167</u>	<u>189,177</u>	<u>200,344</u>	<u>554,527</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(103,449)	(560,230)	(663,679)	(2,193,778)
Principal paid on capital debt	(476,142)	(46,693)	(522,835)	(436,614)
Interest paid on capital debt	(264,571)	(7,803)	(272,374)	(126,798)
Proceeds from sale of capital assets	-	-	-	10,098
Net cash used by capital and related financing activities	<u>(844,162)</u>	<u>(614,726)</u>	<u>(1,458,888)</u>	<u>(2,747,092)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	<u>83,592</u>	<u>50,394</u>	<u>133,986</u>	<u>244,733</u>
Net cash provided by investing activities	<u>83,592</u>	<u>50,394</u>	<u>133,986</u>	<u>244,733</u>
Net increase in cash and cash equivalents	<u>64,327</u>	<u>258,611</u>	<u>322,938</u>	<u>3,545,206</u>
CASH AND CASH EQUIVALENTS:				
Beginning of year	<u>10,777,628</u>	<u>5,577,308</u>	<u>16,354,936</u>	<u>33,645,765</u>
End of year	<u>\$ 10,841,955</u>	<u>\$ 5,835,919</u>	<u>\$ 16,677,874</u>	<u>\$ 37,190,971</u>

(Continued)

COUNTY OF SANTA CRUZ
STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Business-Type Activities – Enterprise Funds			Governmental Activities Internal Service Funds
	County Disposal Sites CSA 9C	Nonmajor Enterprise Funds	Total	
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (476,443)	\$ (55,059)	\$ (531,502)	\$ 5,556,358
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	1,399,010	493,527	1,892,537	2,318,835
Changes in assets and liabilities:				
(Increase) decrease in:				
Receivables	(301,555)	161,006	(140,549)	(2,856,531)
Inventory	(3,567)	-	(3,567)	56,186
Prepaid items	-	-	-	(20,331)
Due from other funds	-	-	-	(113,687)
Deferred outflows of resources	(916,826)	-	(916,826)	(5,479,478)
Increase (decrease) in:				
Payables	(230,198)	34,292	(195,906)	3,389,555
Due to other funds	-	-	-	(734,898)
Accrued salaries and benefits	-	-	-	47,890
Compensated absences	-	-	-	(23,782)
Claims and judgments	-	-	-	(2,247,000)
Deferred inflows of resources	(478,949)	-	(478,949)	(2,883,571)
Closure and postclosure care liability	406,382	-	406,382	-
Net pension liability	1,415,876	-	1,415,876	8,483,492
Total adjustments	1,290,173	688,825	1,978,998	(63,320)
Net cash provided by operating activities	<u>\$ 813,730</u>	<u>\$ 633,766</u>	<u>\$ 1,447,496</u>	<u>\$ 5,493,038</u>

See accompanying Notes to Basic Financial Statements.



FIDUCIARY FUND

FINANCIAL STATEMENTS

Fiduciary Funds – The Fiduciary Funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs.

Agency Funds – The Agency Funds are used to account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the County, acting in the capacity of an agent, for distribution to other governmental entities or other organizations.

Investment Trust Fund – The Investment Trust Fund is used to account for the investment pool that is managed by the County Treasurer for the purpose of increasing interest earnings through investment activities.

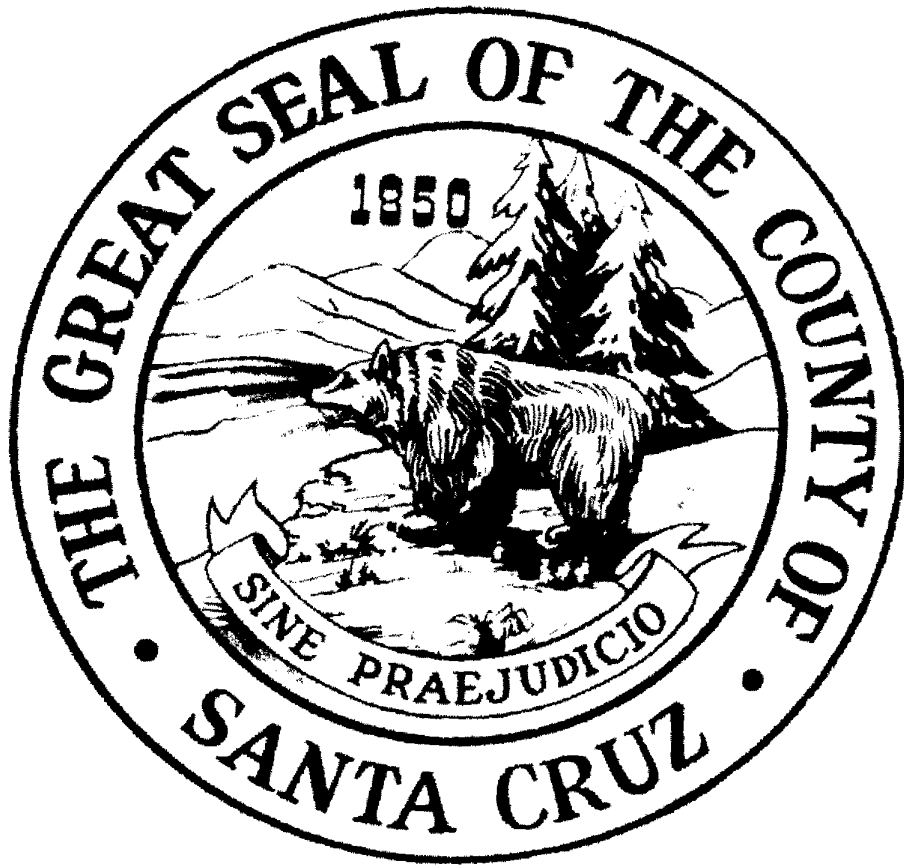
Private Purpose Trust Fund – The Private Purpose Trust Fund is used to report resources of other trust arrangements in which principal and income benefit individuals, private organizations, or other governments.



COUNTY OF SANTA CRUZ
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

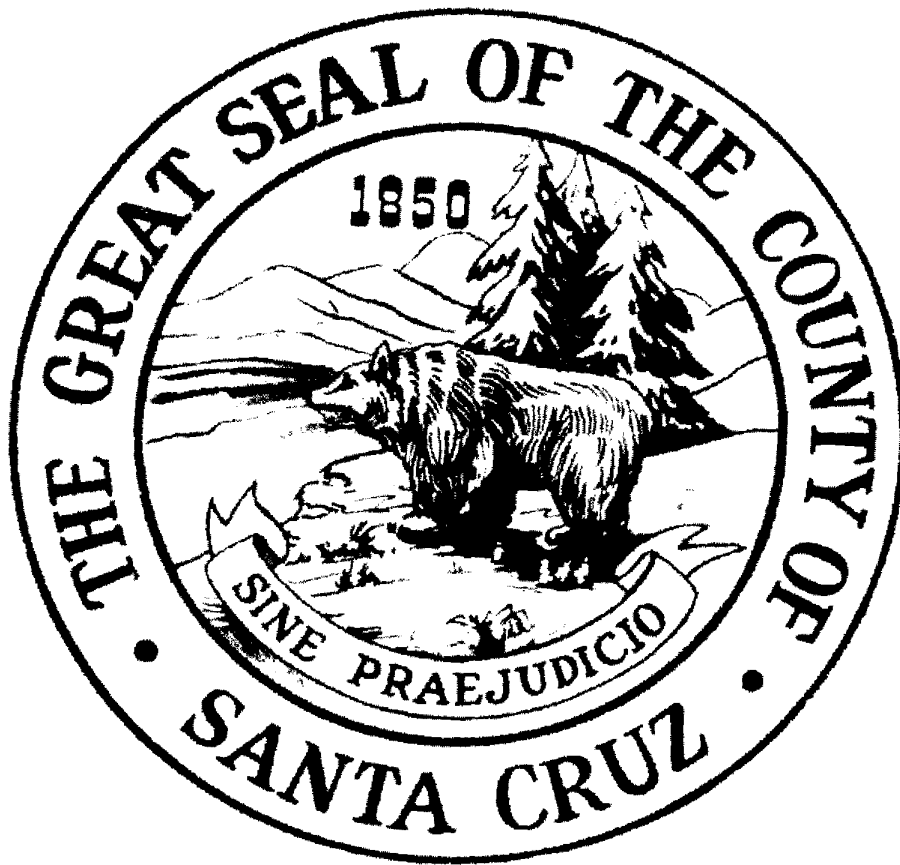
	Agency Funds	Investment Trust Fund	Private Purpose Trust Fund
ASSETS			
Cash and investments	\$ 53,547,289	\$ 552,112,345	\$ 13,224,532
Restricted cash with fiscal agents	-	-	3,483,329
Receivables	11,717,529	-	-
Prepaid insurance	-	-	1,446,071
Capital assets, net	-	-	9,116,907
Total assets	\$ 65,264,818	\$ 552,112,345	\$ 27,270,839
DEFERRED OUTFLOWS OF RESOURCES			
Loss on refunding of debt	\$ -	\$ -	\$ 306,819
Total deferred outflows of resources	\$ -	\$ -	\$ 306,819
LIABILITIES			
Accounts payable	\$ 7,221,446	\$ -	\$ 2,712
Interest payable	-	-	3,480,686
Due to other governmental units	27,022,391	-	-
Agency funds held for others	31,020,981	-	-
Long-term debt	-	-	220,394,703
Total liabilities	\$ 65,264,818	\$ -	\$ 223,878,101
DEFERRED INFLOWS OF RESOURCES			
Deferred tax increment revenue	\$ -	\$ -	\$ 3,758,775
Gain on refunding of debt	-	-	222,748
Total deferred inflows of resources	\$ -	\$ -	\$ 3,981,523
NET POSITION			
Net position held in trust	\$ -	\$ 552,112,345	\$ (200,281,966)

See accompanying Notes to Basic Financial Statements.

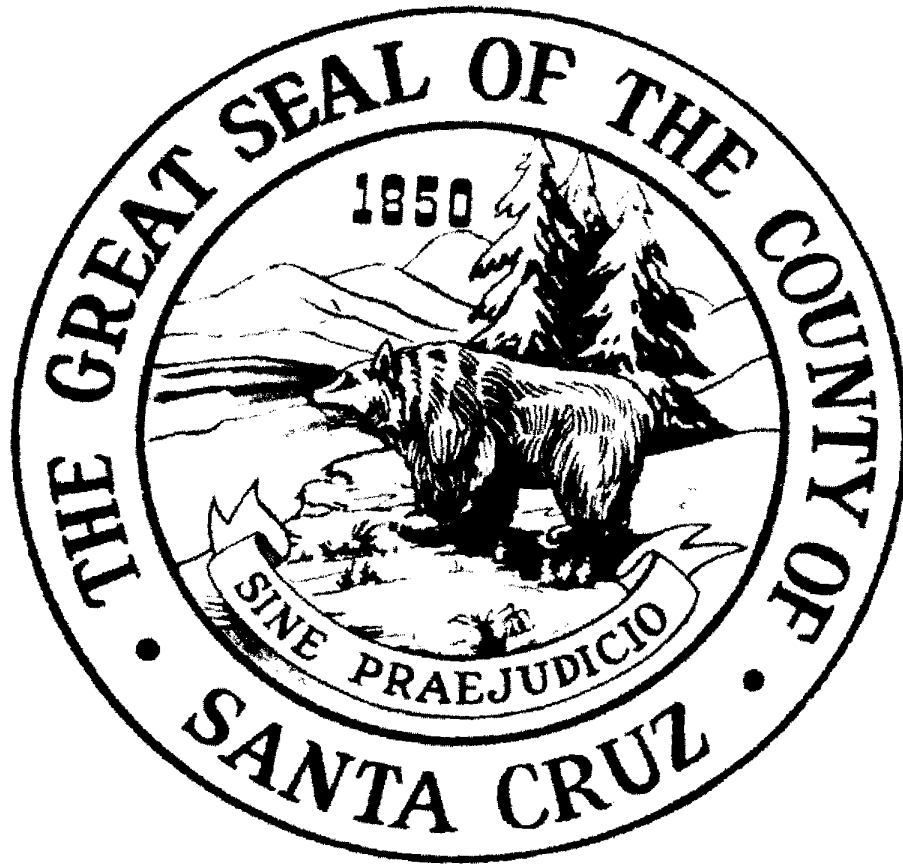


COUNTY OF SANTA CRUZ
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Investment Trust Fund	Private Purpose Trust Fund
ADDITIONS		
Contributions:		
Contributions to investment pool	\$ 1,398,342,974	\$ -
Total contributions	1,398,342,974	-
Investment income	3,637,770	81,019
Tax increment received	-	19,619,257
Other revenue	-	102,491
Total Additions	1,401,980,744	19,802,767
DEDUCTIONS		
Distributions from investment pool	1,275,764,121	-
Payments in accordance with trust agreements	-	21,618,627
Gain on refunding of debt	-	131,404
Total Deductions	1,275,764,121	21,750,031
Change in net position held in trust	126,216,623	(1,947,264)
Net position held in trust – beginning of year	425,895,722	(198,334,702)
Net position held in trust – end of year	\$ 552,112,345	\$ (200,281,966)

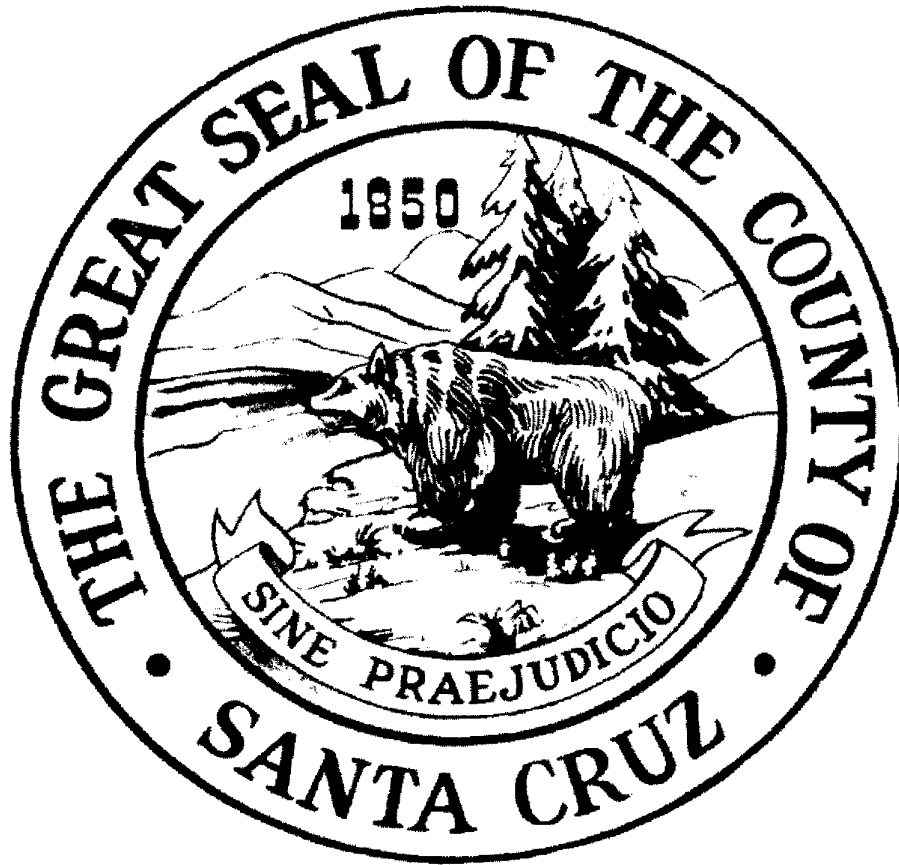


NOTES TO BASIC FINANCIAL STATEMENTS



COUNTY OF SANTA CRUZ
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
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COUNTY OF SANTA CRUZ
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The County of Santa Cruz (County) was established by an act of the State Legislature of California in 1850 and is governed by a five-member elected Board of Supervisors (the Board). The Board is responsible for the legislative and executive control of the County. The County provides various services on a countywide basis including law and justice, education, detention, social, health, hospital, fire protection, road construction, road maintenance, transportation, park and recreation facilities, elections and records, communications, planning, zoning, and tax collection.

As required by accounting principles generally accepted in the United States (GAAP), the accompanying basic financial statements present the County (the primary government) and its component units. Component units are legally separate entities for which the Board is considered to be financially accountable. Component units are entities that meet any one of the following tests:

1. The Board appoints the voting majority of the governing board and:
 - ◆ is able to impose its will on the component unit and/or
 - ◆ is in a relationship of financial benefit or burden with the component unit.
2. The component unit is fiscally dependent upon the County.
3. The financial statements of the County would be misleading if data from the component unit were omitted.

The basic financial statements include both blended and discretely presented component units. The blended component units, although legally separate entities, are, in substance, part of the County's operations and so data from these units are combined with data of the primary government. The discretely presented component unit is reported in a separate column in the Government-Wide Financial Statements since it does not have a shared governing body nor is it of exclusive or almost exclusive benefit to the primary government.

Blended Component Units

The following entities serve citizens of the County and provide for the construction and maintenance of County parks and recreation, police protection, mosquito abatement, fire protection, street lighting, roads, flood control, sewer, and refuse disposal districts. They are reported as if they were part of the primary government because they are governed by the Board. The Board establishes the work program and adopts the budget. Administrative services are provided by various departments of the County.

Santa Cruz Flood Control and Water Conservation District – Zone 7

Santa Cruz Flood Control and Water Conservation District – Zone 7 (Zone 7) was established to provide funding for the local share of proposed Army Corps of Engineers flood control projects on the Pajaro River, Salsipuedes Creek, and Corralitos Creek. Zone 7 is governed by a seven-member board consisting of the Board and two additional members, one appointed by the City of Watsonville and another appointed by the Pajaro Valley Water Management Agency. Administrative services are provided by the County's Department of Public Works. Complete financial statements may be obtained from the Department of Public Works at 701 Ocean Street, Room 410, Santa Cruz, CA 95060.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended Component Units (Continued)

Santa Cruz County Financing Authorities

The Santa Cruz County Financing Authorities (Authorities) facilitate financing for the County. The Authorities are established and governed by the Board and are not legally required to adopt a budget. Administrative services are provided by the County. Complete financial statements may be obtained from the County at 701 Ocean Street, Room 100, Santa Cruz, CA 95060.

Discretely Presented Component Unit

Santa Cruz County Sanitation District

The Santa Cruz County Sanitation District (District) is included as a discretely presented component unit of the County because: 1) the Board appoints the District's governing board, and 2) the District has an ongoing relationship with the County. The District is governed by a three-member governing board and managed by the County's Department of Public Works under the direction of the District Board of Directors. The District, as a component unit, is presented separately from the primary government in the Government-Wide Financial Statements. Administrative services are provided by the County Department of Public Works and central support departments (i.e., personnel, purchasing, treasury, etc.). Complete financial statements may be obtained from the County, 701 Ocean Street, Room 410, Santa Cruz, CA 95060.

Districts Governed by the Board of Supervisors

Public Protection

- Aptos Seascape County Service Area (CSA) 3
- County Fire Protection CSA 48
- Police Protection CSA 38
- Pajaro Storm Drain Maintenance District
- Pajaro Dunes Fire Protection CSA 4
- Pajaro Dunes Station Maintenance Fund
- Pajaro Dunes Station Assessment District Reserve
- Santa Cruz County Flood Control and Water Conservation Zone 4
- Santa Cruz County Flood Control and Water Conservation Zone 5
- Santa Cruz County Flood Control and Water Conservation Zone 6
- Santa Cruz County Flood Control and Water Conservation Zone 8
- Santa Cruz County Flood Control and Water Conservation Zone – General

Health and Sanitation

- Pasatiempo Rolling Woods Sewer District

Recreation and Culture

- Streetscape CSA 9E
- Parks and Recreation District CSA 11
- CSA 11 Zone E
- CSA 11L Lompico Community

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Public Ways and Facilities

- County Highway Lighting CSA 9
- County Highway Residential Lighting CSA 9 Zone A
- School Crossing Guard CSA 9 Zone B
- County Road Maintenance CSA 9D Zone 1
- County Road Maintenance CSA 9D Zone 2
- CSA 9D Zone 3
- Soquel Village CSA 9F
- Hutchinson Road CSA 13
- Oakflat Road CSA 13A
- Huckleberry Woods Road CSA 15
- Robak Drive CSA 16
- Empire Acres CSA 17
- Whitehouse Canyon CSA 18
- Westdale Drive CSA 21
- Kelly Hill CSA 22
- Old Ranch Road CSA 23
- Pineridge CSA 24
- Viewpoint Road CSA 25
- Hidden Valley CSA 26
- Lomond Terrace CSA 28
- Glenwood Acres CSA 30
- View Circle CSA 32
- Soquel Village Parking Improvement
- Underground Utilities #4-41st Ave.
- Redwood Drive CSA 33
- Larsen Road CSA 34
- County Estates CSA 35
- Forest Glen CSA 36
- Roberts Road CSA 37
- Reed Street CSA 39
- Rakston Way CSA 40
- Loma Prieta CSA 41
- Sunlit Lane CSA 42
- Bonita-Encino Drive CSA 43
- Sunbeam Woods CSA 44
- Pinecrest CSA 46
- Braemoor CSA 47
- Vineyard CSA 50
- Hopkins Gulch CSA 51
- Upper Pleasant Valley CSA 52
- Mosquito Abatement CSA 53
- Riverdale Park Road CSA 55
- Felton Grove CSA 56
- Mansfield Street Assessment Dist.
- Ridge Drive CSA 58
- McGaffigan Mill Road CSA 59

Geologic Hazard Abatement Districts (GHAD)

- Corralitos GHAD
- Mid-County GHAD
- Heartwood GHAD

The following Board of Supervisors Governed District funds are reported as Enterprise Funds (Sewer and Refuse Disposal Districts):

- Boulder Creek CSA 7
- Rolling Woods CSA 10
- Septic Tank Maintenance CSA 12
- Freedom County Sanitation District
- Davenport County Sanitation District
- County Disposal Sites CSA 9C
- Place De Mer CSA 2
- Sand Dollar Beach CSA 5
- Trestle Beach CSA 20
- Summit West CSA 54
- Graham Hill CSA 57

B. Basis of Accounting and Measurement Focus

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the County's accounting policies are described below. The accounting policies of the County conform to GAAP for local governmental units. The accounts of the County are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and means by which spending activities are controlled.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

New Accounting Pronouncements

The following GASB Statements have been implemented in the current financial statements:

GASB Statement No. 74

The objective of GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) that are administered through trusts that meet the specified criteria. The requirements of this statement are effective for the County's fiscal year beginning after June 15, 2016. This statement has no significant impact on the County's financial statements.

GASB Statement No. 77

GASB Statement No. 77, Tax Abatement Disclosures, requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The requirements of this statement are effective for the County's fiscal year beginning after December 15, 2015. The effect of this statement can be seen in the Tax Abatements note.

GASB Statement No. 78

GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans. The requirements of this statement are effective for the County's fiscal year beginning after December 15, 2015. This statement has no significant impact on the County's financial statements.

GASB Statement No. 80

GASB Statement No. 80, Blending Requirements for Certain Component Units. The requirements of this statement are effective for the County's fiscal year beginning after June 15, 2016. This statement has no significant impact on the County's financial statements.

GASB Statement No. 82

GASB Statement No. 82, Pension Issues. The requirements of this statement are effective for the County's fiscal year beginning after June 15, 2016. This statement has no significant impact on the County's financial statements.

Upcoming Accounting Pronouncements

The following GASB Statements will become effective for fiscal years subsequent to June 30, 2017. The County is currently analyzing its accounting practices to determine the potential impact on the financial statements for these GASB Statements.

GASB Statement No. 75

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, addresses accounting and financial reporting requirements for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this statement are effective for the County's fiscal year beginning after June 15, 2017.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Upcoming Accounting Pronouncements (Continued)

GASB Statement No. 81

GASB Statement No. 81, Irrevocable Split-Interest Agreements, provides recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-interest agreement. The requirements of this statement are effective for the County's fiscal year beginning after December 15, 2016.

GASB Statement No. 83

GASB Statement No. 83, Certain Asset Retirement Obligations, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. The requirements of this statement are effective for the County's fiscal year beginning after June 15, 2018.

GASB Statement No. 84

GASB Statement No. 84, Fiduciary Activities, provides improved guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. The requirements of this statement are effective for the County's fiscal year beginning after December 15, 2018.

GASB Statement No. 85

GASB Statement No. 85, Omnibus 2017, addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The impact of implementation on the County's financial statements has not been fully judged. The requirements of this statement are effective for the County's fiscal year beginning after June 15, 2017.

GASB Statement No. 86

GASB Statement No. 86, Certain Debt Extinguishment Issues, is intended to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The requirements of this statement are effective for the County's fiscal year beginning after June 15, 2017.

GASB Statement No. 87

GASB Statement No. 87, Leases, addresses accounting and financial reporting for leases that were previously reported as operating leases by establishing a single model for lease accounting. The impact of implementation on the County's financial statements has not been fully judged. The requirements of this statement are effective for the County's fiscal year beginning after December 15, 2019.

Government-Wide Financial Statements

The County's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental and business-type activities for the County accompanied by a total column, as well as its discretely presented component unit. Fiduciary activities of the County are not included in these statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Government-Wide Financial Statements (Continued)

These basic financial statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the County’s assets, deferred outflows of resources, liabilities, and deferred inflows of resources including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the County in three categories:

- Fees, fines, and charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column, if any. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to and from other funds
- Advances to and from other funds
- Transfers in and out

The County prepares a County-wide cost allocation plan in accordance with Federal Office of Management and Budget (OMB) Circular A-87. Using this directive, all indirect support costs are allocated to County funds and departments using a step-down method so that the true cost of operations can be included in determining the rates to be charged to users.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds and nonmajor funds are aggregated. The County has presented all major funds that met the applicable criteria.

The County reports the following major governmental funds:

General Fund – The County’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other specialized funds.

Housing Fund – accounts for the County’s housing developments and loans. Revenues come from State and Federal awards and grants, and offsets from major housing projects as well as housing impact fees.

Capital Projects Fund – used to account for the construction or acquisition of capital assets such as land, construction-in-progress, buildings and improvements, improvements other than buildings, and infrastructure. Revenues are provided by County Lease Revenue bonds as well as contributions from the former Redevelopment Agency per the County-Redevelopment Agency Cooperation Agreement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements (Continued)

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balance. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

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 or within 60 days after year-end for property tax revenues, and 180 days after year-end with limited exceptions extending the availability period for certain grant revenues. 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.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

Reconciliations of the Governmental Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Fund Net Position; and a Statement of Cash Flows for all proprietary funds. The County reports the following major proprietary funds:

County Disposal Sites CSA 9C Fund – Accounts for the operation and expansion of the County’s landfills and implementation of state mandated environmental health programs. User fees, service area charges, and revenues from the waste recovery and recycling projects finance the fund.

Internal Service Funds – Accounts for central duplicating, information services, public works, fleet management, and self-insurance services provided to other departments, or to other governments, on a cost reimbursement basis. Internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

The other proprietary funds provide sewer collection, treatment, and disposal services as well as septic tanks and water treatment within their area of service, along with unincorporated parts of the County.

Proprietary funds are accounted for using the “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Position for all Agency Funds, the Investment Trust Fund, and the Private Purpose Trust Fund and a Statement of Changes in Net Position for the Investment Trust Fund and the Private Purpose Trust Fund. The County reports the following fiduciary funds:

Agency Funds – Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are accounted for using the accrual basis accounting. These funds, including State and County revenue funds, tax collection funds, deposit funds, and clearing and revolving funds, account for assets held by the County in an agency capacity for individuals or other government units.

Investment Trust Fund – Accounts for the external portion of the County Treasurer's investment pool, which commingles resources of legally separate local governments with the County in an investment portfolio for the benefit of all participants.

Private Purpose Trust Fund – Reports resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Private purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting. This fund is used to report the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and activities of the County of Santa Cruz Redevelopment Successor Agency.

C. Cash, Cash Equivalents, and Investments

The County's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The County participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk as well as to changes in interest rates.

In accordance with GASB Statement No. 40, Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3), certain disclosure requirements, if applicable, are provided for deposit and investment risk in the following areas:

- Interest Rate Risk
- Credit Risk
 - ◆ Overall
 - ◆ Custodial Credit Risk
 - ◆ Concentration of Credit Risk
- Foreign Currency Risk

All cash and investments of proprietary funds are held in the County's investment pool. Therefore, all cash and investments in the proprietary funds are considered cash and cash equivalents for purposes of the Statement of Cash Flows as these cash pools have the general characteristic of a demand deposit account.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e., current portion of interfund loans) or “advances from/to other funds” (i.e., noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as “internal balances.”

E. Inventories and Prepaid Items

Inventories within the various fund types consist of materials and supplies which are valued at cost on a first-in, first-out basis. Cost is determined by the weighted average cost method. A reservation of fund balance has been reported in the governmental funds to show that inventories do not constitute “available spendable resources.”

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed, rather than when purchased. A reservation of fund balance has been reported in the governmental funds to show that prepaid amounts do not constitute “available spendable resources.”

F. Capital Assets

Government-Wide Financial Statements

Capital assets, which include land, construction-in-progress, buildings and improvements, improvements other than buildings, machinery and equipment, autos and trucks, equipment under capitalized leases, and infrastructure assets (e.g., roads, bridges, traffic signals, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. County policy has set the capitalization threshold for reporting capital assets at \$5,000 (for equipment and vehicles) and \$25,000 (for infrastructure, buildings, and structures). Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated assets are valued at their estimated fair market value on the date donated.

Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Infrastructure	4-65 years
Buildings and structures	10-50 years
Equipment and vehicles	2-15 years

For infrastructure systems, the County elected to use the “Basic Approach” as defined by GAS B Statement No. 34 for infrastructure reporting.

The County defines infrastructure as the basic physical assets that allow the County to function. The assets include streets, bridges, sidewalks, drainage systems, lighting systems, etc. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curbs and gutters, sidewalks, medians, streetlights, landscaping, and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest on construction-related debt incurred during the period of construction is capitalized as a cost of the constructed assets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets (Continued)

Government-Wide Financial Statements (Continued)

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

Fund Financial Statements

The Governmental Fund Financial Statements do not present General Government capital assets. Consequently, capital assets are shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

The capital assets of the enterprise funds in the Proprietary Fund Financial Statements are the same as those shown in the business-type activities of the Government-Wide Financial Statements. Internal Service Funds' capital assets are combined with governmental activities.

G. Land Held for Resale

Land held for resale is carried at cost. An amount equal to the carrying value of land is reported in the nonspendable fund balance because such assets are not available to finance the County's current operations.

H. Deferred Outflows and Inflows of Resources

The County recognizes deferred outflows of resources and deferred inflows of resources in accordance with GASB Statement No. 63 and GASB Statement No. 65. Deferred outflows and inflows of resources were items previously reported as assets and liabilities and are defined as "a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively."

I. Long-Term Debt

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in Government-Wide Financial Statements and the Proprietary Fund Financial Statements.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Debt issuance costs should be reported as expenses in the period incurred.

Fund Financial Statements

The Governmental Fund Financial Statements do not present long-term debt. As such, long-term debt is shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

Government-Wide Financial Statements

For governmental and business-type activities, compensated absences are recorded as incurred and the related expenses and liabilities are reported.

Fund Financial Statements

In governmental funds, compensated absences are recorded as expenditures in the year paid, as it is the County's policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial resources. In proprietary funds, compensated absences are expensed to the various funds in the period they are earned, and such fund's share of the unpaid liability is recorded as a long-term liability of the fund. Vested or accumulated compensated absences in proprietary funds are recorded as an expense and liability of those funds as the benefits accrue to employees. Accrued but unpaid liabilities at year-end are recorded in the respective funds.

K. Claims Payable

The County records a liability to reflect an actuarial estimate of ultimate uninsured losses for both general liability claims (including property damage claims) and workers' compensation claims. The estimated liability for workers' compensation claims and general liability claims includes "incurred but not reported" (IBNR) claims. There is no fixed payment schedule to pay these liabilities.

L. Pensions

In government-wide financial statements, retirement plans (pensions) are required to be recognized and disclosed using the accrual basis of accounting (see the Pension Plans note and the required supplementary information (RSI) on page 121 of this report), regardless of the amount recognized as pension expenditures on the governmental fund financial statements, which use the modified accrual basis of accounting.

In general, the County recognizes a net pension liability, which represents the County's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial report provided by the California Public Employees' Retirement System (CalPERS). The net pension liability is measured as of the County's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability and deferred outflows/inflows of resources relating to pensions and pension expense, information about the fiduciary net position of the County's pension plan with CalPERS and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefits terms. Investments are reported at fair value.

Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Net Position and Fund Balances

Government-Wide Financial Statements – In the Government-Wide Financial Statements, net position is classified in the following categories:

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

Restricted Net Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that does not meet the definition of “net investment in capital assets” or “restricted net position.”

Fund Financial Statements – In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the County is bound to honor constraints on how specific amounts can be spent.

Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.

Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the County’s highest level of decision-making authority (the Board of Supervisors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

The establishment of a committed fund balance requires the passage of a resolution by a simple majority vote. Board action is required to change or remove the commitment. The Board resolution shall identify the title of the commitment, describe the specific purpose for the commitment, and the actual amount of the commitment or the process or formula necessary to calculate the actual amount. Funding for Committed fund balance shall be appropriated annually by the Board as part of the budget approval process.

Assigned fund balance – amounts that are constrained by the County’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, or by a body or an official designated for that purpose.

The Board has the authority to assign funds for a specific purpose with a simple majority vote. The same action is required to change or remove an assignment.

The County Administrative Officer also has the authority to assign funds for specific purposes, and to change or remove the assignment. The establishment, change, or removal of an assignment by the County Administrative Officer must be reported to the Board at the next Board meeting. The Board may change or remove an assignment established by the County Administrative Officer with a simple majority vote.

An appropriation of existing fund balance to eliminate a projected budgetary deficit in the subsequent year’s budget may be classified as assigned fund balance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Net Position and Fund Balances (Continued)

Unassigned fund balance – the residual classification for the County’s General Fund that includes amounts not contained in the other classifications. The General Fund is the only fund that can report a positive unassigned fund balance amount. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, and it may be necessary to report a negative unassigned fund balance in that fund.

The County considers restricted fund balances to be spent first when both restricted and unrestricted resources are available for use. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the County considers Committed amounts to be reduced first, followed by Assigned amounts, and then Unassigned amounts.

Fund Balance Policy – The County believes that sound financial management principles require that sufficient funds be retained by the County to provide a stable financial base at all times. To retain this stable financial base, the County needs to maintain unrestricted fund balance in its County funds sufficient to fund cash flows of the County and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

The purpose of the County’s fund balance policy is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures.

The County has adopted a policy to achieve and maintain committed and assigned fund balance categories of no less than 7% of the upcoming budget year’s estimated revenues.

Additional detailed information, along with the complete Fund Balance Policy, can be obtained from the County Auditor-Controller-Treasurer-Tax Collector’s office located at 701 Ocean Street, Room 100, Santa Cruz, CA 95060.

Reserve for Working Capital

The County has established a separate committed fund balance account known as the Reserve for Working Capital. Funding for the Reserve for Working Capital is established by a resolution of the Board, and will be approved annually by the Board during the budget approval process.

The County’s Reserve for Working Capital is to be used only if the Board declares a fiscal emergency. Any use of funds requires a four-fifths vote of the Board appropriating the funds.

As of June 30, 2017, the County’s Reserve for Working Capital fund balance was \$6,000,000 and is included in the General Fund.

Reserve for Economic Uncertainty

The County has established a separate committed fund balance account known as the Reserve for Economic Uncertainty. Funding for the Reserve for Economic Uncertainty is established by a resolution of the Board, and will be approved annually by the Board during the budget approval process.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Net Position and Fund Balances (Continued)

Reserve for Economic Uncertainty (Continued)

The County's Reserve for Economic Uncertainty is to be used only during recessions or periods of economic distress as measured by periods of time when the local unemployment rate exceeds 8% and/or the rate of inflation exceeds the growth in property taxes. Any use of funds requires a four-fifths vote of the Board appropriating the funds.

As of June 30, 2017, the County's Reserve for Economic Uncertainty fund balance was \$10,000,000 and is included in the General Fund.

Reserve for Natural Disasters

The County has established a separate committed fund balance account known as the Reserve for Natural Disasters. Funding for the Reserve for Natural Disasters is established by a resolution of the Board, and will be approved annually by the Board during the budget approval process.

The purpose of the County's Reserve for Natural Disasters is to fund the extraordinary operating costs, legal costs, and cash flow problems associated with delays in State and Federal reimbursements for any natural disaster declared by the County's Director of Emergency Services and subsequently ratified by the Board, and the State of California or the Federal government. Any use of funds requires a four-fifths vote of the Board appropriating the funds.

As of June 30, 2017, the County's Reserve for Natural Disasters fund balance was \$2,000,000 and is included in the General Fund.

N. Property Tax Levy, Collection, and Maximum Rates

The State of California Constitution, Article XIII A provides that the combined maximum property tax rate on any given property may not exceed 1% of its assessed value unless an additional amount for general obligation debt has been approved by the voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be increased by no more than 2% per year unless the property is sold or transferred. These general property tax rates do not apply to taxes levied to pay the interest and redemption charges on any indebtedness incurred prior to June 6, 1978, or subsequently approved by the voters. Supplemental property taxes are levied on a pro rata basis when changes in assessed valuation occur due to sales transactions or the completion of construction. The State Legislature has determined the method of distribution among the counties, cities, school districts, and other districts of receipts from the 1% property tax levy.

The County assesses properties, bills for, and collects taxes as follows:

	Secured	Unsecured
Levy Dates	July 1	July 1
Lien Dates	January 1	January 1
Due Dates	November 1 and February 1	August 1
Delinquent After	December 10 and April 10	August 31
Tax Rate Per \$100		
Full Cash Value	\$1	\$1
Late Penalty	10%	10%
Delinquent Interest	1-1.5% per month	1-1.5% per month

NOTE 1 –SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Property Tax Levy, Collection and Maximum Rates (Continued)

These taxes are secured by liens on the property being taxed. The Board annually sets the rates of the County and district taxes and levies County and district taxes as provided by law. The term “secured” refers to taxes on land and buildings, while “unsecured” refers to taxes on personal property other than land and buildings. During fiscal year 1993–1994, the Board adopted the Alternative Method of Tax Apportionment (the Teeter Plan). Under this method, the County allocates to all taxing jurisdictions under the County 100% of the secured property taxes billed, even if it has not yet been collected. In return, the County retains the subsequent delinquent payments and associated penalties and interest. The penalties and interest are accumulated in an Agency Fund. The County may transfer to the General Fund any excess over the reserve required by the Board and the State.

Delinquent property taxes receivable are shown on the Statement of Net Position of the property tax collections funds reported in the Agency Funds. Under California law, real property is not subject to sale for reasons of delinquent taxes until the end of the fifth year of delinquency, and the taxpayer may arrange to repay the delinquent taxes over a five year period and any time within the five year period, although the property is subject to a cash redemption up to the time of the sale.

Secured property taxes are recorded as revenue when apportioned in the fiscal year of the levy. The County apportions secured property tax revenue in accordance with the alternate method of distribution prescribed by Section 4705 of the State of California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll.

Under the alternate apportionment method, specified amounts of penalties and interest collected on delinquent secured taxes are held in trust in the secured tax losses reserve fund to fund specified tax redemption shortfalls.

O. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the related reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 –CASH AND INVESTMENTS

The County sponsors an investment pool that is managed by the County Treasurer for the purpose of increasing interest earnings through investment activities. Cash and investments for most County activities are included in the investment pool. Interest earned on the investment pool is distributed to the participating funds monthly using a formula based on the average daily cash balance of each fund. Interest earned through June 30, 2017, was distributed on June 30, 2017.

NOTE 2 – CASH AND INVESTMENTS (Continued)

The following is a summary of cash and investments at June 30, 2017:

	Government-Wide Statement of Net Position			
	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Santa Cruz County Sanitation District
Cash and Investments	\$ 211,407,554	\$ 9,321,184	\$ 220,728,738	\$ 10,385,721
Restricted Cash and Investments	11,750,266	7,356,690	19,106,956	969,937
Total Cash and Investments	\$ 223,157,820	\$ 16,677,874	\$ 239,835,694	\$ 11,355,658
	Fiduciary Funds			
	Agency Funds	Investment Trust Fund	Private Purpose Trust Fund	County Total
Cash and Investments	\$ 53,547,289	\$ 552,112,345	\$ 13,224,532	\$ 849,998,625
Restricted Cash and Investments	-	-	3,483,329	23,560,222
Total Cash and Investments	\$ 53,547,289	\$ 552,112,345	\$ 16,707,861	\$ 873,558,847

	Cash and Investments	Restricted Cash and Investments	Total
Primary Government and Fiduciary Funds:			
Cash on hand or imprest cash	\$ 1,762,650	\$ -	\$ 1,762,650
Cash deposits in treasury pool	28,482,515	-	28,482,515
Investments in treasury pool	809,367,739	-	809,367,739
Restricted investments in other pools	-	15,250,263	15,250,263
Restricted cash deposits in treasury pool:			
County Disposal Sites CSA 9C	-	7,340,022	7,340,022
Total	839,612,904	22,590,285	862,203,189
Component Unit:			
Investments in treasury pool	10,385,721	-	10,385,721
Restricted investments in other banks	-	969,937	969,937
Total	10,385,721	969,937	11,355,658
Total cash and investments	\$ 849,998,625	\$ 23,560,222	\$ 873,558,847

NOTE 2 – CASH AND INVESTMENTS (Continued)

At June 30, 2017, the County's cash on hand, deposits, and investments consisted of:

	Treasury Pool	Other Banks/ Investment Pools	Total
Primary Government and Fiduciary Funds:			
Cash on hand or imprest cash	\$ 60,536	\$ 1,702,114	\$ 1,762,650
Deposits	28,482,515	–	28,482,515
Investments	816,158,514	15,799,510	831,958,024
Total Primary Government	844,701,565	17,501,624	862,203,189
Component Unit:			
Investments	10,385,721	969,937	11,355,658
Total Component Unit	10,385,721	969,937	11,355,658
Total Reporting Entity	\$ 855,087,286	\$ 18,471,561	\$ 873,558,847

The carrying amounts of the County's cash deposits were \$28,482,515 at June 30, 2017, of which the bank balances were fully insured or collateralized with securities held by the pledging financial institutions in the County's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the County's cash deposits by pledging securities as collateral. This California Government Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the County's name.

The fair value of pledged securities must equal at least 110% of the County's cash deposits. State law also allows institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the County's total cash deposits. The County may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The County, however, has not waived the collateralization requirements.

NOTE 2 – CASH AND INVESTMENTS (Continued)

A. Investments

The table below identifies the investment types that are authorized for the County by the California Government Code or the County's investment policy, where more restrictive. The table also identifies certain provisions of the County's investment policy that address interest rate risk, credit risk, and concentration risk.

Authorized Investment Types	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local agency bonds	5 years	10%	None
U.S. Treasury obligations	5 years	100%	None
U.S. Government Agency obligations	5 years	100%	25%
Bankers' acceptances	180 days	40%	10%
Commercial paper	270 days	25%	10%
Negotiable certificates of deposit	5 years	30%	10%
Bank deposit	5 years	10%	10%
Repurchase agreements	1 year	100%	10%
Medium-term notes	5 years	30%	10%
Mutual funds/money market mutual funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	\$65 million	None
Joint Powers Authority investment funds	N/A	25%	10%
Supranationals	5 years	30%	10%

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, investments were stated at cost, as the fair value adjustment at year-end was immaterial.

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the County's investment policy.

B. Interest Rate Risk

The County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its investment policy.

At June 30, 2017, the County had the following investment maturities:

Investment Type	Fair Value	Investment Maturities (In Years)				
		Less than 1	1 to 2	2 to 3	3 to 4	More than 4
U.S. Treasury Securities	\$ 314,658,348	\$ 149,841,930	\$ 128,271,428	\$ 16,780,190	\$ 19,764,800	\$ –
Federal Agency Securities	283,244,403	123,884,210	159,360,193	–	–	–
Medium-Term Notes – Other	57,359,088	37,530,188	9,947,400	9,881,500	–	–
Money Market Mutual Funds	5,009,647	5,009,647	–	–	–	–
Local Agency Investment Fund (LAIF)	65,123,913	65,123,913	–	–	–	–
Certificates of Deposit	76,236,156	74,999,500	969,937	266,719	–	–
Investment Agreements	12,000,000	12,000,000	–	–	–	–
Supranationals	39,688,350	–	–	29,798,850	9,889,500	–
Total Investments	\$ 853,319,905	\$ 468,389,388	\$ 298,548,958	\$ 56,727,259	\$ 29,654,300	\$ –

NOTE 2 – CASH AND INVESTMENTS (Continued)

C. Concentration of Credit Risk

At June 30, 2017, in accordance with State law and the County's Investment Policy, the County did not have 5% or more of its net investment in commercial paper, corporate bonds, or medium-term notes of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund. Investments in obligations of the U.S. government, U.S. government agencies, or government-sponsored enterprises are exempt from these limitations.

The following schedule is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of the County Investment Pool's fair value at June 30, 2017.

Investments Type	Standard & Poor's	Moody's	% of Portfolio
U.S. Treasury Securities	N/A	N/A	36.10%
Federal Agency Securities	AA+	Aaa	32.51%
Supranational	AAA	Aaa	4.57%
Medium-Term Notes	A/AAA	A+	6.60%
Money Market Mutual Funds	Unrated	Unrated	0.57%
Local Agency Investment Fund (LAIF)	Unrated	Unrated	7.46%
Certificates of Deposit	A1+	P1	8.62%
Checking Account	Unrated	Unrated	2.20%
Investment Agreements	Unrated	Unrated	1.37%
Total			100.00%

D. Custodial Credit Risk

For investments and deposits held with fiscal agents, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or deposits that are in the possession of an outside party. At year-end, the County's investment pool and cash with fiscal agents had no securities exposed to custodial credit risk.

E. Local Agency Investment Fund (LAIF)

The County is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The County's investments with LAIF at June 30, 2017, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities: generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

NOTE 2 – CASH AND INVESTMENTS (Continued)

E. Local Agency Investment Fund (LAIF) (Continued)

As of June 30, 2017, the County had \$65,123,913 invested in LAIF, which had invested 0.05% of the pool investment funds in Structured Notes and Asset-Backed Securities as compared to 0.08% in the previous year. LAIF provided a fair value factor of 0.998940671 to calculate the fair value of the investments in LAIF. However, an adjustment was not made to reflect the fair value of LAIF, as the fair value adjustment was considered immaterial.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

F. Fair Value Measurements

The County investment pool categorizes its fair value measurements within the fair value hierarchy established by GAAP. These principles recognize a three-tiered fair value hierarchy, as follows:

Level 1: Investments reflect prices quoted in active markets,

Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active, and

Level 3: Investments reflect prices based upon unobservable sources.

The County investment pool has the following recurring fair value measurements as of June 30, 2017:

Investment by Fair Value Level	Fair Value Measurements Using			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt Securities:				
U.S. Treasury Securities	\$ 314,658,348	\$ 314,658,348	\$ -	\$ -
Federal Agency Securities	283,244,403	283,244,403	-	-
Medium-Term Notes - Other	57,359,088	57,359,088	-	-
Certificates of Deposit	75,249,793	75,249,793	-	-
Investment Agreements	12,000,000	12,000,000	-	-
Supranationals	39,688,350	39,688,350	-	-
Total Investments Measured at Fair Value	782,199,982	\$ 782,199,982	\$ -	\$ -
Investments Measured at Amortized Cost:				
Money Market Mutual Funds	5,009,647			
Local Agency Investment Fund (LAIF)	65,123,913			
Total Pooled and Directed Investments	\$ 852,333,542			

NOTE 3 – RESTRICTED CASH AND INVESTMENTS

Cash and investments at June 30, 2017, that are restricted by legal or contractual requirements are comprised of the following:

<u>Governmental Activities</u>	
Nonmajor Governmental Funds: Used for debt service	<u>\$ 11,750,266</u>
<u>Business-Type Activities</u>	
County Disposal Sites CSA 9C: Used for landfill deposits	7,340,022
Davenport Sanitation District: Used for debt service and bond reserves	<u>16,668</u>
	<u>7,356,690</u>
<u>Component Unit</u>	
Santa Cruz County Sanitation District: Used for debt service	<u>969,937</u>
<u>Fiduciary Funds</u>	
County of Santa Cruz Redevelopment Successor Agency: Used for debt service	<u>3,483,329</u>
	<u><u>\$ 23,560,222</u></u>

NOTE 4 – RECEIVABLES

Receivables at year-end for the County's major individual funds and nonmajor and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Housing Fund	Capital Projects Fund	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Governmental Activities:						
Accounts	\$ 25,287,357	\$ 124,488	\$ 7,210,959	\$ 9,709,735	\$ 3,845,111	\$ 46,177,650
Taxes	2,605,453	-	-	-	-	2,605,453
Gross receivables	27,892,810	124,488	7,210,959	9,709,735	3,845,111	48,783,103
Less: allowance for uncollectibles	(1,861,628)	-	-	-	-	(1,861,628)
Net receivables	<u>\$ 26,031,182</u>	<u>\$ 124,488</u>	<u>\$ 7,210,959</u>	<u>\$ 9,709,735</u>	<u>\$ 3,845,111</u>	<u>\$ 46,921,475</u>
	<u>County Disposal Sites CSA 9C</u>	<u>Nonmajor Enterprise Funds</u>	<u>Total Business-Type Activities</u>			
Business-Type Activities:						
Accounts receivable	<u>\$ 814,180</u>	<u>\$ 170,754</u>	<u>\$ 984,934</u>			

NOTE 5 – INTERFUND TRANSACTIONS

A. Government-Wide Financial Statements

Long-Term Internal Balances

At June 30, 2017, the County had the following long-term internal balances:

	Internal Balances Receivables
	Governmental Activities
Internal Balances Payable	
Business-Type Activities	\$ 1,028,964

The “Internal balances” on the Statement of Net Position (Government-wide) represents the net total amount of due to/from and advances to/from between Governmental funds and Enterprise funds and between Internal Service funds and Enterprise funds. These due to/from amounts include any that are the result of allocating operating profits and losses of the Internal Service funds to the Enterprise funds (Internal Service fund allocation). The due to/from amounts that are the results of operating profits/losses of the Internal Service funds are cumulative. Each current year amount is netted with the amounts from prior year.

B. Governmental Fund and Proprietary Fund Financial Statements

Due to/from

The County had the following due to/from other funds as of June 30, 2017:

Due to Other Funds	Due from Other Funds			
	General Fund	Capital Projects Fund	Internal Service Funds	Total
Nonmajor Governmental Funds	\$ 58,964	\$ 264,841	\$ 1,908,585	\$ 2,232,390
Total	\$ 58,964	\$ 264,841	\$ 1,908,585	\$ 2,232,390

All balances resulted from short-term loans used to cover operating cash deficits at year-end. These amounts will be repaid in the following fiscal year.

NOTE 5 – INTERFUND TRANSACTIONS (Continued)

B. Governmental Fund and Proprietary Fund Financial Statements (Continued)

Transfers in/out

The County had the following transfers for the year ending June 30, 2017:

		Transfers In				Total
		General Fund	Capital Projects Fund	Nonmajor Governmental Funds	Internal Service Funds	
Transfers Out	General Fund	\$ -	\$ 2,491,931	\$ 7,369,262	\$ 494,460	\$ 10,355,653
	Capital Projects Fund	-	83,344	3,499,107	-	3,582,451
	Nonmajor Governmental Funds	3,208,317	4,543,049	-	60,067	7,811,433
	County Disposal Sites 9C	386,892	-	-	-	386,892
	Total	\$ 3,595,209	\$ 7,118,324	\$ 10,868,369	\$ 554,527	\$ 22,136,429

Transfers are contributions to other funds to finance various programs in accordance with budgetary authorizations.

Transfers to/from other funds at June 30, 2017 are as follows:

Transfer From	Transfer To	Amount	Purpose
General Fund	Capital Projects Fund	\$ 2,491,931	To finance various facilities capital projects
	Nonmajor Governmental Funds	7,369,262	To Financing Authorities Fund for debt service
	Internal Service Fund	494,460	To Fleet internal service fund to purchase vehicles
		<u>10,355,653</u>	
Nonmajor Governmental Funds	General Fund	1,413,267	Mosquito Abatement Fund to General Fund for salaries
	General Fund	139,308	Reimbursement of expenditures
	General Fund	1,542,537	Debt Service Fund
	General Fund	113,205	Financing Authorities Fund drawdown for General Fund projects
	Capital Projects Fund	4,543,049	Financing Authorities Fund Certificates of Participation drawdown for capital projects and Fire Fund Contributions
	Internal Service Fund	60,067	To Fleet internal service fund to purchase vehicles
		<u>7,811,433</u>	
Capital Projects Fund	Nonmajor Governmental Funds	3,499,107	To the Road Fund for improvements and repair storm damage
	Capital Projects Fund	83,344	Realignment of Capital Projects funds
		<u>3,582,451</u>	
County Disposal Sites 9C	General Fund	386,892	Reimbursement from recycling company
		<u>386,892</u>	
		<u>\$ 22,136,429</u>	

NOTE 6 – LOANS RECEIVABLE

A. Government-Wide Financial Statements

GASB Statement No. 38, Certain Financial Statement Note Disclosures, requires the disclosure of significant receivable balances not expected to be collected within one year of the date of the financial statements. Following is the detail of receivable balance not expected to be collected within the next fiscal year:

<u>Loans Receivable</u>	
<u>Homeowner Loans</u>	
First Time Homebuyer Program	\$ 5,532,342
Hand Loans	5,129,550
Mobile Home Change Out Program	5,111,980
Mobile Home Rehab Program	270,390
Mobile Home Rehab Program (Bonds)	23,069
Property Tax Postponement Loans	137,768
Sorrento Oaks	<u>10,000</u>
Total Homeowner Loans	16,215,099
<u>Housing Project Loans</u>	
Aptos Cottages (Miller)	7,137,111
CFSC, Inc – Brommer St	2,407,200
Golden Torch	1,290,076
Housing for Independent People	40,940
Marmo's	1,642,323
McGregor	891,748
McIntosh Coach Purchase #12	98,000
McIntosh Coach Purchase	80,000
Mercy – McIntosh (Coach Loan)	348,666
Mercy – Rehab	95,236
MidPen Housing – St Stephens	4,970,330
Mid-Peninsula the Farm, Inc	2,004,265
Minto	9,611,465
Pacific Family Coach Acquisitions	63,702
Pacific Family –SCH	2,670,411
Pleasant Acres Permanent Financing	3,512,452
San Andreas	700,000
South County Housing Corp	4,907,114
St. Stephens Predevelopment	421,832
Vista Verde Family Housing	<u>1,165,000</u>
Total Housing Project Loans	44,057,871
<u>City of Watsonville Loan</u>	<u>100,113</u>
Total Loans Receivable	<u>\$ 60,373,083</u>

The St. Stephens Predevelopment loan is an unsecured loan, which will be converted to a loan secured by the deed of trust to the property upon commencement of development. All remaining loans are housing loans secured by deeds of trust on the properties.

NOTE 6 – LOANS RECEIVABLE (Continued)

B. Business-Type Financial Statements

The County had the following loans receivable as of June 30, 2017:

<u>Nonmajor business-type fund:</u>	
Septic Tank Maintenance CSA 12	<u>\$ 48,837</u>
Total business-type loans receivable	<u><u>\$ 48,837</u></u>

NOTE 7 – CAPITAL ASSETS

A. Government-Wide Financial Statements

The following is a summary of capital assets for governmental activities:

	Balance July 1, 2016	Prior Period Adjustment	Adjusted Beginning Balance	Additions	Retirements	Reclass- ifications	Balance June 30, 2017
Governmental activities:							
Capital assets, not being depreciated:							
Land	\$ 63,588,616	\$ -	\$ 63,588,616	\$ -	\$ -	\$ 450,000	\$ 64,038,616
Construction-in-progress	9,232,835	-	9,232,835	14,956,356	-	(7,182,522)	17,006,669
Total capital assets, not being depreciated	<u>72,821,451</u>	<u>-</u>	<u>72,821,451</u>	<u>14,956,356</u>	<u>-</u>	<u>(6,732,522)</u>	<u>81,045,285</u>
Capital assets, being depreciated:							
Infrastructure	618,898,271	-	618,898,271	21,447,640	-	-	640,345,911
Buildings	184,039,984	-	184,039,984	117,697	-	6,732,522	190,890,203
Machinery and equipment	48,944,905	-	48,944,905	3,091,835	(2,432,359)	-	49,604,381
Total capital assets, being depreciated	<u>851,883,160</u>	<u>-</u>	<u>851,883,160</u>	<u>24,657,172</u>	<u>(2,432,359)</u>	<u>6,732,522</u>	<u>880,840,495</u>
Less accumulated depreciation for:							
Infrastructure	(276,897,016)	-	(276,897,016)	(14,558,604)	-	-	(291,455,620)
Buildings	(89,467,306)	(9,216)	(89,476,522)	(6,093,062)	-	-	(95,569,584)
Machinery and equipment	(34,528,448)	9,216	(34,519,232)	(3,876,814)	2,419,414	-	(35,976,632)
Total accumulated depreciation	<u>(400,892,770)</u>	<u>-</u>	<u>(400,892,770)</u>	<u>(24,528,480)</u>	<u>2,419,414</u>	<u>-</u>	<u>(423,001,836)</u>
Total capital assets, being depreciated, net	<u>450,990,390</u>	<u>-</u>	<u>450,990,390</u>	<u>128,692</u>	<u>(12,945)</u>	<u>6,732,522</u>	<u>457,838,659</u>
Governmental activities capital assets, net	<u>\$ 523,811,841</u>	<u>\$ -</u>	<u>\$ 523,811,841</u>	<u>\$ 15,085,048</u>	<u>\$ (12,945)</u>	<u>\$ -</u>	<u>\$ 538,883,944</u>

NOTE 7 – CAPITAL ASSETS (Continued)

A. Government-Wide Financial Statements (Continued)

Depreciation expense was charged to governmental functions as follows:

	<u>Total</u>
<u>Governmental Activities:</u>	
General government	\$ 1,657,922
Public protection	3,181,531
Public ways and facilities	14,558,604
Health and sanitation	1,131,712
Public assistance	871,891
Education	218,031
Recreation and cultural services	<u>589,954</u>
Subtotal	22,209,645
Capital assets held by the County's internal service funds are charged to the various functions based on their usage of the assets	<u>2,318,835</u>
Total	<u>\$ 24,528,480</u>

The following is a summary of capital assets for business-type activities:

	Balance July 1, 2016	Additions	Retirements	Reclass- ifications	Balance June 30, 2017
Business-Type activities:					
Capital assets, not being depreciated:					
Land	\$ 1,858,849	\$ -	\$ -	\$ -	\$ 1,858,849
Construction-in-progress	496,335	471,540	-	(215,845)	752,030
Total capital assets, not being depreciated	<u>2,355,184</u>	<u>471,540</u>	<u>-</u>	<u>(215,845)</u>	<u>2,610,879</u>
Capital assets, being depreciated:					
Buildings	51,235,394	83,737	-	215,845	51,534,976
Machinery and equipment	9,644,051	108,402	-	-	9,752,453
Total capital assets, being depreciated	<u>60,879,445</u>	<u>192,139</u>	<u>-</u>	<u>215,845</u>	<u>61,287,429</u>
Less accumulated depreciation for:					
Buildings	(25,722,593)	(1,753,420)	-	-	(27,476,013)
Machinery and equipment	(8,830,639)	(139,117)	-	-	(8,969,756)
Total accumulated depreciation	<u>(34,553,232)</u>	<u>(1,892,537)</u>	<u>-</u>	<u>-</u>	<u>(36,445,769)</u>
Total capital assets, being depreciated, net	<u>26,326,213</u>	<u>(1,700,398)</u>	<u>-</u>	<u>215,845</u>	<u>24,841,660</u>
Business-Type activities capital assets, net	<u>\$ 28,681,397</u>	<u>\$ (1,228,858)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,452,539</u>

NOTE 7 –CAPITAL ASSETS (Continued)

A. Government-Wide Financial Statements (Continued)

Depreciation expense was charged to business-type functions as follows:

	<u>Total</u>
<u>Business-Type Activities:</u>	
County Disposal Sites CSA 9C	\$ 1,399,010
Boulder Creek CSA 7	66,943
Rolling Woods CSA 10	9,208
Septic Tank Maintenance CSA 12	4,847
Freedom County Sanitation District	208,275
Davenport Sanitation District	165,390
Place de Mer CSA 2	5,542
Sand Dollar Beach CSA 5	33,322
	<u>33,322</u>
Total	<u>\$ 1,892,537</u>

B. Component Unit – Santa Cruz County Sanitation District (the District)

	Balance July 1, 2016	Additions	Adjustments	Reclassification	Balance June 30, 2017
Nondepreciable assets:					
Construction-in-progress	\$ 24,556,291	\$ 3,839,361	\$ 139,755	\$ (20,561,546)	\$ 7,973,861
Total nondepreciable assets	<u>24,556,291</u>	<u>3,839,361</u>	<u>139,755</u>	<u>(20,561,546)</u>	<u>7,973,861</u>
Depreciable assets:					
Pumping stations	42,808,761	-	-	6,288,236	49,096,997
Transmission systems	109,744,952	-	-	14,273,310	124,018,262
Sewage treatment capacity rights	35,148,509	-	-	-	35,148,509
Mobile equipment	3,393,010	126,183	-	-	3,519,193
Other equipment	1,648,003	107,647	-	-	1,755,650
Total depreciable assets	<u>192,743,235</u>	<u>233,830</u>	<u>-</u>	<u>20,561,546</u>	<u>213,538,611</u>
Accumulated depreciation:					
Pumping stations	(22,902,409)	(966,360)	-	-	(23,868,769)
Transmission systems	(39,785,398)	(2,582,262)	-	-	(42,367,660)
Sewage treatment capacity rights	(14,914,456)	(912,948)	-	-	(15,827,404)
Mobile equipment	(2,756,670)	(157,583)	-	-	(2,914,253)
Other equipment	(1,071,776)	(148,792)	-	-	(1,220,568)
Total accumulated depreciation	<u>(81,430,709)</u>	<u>(4,767,945)</u>	<u>-</u>	<u>-</u>	<u>(86,198,654)</u>
Depreciable assets, net	<u>111,312,526</u>	<u>(4,534,115)</u>	<u>-</u>	<u>20,561,546</u>	<u>127,339,957</u>
Total capital assets, net	<u>\$ 135,868,817</u>	<u>\$ (694,754)</u>	<u>\$ 139,755</u>	<u>\$ -</u>	<u>\$ 135,313,818</u>

Depreciation expense for the District at June 30, 2017, is \$4,767,945.

NOTE 8 – SHORT-TERM DEBT – TAX AND REVENUE ANTICIPATION NOTES

The County issues tax and revenue anticipation notes annually to meet current expenses, capital expenditures, and other obligations or indebtedness until sufficient taxes or revenues are collected to fund the County's operations.

Tax and revenue anticipation notes payable debt activity for the year ended June 30, 2017, was as follows:

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Premiums/ Discounts</u>	<u>Accrued Interest</u>	<u>Ending Balance</u>
2016	2.0%	\$ 50,498,611	\$ 50,000,000	\$ (101,495,833)	\$ -	\$ 997,222	\$ -
2017	3.0%	\$ -	\$ 41,500,000	\$ (42,741,542)	\$ -	\$ 1,241,542	\$ -
2018	3.0%	\$ -	\$ 47,000,000	\$ -	\$ 977,600	\$ -	\$ 47,977,600

NOTE 9 – LEASES

A. Operating Leases

The County has entered into certain operating leases as lessee. Total expenditures for these operating leases for the fiscal year ended June 30, 2017, were \$2,310,172.

As of June 30, 2017, the County has future minimum operating lease payments with a remaining term in excess of one year as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>
2018	\$ 2,211,413
2019	1,975,387
2020	1,829,761
2021	1,805,933
2022	1,620,342
2023-2027	2,425,926
2028-2032	412,689
2033-2037	314,364
2038-2042	355,674
2043-2047	402,413
2048-2052	455,293
2053-2057	515,122
2058-2060	341,020
	<u>\$ 14,665,337</u>

NOTE 9 – LEASES (Continued)

B. Capital Leases

The County has entered into certain capital lease agreements under which the related equipment, computers, vehicles, and furniture become the property of the County. The leased assets are presented as components of capital assets and the lease liabilities are presented as components of long-term debt.

	Stated Interest Rate	Present Value of Remaining Payments as of June 30, 2017
Government-Wide Activities		
<u>Governmental Activities:</u>		
Energy efficient infrastructure	3.62%	\$ 3,741,734
Elections equipment	6.82%	53,291
Parks, Open Space, and Cultural Services – Mower	4.34%	11,796
Copy machines	12.54%	204,754
Subtotal Governmental Activities:		<u>4,011,575</u>
<u>Internal Service Fund Activities:</u>		
Public Works copy machines	12.54%	8,661
Information Services copy machines	10.75%	6,840
Information Services phone system	5.25%	1,941,378
Subtotal Internal Service Fund Activities:		<u>1,956,879</u>
Total Government-Wide Capital Lease Obligations		<u>\$ 5,968,454</u>
Business-Type Activities		
<u>Enterprise Fund Activities:</u>		
County Disposal Sites CSA 9C copy machines	11.17%	\$ 3,472
Total Business-Type Capital Lease Obligations		<u>\$ 3,472</u>
Component Unit		
<u>Santa Cruz County Sanitation District</u>	10.94%	\$ 3,548
		<u>\$ 3,548</u>

NOTE 9 –LEASES (Continued)

B. Capital Leases (Continued)

As of June 30, 2017, capital lease annual amortization is as follows:

Year Ending June 30,	Governmental Activities	Business-Type Activities	Component Unit
2018	\$ 1,186,808	\$ 1,611	\$ 1,312
2019	1,071,538	1,611	1,312
2020	1,049,889	805	1,312
2021	1,015,949	-	328
2022	449,250	-	-
2023-2027	2,246,251	-	-
Total Requirements	7,019,685	4,027	4,264
Less: Interest	(1,051,231)	(555)	(716)
Present Value of Remaining Payments	\$ 5,968,454	\$ 3,472	\$ 3,548

NOTE 10 – LONG-TERM DEBT

The following is a summary of long-term liabilities transactions for the year ended June 30, 2017:

	Balance July 1, 2016	Debt Issued or Transferred In	Debt Retired or Transferred Out	Balance June 30, 2017	Due in One Year	Due in More Than One Year
Governmental Activities Debt:						
1996 Refunding Certificates of Participation	\$ 13,785,000	\$ –	\$ (955,000)	\$ 12,830,000	\$ 1,005,000	\$ 11,825,000
2002 Refunding Certificates of Participation	1,830,000	–	(1,830,000)	–	–	–
2002 Unamortized bond premium	69,423	–	(69,423)	–	–	–
Subtotal	1,899,423	–	(1,899,423)	–	–	–
2005 Refunding Certificates of Participation	4,105,000	–	(4,105,000)	–	–	–
2005 Unamortized bond discount	(19,521)	–	19,521	–	–	–
Subtotal	4,085,479	–	(4,085,479)	–	–	–
1999 Local Agency Revenue Bonds	135,000	–	(30,000)	105,000	35,000	70,000
2006 Certificates of Participation	5,900,000	–	(5,900,000)	–	–	–
2006 Unamortized bond premium	(42,843)	–	42,843	–	–	–
Subtotal	5,857,157	–	(5,857,157)	–	–	–
2008 Certificates of Participation	2,330,000	–	(375,000)	1,955,000	390,000	1,565,000
2008 Unamortized bond premium	51,124	–	(6,816)	44,308	6,816	37,492
Subtotal	2,381,124	–	(381,816)	1,999,308	396,816	1,602,492
2011 Certificates of Participation	5,155,000	–	(160,000)	4,995,000	165,000	4,830,000
2011 Unamortized bond discount	(3,752)	–	188	(3,564)	(188)	(3,376)
Subtotal	5,151,248	–	(159,812)	4,991,436	164,812	4,826,624
2012 Lease Revenue Refunding Bond, Series A	1,642,161	–	(66,542)	1,575,619	66,542	1,509,077
2012 Unamortized bond discount	(15,109)	–	839	(14,270)	(839)	(13,431)
Subtotal	1,627,052	–	(65,703)	1,561,349	65,703	1,495,646
2014 Refunding Certificates of Participation	5,755,000	–	(255,000)	5,500,000	265,000	5,235,000
2014 Unamortized bond premium	264,629	–	(16,539)	248,090	16,539	231,551
Subtotal	6,019,629	–	(271,539)	5,748,090	281,539	5,466,551
2014 Lease Revenue Bonds	4,895,000	–	(175,000)	4,720,000	180,000	4,540,000
2014 Unamortized bond premium	209,358	–	(11,019)	198,339	11,019	187,320
Subtotal	5,104,358	–	(186,019)	4,918,339	191,019	4,727,320
2015 Refunding Certificates of Participation	12,305,000	–	(1,390,000)	10,915,000	1,410,000	9,505,000
2015 Lease Revenue Bonds	9,765,000	–	(235,000)	9,530,000	240,000	9,290,000
2015 Unamortized bond premium	58,126	–	(2,004)	56,122	2,004	54,118
Subtotal	9,823,126	–	(237,004)	9,586,122	242,004	9,344,118
2016 Refunding Certificates of Participation	–	10,500,000	–	10,500,000	820,000	9,680,000
2016 Unamortized bond premium	–	950,674	(47,534)	903,140	47,534	855,606
Subtotal	–	11,450,674	(47,534)	11,403,140	867,534	10,535,606
California Energy Resources Conservation and Development Commission	57,668	–	(42,027)	15,641	15,641	–
Subtotal bonds and loans payable	68,231,264	11,450,674	(15,608,513)	64,073,425	4,675,068	59,398,357
OPEB liability	118,348,505	8,300,439	–	126,648,944	–	126,648,944
Compensated absences	22,518,291	20,208,346	(19,820,610)	22,906,027	20,161,896	2,744,131
Capital leases	4,345,757	129,212	(463,394)	4,011,575	471,377	3,540,198
Total Governmental Activities	\$ 213,443,817	\$ 40,088,671	\$ (35,892,517)	\$ 217,639,971	\$ 25,308,341	\$ 192,331,630

NOTE 10 – LONG-TERM DEBT (Continued)

	Balance July 1, 2016	Debt Issued or Transferred In	Debt Retired or Transferred Out	Balance June 30, 2017	Due in One Year	Due in More Than One Year
Governmental Activities Debt, Continued:						
Internal Service Funds						
Compensated absences	\$ 4,667,398	\$ 3,465,246	\$ (3,489,028)	\$ 4,643,616	\$ 3,472,681	\$ 1,170,935
Estimated claims	39,004,128	11,321,693	(13,568,693)	36,757,128	10,424,128	26,333,000
Capital leases	2,393,492	–	(436,613)	1,956,879	457,790	1,499,089
Total Internal Service Funds	\$ 46,065,018	\$ 14,786,939	\$ (17,494,334)	\$ 43,357,623	\$ 14,354,599	\$ 29,003,024
Total Government-Wide Activities						
Compensated absences	\$ 27,185,689	\$ 23,673,592	\$ (23,309,638)	\$ 27,549,643	\$ 23,634,577	\$ 3,915,066
Estimated claims	39,004,128	11,321,693	(13,568,693)	36,757,128	10,424,128	26,333,000
Other long-term liabilities:						
Bonds and loans payable	68,231,264	11,450,674	(15,608,513)	64,073,425	4,675,068	59,398,357
Capital leases	6,739,249	129,212	(900,007)	5,968,454	929,167	5,039,287
Subtotal other long-term liabilities	74,970,513	11,579,886	(16,508,520)	70,041,879	5,604,235	64,437,644
OPEB liability	118,348,505	8,300,439	–	126,648,944	–	126,648,944
Total Government-Wide Activities	\$ 259,508,835	\$ 54,875,610	\$ (53,386,851)	\$ 260,997,594	\$ 39,662,940	\$ 221,334,654
Business-Type Activities						
Enterprise Funds						
2014 Lease Revenue Bonds	\$ 6,520,000	\$ –	\$ (235,000)	\$ 6,285,000	\$ 240,000	\$ 6,045,000
2014 Unamortized bond premium	279,431	–	(14,707)	264,724	14,707	250,017
Subtotal bonds payable	6,799,431	–	(249,707)	6,549,724	254,707	6,295,017
Loans payable						
Septic Tank Maintenance CSA 12	76,274	–	(15,984)	60,290	16,400	43,890
Davenport Sanitation District	210,440	–	(30,709)	179,731	31,519	148,212
Subtotal loans payable	286,714	–	(46,693)	240,021	47,919	192,102
Total bonds and loans payable	7,086,145	–	(296,400)	6,789,745	302,626	6,487,119
Postclosure Liability						
Enterprise Fund – County Disposal Sites CSA 9	6,098,309	406,382	–	6,504,691	–	6,504,691
Capital Leases	4,614	–	(1,142)	3,472	1,275	2,197
Total Business-Type Activities	\$ 13,189,068	\$ 406,382	\$ (297,542)	\$ 13,297,908	\$ 303,901	\$ 12,994,007
Component Unit – Santa Cruz County						
Sanitation District						
2005 Wastewater Revenue Refunding Bonds	\$ 2,180,000	\$ –	\$ (940,000)	\$ 1,240,000	\$ 535,000	\$ 705,000
2005 Unamortized bond premium	16,665	80,500	(24,291)	72,874	24,291	48,583
2004 Limited Obligation Refunding Improvement Bonds	255,000	–	(80,000)	175,000	85,000	90,000
2009 State Water Resources Control Board Loan	10,317,534	–	(532,374)	9,785,160	545,684	9,239,476
Loans payable	4,603,952	–	(1,508,192)	3,095,760	1,532,420	1,563,340
Capital lease	–	4,205	(657)	3,548	963	2,585
Total Component Unit	\$ 17,373,151	\$ 84,705	\$ (3,085,514)	\$ 14,372,342	\$ 2,723,358	\$ 11,648,984

NOTE 10 – LONG-TERM DEBT (Continued)

Descriptions of the long-term liabilities at June 30, 2017, are as follows:

Type of Indebtedness (Purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2017
Governmental Activities:					
Financing Authorities					
Refunding Certificates of Participation					
1996 Issue (financed construction of the County Emeline Avenue Health Services building and an infirmary in the County Medium Security Detention Facility)					
Collateral: Health Services Administration Building/Jail Infirmary					
Serial certificates	9/1/97-9/1/26	4.00-5.65%	\$190,000-\$1,065,000	\$ 20,955,000	\$ 8,930,000
Term bonds	3/1/21-9/1/23	5.60%	\$1,230,000-\$1,370,000	3,900,000	3,900,000
				Total 1996 Issue	12,830,000
2002 Issue (refinanced road improvements, a detention facility, a library, equipment, purchase of parkland and construction of a transfer station and financed an animal services authority facility)					
Collateral: Polo Grounds Park, Ben Lomond Transfer Station					
Serial certificates	8/1/03-8/1/22	4.00-5.25%	\$50,000-\$730,000	\$ 4,380,000	-
Term bonds	8/1/23-8/1/32	5.25%	\$100,000-\$155,000	1,260,000	-
Unamortized bond premium				126,230	-
				Total 2002 Issue	-
2005 Issue (defeased 1995A Lease Revenue Refunding Bonds and financed construction of and improvements to the Santa Cruz County Water Street and Roundtree Lane detention facility)					
Collateral: Water Street Detention Facility, Roundtree Lane Detention Facility					
Serial certificates	8/1/05-8/1/20	2.75-4.25%	\$500,000-\$910,000	\$ 10,580,000	-
Unamortized bond discount				(67,249)	-
				Total 2005 Issue	-
2014 Issue (defeased 2001 Series B Lease Revenue Bonds and refinanced existing leases)					
Collateral: Water Street Detention Facility, Blaine Street Women's Detention Facility					
Serial certificates	8/1/05-8/1/20	3.00-4.25%	\$280,000-\$485,000	\$ 6,285,000	5,500,000
Unamortized bond premium				297,707	248,090
				Total 2014 Issue	5,748,090
2015 Issue (defeased 2004 Lease Revenue Bonds and refinanced existing leases)					
Collateral: Main Administrative Building and Main Courts Building					
Serial certificates	6/1/16-6/1/25	1.14-3.97%	\$185,000-\$1,520,000	\$ 8,890,000	6,035,000
Term bonds	6/1/22-6/1/24	3.68%	\$1,570,000-\$1,685,000	4,880,000	4,880,000
				Total 2015 Issue	10,915,000
2016 Issue (defeased certain outstanding lease obligations and prepay the outstanding 2002 Refunding Certificates of Participation, 2005 Refunding Certificates of Participation, and 2006 Certificates of Participation; to finance a variety of capital improvements; to satisfy the Reserve Requirement for the Certificates; and to pay the delivery costs of the Certificates)					
Collateral: Water Street Detention Facility and Blaine Street Detention Facility					
Serial certificates	8/1/17-8/1/33	0.64-2.46%	\$340,000-\$920,000	\$ 8,865,000	8,865,000
Term bonds	8/1/34-8/1/36	3.00%	\$525,000-\$565,000	1,635,000	1,635,000
Unamortized bond premium				950,674	903,140
				Total 2016 Issue	11,403,140
				Total Refunding Certificates of Participation	39,745,000
				Net Premiums/(Discounts)	1,151,230
				Total including Premiums/(Discounts)	\$ 40,896,230
Lease Revenue Bonds					
2014 Lease Revenue Bonds (financed capital improvements including financial system and additional module at County's Buena Vista sanitary landfill)					
Collateral: Behavior Health Center and Buena Vista Gatehouse					
Serial bonds	8/1/15-8/1/34	3.00-5.00%	\$170,000-\$360,000	\$ 5,065,000	\$ 4,720,000
Unamortized bond premium				220,377	198,339
				Total 2014 Issue	\$ 4,918,339
2015 Lease Revenue Bonds (financed capital improvements for various Santa Cruz County facilities and the Farm to Table Project)					
Collateral: Main Administrative Building and Main Courts Building					
Serial bonds	6/1/16-6/1/35	2.00-4.00%	\$180,000-\$395,000	\$ 6,115,000	\$ 5,700,000
Term bonds	6/1/36-6/1/40	4.00%	\$400,000-\$470,000	2,170,000	2,170,000
Term bonds	6/1/41-6/1/45	4.00%	\$305,000-\$360,000	1,660,000	1,660,000
Unamortized bond premium				60,130	56,122
				Total 2015 Issue	\$ 9,586,122
				Total Lease Revenue Bonds	14,250,000
				Net Premiums/(Discounts)	254,461
				Total including Premiums/(Discounts)	\$ 14,504,461

NOTE 10 – LONG-TERM DEBT (Continued)

Type of Indebtedness (Purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2017
Governmental Activities, Continued:					
Financing Authorities, Continued					
Lease Revenue Refunding Bonds					
2012 Series A (refinanced construction and equipment costs for the Santa Cruz County Consolidated Emergency Communications Center)					
Collateral: Santa Cruz County Regional 911 Center					
Serial bonds	6/15/13-6/15/30	2.00-5.00%	\$115,000-\$225,000	\$ 1,402,135	\$ 1,093,189
Term bonds	6/15/31-6/15/34	5.00%		482,430	482,430
Unamortized bond premium				18,465	(14,270)
Total Lease Revenue Refunding Bonds					<u>\$ 1,561,349</u>
Local Agency Revenue Bonds					
1999 Issue (defeased 1992 Place de Mer and 1993 Sand Dollar Beach Districts bonds and financed construction of the Sunset Beach Water Main Extension Project)					
Local obligation bonds	9/2/00-9/2/19	4.00-5.50%	\$20,000-\$85,000	\$ 895,000	<u>\$ 105,000</u>
Certificates of Participation					
2006 Series Issue (financed improvements to Watsonville Courthouse and Buena Vista Landfill)					
Collateral: Water Street Detention Facility/Roundtree Lane Detention Facility					
Serial certificates	8/1/07-8/1/28	3.50-4.625%	\$180,000-\$410,000	\$ 6,225,000	\$ -
Term certificates	8/1/29-8/1/32	4.50%		1,265,000	-
Term certificates	8/1/33-8/1/36	4.625%		1,510,000	-
Unamortized bond discount				(62,698)	-
Total 2006 Issue					<u>\$ -</u>
2008 Series Issue (finance purchase of computer software systems for various County departments)					
Collateral: Water Street Detention Facility/Roundtree Lane Detention Facility					
Serial certificates	8/1/09-8/1/23	3.00-4.30%	\$215,000-\$405,000	\$ 4,625,000	\$ 1,955,000
Unamortized bond premium				102,244	44,308
Total 2008 Issue					<u>\$ 1,999,308</u>
2011 Series Issue (financed improvements to Veteran's Building and Main Jail roof)					
Collateral: Human Services Department Application Center					
Serial certificates	8/1/12-8/1/21	2.00-4.00%	\$145,000-\$340,000	\$ 1,495,000	\$ 885,000
Term certificates	8/1/22-8/1/26	4.25%		1,080,000	1,080,000
Term certificates	8/1/27-8/1/31	4.625%		1,340,000	1,340,000
Term certificates	8/1/32-8/1/36	5.00%		1,690,000	1,690,000
Unamortized bond discount				(4,692)	(3,564)
Total 2011 Issue					<u>4,991,436</u>
Total Certificates of Participation					<u>6,950,000</u>
Net Premiums/(Discounts)					<u>40,744</u>
Total including Premiums/(Discounts)					<u>\$ 6,990,744</u>
California Energy Resources Conservation and Development Commission					
	2013-2018	3.00%	\$16,642-\$21,172	\$ 172,837	<u>\$ 15,641</u>

NOTE 10 – LONG-TERM DEBT (Continued)

Type of Indebtedness (Purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2017
Governmental Activities, Continued:					
Financing Authorities, Continued					
Capital leases					
Energy efficient infrastructure	2008 – 2027	3.62%	\$135,989 – \$220,635	\$ 5,989,594	\$ 3,741,734
Elections equipment	2014 – 2017	6.82%	\$47,874 – \$56,225	263,175	53,291
Parks, Open Space, and Cultural Services					
Mower	2013 – 2018	4.34%	\$11,796 – \$12,307	56,626	11,796
Copy machines	2012 – 2020	6.70% – 12.54%	\$9,979 – \$97,904	501,403	220,255
Phone system	2014 – 2020	5.25%	\$405,100 – \$529,301	3,302,148	1,941,378
Total Governmental Activities					<u>\$ 70,041,879</u>
Business-Type Activities:					
Enterprise Fund – County Disposal Sites CSA 9C					
2014 Lease Revenue Bonds (financed capital improvements including financial system and additional module at County's Buena Vista sanitary landfill)					
Collateral: Behavior Health Center and Buena Vista Gatehouse					
Serial bonds	8/1/15-8/1/34	3.00-5.00%	\$225,000-\$480,000	\$ 6,745,000	\$ 6,285,000
Unamortized bond premium				294,138	264,724
Total 2014 Issue					<u>\$ 6,549,724</u>
Enterprise Fund – Davenport Sanitation District					
California State Department of Water Resources (upgrade existing water facilities)					
	1/1/88-1/1/22	2.50%	\$4,550-\$10,575	\$ 250,000	\$ 50,193
California Technology, Trade, and Commerce Agency (fund sanitation system improvements)					
	2/28/95-7/1/24	2.75%	\$3,550-\$4,817	310,691	101,970
California State Water Resources Control Board – revolving loan (fund sewer reconstruction project)					
	5/31/01-5/31/20	2.60%	\$5,940-\$9,429	151,547	27,568
Enterprise Fund – Septic Tank Maintenance CSA 12					
California State Water Resources Control Board					
	4/23/10-4/23/29	2.60%	\$10,753-\$17,512	277,467	\$ 60,290
Subtotal Loans					<u>\$ 240,021</u>
Total Lease Revenue Bonds and Loans					<u>\$ 6,525,021</u>
Net Premiums, (Discounts)					<u>264,724</u>
Total including Premiums, (Discounts)					<u>\$ 6,789,745</u>
Copy machine	3/7/16-12/7/19	11.17%	\$259.2-\$391.75	\$ 5,140	\$ 3,472
Landfill postclosure					6,504,691
Total Business-Type Activities					<u>\$ 13,297,908</u>
Component Unit – Santa Cruz County Sanitation District (the District)					
2005 Wastewater Revenue Refunding Bonds (financed the District's share of the improvements to the City of Santa Cruz sewer treatment facility)					
Serial bonds	9/1/05-9/1/19	2.80-5.0%	\$140,000-\$940,000	\$ 9,335,000	\$ 1,240,000
Unamortized bond premium				364,370	72,874
					<u>1,312,874</u>
2004 Issue Limited Obligation Refunding Improvement Bonds – Freedom Boulevard Sewer Assessment District (financed construction of sewer facility)					
Serial bonds	9/2/05-9/2/18	1.85-5.25%	\$55,000-\$90,000	\$ 950,000	175,000
Loans payable – City of Santa Cruz (construct treatment plant expansion)	2000-2019	1.60%	\$717,884-\$1,563,340	\$ 7,532,957	3,095,760
2009 State Water Resources Control Board Loan					
	2013-2032	2.50%	\$630,445-\$959,296	\$ 11,981,910	9,785,160
Copy machine	10/22/2016 – 7/22/2020	10.94%	\$1,312	\$ 4,205	3,548
Total Component Unit					<u>\$ 14,372,342</u>

NOTE 10 – LONG-TERM DEBT (Continued)

A. Governmental Activities

At June 30, 2017, annual debt service requirements of governmental activities to maturity are as follows:

Financing Authorities

Year Ending June 30,	Refunding Certificates of Participation		Lease Revenue Bonds		Lease Revenue Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 3,500,000	\$ 1,602,475	\$ 420,000	\$ 543,794	\$ 66,542	\$ 68,535
2019	3,620,000	1,486,009	440,000	529,194	68,919	66,539
2020	3,770,000	1,351,237	455,000	513,994	71,295	64,385
2021	3,920,000	1,205,478	475,000	498,194	73,672	62,068
2022	3,450,000	1,057,043	485,000	480,744	76,048	59,490
2023-2027	14,390,000	2,992,647	2,725,000	2,101,794	430,146	249,126
2028-2032	4,450,000	913,741	3,225,000	1,528,031	534,712	144,099
2033-2037	2,645,000	213,475	3,010,000	903,388	254,285	19,250
2038-2042	-	-	1,980,000	429,800	-	-
2043-2047	-	-	1,035,000	84,000	-	-
Total	<u>\$ 39,745,000</u>	<u>\$ 10,822,105</u>	<u>\$ 14,250,000</u>	<u>\$ 7,612,933</u>	<u>\$ 1,575,619</u>	<u>\$ 733,492</u>

Year Ending June 30,	Local Agency Revenue Bonds		Certificates of Participation	
	Principal	Interest	Principal	Interest
2018	\$ 35,000	\$ 4,813	\$ 555,000	\$ 296,225
2019	35,000	2,888	575,000	273,625
2020	35,000	963	390,000	254,325
2021	-	-	410,000	238,325
2022	-	-	420,000	221,725
2023-2027	-	-	1,570,000	872,175
2028-2032	-	-	1,340,000	583,219
2033-2037	-	-	1,690,000	219,500
Total	<u>\$ 105,000</u>	<u>\$ 8,664</u>	<u>\$ 6,950,000</u>	<u>\$ 2,959,119</u>

The Refunding Certificates of Participation, Lease Revenue Refunding Bonds, Certificates of Participation, and Lease Revenue Bonds retirements and related interest payments are paid from revenues from the General Fund. The Local Agency Revenue Bonds retirements and related interest payments are paid from revenues generated from property owners' assessments.

Defeasance of Bonds

On July 19, 2016, the County issued \$10,500,000 of 2016 Refunding Certificates of Participation ("2016 Certificates"), with interest rates ranging from 0.64% to 2.46%. The proceeds of the 2016 Certificates were used to refinance certain outstanding lease obligations of the County and to prepay on a current basis the County's outstanding 2002 Refunding Certificates of Participation (the "2002 Certificates"), 2005 Refunding Certificates of Participation (the "2005 Certificates"), and 2006 Certificates of Participation (the "2006 Certificates"); to finance a variety of capital improvements; to satisfy the Reserve Requirement for the Certificates; and to pay the delivery costs of the certificates.

As a result of the current refunding of the 2002 Certificates, the 2005 Certificates, and the 2006 Certificates, the County decreased its total debt service payments by \$2,274,309, net of the cost to finance the capital improvements, resulting in an economic gain of \$1,464,328.

NOTE 10 – LONG-TERM DEBT (Continued)

A. Governmental Activities (Continued)

Defeasance of Bonds (Continued)

The 2016 Certificates of \$10,500,000 were issued to refund the County's outstanding 2002 and 2005 Refunding Certificates of Participation and 2006 Certificates of Participation, which had principal amounts outstanding of \$1,830,000, \$4,105,000, and \$5,900,000, respectively. Net of the amount of 2016 Certificates issued to finance capital improvements, the reacquisition price exceeded the net carrying amount of the old debt by \$492,357 resulting in a deferred loss of refunding. This loss on refunding will be amortized over the remaining life of the refunded bonds.

Energy Resources Conservation and Development Commission Loan

In December 2012, the County entered into a loan agreement with the Energy Resources Conservation and Development Commission in the amount of \$172,837. The loan bears an annual interest rate of 3% due semi-annually and matures on December 22, 2017. For the current year, principal and interest paid on the loan was \$42,027. The outstanding balance of the loan is \$15,641.

B. Business-Type Activities

At June 30, 2017, annual debt service requirements of business-type activities to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Lease Revenue Bonds</u>		<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 240,000	\$ 254,600	\$ 47,919	\$ 5,652
2019	250,000	244,800	49,178	4,557
2020	260,000	234,600	50,459	3,434
2021	270,000	224,000	34,207	2,285
2022	285,000	211,475	25,055	1,477
2023-2027	1,605,000	865,325	33,203	1,250
2028-2032	1,985,000	480,613	-	-
2033-2037	1,390,000	84,800	-	-
Total	<u>\$ 6,285,000</u>	<u>\$ 2,600,213</u>	<u>\$ 240,021</u>	<u>\$ 18,655</u>

Loans payable principal and interest are paid from various enterprise fund revenues.

NOTE 10 – LONG-TERM DEBT (Continued)

C. Component Unit

At June 30, 2017, annual debt service requirements of the District to maturity are as follows:

Year Ending June 30,	2004 Limited Obligation Refunding Improvement Bonds		2005 Wastewater Revenue Refunding Bonds		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 85,000	\$ 6,914	\$ 535,000	\$ 47,225	\$ 2,078,102	\$ 288,056
2019	90,000	2,363	565,000	19,725	2,122,666	243,494
2020	-	-	140,000	2,800	573,309	217,004
2021	-	-	-	-	587,642	202,671
2022	-	-	-	-	602,333	187,980
2023-2027	-	-	-	-	3,245,210	706,354
2028-2032	-	-	-	-	3,671,658	279,906
2033-2037	-	-	-	-	-	-
Total	<u>\$ 175,000</u>	<u>\$ 9,277</u>	<u>\$ 1,240,000</u>	<u>\$ 69,750</u>	<u>\$ 12,880,920</u>	<u>\$ 2,125,465</u>

During 2005, the District issued \$9,335,000 of 2005 Wastewater Revenue Refunding Bonds which refunded the 1977 Sewer Revenue Bonds, Series A, and the 1994 Certificates of Participation issued for the wastewater treatment plant. The bonds are obligations of the District, and are payable from and secured by a pledge of net revenues.

During 2004, the District issued Limited Obligation Refunding Improvement Bonds to refinance the 1994 Freedom Boulevard Sewer Special Assessment bonds, pay costs related to the issuance of the bonds, and to make a deposit to a Reserve Fund.

Loans Payable

The City of Santa Cruz loan represents 47% of a State Water Resources Control Board loan for which the District has an agreement to participate in the repayment. The total loan proceeds made available in fiscal year 1998/1999 were approximately \$48 million, of which the District's share was 47% or approximately \$24.4 million of the original principal amount. These funds were used to construct the treatment plant expansion of which the District has capacity rights. On December 12, 2013, the City of Santa Cruz refunded the existing \$2.7 million 2005 Wastewater Bonds and \$16.0 million in State Revolving Funds, and issued \$18.7 million in 2013 Wastewater Revenue Refunding Bonds. The amount of the District's portion outstanding as of June 30, 2017, is \$3,095,760.

During 2009, the District entered into a Project Finance Agreement (Agreement) with the State Water Resources Control Board (SWRCB) to finance the Aptos Transmission Main Relocation Project. Under this Agreement, the SWRCB has agreed to loan the District a total of \$16,725,699. As of June 30, 2017, the District has received a total of \$11,981,910 in loan disbursements pursuant to this Agreement. Pursuant to the Agreement, the interest rate is 2.5% and the District began making payments to repay the loan in the 2013/2014 fiscal year.

D. Legal Debt Limit

The County's legal annual debt service limit as of June 30, 2017, is \$532,606,295. The County's legal debt service limit is 1.25% of the total full cash valuation of all real and personal property within the County.

NOTE 10 – LONG-TERM DEBT (Continued)

E. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. The County has hired a consultant to perform calculations of excess investment earnings on various bonds and financings, and it is anticipated that the County will be determined to be in compliance with arbitrage regulations.

NOTE 11 – PLEDGE OF FUTURE REVENUES

2014 Lease Revenue Bonds

The bonds are payable from and secured by a pledge of revenues and certain funds and accounts established and held by the Trustee under the Indenture. Revenues, as defined in the Indenture, means (i) all lease payments and other amounts paid, or caused to be paid, by the County, and received by the Financing Authority pursuant to the Lease Agreement (but not additional payments), and (ii) all interest or other income from any investment of any money in any fund or account established pursuant to the Indenture (other than the Rebate Fund) to repay \$11,810,000 (\$5,065,000 financial management system software and \$6,745,000 County's Buena Vista Sanitary Landfill) in lease revenue bonds issued during April 2014. Proceeds from the bonds provided funds to finance capital improvements, including the County's new financial management system software and an additional module at the County's Buena Vista Sanitary Landfill, to fund capitalized interest for a portion of the bonds, to satisfy the Reserve Requirement for the bonds, and to pay the costs of issuance of the bonds. Annual principal and interest payments on the bonds continue through 2034. Total principal and interest paid for the current year were \$490,000 and \$508,244, respectively.

2012A Lease Revenue Refunding Bonds

The revenues of the Santa Cruz Regional 911 (Regional 911) were pledged to repay \$3,965,000 in lease revenue refunding bonds issued in May 2012. The Regional 911 was formed in a Joint Powers Authority Agreement with the cities of Santa Cruz, Watsonville, and Capitola and the County of Santa Cruz. Proceeds from the bonds provided funds to refinance an existing lease and to fund equipment purchases. The bonds were payable from use payments paid to the Regional 911 by the different governmental agencies. Annual principal and interest payments on the bonds continue through 2034 and are expected to require less than 12 percent of revenues. The total principal and interest remaining to be paid on the bonds is \$4,858,219. Pursuant to the Joint Powers Authority Agreement, the County is responsible for 47.53% of the total liability, or \$2,309,111. Total principal and interest paid for the current year and total customer revenues were \$288,044 and \$6,553,251, respectively. The County paid \$136,907 of the current year principal and interest. The bonds were refunded on May 15, 2012.

NOTE 12 – LANDFILL CLOSURE AND POSTCLOSURE COSTS

The County operates the Buena Vista Landfill for the disposal of municipal waste and a transfer station at the site of the closed Ben Lomond Landfill. State and Federal laws and regulations, including the California Integrated Waste Management Board Title 14, California State Water Resources Control Board Title 23, and the Environmental Protection Agency Subtitle D of the Codified Federal Regulations 40, require the County to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that landfills stop accepting waste, the County reports a portion of these closure and postclosure care costs as an operating expense in each period based on the County landfill's capacity used as of June 30 of each year.

NOTE 12 – LANDFILL CLOSURE AND POSTCLOSURE COSTS (Continued)

As of June 30, 2017, a liability for closure and postclosure maintenance in the amount of \$6,504,691 is reflected in the County Disposal Sites CSA 9C Enterprise Fund based upon landfill capacity used to date. As of June 30, 2017, Ben Lomond Landfill was filled to 100% capacity, and the County estimates that the Buena Vista Landfill is filled to 65.97% of capacity with an estimated remaining useful life of 19 years. The Ben Lomond Landfill was closed during 1989 and the closure and postclosure care costs have been fully paid. The County will recognize the remaining estimated cost of closure and postclosure maintenance of \$3,355,311 as the remaining estimated capacity of the Buena Vista Landfill is filled. This amount is based on what it would cost to perform all closure and postclosure care in 2017. Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The estimates will also be adjusted annually for inflation or deflation, in accordance with State guidelines.

The County is required by State and Federal laws and regulations to make annual contributions to a fund to finance closure and postclosure maintenance. The County is in compliance with these requirements, and at June 30, 2017, cash of \$6,841,901 is held for this purpose, reported as restricted assets on the Statement of Net Position. The County expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws and regulations, for example), these costs may need to be covered by charges to future landfill users.

Postclosure maintenance for both the Buena Vista and closed Ben Lomond Landfills are provided for through a "Pledge of Revenue." The Board adopted resolutions pledging future County Disposal Sites CSA 9C Fund's revenues annually through the prescribed postclosure maintenance period. An initial postclosure cost was estimated at the time of adoption of the Pledge of Revenue resolutions and is adjusted for inflation on an annual basis.

NOTE 13 – DEFICIT NET POSITION AND FUND BALANCES

Individual fund deficit net positions at June 30, 2017, were as follows:

Internal Service Funds:	
Information Services	\$ 3,168,622
Public Works	24,170,560
Risk Management	432,186
Workers' Compensation Insurance	15,356,843
Employee Benefit Staffing	88,134
Nonmajor Special Revenue Fund:	
Off Highway, Road, and Transportation	56,523

The deficit net positions in the Information Services Fund, Public Works Fund, Risk Management Fund and Employee Benefit Staffing are due primarily to the reporting of the net pension liability pursuant to the implementation of GASB Statement No. 68. The County is committed to fully funding the actuarially determined contributions annually.

The Workers' Compensation Fund had a deficit net position of \$15,356,843 related to the losses payable for claims and the inclusion of estimates for incurred but not reported (IBNR) claims. Management anticipates that the County will have sufficient funds to pay annual requirements. These funds will normally show up as deficits since the County is set up on a pay-as-you go program.

NOTE 14 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the County’s separate Miscellaneous (all other), Safety (police and fire), and Safety Sheriff Plans, agent multiple-employer defined benefit pension plans administered by CalPERS, which acts as a common investment and administrative agent for its participating member employers. Benefit provisions under the plans are established by State statute and County resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions, and membership information that can be found on the CalPERS website.

CalPERS GASB Statement No. 68 Accounting Valuation Report differs from the amounts recognized by the County due to plan participants that are not part of the County. The amounts have been reduced based on payments within the Measurement Period of July 1, 2015 to June 30, 2016.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the California Public Employees’ Retirement Law.

The plans’ provisions and benefits in effect at June 30, 2017, are summarized as follows:

Hire Date	Miscellaneous		
	Prior to December 17, 2012	December 17, 2012 to December 31, 2012 or reciprocal *	On or after January 1, 2013
Benefit Formula	2% at 55	2% at 60	2% at 62
Benefit Vesting Schedule	5 Years	5 Years	5 Years
Earliest Retirement Age	50	50	52
Maximum Benefit Factor	2.418% @ 63	2.418% @ 63	2.5% @ 67
Final Compensation	12 Months	36 Months	36 Months
Required Employee Contribution Rates	7.0%	7.0%	6.3%
Required Employer Contribution Rates	18.7%	18.7%	18.7%
	Safety		
Hire Date	Prior to June 9, 2012	June 9, 2012 to December 31, 2012 or reciprocal *	On or after January 1, 2013
Benefit Formula	2% at 50	2% at 50	2.7% at 57
Benefit Vesting Schedule	5 Years	5 Years	5 Years
Earliest Retirement Age	50	50	50
Maximum Benefit Factor	2.7% @ 55	2.7% @ 55	2.7% @ 57
Final Compensation	12 Months	36 Months	36 Months
Required Employee Contribution Rates	9.0%	9.0%	11.0%
Required Employer Contribution Rates	25.6%	25.6%	25.6%

NOTE 14 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

Hire Date	Safety Sheriff		
	Prior to J une 9, 2012	J une 9, 2012 to December 31, 2012 or reciprocal *	On or after J anuary 1, 2013
Benefit Formula	3% at 50	3% at 55	2.7% at 57
Benefit Vesting S chedule	5 Years	5 Years	5 Years
Earliest Retirement Age	50	50	50
Maximum B enefit Factor	3% @ 55	3% @ 55	2.7% @ 57
Final Compensation	12 Months	36 Months	36 Months
Required E mployee Contribution Rates	9.0%	9.0%	12.0%
Required E mployer Contribution Rates	38.2%	38.2%	38.2%

*Reciprocal: Any employee who starts working for the County within six months of separating from another public agency in California that is either in the CalPERS retirement system or another public retirement system that has reciprocity with CalPERS, so long as the employee began employment with that agency prior to J anuary 1, 2013.

Employees Covered – At J une 30, 2016, the following employees were covered by the benefit terms for each plan:

	Miscellaneous	Safety	Safety Sheriff
Inactive E mployees or Beneficiaries Currently Receiving Benefits	2,575	262	82
Inactive E mployees Entitled to but not yet Receiving Benefits	1,541	240	91
Active E mployees	1,981	224	137
Total	6,097	726	310

Contributions – Section 20814(c) of the California Public E mployees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the J uly 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS’ annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

B. Net Pension Liability

The County’s net pension liability for each plan is measured as the total pension liability, less the pension plan’s fiduciary net position. The net pension liability of each of the plans is measured as of J une 30, 2016, using an annual actuarial valuation as of J une 30, 2015, rolled forward to J une 30, 2016, using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

NOTE 14 – PENSION PLANS (Continued)

B. Net Pension Liability (Continued)

Actuarial Assumptions – The June 30, 2015 valuation was rolled forward to determine the June 30, 2016 total pension liability, based on the following actuarial methods and assumptions:

	Miscellaneous	Safety	Safety Sheriff
Valuation Date	June 30, 2015	June 30, 2015	June 30, 2015
Measurement Date	June 30, 2016	June 30, 2016	June 30, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Actuarial Assumptions:			
Discount Rate	7.65%	7.65%	7.65%
Inflation	2.75%	2.75%	2.75%
Payroll Growth	3.00%	3.00%	3.00%
Projected Salary Increase	Varies ⁽¹⁾	Varies ⁽¹⁾	Varies ⁽¹⁾
Investment Rate of Return	7.50% ⁽²⁾	7.50% ⁽²⁾	7.50% ⁽²⁾
Mortality	Derived using CalPERS' Membership Data for all Funds ⁽³⁾		
Post Retirement Benefit Increase	Contract Cost of Living Adjustment up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter		

⁽¹⁾ Depending on Entry age and service

⁽²⁾ Net of Pension Plan Investment and Administrative Expenses, includes Inflation

⁽³⁾ The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report.

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality, and retirement rates. The Experience Study report may be accessed on the CalPERS' website under Forms and Publications.

Change of Assumptions – There were no changes of assumptions.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for each plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB Statement No. 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account all historical returns of all the PERF's asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

NOTE 14 – PENSION PLANS (Continued)

B. Net Pension Liability (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

Asset Class	New Strategic Allocation	Real Return Years 1 – 10 ^(a)	Real Return Years 11+ ^(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

^(a) An expected inflation of 2.5% used for this period.

^(b) An expected inflation of 3.0% used for this period.

Changes in the Net Pension Liability – The changes in the net pension liability for each plan follow:

Miscellaneous Plan	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2015	\$ 987,185,841	\$ 750,583,900	\$ 236,601,941
Changes in the Year:			
Service Cost	20,403,352	-	20,403,352
Interest on the Total Pension Liability	78,852,555	-	78,852,555
Differences between Actual and Expected Experience	3,966,020	-	3,966,020
Plan to Plan Resource Movement	-	2,727	(2,727)
Contribution – Employer	-	24,836,370	(24,836,370)
Contribution – Employee	-	9,898,794	(9,898,794)
Net Investment Income	-	4,227,340	(4,227,340)
Benefit Payments, Including Refunds of Employee Contributions	(50,461,359)	(50,461,359)	-
Administrative Expenses	-	(482,672)	482,672
Net Changes	52,760,568	(11,978,800)	64,739,368
Balance at June 30, 2016	\$ 1,039,946,409	\$ 738,605,100	\$ 301,341,309

NOTE 14 – PENSION PLANS (Continued)

B. Net Pension Liability (Continued)

Safety Plan	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	\$ 159,899,517	\$ 119,644,326	\$ 40,255,191
Changes in the Year:			
Service Cost	3,699,113	-	3,699,113
Interest on the Total Pension Liability	12,245,682	-	12,245,682
Differences between Actual and Expected Experience	(115,359)	-	(115,359)
Plan to Plan Resource Movement	-	(106,353)	106,353
Contribution – Employer	-	3,731,613	(3,731,613)
Contribution – Employee	-	1,613,925	(1,613,925)
Net Investment Income	-	588,970	(588,970)
Benefit Payments, Including Refunds of Employee Contributions	(7,830,764)	(7,830,764)	-
Administrative Expenses	-	(75,328)	75,328
Net Changes	7,998,672	(2,077,937)	10,076,609
Balance at June 30, 2016	\$ 167,898,189	\$ 117,566,389	\$ 50,331,800

Safety Sheriff Plan	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2015	\$ 137,100,812	\$ 92,143,512	\$ 44,957,300
Changes in the Year:			
Service Cost	3,942,199	-	3,942,199
Interest on the Total Pension Liability	11,528,363	-	11,528,363
Differences between Actual and Expected Experience	531,702	-	531,702
Plan to Plan Resource Movement	-	(3,877)	3,877
Contribution – Employer	-	5,279,477	(5,279,477)
Contribution – Employee	-	1,383,847	(1,383,847)
Net Investment Income	-	509,520	(509,520)
Benefit Payments, Including Refunds of Employee Contributions	(5,816,534)	(5,816,534)	-
Administrative Expenses	-	(60,831)	60,831
Net Changes	10,185,730	1,291,602	8,894,128
Balance at June 30, 2016	\$ 147,286,542	\$ 93,435,114	\$ 53,851,428

NOTE 14 – PENSION PLANS (Continued)

B. Net Pension Liability (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the County for each plan, calculated using the discount rate for each plan, as well as what the County’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65 percent) or one percentage point higher (8.65 percent) than the current rate:

	<u>Miscellaneous</u>	<u>Safety</u>	<u>Safety Sheriff</u>
1% Decrease Net Pension Liability	\$ 433,412,424	\$ 74,533,220	\$ 74,534,350
Current Discount Rate Net Pension Liability	\$ 301,341,309	\$ 50,331,800	\$ 53,851,428
1% Increase Net Pension Liability	\$ 190,974,538	\$ 30,439,677	\$ 36,938,769

Pension Plan Fiduciary Net Position – The plan fiduciary net position disclosed in the County’s CalPERS GASB Statement No. 68 accounting valuation report may differ from the plan assets reported in the County’s CalPERS funding actuarial valuation report due to several reasons. For example, for the accounting valuations, CalPERS must keep items such as deficiency reserves and fiduciary self-insurance included as assets. These amounts are excluded for rate setting purposes in the County’s funding actuarial valuation. In addition, differences may result from early Comprehensive Annual Financial Report closing and final reconciled reserves.

C. Pension Expenses and Deferred Outflows /Inflows of Resources Related to Pensions

For the year ended June 30, 2017, the County recognized a pension expense of \$39,764,560. At June 30, 2017, the County’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Miscellaneous</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions Subsequent to Measurement Date	\$ 28,156,030	\$ –
Changes in Assumptions	–	5,622,758
Differences between Actual and Expected Experience	2,644,013	4,400,437
Net Differences between Projected and Actual Earnings on Plan Investments	<u>68,622,787</u>	<u>25,678,151</u>
Total	<u>\$ 99,422,830</u>	<u>\$ 35,701,346</u>

NOTE 14 – PENSION PLANS (Continued)

C. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

	<u>Safety</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions S ubsequent to Measurement Date	\$ 4,596,334	\$ –
Changes in Assumptions	–	1,335,233
Differences between Actual and Expected Experience	–	1,305,294
Net Differences between Projected and Actual Earnings on Plan Investments	<u>10,767,761</u>	<u>4,017,036</u>
Total	<u>\$ 15,364,095</u>	<u>\$ 6,657,563</u>

	<u>Safety S heriff</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions S ubsequent to Measurement Date	\$ 5,823,770	\$ –
Changes in Assumptions	–	1,605,034
Differences between Actual and Expected Experience	1,698,440	–
Net Differences between Projected and Actual Earnings on Plan Investments	<u>8,744,733</u>	<u>3,112,832</u>
Total	<u>\$ 16,266,943</u>	<u>\$ 4,717,866</u>

	<u>TOTAL</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pension Contributions S ubsequent to Measurement Date	\$ 38,576,134	\$ –
Changes in Assumptions	–	8,563,025
Differences between Actual and Expected Experience	4,342,453	5,705,731
Net Differences between Projected and Actual Earnings on Plan Investments	<u>88,135,281</u>	<u>32,808,019</u>
Total	<u>\$ 131,053,868</u>	<u>\$ 47,076,775</u>

\$38,576,134 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Details for each of the plan follow:

<u>Miscellaneous</u>	<u>Safety</u>	<u>Safety S heriff</u>	<u>TOTAL</u>
\$ 28,156,030	\$ 4,596,334	\$ 5,823,770	\$ 38,576,134

NOTE 14 – PENSION PLANS (Continued)

C. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended J une 30	Miscellaneous Deferred Inflows (Outflows) of Resources	Safety Deferred Inflows (Outflows) of Resources	Safety S heriff Deferred Inflows (Outflows) of Resources	TOTAL Deferred Inflows (Outflows) of Resources
2018	\$ (2,370,569)	\$ (453,993)	\$ 877,006	\$ (1,947,556)
2019	7,652,625	(169,953)	877,005	8,359,677
2020	19,169,693	2,984,073	2,444,793	24,598,559
2021	11,113,705	1,750,071	1,526,503	14,390,279
Thereafter	–	–	–	–
Total	<u>\$ 35,565,454</u>	<u>\$ 4,110,198</u>	<u>\$ 5,725,307</u>	<u>\$ 45,400,959</u>

D. Payable to the Pension Plans

At J une 30, 2017, there was no outstanding amount of contributions payable to the plans required for the year ended J une 30, 2017.

NOTE 15 – POST-RETIREMENT HEALTH CARE BENEFITS

Plan Description. Employees of the County who retire through CalPERS, their spouse, and eligible dependents may receive health plan coverage through the Public Employees' Medical & Hospital Care Program Plan (Plan). The Plan is a single-employer 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 County for each bargaining group will be determined through CalPERS' regulations and requirements. For the Physicians Bargaining Unit, the County contributes fixed dollar amounts that vary by coverage [\$327.21 (single) and \$388.41 (for one or more dependents)]. For other bargaining units, the County contributions are based on longevity schedules with fixed dollar scaling that varies by bargaining unit. The Plan does not issue a financial report.

Eligibility. All of the County'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 Plan is eligible to plan members who retire directly from the County through CalPERS at age 50 with at least 5 years of service.

The numbers of participants in the Plan are as follows:

Participants as of J anuary 1, 2016*	Total
Active employees	2,107
Retirees	1,439
Total	<u>3,546</u>

* Most recent information available.

NOTE 15 – POST-RETIREMENT HEALTH CARE BENEFITS (Continued)

Funding Policy. The contribution requirements for the County are established by an MOU as negotiated by each group or bargaining unit. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2017, the County contributed \$6,776,963 to the Plan, \$1,463,000 of which is the implicit subsidy.

Annual OPEB Cost and Net OPEB Obligation. The County'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 GAS B Statement No. 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 County's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the County's net OPEB obligation to the Plan:

	<u>Total</u>
Annual required contribution	\$ 17,570,000
Interest on net OPEB obligation	4,598,402
Amortization of net OPEB obligation	<u>(7,091,000)</u>
Annual OPEB cost (expense)	15,077,402
Contributions made	<u>(6,776,963)</u>
Increase in net OPEB obligation	8,300,439
Net OPEB obligation – beginning of year	<u>118,348,505</u>
Net OPEB obligation – end of year	<u><u>\$ 126,648,944</u></u>

The County's annual OPEB costs, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Annual Contribution</u>	<u>% of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2015	\$ 12,564,392	\$ 4,917,343	39.1%	\$ 110,390,529
6/30/2016	14,435,079	6,477,103	44.9%	118,348,505
6/30/2017	15,077,402	6,776,963	44.9%	126,648,944

Funded Status and Funding Progress. As of January 1, 2016, the most recent actuarial valuation date, the Plan was zero percent funded. The Actuarial Accrued Liability for benefits was \$167,095,000 and the actuarial value of assets was \$0, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$167,095,000. The covered payroll (annual payroll of active employees covered by the Plan) was \$167,418,000 and the ratio of UAAL to the covered payroll was 99.8%.

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. 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.

NOTE 15 – POST-RETIREMENT HEALTH CARE BENEFITS (Continued)

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, 2016, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions include a 4% investment rate of return which is based on the expected return on funds invested in County investments, and an annual healthcare cost trend of actual premiums initially and reduced to an ultimate rate of 5% thereafter. The actuarial assumption for inflation was 3%, and the aggregate payroll increases were 3.25%. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization as of June 30, 2016, was 24 years.

OTHER POST-EMPLOYMENT OBLIGATIONS

SCHEDULE OF FUNDING PROGRESS

The table below shows the analysis of the actuarial value of assets as a percentage of the actuarial accrual liability and the UAAL as a percentage of the annual covered payroll as of June 30, 2017. The schedule of funding progress presented as required supplementary information following the notes to the financial statements presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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
01/01/07	\$ -	\$ 216,766,000	\$ 216,766,000	0.0%	\$ 153,807,000	140.9%
01/01/14	-	145,013,000	145,013,000	0.0%	153,879,000	94.2%
01/01/16	-	167,095,000	167,095,000	0.0%	167,418,000	99.8%

NOTE 16 – DEFERRED COMPENSATION PLAN

The County offers all of its full-time employees a 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 deferred compensation plan assets into certificates of deposits and various mutual funds. The County has insignificant administrative duties.

As of June 30, 2017, the deferred compensation plan's assets of \$166,661,913 are not recorded in the County's financial statements as they are deposited with a third party administrator independent of the County.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

A. Contracts

As of June 30, 2017, the County has construction contract commitments in the Department of Public Works (all funds types) and in Special Revenue and Capital Projects Funds in the amount of \$16,432,386 and \$16,462,511, respectively.

B. Litigation

There are several lawsuits and unresolved disputes involving the County or its employees in which the County is represented by the County Counsel. However, in the opinion of the County Counsel these actions will not, in the aggregate, have a material adverse effect upon the operations or financial position of the County.

C. Federal and State Grants

The County participates in a number of Federal and State grant programs subject to financial and compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, management does not believe that audit disallowances, if any, would have a significant effect on the financial position of the County.

D. Medicare and Medi-Cal Reimbursements

The County's Medicare and Medi-Cal cost reports for certain prior years are in various stages of review by the third-party intermediaries and have not been settled as a result of certain unresolved reimbursement issues. The County believes that it has adequately provided for any potential liabilities that may arise from the intermediaries' review.

NOTE 18 – RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; medical malpractice; unemployment coverage; and dental benefits to employees. The County is self-insured for its general and auto liability, workers' compensation, property, and employees' dental coverage. The County has chosen to establish risk-financing internal service funds, where assets are set aside for claim settlements associated with the above risk of loss up to certain limits. Excess coverage is provided by the California State Association of Counties (CSAC) Excess Insurance Authority (Insurance Authority), a joint powers authority whose purpose is to develop and fund programs of excess insurance for its member counties. The Insurance Authority is governed by a Board of Directors consisting of representatives of the member counties. Self-insurance limits per occurrence and Insurance Authority limits per year are as presented in the Statistical Section of this report.

Amounts in excess of these limits are self-insured. None of the insurance settlements over the past three years has exceeded the amount of insurance coverage. As of June 30, 2017, the workers' compensation liability limit per occurrence was \$500,000.

The unpaid claims liability included in each of the Self-Insurance Internal Service Funds are based on the results of actuarial studies and include amounts for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. It is the County's practice to obtain full actuarial studies bi-annually. Annual premiums are charged by each Self-Insurance fund using various allocation methods which include actual costs, claims experience, and number of participants.

NOTE 18 – RISK MANAGEMENT (Continued)

The change in the balance of claims liabilities during the fiscal years ended June 30, 2017, and two prior years for all Self-Insurance Internal Service Funds combined is as follows:

	2017	2016	2015
Unpaid claims and claim adjustment expenses, beginning of the fiscal year	\$ 39,004,128	\$ 38,986,910	\$ 46,984,023
Incurred claims and claim adjustment expenses	15,815,693	9,746,817	10,618,009
Increase (decrease) in provision of insured events for prior years	(2,247,000)	-	(8,028,909)
Claim payments	(15,815,693)	(9,729,599)	(10,586,213)
Unpaid claims and claim adjustment expenses, end of the fiscal year	<u>\$ 36,757,128</u>	<u>\$ 39,004,128</u>	<u>\$ 38,986,910</u>

At June 30, 2017, the Self-Insurance Funds held a total of \$30,175,748 in cash for the payment of these claims.

A. Workers' Compensation

The Workers' Compensation self-insurance program is funded on a cash flow plus contingency reserve basis. The County is liable for the first \$500,000 and carries catastrophic insurance coverage. At June 30, 2017, the estimated future liabilities were \$29,794,000. As permitted by State and Federal guidelines, the Workers' Compensation program is funded on a pay-as-you-go basis. The funding is closely monitored to ensure that claims are paid when due or required by law.

B. Dental and Medical

The County provides a self-funded indemnity dental program for employees and their dependents and is funded by the various County departments through charges to their salary and benefits budgets. At June 30, 2017, the County had an estimated future liability of \$406,120 for dental benefits. The County is fully insured for its alternative capitation dental program and for medical coverage for employees represented by Operating Engineers Union Local 3.

C. Liability and Property

The County has a self-insured retention of \$1 million with excess insurance coverage for the general liability program. At June 30, 2017, the County had estimated future liabilities totaling \$6,495,000 which included estimates for known claims and losses incurred but not reported (IBNR).

D. Unemployment Insurance

The Unemployment Insurance self-insurance program is considered a "reimbursable" program by the Employment Development Department (EDD), since EDD provides benefits and bills the County quarterly after the fact. As billings are always one quarter in arrears, the estimated future liabilities are based on 25% of the amount budgeted for the new fiscal year. At June 30, 2017, estimated future liabilities were \$62,008.

NOTE 19 – FUND BALANCES

Fund balances are presented in the following categories: nonspendable, restricted, committed, assigned, and unassigned (see Note 1 for a description of these categories). A detailed schedule of fund balances at June 30, 2017, is as follows:

	General Fund	Housing Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:					
Inventory, prepaids, and imprest cash	\$ 475,193	\$ –	\$ –	\$ –	\$ 475,193
Advances and loans	228,113	60,390,957	–	–	60,619,070
Assets held for resale	–	1,166,891	–	–	1,166,891
Total nonspendable fund balance	703,306	61,557,848	–	–	62,261,154
Restricted for:					
Purpose of fund	–	15,945,488	–	19,524,067	35,469,555
Debt service	–	–	–	2,378,349	2,378,349
Capital asset acquisition	–	–	7,654,906	9,091,534	16,746,440
Total restricted fund balance	–	15,945,488	7,654,906	30,993,950	54,594,344
Committed to:					
Natural Disasters	2,000,000	–	–	–	2,000,000
Working Capital	6,000,000	–	–	–	6,000,000
Economic Uncertainty	10,000,000	–	–	–	10,000,000
Total committed fund balance	18,000,000	–	–	–	18,000,000
Assigned to:					
MBCP Credit Guaranty	272,727	–	–	–	272,727
Federally qualified health program	14,229,750	–	–	–	14,229,750
Budgeted Structural Deficit	6,310,843	–	–	–	6,310,843
Eliminate projected budgetary deficit in subsequent year's budget	6,310,843	–	–	–	6,310,843
Unanticipated liabilities	2,000,000	–	–	–	2,000,000
Human services programs	1,969,278	–	–	–	1,969,278
Salary savings	6,065,597	–	–	–	6,065,597
Total assigned fund balance	37,159,038	–	–	–	37,159,038
Unassigned Fund Balance	(71,459)	–	–	–	(71,459)
Total fund balances	\$ 55,790,885	\$ 77,503,336	\$ 7,654,906	\$ 30,993,950	\$ 171,943,077

NOTE 20 – SUBSEQUENT EVENTS

During 2013, Monterey Bay Community Power (MBCP) was formed as a region-wide collaborative partnership comprised of all twenty one (21) local governments within the greater Monterey Bay area, including the Counties of Santa Cruz, Monterey, and San Benito and all eighteen (18) cities located within those counties. This collaborative was created to examine the potential for a community choice energy (CCE) program in the Monterey Bay region. The goals of MBCP are to reduce greenhouse gas (GHG) emissions and provide electric power and other forms of energy to customers at competitive prices in the Monterey, Santa Cruz, and San Benito County region. In addition, the program seeks to reduce energy consumption, stimulate the local economy by creating jobs, and promote long-term electric rate stability and reliability for the residents of the tri-county area.

On February 21, 2017, the MBCP Joint Powers Authority was officially formed when the County of San Benito and the Cities of Scotts Valley and Hollister passed their second reading of the ordinance. On February 28, 2017, the County of Santa Cruz approved the MBCP Joint Powers Authority agreement, ordinance, and resolution.

NOTE 20 – SUBSEQUENT EVENTS (Continued)

Over the past year, the County of Santa Cruz has contracted with Pacific Energy Advisors, Miller Maxfield, and LEAN Energy US for technical and energy services. Until MBCP has a Chief Executive Officer (CEO) and banking and credit services in place, the County of Santa Cruz will extend these contracts for six months until December 31, 2017, at which time they will be transitioned to MBCP.

MBCP will begin providing electrical service to customers in spring 2018.

During 2017, the County submitted an application with the Internal Revenue Service to apply for Clean Renewable Energy Bonds (CREBS) to finance solar projects at various County facilities.

On July 27, 2017, the County received allocations of volume cap to issue new CREBs with respect to the Renewable Energy Projects, which include the acquisition and installation of an aggregate 2,252 Kw DC photovoltaic energy system at eight facilities located throughout the County.

On August 3, 2017, the Santa Cruz County Redevelopment Successor Agency issued Tax Allocation Refunding Bonds, 2017 Series A in the amount of \$35,140,000. The 2017 Series A Refunding Bonds bear interest at rates ranging from 1.50% to 3.25% for Serial Bonds maturing on September 1, 2027, interest rate of 3.75% for Term Bonds maturing on September 1, 2032, and interest rate of 4.00% for Term Bonds maturing on September 1, 2036. The 2017 Series A Refunding Bonds were issued to refinance the following obligations of the prior Redevelopment Agency:

- 2010 Taxable Housing Tax Allocation Bonds (the “2010 Bonds”), currently outstanding in the amount of \$17,680,000,
- Taxable Tax Allocation Bonds, 2011 Series A (the “2011 Series A Bonds”), currently outstanding in the amount of \$8,995,000, and
- Taxable Housing Tax Allocation Bonds, 2011 Series B (the “2011 Series B Bonds”), currently outstanding in the amount of \$5,140,000.

NOTE 21 – PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of \$263,957 was made to increase the governmental activities' and nonmajor governmental funds' beginning net position to reflect the adjusted improvement fund allocation related to County Disposal Sites CSA 9C.

The restatement of beginning net position of the governmental activities is summarized as follows:

Governmental activities	
Net position at July 1, 2016, as previously stated	\$ 158,737,809
Net pension liability adjustment	<u>263,957</u>
Net position at July 1, 2016, as restated	<u>\$ 159,001,766</u>
Nonmajor governmental funds	
Net position at July 1, 2016, as previously stated	\$ 38,378,469
Net pension liability adjustment	<u>263,957</u>
Net position at July 1, 2016, as restated	<u>\$ 38,642,426</u>

A prior period adjustment of \$263,957 was made to decrease the business-type activities' beginning net position. The adjustment was made to reflect the adjusted improvement fund allocation related to County Disposal Sites CSA 9C.

NOTE 21 – PRIOR PERIOD ADJUSTMENTS (Continued)

The restatement of beginning net position of the business-type activities' is summarized as follows:

Business-type activities	
Net position at July 1, 2016, as previously stated	\$ 26,893,747
Net pension liability adjustment	<u>(263,957)</u>
Net position at July 1, 2016, as restated	<u>\$ 26,629,790</u>

NOTE 22 – TAX ABATEMENTS

The County provides property tax abatements through the Williamson Act program (the California Land Conservation Act of 1965), which allows eligible property owners to enter into a contract to preserve commercial agricultural land. Applications to enter into a new contract or to not renew or cancel an existing contract requires approval from the County Board of Supervisors with recommendations from the Agricultural Policy Advisory Commission and the Planning Commission.

Contracts are usually approved for a term of 10 or 20 years and automatically renew every year. The contract is maintained at the original term until the contract is not renewed by the property owner or the County, or until the contract is cancelled by the property owner. In the past, the State reimbursed counties to partially offset the loss of property tax revenue, but they discontinued the subvention payments in 2009. In response, the County resolved to not accept or take action on applications for new contracts.

To be eligible for the tax abatement, the parcels must be located within an Agricultural Preserve as Types 1, 2, or 3, and zoned Commercial Agriculture, Agriculture Preserve, or Timber Production. They must also be designated as Agriculture, Mountain Residential, Parks and Open Space, or Resource Conservation. Parcels must be at least 10 acres if designated as Type 1 or Type 3 and at least 40 acres if designated as Type 2.

Properties under contract will often be eligible for a reduced land value assessment. The Assessor's office values the parcels under contract annually using the lowest of three value calculations: the Proposition 13 value, the Fair Market value, or the Restricted value. The Restricted value is calculated based on the potential income the land could produce based on the land classification and type of agriculture it could support.

No other commitments were made by the County as part of the Williamson Act. For the fiscal year ended June 30, 2017, the Agricultural Preserve Program tax abatements were \$338,098.



REQUIRED SUPPLEMENTAL
INFORMATION (UNAUDITED)

COUNTY OF SANTA CRUZ BUDGETARY PRINCIPLES

General Budget Policies

In accordance with Chapter 1, Division 3, Title 3, of the Government Code of the State of California, known as the "Budget Act," the County of Santa Cruz (County) prepares and adopts a budget for each fiscal year. The budget is a compilation of operating budgets from individual functional units within the General Fund, Special Revenue Funds, Capital Projects Fund, and Proprietary Funds (operating plans). Budgets are adopted for all funds except for Debt Service Funds and certain Special Revenue Funds, namely, the Financing Authorities, Health Services, and Geological Hazard Abatement Districts.

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before June 10, each official in charge of a budget provides the County Administrative Officer an itemized request detailing the estimate of financing sources, financing uses, and any other matters required by the Board of Supervisors (Board). The auditor provides the estimates for bonded debt service requirements.
2. Prior to July 1, the County Administrative Officer submits to the Board a recommended budget for the fiscal year commencing the following July 1. By formal action, the Board approves the recommended budget, including the revisions it deems necessary.
3. On or before September 8, the Board publishes a notice in a newspaper of general circulation stating that the recommended budget documents are available to the public, and the dates of the public hearings at which any member of the public may attend and be heard on any item in the recommended budget.
4. On or before October 2, public hearings are conducted to obtain public comments, and the budget is legally adopted through the passage of a resolution. The public hearings shall be concluded within 14 calendar days.
5. On or before December 1, the Auditor-Controller publishes a final budget as recommended by the County Administrative Officer and adopted by the Board, in a format prescribed by the State Controller.
6. Budget units are expenditure classifications which identify accounting or cost centers necessary or desirable for control of the County financial operation.
7. The County uses formal budgetary integration as a management control device during the year for the primary government and all blended component units, except the Financing Authorities and certain Special Revenue Funds, which do not annually adopt a budget.
8. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) except for the following different classifications:
 - Interfund transfers are reported as revenues or expenditures for budgetary purposes, however, for GAAP purposes are reported as other financing sources or uses.
 - Proceeds from the sale of assets and the issuance of new debt are reported as revenues for budgetary purposes, however, for GAAP purposes they are reported as other financing sources.

BUDGETARY PRINCIPLES (Continued)

General Budget Policies (Continued)

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

The Board made several supplementary budgetary appropriations throughout the year, primarily to the Special Revenue and Capital Projects Funds. Other supplemental budgetary appropriations in other funds were not considered material.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary accounting in the General and Special Revenue Funds. Encumbrances outstanding at year-end are reported as commitments of fund balance since they do not constitute expenditures or liabilities. Encumbrances at year-end are re-budgeted in the new year.

COUNTY OF SANTA CRUZ
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 51,736,019	\$ 51,736,019	\$ 51,736,019	\$ -
RESOURCES (INFLOWS)				
Taxes	110,912,860	111,637,860	116,873,004	5,235,144
Licenses and permits	13,920,583	13,920,583	13,258,981	(661,602)
Fines, forfeits and penalties	4,290,700	5,026,823	4,069,869	(956,954)
Use of money and property	2,387,946	2,403,631	2,708,279	304,648
Aid from other governments	243,363,735	247,979,757	235,816,827	(12,162,930)
Charges for services	62,508,776	62,947,065	63,205,072	258,007
Other	7,230,151	15,047,368	6,674,383	(8,372,985)
Inception of capital lease	81,757	129,212	129,212	-
Transfers in	26,715,215	26,806,210	3,595,209	(23,211,001)
Amount Available for Appropriation	471,411,723	485,898,509	446,330,836	(39,567,673)
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
General Government:				
Board of Supervisors				
Salaries and employee benefits	2,605,612	2,590,062	2,526,129	63,933
Services and supplies	118,738	136,084	110,342	25,742
Other charges	3,533	4,083	3,236	847
Capital assets	-	10,409	10,409	-
Total	2,727,883	2,740,638	2,650,116	90,522
Administrative Office				
Salaries and employee benefits	4,579,822	4,545,127	3,749,151	795,976
Services and supplies	2,749,277	2,369,153	1,113,859	1,255,294
Other charges	10,286	19,661	18,357	1,304
Capital assets	-	16,080	16,080	-
Intrafund transfers	(671,759)	(490,376)	(368,558)	(121,818)
Appropriations for contingencies	-	565,466	-	565,466
Total	6,667,626	7,025,111	4,528,889	2,496,222
Auditor-Controller				
Salaries and employee benefits	3,271,253	3,191,372	3,191,372	-
Services and supplies	1,404,818	1,385,793	1,276,934	108,859
Other charges	-	1,200	1,163	37
Capital assets	571,270	571,270	113,205	458,065
Intrafund transfers	(2,595,835)	(2,595,835)	(2,586,440)	(9,395)
Appropriations for contingencies	-	12,158	-	12,158
Total	2,651,506	2,565,958	1,996,234	569,724

(Continued)

COUNTY OF SANTA CRUZ
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
CHARGES TO APPROPRIATIONS (OUTFLOWS), Continued				
General Government, Continued:				
Treasurer-Tax Collector				
Salaries and employee benefits	\$ 1,181,519	\$ 1,174,519	\$ 1,140,769	\$ 33,750
Services and supplies	860,050	721,471	602,010	119,461
Other charges	1,293	1,374	1,291	83
Intrafund transfers	272,957	272,957	287,956	(14,999)
Total	<u>2,315,819</u>	<u>2,170,321</u>	<u>2,032,026</u>	<u>138,295</u>
Assessor				
Salaries and employee benefits	2,582,762	2,567,762	2,549,023	18,739
Services and supplies	398,941	503,861	480,632	23,229
Other charges	223,043	223,043	221,833	1,210
Intrafund transfers	(243,281)	(243,281)	(217,352)	(25,929)
Total	<u>2,961,465</u>	<u>3,051,385</u>	<u>3,034,136</u>	<u>17,249</u>
Purchasing				
Salaries and employee benefits	194,326	228,958	228,958	-
Services and supplies	177,036	120,561	120,561	-
Intrafund transfers	(102,222)	(102,222)	(102,222)	-
Total	<u>269,140</u>	<u>247,297</u>	<u>247,297</u>	<u>-</u>
County Counsel				
Salaries and employee benefits	3,479,236	3,483,829	3,483,829	-
Services and supplies	157,253	153,664	153,394	270
Other charges	-	3,524	3,524	-
Capital assets	-	11,241	11,241	-
Intrafund transfers	(1,064,920)	(1,064,920)	(1,248,846)	183,926
Total	<u>2,571,569</u>	<u>2,587,338</u>	<u>2,403,142</u>	<u>184,196</u>
Personnel				
Salaries and employee benefits	3,487,233	3,510,240	3,510,240	-
Services and supplies	2,267,932	2,199,131	2,149,316	49,815
Other charges	-	1,310	1,301	9
Capital assets	-	16,605	16,605	-
Intrafund transfers	(951,487)	(951,487)	(951,487)	-
Total	<u>4,803,678</u>	<u>4,775,799</u>	<u>4,725,975</u>	<u>49,824</u>
County Clerk/Elections				
Salaries and employee benefits	1,897,562	2,002,684	2,002,684	-
Services and supplies	1,466,581	1,435,342	1,311,059	124,283
Other charges	59,682	59,682	58,365	1,317
Appropriations for contingencies	-	5,410	-	5,410
Total	<u>3,423,825</u>	<u>3,503,118</u>	<u>3,372,108</u>	<u>131,010</u> (Continued)

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE (CONTINUED)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
CHARGES TO APPROPRIATIONS (OUTFLOWS), Continued				
General Government, Continued:				
Communications				
Salaries and employee benefits	\$ 886,004	\$ 841,004	\$ 820,716	\$ 20,288
Services and supplies	1,697,588	1,792,967	1,783,834	9,133
Other charges	211,483	211,483	211,471	12
Capital assets	586,691	792,532	541,637	250,895
Intrafund transfers	(884,609)	(952,609)	(970,000)	17,391
Appropriations for contingencies	-	65	-	65
Total	<u>2,497,157</u>	<u>2,685,442</u>	<u>2,387,658</u>	<u>297,784</u>
General Services				
Salaries and employee benefits	4,849,532	4,906,900	4,613,227	293,673
Services and supplies	4,287,720	4,477,570	4,407,366	70,204
Other charges	498,073	498,073	497,811	262
Intrafund transfers	(6,134,516)	(6,184,516)	(5,828,544)	(355,972)
Appropriations for contingencies	-	675	-	675
Total	<u>3,500,809</u>	<u>3,698,702</u>	<u>3,689,860</u>	<u>8,842</u>
Real Property Management				
Services and supplies	147,466	185,776	153,319	32,457
Capital assets	-	94,500	94,500	-
Total	<u>147,466</u>	<u>280,276</u>	<u>247,819</u>	<u>32,457</u>
Finance: Revenue-General Fund				
Salaries and employee benefits	533,880	4,110	-	4,110
Services and supplies	118,840	156,852	154,604	2,248
Other charges	880,455	2,157,078	1,699,956	457,122
Intrafund transfers	(623,146)	(623,146)	(782,652)	159,506
Appropriations for contingencies	-	1,110	-	1,110
Total	<u>910,029</u>	<u>1,696,004</u>	<u>1,071,908</u>	<u>624,096</u>
Surveyor				
Services and supplies	224,060	224,060	150,709	73,351
Intrafund transfers	-	-	(3,109)	3,109
Total	<u>224,060</u>	<u>224,060</u>	<u>147,600</u>	<u>76,460</u>
DPW Engineering				
Services and supplies	139,000	139,000	125,159	13,841
Total	<u>139,000</u>	<u>139,000</u>	<u>125,159</u>	<u>13,841</u>

(Continued)

COUNTY OF SANTA CRUZ
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
CHARGES TO APPROPRIATIONS (OUTFLOWS), Continued				
General Government, Continued:				
Central Stores				
Salaries and employee benefits	\$ 187,057	\$ 188,942	\$ 188,942	\$ -
Services and supplies	74,116	72,231	66,458	5,773
Intrafund transfers	(245,781)	(245,781)	(256,324)	10,543
Total	<u>15,392</u>	<u>15,392</u>	<u>(924)</u>	<u>16,316</u>
Total General Government	<u>35,826,424</u>	<u>37,405,841</u>	<u>32,659,003</u>	<u>4,746,838</u>
Public Protection:				
Courts				
Services and supplies	220,719	228,252	228,252	-
Other charges	1,897,315	1,897,315	1,737,862	159,453
Total	<u>2,118,034</u>	<u>2,125,567</u>	<u>1,966,114</u>	<u>159,453</u>
Grand Jury				
Services and supplies	52,362	52,149	43,861	8,288
Total	<u>52,362</u>	<u>52,149</u>	<u>43,861</u>	<u>8,288</u>
Child Support				
Salaries and employee benefits	6,015,978	6,015,978	5,926,349	89,629
Services and supplies	682,374	682,374	620,336	62,038
Other charges	212,979	212,979	212,979	-
Total	<u>6,911,331</u>	<u>6,911,331</u>	<u>6,759,664</u>	<u>151,667</u>
District Attorney				
Salaries and employee benefits	14,739,597	14,898,647	14,181,803	716,844
Services and supplies	1,794,741	1,909,910	1,900,784	9,126
Other charges	324,831	385,425	306,920	78,505
Intrafund transfers	(246,971)	(246,971)	(263,768)	16,797
Appropriations for contingencies	-	9,036	-	9,036
Total	<u>16,612,198</u>	<u>16,956,047</u>	<u>16,125,739</u>	<u>830,308</u>
Public Defender				
Services and supplies	10,703,743	11,097,772	10,359,885	737,887
Total	<u>10,703,743</u>	<u>11,097,772</u>	<u>10,359,885</u>	<u>737,887</u>
Sheriff-Coroner				
Salaries and employee benefits	28,764,264	29,506,226	29,506,226	-
Services and supplies	7,193,558	7,419,525	6,854,189	565,336
Other charges	144,447	154,270	149,662	4,608
Capital assets	217,200	252,407	212,693	39,714
Appropriations for contingencies	-	7,500	-	7,500
Total	<u>36,319,469</u>	<u>37,339,928</u>	<u>36,722,770</u>	<u>617,158</u>

(Continued)

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE (CONTINUED)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
CHARGES TO APPROPRIATIONS (OUTFLOWS), Continued				
Public Protection, Continued:				
Jail and Rehabilitation Center				
Salaries and employee benefits	\$ 23,548,396	\$ 23,503,447	\$ 23,331,833	\$ 171,614
Services and supplies	8,674,658	8,979,835	8,643,738	336,097
Other charges	104,148	68,803	68,803	-
Capital assets	21,357	-	-	-
Total	<u>32,348,559</u>	<u>32,552,085</u>	<u>32,044,374</u>	<u>507,711</u>
Probation Department				
Salaries and employee benefits	14,900,509	14,991,079	14,916,526	74,553
Services and supplies	7,088,452	7,176,161	6,507,268	668,893
Other charges	71,146	71,146	66,514	4,632
Intrafund transfers	(108,500)	(108,500)	(130,026)	21,526
Appropriations for contingencies	-	47,374	-	47,374
Total	<u>21,951,607</u>	<u>22,177,260</u>	<u>21,360,282</u>	<u>816,978</u>
State Correctional Schools				
Services and supplies	40,020	-	-	-
Other charges	60,000	60,000	23,671	36,329
Total	<u>100,020</u>	<u>60,000</u>	<u>23,671</u>	<u>36,329</u>
Agricultural Commissioner/				
Weights and Measures				
Salaries and employee benefits	1,736,849	1,879,153	1,879,153	-
Services and supplies	329,010	333,220	332,104	1,116
Other charges	2,656	2,656	2,656	-
Capital assets	33,950	34,800	34,800	-
Intrafund transfers	(140,501)	(140,501)	(140,501)	-
Total	<u>1,961,964</u>	<u>2,109,328</u>	<u>2,108,212</u>	<u>1,116</u>
Public Works - Other Construction Inspection				
Services and supplies	40,000	115,000	88,352	26,648
Total	<u>40,000</u>	<u>115,000</u>	<u>88,352</u>	<u>26,648</u>
Recorder				
Salaries and employee benefits	855,882	855,882	847,461	8,421
Services and supplies	775,885	761,900	623,385	138,515
Other charges	138,717	139,195	138,644	551
Total	<u>1,770,484</u>	<u>1,756,977</u>	<u>1,609,490</u>	<u>147,487</u>

(Continued)

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE (CONTINUED)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
CHARGES TO APPROPRIATIONS (OUTFLOWS), Continued				
Public Protection, Continued:				
County Emergency Office				
Salaries and employee benefits	\$ 204,712	\$ 204,712	\$ 163,259	\$ 41,453
Services and supplies	301,447	411,009	308,422	102,587
Total	<u>506,159</u>	<u>615,721</u>	<u>471,681</u>	<u>144,040</u>
Local Agency Formation Commission				
Other charges	113,367	113,367	113,367	-
Total	<u>113,367</u>	<u>113,367</u>	<u>113,367</u>	<u>-</u>
Planning Department				
Salaries and employee benefits	8,281,163	8,365,163	8,086,291	278,872
Services and supplies	6,444,779	6,730,354	6,214,386	515,968
Other charges	2,690,729	2,691,214	1,017,345	1,673,869
Capital assets	-	24,046	24,046	-
Intrafund transfers	(4,374,364)	(4,585,688)	(4,524,812)	(60,876)
Appropriations for contingencies	-	2,965	-	2,965
Total	<u>13,042,307</u>	<u>13,228,054</u>	<u>10,817,256</u>	<u>2,410,798</u>
Animal Services				
Other charges	1,323,942	1,323,942	1,323,942	-
Total	<u>1,323,942</u>	<u>1,323,942</u>	<u>1,323,942</u>	<u>-</u>
Association of Monterey Bay Area Govts.				
Other charges	33,269	33,269	33,269	-
Total	<u>33,269</u>	<u>33,269</u>	<u>33,269</u>	<u>-</u>
Total Public Protection	<u>145,908,815</u>	<u>148,567,797</u>	<u>141,971,929</u>	<u>6,595,868</u>
Public Ways and Facilities:				
Public Ways –DPW				
Services and supplies	225,272	225,272	205,340	19,932
Capital assets	-	60,000	48,978	11,022
Total	<u>225,272</u>	<u>285,272</u>	<u>254,318</u>	<u>30,954</u>
Total Public Ways and Facilities	<u>225,272</u>	<u>285,272</u>	<u>254,318</u>	<u>30,954</u>

(Continued)

COUNTY OF SANTA CRUZ
BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
CHARGES TO APPROPRIATIONS (OUTFLOWS), Continued				
Health and Sanitation:				
Health Services Agency				
Salaries and employee benefits	\$ 68,286,068	\$ 68,505,615	\$ 62,511,127	\$ 5,994,488
Services and supplies	56,163,046	55,575,112	53,225,852	2,349,260
Other charges	22,066,443	21,867,441	19,743,083	2,124,358
Capital assets	78,571	149,071	134,716	14,355
Intrafund transfers	(14,511,900)	(14,544,300)	(14,271,883)	(272,417)
Appropriations for contingencies	-	1,088,350	-	1,088,350
Total	<u>132,082,228</u>	<u>132,641,289</u>	<u>121,342,895</u>	<u>11,298,394</u>
Mosquito Abatement				
Salaries and employee benefits	1,097,853	1,097,853	1,095,517	2,336
Services and supplies	412,625	393,673	289,811	103,862
Other charges	5,000	5,000	-	5,000
Capital assets	30,000	30,000	27,940	2,060
Appropriations for contingencies	-	18,952	-	18,952
Total	<u>1,545,478</u>	<u>1,545,478</u>	<u>1,413,268</u>	<u>132,210</u>
Air Pollution				
Other charges	47,630	47,630	47,630	-
Total	<u>47,630</u>	<u>47,630</u>	<u>47,630</u>	<u>-</u>
Total Health and Sanitation	<u>133,675,336</u>	<u>134,234,397</u>	<u>122,803,793</u>	<u>11,430,604</u>
Public Assistance:				
Human Services Department				
Salaries and employee benefits	58,524,674	58,456,941	56,083,911	2,373,030
Services and supplies	19,791,816	20,149,124	18,002,567	2,146,557
Other charges	13,611,506	13,456,738	12,831,541	625,197
Capital assets	50,000	84,457	79,504	4,953
Intrafund transfers	(189,168)	(189,168)	(152,822)	(36,346)
Appropriations for contingencies	-	653,809	-	653,809
Total	<u>91,788,828</u>	<u>92,611,901</u>	<u>86,844,701</u>	<u>5,767,200</u>
Community Programs				
Other charges	4,075,568	4,075,568	4,075,568	-
Total	<u>4,075,568</u>	<u>4,075,568</u>	<u>4,075,568</u>	<u>-</u>

(Continued)

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE (CONTINUED)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
CHARGES TO APPROPRIATIONS (OUTFLOWS), Continued				
Public Assistance, Continued:				
Categorical Aids				
Services and supplies	\$ 180,000	\$ 180,000	\$ 129,427	\$ 50,573
Other charges	33,528,317	33,704,317	32,892,942	811,375
Total	<u>33,708,317</u>	<u>33,884,317</u>	<u>33,022,369</u>	<u>861,948</u>
General Assistance				
Services and supplies	1,351	1,351	-	1,351
Other charges	448,505	698,505	648,565	49,940
Total	<u>449,856</u>	<u>699,856</u>	<u>648,565</u>	<u>51,291</u>
Burial of Indigents				
Services and supplies	42,000	42,000	30,782	11,218
Total	<u>42,000</u>	<u>42,000</u>	<u>30,782</u>	<u>11,218</u>
Family Relations				
Services and supplies	43,026	57,026	52,826	4,200
Other charges	79,810	82,310	82,310	-
Total	<u>122,836</u>	<u>139,336</u>	<u>135,136</u>	<u>4,200</u>
Wards of Court				
Services and supplies	-	-	(877)	877
Other charges	163,710	350,505	316,854	33,651
Total	<u>163,710</u>	<u>350,505</u>	<u>315,977</u>	<u>34,528</u>
Veterans Service Officer				
Salaries and employee benefits	409,681	367,681	367,681	-
Services and supplies	93,964	135,641	111,014	24,627
Other charges	1,423	1,424	1,424	-
Total	<u>505,068</u>	<u>504,746</u>	<u>480,119</u>	<u>24,627</u>
Total Public Assistance	<u>130,856,183</u>	<u>132,308,229</u>	<u>125,553,217</u>	<u>6,755,012</u>

(Continued)

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE (CONTINUED)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
CHARGES TO APPROPRIATIONS (OUTFLOWS), Continued				
Education:				
Agricultural Extension Services				
Salaries and employee benefits	\$ 98,451	\$ 98,739	\$ 98,739	\$ -
Services and supplies	31,409	31,321	24,880	6,441
Total	<u>129,860</u>	<u>130,060</u>	<u>123,619</u>	<u>6,441</u>
Total Education	<u>129,860</u>	<u>130,060</u>	<u>123,619</u>	<u>6,441</u>
Recreation and Cultural Services:				
Recreation and Cultural Services				
Salaries and employee benefits	5,508,738	5,483,411	5,483,411	-
Services and supplies	2,229,031	3,161,420	2,604,392	557,028
Other charges	409,442	409,442	400,522	8,920
Capital assets	9,478	9,478	9,413	65
Intrafund transfers	(96,969)	(96,969)	(96,969)	-
Appropriations for contingencies	-	2,649	-	2,649
Total	<u>8,059,720</u>	<u>8,969,431</u>	<u>8,400,769</u>	<u>568,662</u>
Total Recreation and Cultural Services	<u>8,059,720</u>	<u>8,969,431</u>	<u>8,400,769</u>	<u>568,662</u>
Debt Service:				
Debt Service				
Services and supplies	147,250	146,750	110,830	35,920
Other charges	294,000	294,000	289,532	4,468
Intrafund transfers	(284,657)	(284,657)	(246,693)	(37,964)
Total	<u>156,593</u>	<u>156,093</u>	<u>153,669</u>	<u>2,424</u>
Total Debt Service	<u>156,593</u>	<u>156,093</u>	<u>153,669</u>	<u>2,424</u>
Total Charges to Appropriations (Outflows)	<u>454,838,203</u>	<u>462,057,120</u>	<u>431,920,317</u>	<u>30,136,803</u> (Continued)

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE (CONTINUED)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
Transfers Out:				
Cannabis	\$ 90,000	\$ 90,000	\$ 58,797	\$ 31,203
General Services	-	4,651	4,651	-
Plant	225,559	225,559	225,559	-
Planning Department	30,000	30,000	28,896	1,104
District Attorney	-	70,000	66,151	3,849
Sheriff-Coroner	60,000	102,690	79,341	23,349
Probation Department	54,000	54,000	53,668	332
Health Services Agency	12,129,226	20,113,142	2,469,328	17,643,814
Debt Service to Financing Authorities	8,370,013	8,370,013	7,369,262	1,000,751
Total transfers out	<u>20,958,798</u>	<u>29,060,055</u>	<u>10,355,653</u>	<u>18,704,402</u>
Total Charges to Appropriations (Outflows)	<u>475,797,001</u>	<u>491,117,175</u>	<u>442,275,970</u>	<u>48,841,205</u>
Net change in fund balance	<u>(4,385,278)</u>	<u>(5,218,666)</u>	<u>4,054,866</u>	<u>9,273,532</u>
FUND BALANCE, ENDING	<u>\$ 47,350,741</u>	<u>\$ 46,517,353</u>	<u>\$ 55,790,885</u>	<u>\$ 9,273,532</u> (Concluded)

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/Inflows of Resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 446,330,836
Differences -budget to GAAP:	
Inception of capital leases are not revenues for financial reporting purposes	(129,212)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(3,595,209)</u>
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances -Governmental Funds	<u>\$ 442,606,415</u>

Uses/Outflows of Resources:

Actual amounts (budgetary basis) "charges to appropriations" from the budgetary comparison schedule	\$ 442,275,970
Differences -budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(10,355,653)</u>
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances -Governmental Funds	<u>\$ 431,920,317</u>

COUNTY OF SANTA CRUZ
BUDGETARY COMPARISON SCHEDULE
HOUSING FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 79,600,179	\$ 79,600,179	\$ 79,600,179	\$ -
RESOURCES (INFLOWS)				
Use of money and property	292,802	292,802	653,614	360,812
Aid from other governments	2,494,000	2,494,000	1,047,595	(1,446,405)
Charges for services	-	-	138,258	138,258
Other	2,147,216	2,147,216	15,749	(2,131,467)
Amounts available for appropriation	4,934,018	4,934,018	1,855,216	(3,078,802)
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Services and supplies	4,343,708	4,408,708	778,378	3,630,330
Other charges	16,333,147	16,168,147	3,173,681	12,994,466
Appropriations for contingencies	-	100,000	-	100,000
Total charges to appropriations	20,676,855	20,676,855	3,952,059	16,724,796
Net change in fund balance	(15,742,837)	(15,742,837)	(2,096,843)	13,645,994
FUND BALANCE, ENDING	<u>\$ 63,857,342</u>	<u>\$ 63,857,342</u>	<u>\$ 77,503,336</u>	<u>\$ 13,645,994</u>

COUNTY OF SANTA CRUZ
AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
AS OF JUNE 30, 2017
LAST 10 YEARS *

	Miscellaneous		
	2015-16	2014-15	2013-14
Total Pension Liability			
Service Cost	\$ 20,403,352	\$ 18,761,846	\$ 19,489,676
Interest on the Total Pension Liability	78,852,555	71,962,162	68,452,545
Changes of Benefit Terms	-	-	-
Changes in Assumptions	-	(16,868,274)	-
Differences between Actual and Expected Experience	3,966,020	(13,201,310)	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(50,461,359)</u>	<u>(44,263,142)</u>	<u>(40,206,837)</u>
Net Change in Total Pension Liability	52,760,568	16,391,282	47,735,384
Total Pension Liability - Beginning	<u>987,185,841</u>	<u>970,794,559</u>	<u>923,059,175</u>
Total Pension Liability - Ending (a)	<u>\$ 1,039,946,409</u>	<u>\$ 987,185,841</u>	<u>\$ 970,794,559</u>
Plan Fiduciary Net Position			
Contribution - Employer	\$ 24,836,370	\$ 20,788,367	\$ 18,466,079
Contribution - Employee	9,898,794	9,264,211	8,586,012
Net Investment Income	4,227,340	16,986,821	112,250,826
Benefit Payments, Including Refunds of Employee Contributions	(50,461,359)	(44,263,142)	(40,206,837)
Plan to Plan Resource Movement	2,727	(29,360)	-
Administrative Expenses	<u>(482,672)</u>	<u>(855,524)</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	(11,978,800)	1,891,373	99,096,080
Plan Fiduciary Net Position - Beginning	<u>750,583,900</u>	<u>748,692,527</u>	<u>649,596,447</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 738,605,100</u>	<u>\$ 750,583,900</u>	<u>\$ 748,692,527</u>
Net Pension Liability - Ending [(a) - (b)]	<u>\$ 301,341,309</u>	<u>\$ 236,601,941</u>	<u>\$ 222,102,032</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.02%	76.03%	77.12%
Covered-Employee Payroll	\$ 142,900,632	\$ 129,365,289	\$ 128,891,451
Net Pension Liability as a Percentage of Covered-Employee Payroll	210.87%	182.89%	172.32%

* Fiscal year 2016-17 was the 3rd year of implementation; therefore, only three years are shown.

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date.

Changes in assumptions. In 2016, there were no changes of assumptions. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administration expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

COUNTY OF SANTA CRUZ
AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS (CONTINUED)
AS OF JUNE 30, 2017
LAST 10 YEARS *

	Safety		
	2015-16	2014-15	2013-14
Total Pension Liability			
Service Cost	\$ 3,699,113	\$ 3,490,554	\$ 3,669,984
Interest on the Total Pension Liability	12,245,682	11,193,336	10,663,258
Changes of Benefit Terms	-	-	-
Changes in Assumptions	-	(2,818,825)	-
Differences between Actual and Expected Experience	(115,359)	(2,577,906)	-
Benefit Payments, Including Refunds of Employee Contributions	<u>(7,830,764)</u>	<u>(7,060,615)</u>	<u>(6,316,966)</u>
Net Change in Total Pension Liability	7,998,672	2,226,544	8,016,276
Total Pension Liability – Beginning	<u>159,899,517</u>	<u>151,516,539</u>	<u>143,500,263</u>
Total Pension Liability – Ending (a)	<u><u>\$ 167,898,189</u></u>	<u><u>\$ 153,743,083</u></u>	<u><u>\$ 151,516,539</u></u>
Plan Fiduciary Net Position			
Contribution – Employer	\$ 3,731,613	\$ 4,503,776	\$ 2,833,995
Contribution – Employee	1,613,925	1,434,076	1,364,228
Net Investment Income	588,970	2,674,451	17,564,582
Benefit Payments, Including Refunds of Employee Contributions	(7,830,764)	(7,060,615)	(6,316,966)
Plan to Plan Resource Movement	(106,353)	-	-
Administrative Expenses	<u>(75,328)</u>	<u>(133,531)</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	(2,077,937)	1,418,157	15,445,839
Plan Fiduciary Net Position – Beginning	<u>119,644,326</u>	<u>117,011,036</u>	<u>101,565,197</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 117,566,389</u></u>	<u><u>\$ 118,429,193</u></u>	<u><u>\$ 117,011,036</u></u>
Net Pension Liability – Ending [(a) – (b)]	<u><u>\$ 50,331,800</u></u>	<u><u>\$ 35,313,890</u></u>	<u><u>\$ 34,505,503</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.02%	77.03%	77.23%
Covered-Employee Payroll	\$ 16,451,469	\$ 15,444,933	\$ 15,601,682
Net Pension Liability as a Percentage of Covered-Employee Payroll	305.94%	228.64%	221.17%

* Fiscal year 2016-17 was the 3rd year of implementation; therefore, only three years are shown.

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date.

Changes in assumptions. In 2016, there were no changes of assumptions. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administration expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

COUNTY OF SANTA CRUZ
AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS (CONTINUED)
AS OF JUNE 30, 2017
LAST 10 YEARS *

	Safety Sheriff		
	2015-16	2014-15	2013-14
Total Pension Liability			
Service Cost	3,942,199	\$ 3,634,483	\$ 3,589,667
Interest on the Total Pension Liability	11,528,363	10,356,153	9,442,627
Changes of Benefit Terms	-	-	-
Changes in Assumptions	-	(2,711,954)	-
Differences between Actual and Expected Experience	531,702	2,154,731	-
Benefit Payments, Including Refunds of Employee Contributions	(5,816,534)	(5,050,435)	(4,529,774)
Net Change in Total Pension Liability	10,185,730	8,382,978	8,502,520
Total Pension Liability - Beginning	137,100,812	134,874,267	126,371,747
Total Pension Liability - Ending (a)	<u>\$ 147,286,542</u>	<u>\$ 143,257,245</u>	<u>\$ 134,874,267</u>
Plan Fiduciary Net Position			
Contribution - Employer	5,279,477	\$ 3,212,095	\$ 3,752,346
Contribution - Employee	1,383,847	1,200,032	1,538,338
Net Investment Income	509,520	2,087,758	13,619,878
Benefit Payments, Including Refunds of Employee Contributions	(5,816,534)	(5,050,435)	(4,529,774)
Plan to Plan Resource Movement	(3,877)	-	-
Administrative Expenses	(60,831)	(107,841)	-
Net Change in Plan Fiduciary Net Position	1,291,602	1,341,609	14,380,788
Plan Fiduciary Net Position - Beginning	92,143,512	92,017,035	77,636,247
Plan Fiduciary Net Position - Ending (b)	<u>\$ 93,435,114</u>	<u>\$ 93,358,644</u>	<u>\$ 92,017,035</u>
Net Pension Liability - Ending [(a) - (b)]	<u>\$ 53,851,428</u>	<u>\$ 49,898,601</u>	<u>\$ 42,857,232</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.44%	65.17%	68.22%
Covered-Employee Payroll	\$ 14,432,887	\$ 13,136,050	\$ 12,367,504
Net Pension Liability as a Percentage of Covered-Employee Payroll	373.12%	379.86%	346.53%

* Fiscal year 2016-17 was the 3rd year of implementation; therefore, only three years are shown.

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date.

Changes in assumptions. In 2016, there were no changes of assumptions. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administration expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

COUNTY OF SANTA CRUZ
AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS (CONTINUED)
AS OF JUNE 30, 2017
LAST 10 YEARS *

	TOTAL		
	2015-16	2014-15	2013-14
Total Pension Liability			
Service Cost	\$ 28,044,664	\$ 25,886,883	\$ 26,749,327
Interest on the Total Pension Liability	102,626,600	93,511,651	88,558,430
Changes of Benefit Terms	-	-	-
Changes in Assumptions	-	(22,399,053)	-
Differences between Actual and Expected Experience	4,382,363	(13,624,485)	-
Benefit Payments, Including Refunds of Employee Contributions	(64,108,657)	(56,374,192)	(51,053,577)
Net Change in Total Pension Liability	70,944,970	27,000,804	64,254,180
Total Pension Liability -Beginning	1,284,186,170	1,257,185,365	1,192,931,185
Total Pension Liability -Ending (a)	<u>\$ 1,355,131,140</u>	<u>\$ 1,284,186,169</u>	<u>\$ 1,257,185,365</u>
Plan Fiduciary Net Position			
Contribution -Employer	\$ 33,847,460	\$ 28,504,238	\$ 25,052,420
Contribution -Employee	12,896,566	11,898,319	11,488,578
Net Investment Income	5,325,830	21,749,030	143,435,286
Benefit Payments, Including Refunds of Employee Contributions	(64,108,657)	(56,374,192)	(51,053,577)
Plan to Plan Resource Movement	(107,503)	(29,360)	-
Administrative Expenses	(618,831)	(1,096,896)	-
Net Change in Plan Fiduciary Net Position	(12,765,135)	4,651,139	128,922,707
Plan Fiduciary Net Position -Beginning	962,371,738	957,220,598	828,797,891
Plan Fiduciary Net Position -Ending (b)	<u>\$ 949,606,603</u>	<u>\$ 962,371,737</u>	<u>\$ 957,220,598</u>
Net Pension Liability -Ending [(a) -(b)]	<u>\$ 405,524,537</u>	<u>\$ 321,814,432</u>	<u>\$ 299,464,767</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.07%	74.94%	76.18%
Covered-Employee Payroll	\$ 173,784,988	\$ 157,946,272	\$ 156,860,637
Net Pension Liability as a Percentage of Covered-Employee Payroll	233.35%	203.75%	190.91%

* Fiscal year 2016-17 was the 3rd year of implementation; therefore, only three years are shown.

Notes to Schedule:

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2015 valuation date.

Changes in assumptions. In 2016, there were no changes of assumptions. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administration expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

COUNTY OF SANTA CRUZ
 AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
 SCHEDULE OF CONTRIBUTIONS
 AS OF JUNE 30, 2017
 LAST 10 YEARS *

	Miscellaneous		
	2015-16	2014-15	2013-14
Actuarially Determined Contributions	\$ 24,708,760	\$ 20,518,076	\$ 18,466,079
Contributions in Relation to the Actuarially Determined Contributions	<u>24,708,760</u>	<u>20,518,076</u>	<u>18,466,079</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 142,900,632	\$ 129,365,289	\$ 128,891,450
Contributions as a Percentage of Covered-Employee Payroll	17.29%	15.86%	14.33%

*Fiscal year 2016-17 was the 3rd year of implementation; therefore, only three years are shown.

Notes to Schedule:

Valuation date: June 30, 2013, June 30, 2012, and June 30, 2011, respectively

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization method	Level percent of payroll
Remaining amortization period	27 years as of the Valuation Date
Asset valuation method	Market Value beginning with the 06/30/13 valuation date, 15-year smoothed market for valuations prior to 06/30/13
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

COUNTY OF SANTA CRUZ
 AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
 SCHEDULE OF CONTRIBUTIONS (CONTINUED)
 AS OF JUNE 30, 2017
 LAST 10 YEARS *

	Safety		
	2015-16	2014-15	2013-14
Actuarially Determined Contributions	\$ 3,712,440	\$ 3,170,331	\$ 2,833,995
Contributions in Relation to the Actuarially Determined Contributions	<u>3,712,440</u>	<u>3,170,331</u>	<u>2,833,995</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 16,451,469	\$ 15,444,933	\$ 15,601,682
Contributions as a Percentage of Covered-Employee Payroll	22.57%	20.53%	18.16%

*Fiscal year 2016-17 was the 3rd year of implementation; therefore, only three years are shown.

Notes to Schedule:

Valuation date: June 30, 2013, June 30, 2012, and June 30, 2011, respectively

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization method	Level percent of payroll
Remaining amortization period	32 years as of the Valuation Date
Asset valuation method	Market Value beginning with the 06/30/13 valuation date, 15-year smoothed market for valuations prior to 06/30/13
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

COUNTY OF SANTA CRUZ
 AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
 SCHEDULE OF CONTRIBUTIONS (CONTINUED)
 AS OF JUNE 30, 2017
 LAST 10 YEARS *

	Safety Sheriff		
	2015-16	2014-15	2013-14
Actuarially Determined Contributions	\$ 5,252,351	\$ 4,445,217	\$ 3,752,346
Contributions in Relation to the Actuarially Determined Contributions	<u>5,252,351</u>	<u>4,445,217</u>	<u>3,752,346</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 14,432,887	\$ 13,136,050	\$ 12,367,504
Contributions as a Percentage of Covered-Employee Payroll	36.39%	33.84%	30.34%

*Fiscal year 2016-17 was the 3rd year of implementation; therefore, only three years are shown.

Notes to Schedule:

Valuation date: June 30, 2013, June 30, 2012, and June 30, 2011, respectively

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization method	Level percent of payroll
Remaining amortization period	32 years as of the Valuation Date
Asset valuation method	Market Value beginning with the 06/30/13 valuation date, 15-year smoothed market for valuations prior to 06/30/13
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

COUNTY OF SANTA CRUZ
 AN AGENT MULTIPLE-EMPLOYER DEFINED BENEFIT PENSION PLAN
 SCHEDULE OF CONTRIBUTIONS (CONTINUED)
 AS OF JUNE 30, 2017
 LAST 10 YEARS *

	TOTAL		
	2015-16	2014-15	2013-14
Actuarially Determined Contributions	\$ 33,673,551	\$ 28,133,624	\$ 25,052,420
Contributions in Relation to the Actuarially Determined Contributions	<u>33,673,551</u>	<u>28,133,624</u>	<u>25,052,420</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 173,784,988	\$ 157,946,272	\$ 156,860,636
Contributions as a Percentage of Covered-Employee Payroll	19.38%	17.81%	15.97%

*Fiscal year 2016-17 was the 3rd year of implementation; therefore, only three years are shown.

Notes to Schedule:

Valuation date: June 30, 2013, June 30, 2012, and June 30, 2011, respectively

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization method	Level percent of payroll
Remaining amortization period	Varies 27 to 32 years as of the Valuation Date depending on the Plan
Asset valuation method	Market Value beginning with the 06/30/13 valuation date, 15-year smoothed market for valuations prior to 06/30/13
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Payroll growth	3.00%
Investment rate of return	7.50%, net of pension plan investment and administrative expenses, including inflation
Retirement age	The probabilities of retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

COUNTY OF SANTA CRUZ
OTHER POST-EMPLOYMENT OBLIGATIONS
SCHEDULE OF FUNDING PROGRESS

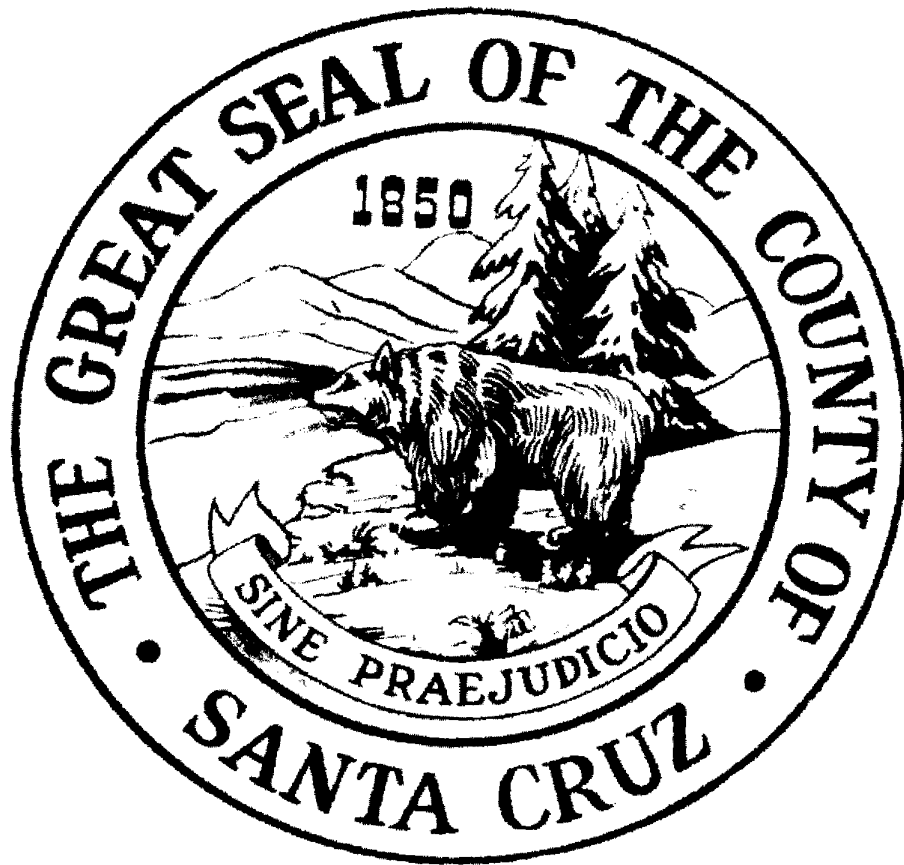
The table below shows a three-year analysis of the actuarial value of assets as a percentage of the actuarial accrual liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of January 1 of each year indicated.

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
01/01/07	\$ -	\$ 216,766,000	\$ 216,766,000	0.0%	\$ 153,807,000	140.9%
01/01/14	-	145,013,000	145,013,000	0.0%	153,879,000	94.2%
01/01/16	-	167,095,000	167,095,000	0.0%	167,418,000	99.8%

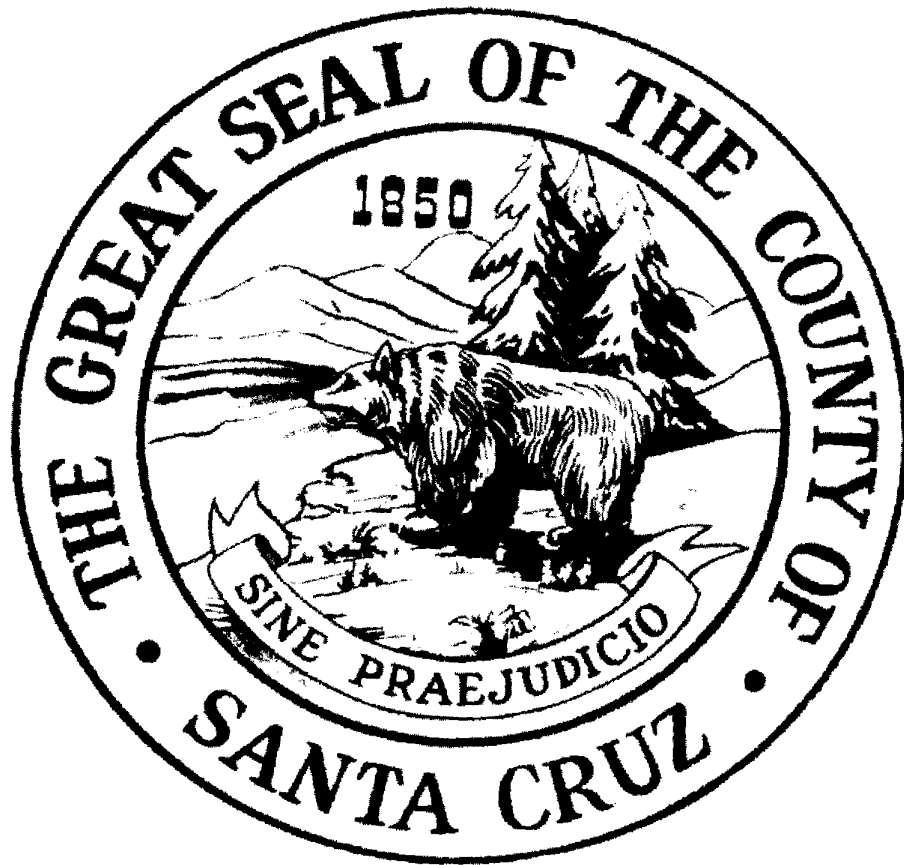
* Most recent information available.



SUPPLEMENTARY INFORMATION

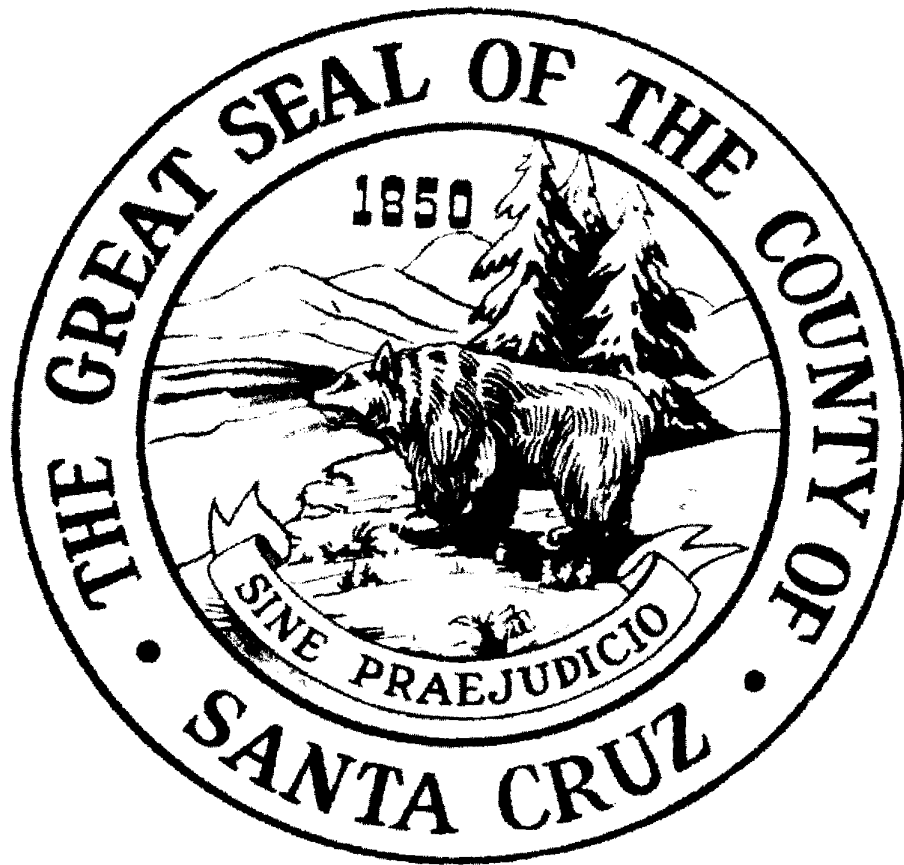


COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES



SUMMARY OF NONMAJOR GOVERNMENTAL FUND FINANCIAL STATEMENTS

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of special revenue sources which are legally restricted to expenditures for specific purposes.



COUNTY OF SANTA CRUZ
BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>Nonmajor Governmental Funds</u>
ASSETS	
Cash and investments	\$ 20,750,255
Restricted cash and investments	11,750,266
Receivables, net	<u>9,709,735</u>
Total assets	<u><u>\$ 42,210,256</u></u>
LIABILITIES	
Payables	\$ 8,409,431
Due to other funds	2,232,390
Advances from grantors and third parties	<u>574,485</u>
Total liabilities	<u>11,216,306</u>
FUND BALANCES	
Restricted	<u>30,993,950</u>
Total fund balances	<u>30,993,950</u>
Total liabilities and fund balances	<u><u>\$ 42,210,256</u></u>

COUNTY OF SANTA CRUZ
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Nonmajor Governmental Funds</u>
REVENUES:	
Taxes	\$ 17,820,321
Licenses and permits	8,945
Fines, forfeits, and penalties	13,480
Use of money and property	220,936
Aid from other governments	20,783,498
Charges for services	11,763,638
Other	<u>1,618,900</u>
Total revenues	<u>52,229,718</u>
EXPENDITURES:	
Current:	
General government	529,502
Public protection	14,609,687
Public ways and facilities	33,962,771
Health and sanitation	38,635
Education	5,411,170
Recreation and cultural services	1,613,193
Debt service:	
Principal	4,856,542
Interest and fiscal charges	<u>2,750,747</u>
Total expenditures	<u>63,772,247</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(11,542,529)</u>
OTHER FINANCING SOURCES (USES):	
Bonds issued	10,500,000
Bond premium/discount	950,674
Payment to bond refunding escrow agent	(10,620,000)
Sale of general capital assets	6,450
Transfers in	10,868,369
Transfers out	(7,811,433)
Miscellaneous	<u>(7)</u>
Total other financing sources (uses)	<u>3,894,053</u>
Net change in fund balances	<u>(7,648,476)</u>
FUND BALANCES:	
Beginning of year	38,378,469
Prior period adjustment	<u>263,957</u>
Beginning of year, as restated	<u>38,642,426</u>
End of year	<u>\$ 30,993,950</u>

COUNTY OF SANTA CRUZ
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 6,790,774	\$ 6,790,774	\$ 6,790,774	\$ -
RESOURCES (INFLOWS)				
Fines, forfeits, and penalties	-	17,443	17,443	-
Use of money and property	11,794	11,794	39,707	27,913
Aid from other governments	25,035,382	26,574,980	12,111,829	(14,463,151)
Charges for services	158,069	158,069	17,000	(141,069)
Other	251,900	79,000	4,249	(74,751)
Transfers in	15,739,318	21,244,325	7,118,324	(14,126,001)
Amounts available for appropriation	41,196,463	48,085,611	19,308,552	(28,777,059)
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Services and supplies	72,827	17,000	17,000	-
Capital assets	47,534,918	50,246,303	14,844,969	35,401,334
Transfers out	2,299	4,478,094	3,582,451	895,643
Total charges to appropriations	47,610,044	54,741,397	18,444,420	36,296,977
Net change in fund balance	(6,413,581)	(6,655,786)	864,132	7,519,918
FUND BALANCE, ENDING	\$ 377,193	\$ 134,988	\$ 7,654,906	\$ 7,519,918

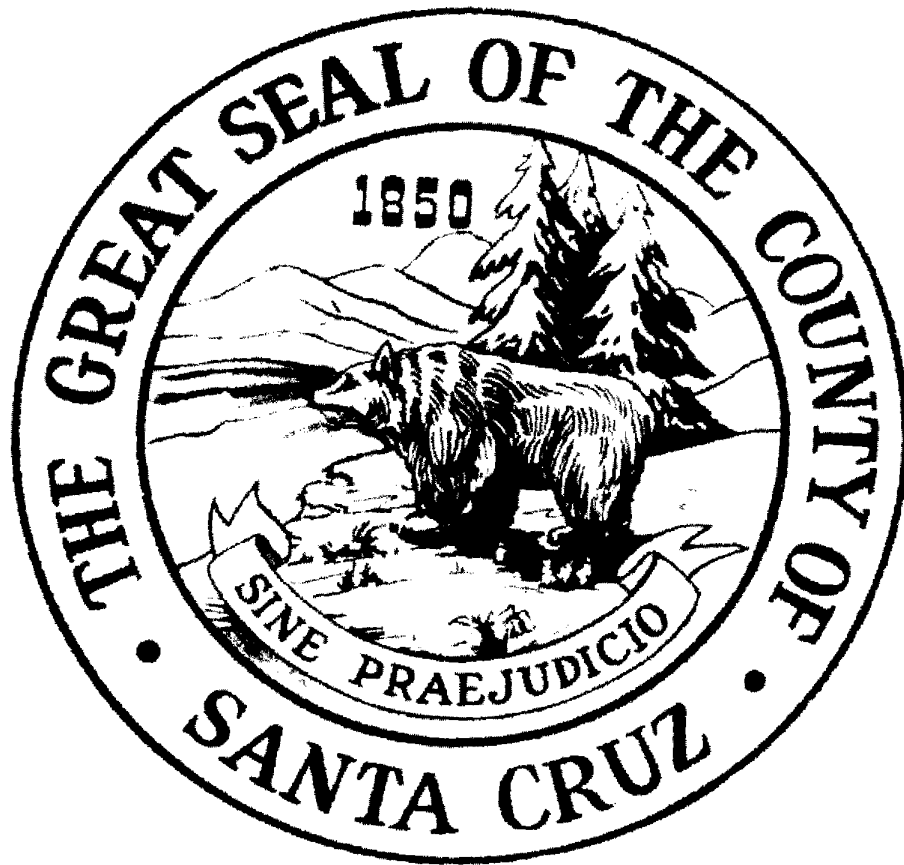
Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/Inflows of Resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 19,308,552
Differences -budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(7,118,324)
Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances -Governmental Funds	<u>\$ 12,190,228</u>

Uses/Outflows of Resources:

Actual amounts (budgetary basis) "charges to appropriation" from the budgetary comparison schedule	\$ 18,444,420
Differences -budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(3,582,451)
Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances -Governmental Funds	<u>\$ 14,861,969</u>



NONMAJOR SPECIAL REVENUE FUNDS

Special Revenue Funds:

Library Fund – The Library Fund finances library services in the unincorporated area of the County through contracts with the cities of Santa Cruz and Watsonville. Revenue is collected from property taxes in the unincorporated area of the County and from the cities of Scotts Valley and Capitola and is dedicated to the Santa Cruz County Library Joint Powers Authority for library operations.

Fire Fund – The Fire Fund provides support for coordinating fire protection and prevention activities with local fire protection agencies, County departments, and advisory bodies. Revenues consist of taxes and charges for services.

Off Highway, Road, and Transportation Fund – The Off Highway, Road, and Transportation Fund provides for the construction and maintenance of County roads, along with transportation planning activities. Revenues consist primarily of State and Federal grants, State taxes, and a State subvention from vehicle license fees.

Financing Authorities – The Financing Authorities are legal entities separate from the County, although they are not reported as component units of the County. The Financing Authorities facilitate financing for the County and the County of Santa Cruz Redevelopment Successor Agency.

Fish and Game Fund – The Fish and Game Fund provides for expenditures, which are used for the protection and propagation of fish and game. Revenues are from the County's share of fines collected for violations of fish and game laws.

Park Dedication and State Park Bonds Fund – The Park Dedication and State Park Bonds Fund finances park land acquisition and park development. Revenues come from development impact fees charged on new residential development and major residential remodeling.

Health Services Fund – The Health Services Fund provides for future purchases of health facilities.

Santa Cruz Flood Control and Water Conservation Zone 7 – The Santa Cruz Flood Control and Water Conservation Zone 7 Fund supports a special purpose district fund administered by the Department of Public Works. It is governed by an independent Board of Directors. Revenues consist largely of service charges.

Districts Governed by the Board of Supervisors: Public Protection, Health and Sanitation, Recreation and Culture Services, and Public Ways and Facilities Funds – The Public Protection, Health and Sanitation, Recreation and Culture Services, and Public Ways and Facilities Funds support a number of special purpose district funds administered by the Department of Public Works. Revenues consist of tax levies and service charges.

Districts Governed by the Board of Supervisors: Geologic Hazard Abatement Districts Fund – The Geologic Hazard Abatement Districts Fund provides for financing and maintaining improvements necessary or incidental to the prevention, mitigation, abatement, or control of geologic hazards.

COUNTY OF SANTA CRUZ
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2017

	Library	Fire	Off Highway, Road, and Transportation	Financing Authorities	Fish and Game	Park Dedication and State Park Bonds
ASSETS						
Cash and investments	\$ 591,652	\$ 4,513,732	\$ 393,538	\$ -	\$ 13,329	\$ 2,217,533
Restricted cash and investments	-	-	-	11,750,266	-	-
Receivables, net	-	-	8,590,200	-	-	46,381
Total assets	<u>\$ 591,652</u>	<u>\$ 4,513,732</u>	<u>\$ 8,983,738</u>	<u>\$ 11,750,266</u>	<u>\$ 13,329</u>	<u>\$ 2,263,914</u>
LIABILITIES						
Payables	\$ -	\$ 986,599	\$ 6,557,191	\$ -	\$ -	\$ 6,554
Due to other funds	-	-	1,908,585	280,383	-	43,422
Advances from grantors and third parties	-	-	574,485	-	-	-
Total liabilities	<u>-</u>	<u>986,599</u>	<u>9,040,261</u>	<u>280,383</u>	<u>-</u>	<u>49,976</u>
FUND BALANCES						
Restricted	<u>591,652</u>	<u>3,527,133</u>	<u>(56,523)</u>	<u>11,469,883</u>	<u>13,329</u>	<u>2,213,938</u>
Total fund balances	<u>591,652</u>	<u>3,527,133</u>	<u>(56,523)</u>	<u>11,469,883</u>	<u>13,329</u>	<u>2,213,938</u>
Total liabilities and fund balances	<u>\$ 591,652</u>	<u>\$ 4,513,732</u>	<u>\$ 8,983,738</u>	<u>\$ 11,750,266</u>	<u>\$ 13,329</u>	<u>\$ 2,263,914</u>

COUNTY OF SANTA CRUZ
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS (CONTINUED)
 JUNE 30, 2017

Health Services	Santa Cruz Flood Control and Water Conservation Zone 7	Board of Supervisors Governed					Geologic Hazard Abatement Districts	Total Nonmajor Special Revenue Funds
		Public Protection	Health and Sanitation	Recreation and Culture Services	Public Ways and Facilities			
\$ 13,466	\$ 663,070	\$ 3,366,992	\$ 1,964,578	\$ 1,441,089	\$ 5,381,010	\$ 190,266	\$ 20,750,255	
-	-	-	-	-	-	-	11,750,266	
-	838,573	234,581	-	-	-	-	9,709,735	
<u>\$ 13,466</u>	<u>\$ 1,501,643</u>	<u>\$ 3,601,573</u>	<u>\$ 1,964,578</u>	<u>\$ 1,441,089</u>	<u>\$ 5,381,010</u>	<u>\$ 190,266</u>	<u>\$ 42,210,256</u>	
\$ -	\$ 221,889	\$ 343,276	\$ -	\$ -	\$ 293,922	\$ -	\$ 8,409,431	
-	-	-	-	-	-	-	2,232,390	
-	-	-	-	-	-	-	574,485	
-	221,889	343,276	-	-	293,922	-	11,216,306	
13,466	1,279,754	3,258,297	1,964,578	1,441,089	5,087,088	190,266	30,993,950	
13,466	1,279,754	3,258,297	1,964,578	1,441,089	5,087,088	190,266	30,993,950	
<u>\$ 13,466</u>	<u>\$ 1,501,643</u>	<u>\$ 3,601,573</u>	<u>\$ 1,964,578</u>	<u>\$ 1,441,089</u>	<u>\$ 5,381,010</u>	<u>\$ 190,266</u>	<u>\$ 42,210,256</u>	

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Library	Fire	Off Highway, Road, and Transportation	Financing Authorities	Fish and Game	Park Dedication and State Park Bonds
REVENUES:						
Taxes	\$ 5,987,790	\$ 2,121,404	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-
Fines, forfeits, and penalties	-	-	-	-	13,480	-
Use of money and property	-	40,428	16,530	38,068	137	19,190
Aid from other governments	94,628	101,696	17,591,827	173,508	-	904
Charges for services	-	1,355,864	1,792,525	-	-	219,434
Other	-	6,756	1,586,822	-	-	13,500
Total revenues	6,082,418	3,626,148	20,987,704	211,576	13,617	253,028
EXPENDITURES:						
Current:						
General government	-	-	-	283,276	-	246,226
Public protection	-	4,017,547	-	-	12,996	-
Public ways and facilities	-	-	28,524,047	-	-	-
Health and sanitation	-	-	-	-	-	-
Education	5,411,170	-	-	-	-	-
Recreation and cultural services	-	-	-	-	-	6,998
Debt service:						
Principal	-	-	-	4,856,542	-	-
Interest and fiscal charges	-	-	-	2,750,747	-	-
Total expenditures	5,411,170	4,017,547	28,524,047	7,890,565	12,996	253,224
REVENUES OVER (UNDER) EXPENDITURES	671,248	(391,399)	(7,536,343)	(7,678,989)	621	(196)
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	3,499,107	7,369,262	-	-
Transfers out	(189,341)	(255,000)	-	(4,308,254)	-	(48,313)
Bonds issued	-	-	-	10,500,000	-	-
Bond premium/discount	-	-	-	950,674	-	-
Payment to bond refunding escrow agent	-	-	-	(10,620,000)	-	-
Sale of general capital assets	-	6,450	-	-	-	-
Miscellaneous	-	-	-	(7)	-	-
Total other financing sources (uses)	(189,341)	(248,550)	3,499,107	3,891,675	-	(48,313)
Net change in fund balances	481,907	(639,949)	(4,037,236)	(3,787,314)	621	(48,509)
Fund balances –beginning	109,745	4,167,082	3,980,713	14,993,240	12,708	2,262,447
Prior period adjustment	-	-	-	263,957	-	-
Fund balances –beginning, as restated	109,745	4,167,082	3,980,713	15,257,197	12,708	2,262,447
Fund balances –ending	\$ 591,652	\$ 3,527,133	\$ (56,523)	\$ 11,469,883	\$ 13,329	\$ 2,213,938

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES (CONTINUED)
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

Health Services	Santa Cruz Flood Control and Water Conservation Zone 7	Board of Supervisors Governed					Geologic Hazard Abatement Districts	Total Nonmajor Special Revenue Funds
		Public Protection	Health and Sanitation	Recreation and Culture Services	Public Ways and Facilities			
\$ -	\$ -	\$ 7,290,528	\$ -	\$ 1,613,103	\$ 807,496	\$ -	\$ 17,820,321	
-	-	4,995	-	-	3,950	-	8,945	
-	-	-	-	-	-	-	13,480	
114	3,465	35,141	17,555	14,325	34,366	1,617	220,936	
-	964,330	1,018,854	-	6,129	831,622	-	20,783,498	
-	1,810,936	1,016,875	1,395,388	-	4,172,616	-	11,763,638	
-	-	5,221	-	-	6,601	-	1,618,900	
114	2,778,731	9,371,614	1,412,943	1,633,557	5,856,651	1,617	52,229,718	
-	-	-	-	-	-	-	529,502	
-	2,462,163	8,116,981	-	-	-	-	14,609,687	
-	-	-	-	-	5,438,724	-	33,962,771	
-	-	-	38,635	-	-	-	38,635	
-	-	-	-	-	-	-	5,411,170	
-	-	-	-	1,606,195	-	-	1,613,193	
-	-	-	-	-	-	-	4,856,542	
-	-	-	-	-	-	-	2,750,747	
-	2,462,163	8,116,981	38,635	1,606,195	5,438,724	-	63,772,247	
114	316,568	1,254,633	1,374,308	27,362	417,927	1,617	(11,542,529)	
-	-	-	-	-	-	-	10,868,369	
-	-	(800,000)	(1,413,267)	(797,258)	-	-	(7,811,433)	
-	-	-	-	-	-	-	10,500,000	
-	-	-	-	-	-	-	950,674	
-	-	-	-	-	-	-	(10,620,000)	
-	-	-	-	-	-	-	6,450	
-	-	-	-	-	-	-	(7)	
-	-	(800,000)	(1,413,267)	(797,258)	-	-	3,894,053	
114	316,568	454,633	(38,959)	(769,896)	417,927	1,617	(7,648,476)	
13,352	963,186	2,803,664	2,003,537	2,210,985	4,669,161	188,649	38,378,469	
-	-	-	-	-	-	-	263,957	
13,352	963,186	2,803,664	2,003,537	2,210,985	4,669,161	188,649	38,642,426	
\$ 13,466	\$ 1,279,754	\$ 3,258,297	\$ 1,964,578	\$ 1,441,089	\$ 5,087,088	\$ 190,266	\$ 30,993,950	

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE
 LIBRARY SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 109,745	\$ 109,745	\$ 109,745	\$ -
RESOURCES (INFLOWS)				
Taxes	5,593,391	5,807,558	5,987,790	180,232
Aid from other governments	71,429	74,952	91,628	19,676
Amounts available for appropriation	<u>5,664,820</u>	<u>5,882,510</u>	<u>6,082,418</u>	<u>199,908</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Services and supplies	5,482,898	5,626,338	5,235,048	391,290
Other charges	176,122	176,122	176,122	-
Transfers out	5,800	189,795	189,341	454
Total charges to appropriations	<u>5,664,820</u>	<u>5,992,255</u>	<u>5,600,511</u>	<u>391,744</u>
Net change in fund balance	<u>-</u>	<u>(109,745)</u>	<u>481,907</u>	<u>591,652</u>
FUND BALANCE, ENDING	<u>\$ 109,745</u>	<u>\$ -</u>	<u>\$ 591,652</u>	<u>\$ 591,652</u>

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Uses, Outflows of Resources:

Actual amounts (budgetary basis) "charges to appropriations" from the budgetary comparison schedule	\$ 5,600,511
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(189,341)</u>
Total expenditures as reported on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds	<u>\$ 5,411,170</u>

COUNTY OF SANTA CRUZ
BUDGETARY COMPARISON SCHEDULE
FIRE SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 4,167,082	\$ 4,167,082	\$ 4,167,082	\$ -
RESOURCES (INFLOWS)				
Taxes	2,055,162	2,055,162	2,121,404	66,242
Use of money and property	26,300	26,300	40,428	14,128
Aid from other governments	101,646	111,986	101,696	(10,290)
Charges for services	1,343,585	1,343,585	1,355,864	12,279
Other	-	-	6,756	6,756
Transfers in	-	-	6,450	6,450
Amounts available for appropriation	<u>3,526,693</u>	<u>3,537,033</u>	<u>3,632,598</u>	<u>95,565</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Salaries and employee benefits	142,547	142,547	126,125	16,422
Services and supplies	4,016,819	4,027,159	2,829,537	1,197,622
Other charges	174,733	174,733	172,655	2,078
Capital assets	1,006,000	906,000	889,230	16,770
Transfers out	-	255,000	255,000	-
Appropriations for contingencies	200,000	45,000	-	45,000
Total charges to appropriations	<u>5,540,099</u>	<u>5,550,439</u>	<u>4,272,547</u>	<u>1,277,892</u>
Net change in fund balance	<u>(2,013,406)</u>	<u>(2,013,406)</u>	<u>(639,949)</u>	<u>1,373,457</u>
FUND BALANCE, ENDING	<u>\$ 2,153,676</u>	<u>\$ 2,153,676</u>	<u>\$ 3,527,133</u>	<u>\$ 1,373,457</u>

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/Inflows of Resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule \$ 3,632,598

Differences – budget to GAAP:

Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes (6,450)

Total revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds \$ 3,626,148

Uses/Outflows of Resources:

Actual amounts (budgetary basis) "charges to appropriation" from the budgetary comparison schedule \$ 4,272,547

Differences – budget to GAAP:

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes (255,000)

Total expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds \$ 4,017,547

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE
 OFF HIGHWAY, ROAD, AND TRANSPORTATION SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 3,980,713	\$ 3,980,713	\$ 3,980,713	\$ -
RESOURCES (INFLOWS)				
Taxes	-	-	-	-
Fines, forfeits, and penalties	-	-	-	-
Use of money and property	7,000	7,000	16,530	9,530
Aid from other governments	19,131,364	33,854,234	17,591,827	(16,262,407)
Charges for services	5,013,172	5,013,172	1,792,525	(3,220,647)
Other	3,016,993	3,316,893	1,586,822	(1,730,071)
Transfers in	-	4,392,451	3,499,107	(893,344)
Amounts available for appropriation	<u>27,168,529</u>	<u>46,583,750</u>	<u>24,486,811</u>	<u>(22,096,939)</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Services and supplies	31,074,619	50,396,627	28,524,047	21,872,580
Appropriations for contingencies	-	93,213	-	93,213
Total charges to appropriations	<u>31,074,619</u>	<u>50,489,840</u>	<u>28,524,047</u>	<u>21,965,793</u>
Net change in fund balance	<u>(3,906,090)</u>	<u>(3,906,090)</u>	<u>(4,037,236)</u>	<u>(131,146)</u>
FUND BALANCE (DEFICIT), ENDING	<u>\$ 74,623</u>	<u>\$ 74,623</u>	<u>\$ (56,523)</u>	<u>\$ (131,146)</u>

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources, Inflows of Resources:

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 24,486,811
Differences –budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(3,499,107)</u>
Total revenues as reported on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –Nonmajor Special Revenue Funds	<u>\$ 20,987,704</u>

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE
 FISH AND GAME SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 12,708	\$ 12,708	\$ 12,708	\$ -
RESOURCES (INFLOWS)				
Fines, forfeits, and penalties	6,000	10,073	13,480	3,407
Use of money and property	100	100	137	37
Amounts available for appropriation	<u>6,100</u>	<u>10,173</u>	<u>13,617</u>	<u>3,444</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Other charges	<u>11,000</u>	<u>15,073</u>	<u>12,996</u>	<u>2,077</u>
Total charges to appropriations	<u>11,000</u>	<u>15,073</u>	<u>12,996</u>	<u>2,077</u>
Net change in fund balance	<u>(4,900)</u>	<u>(4,900)</u>	<u>621</u>	<u>5,521</u>
FUND BALANCE, ENDING	<u>\$ 7,808</u>	<u>\$ 7,808</u>	<u>\$ 13,329</u>	<u>\$ 5,521</u>

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE
 PARK DEDICATION AND STATE PARK BONDS SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 2,262,447	\$ 2,262,447	\$ 2,262,447	\$ -
RESOURCES (INFLOWS)				
Use of money and property	6,589	6,589	19,190	12,601
Aid from other governments	-	-	904	904
Charges for services	107,106	107,106	219,434	112,328
Other	10,000	10,000	13,500	3,500
Transfers in	3,393	3,393	-	(3,393)
Amounts available for appropriation	<u>127,088</u>	<u>127,088</u>	<u>253,028</u>	<u>125,940</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Services and supplies	33,538	33,538	7,808	25,730
Other charges	102,018	102,018	2,075	99,943
Capital assets	2,157,095	2,157,095	243,341	1,913,754
Transfers out	51,706	51,706	48,313	3,393
Total charges to appropriations	<u>2,344,357</u>	<u>2,344,357</u>	<u>301,537</u>	<u>2,042,820</u>
Net change in fund balance	<u>(2,217,269)</u>	<u>(2,217,269)</u>	<u>(48,509)</u>	<u>2,168,760</u>
FUND BALANCE, ENDING	<u>\$ 45,178</u>	<u>\$ 45,178</u>	<u>\$ 2,213,938</u>	<u>\$ 2,168,760</u>

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Uses/Outflows of Resources:

Actual amounts (budgetary basis) "charges to appropriation" from the budgetary comparison schedule	\$ 301,537
Differences - budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(48,313)</u>
Total expenditures as reported on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds	<u>\$ 253,224</u>

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE
 HEALTH SERVICES SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 13,352	\$ 13,352	\$ 13,352	\$ -
RESOURCES (INFLOWS)				
Use of money and property	-	-	114	114
Amounts available for appropriation	-	-	114	114
Net change in fund balance	-	-	114	114
FUND BALANCE, ENDING	<u>\$ 13,352</u>	<u>\$ 13,352</u>	<u>\$ 13,466</u>	<u>\$ 114</u>

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE
 SANTA CRUZ FLOOD CONTROL AND WATER CONSERVATION ZONE 7
 SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 963,186	\$ 963,186	\$ 963,186	\$ -
RESOURCES (INFLOWS)				
Use of money and property	-	-	3,465	3,465
Aid from other governments	2,957,472	2,957,472	964,330	(1,993,142)
Charges for services	1,827,960	1,827,960	1,810,936	(17,024)
Amounts available for appropriation	4,785,432	4,785,432	2,778,731	(2,006,701)
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Services and supplies	1,369,883	1,138,011	828,264	309,747
Capital assets	4,128,733	4,425,941	1,633,899	2,792,042
Appropriations for contingencies	250,000	184,664	-	184,664
Total charges to appropriations	5,748,616	5,748,616	2,462,163	3,286,453
Net change in fund balance	(963,184)	(963,184)	316,568	1,279,752
FUND BALANCE, ENDING	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 1,279,754</u>	<u>\$ 1,279,752</u>

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE
 DISTRICTS GOVERNED BY THE BOARD OF SUPERVISORS –
 PUBLIC PROTECTION SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 2,803,664	\$ 2,803,664	\$ 2,803,664	\$ –
RESOURCES (INFLOWS)				
Taxes	6,786,009	6,943,888	7,290,528	346,640
Licenses and permits	5,000	5,000	4,995	(5)
Fines, forfeits, and assessments	–	–	–	–
Use of money and property	13,959	16,413	35,141	18,728
Aid from other governments	1,372,021	1,373,412	1,018,854	(354,558)
Charges for services	933,083	933,083	1,016,875	83,792
Other	–	–	5,221	5,221
Amounts available for appropriation	<u>9,110,072</u>	<u>9,271,796</u>	<u>9,371,614</u>	<u>99,818</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Salaries and employee benefits	57,070	57,070	37,476	19,594
Services and supplies	7,140,459	7,284,283	5,892,909	1,391,374
Other charges	1,935,601	1,935,601	1,935,600	1
Capital assets	1,015,379	1,015,379	250,996	764,383
Transfers out	800,000	800,000	800,000	–
Appropriations for contingencies	229,573	247,473	–	247,473
Total charges to appropriations	<u>11,178,082</u>	<u>11,339,806</u>	<u>8,916,981</u>	<u>2,422,825</u>
Net change in fund balance	<u>(2,068,010)</u>	<u>(2,068,010)</u>	<u>454,633</u>	<u>2,522,643</u>
FUND BALANCE, ENDING	<u>\$ 735,654</u>	<u>\$ 735,654</u>	<u>\$ 3,258,297</u>	<u>\$ 2,522,643</u>

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Uses/Outflows of Resources:

Actual amounts (budgetary basis) "charges to appropriations" from the budgetary comparison schedule \$ 8,916,981

Differences – budget to GAAP:

Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes (800,000)

Total expenditures as reported on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds \$ 8,116,981

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE
 DISTRICTS GOVERNED BY THE BOARD OF SUPERVISORS –
 HEALTH AND SANITATION SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 2,003,537	\$ 2,003,537	\$ 2,003,537	\$ –
RESOURCES (INFLOWS)				
Use of money and property	16,953	16,953	17,555	602
Charges for services	1,404,432	1,404,432	1,395,388	(9,044)
Amounts available for appropriation	1,421,385	1,421,385	1,412,943	(8,442)
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Salaries and employee benefits	–	–	–	
Services and supplies	925	925	503	422
Other charges	38,132	38,132	38,132	–
Transfers out	1,545,478	1,545,478	1,413,267	132,211
Total charges to appropriations	1,584,535	1,584,535	1,451,902	132,633
Net change in fund balance	(163,150)	(163,150)	(38,959)	124,191
FUND BALANCE, ENDING	\$ 1,840,387	\$ 1,840,387	\$ 1,964,578	\$ 124,191

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Uses /Outflows of Resources:

Actual amounts (budgetary basis) "charges to appropriations" from the budgetary comparison schedule	\$ 1,451,902
Differences – budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(1,413,267)
Total expenditures as reported on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds	\$ 38,635

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE
 DISTRICTS GOVERNED BY THE BOARD OF SUPERVISORS –
 RECREATION AND CULTURE SERVICES
 SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 2,210,985	\$ 2,210,985	\$ 2,210,985	\$ -
RESOURCES (INFLOWS)				
Taxes	1,481,238	1,481,238	1,613,103	131,865
Use of money and property	15,450	15,450	14,325	(1,125)
Aid from other governments	4,700	4,700	6,129	1,429
Amounts available for appropriation	<u>1,501,388</u>	<u>1,501,388</u>	<u>1,633,557</u>	<u>132,169</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Services and supplies	1,463,212	1,463,212	1,463,162	50
Other charges	9,461	9,461	9,461	-
Capital assets	332,700	303,425	133,572	169,853
Transfers out	771,966	801,241	797,258	3,983
Total charges to appropriations	<u>2,577,339</u>	<u>2,577,339</u>	<u>2,403,453</u>	<u>173,886</u>
Net change in fund balance	<u>(1,075,951)</u>	<u>(1,075,951)</u>	<u>(769,896)</u>	<u>306,055</u>
FUND BALANCE, ENDING	<u>\$ 1,135,034</u>	<u>\$ 1,135,034</u>	<u>\$ 1,441,089</u>	<u>\$ 306,055</u>

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Uses, Outflows of Resources:

Actual amounts (budgetary basis) "charges to appropriations" from the budgetary comparison schedule	\$ 2,403,453
Differences – budget to GAAP:	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	<u>(797,258)</u>
Total expenditures as reported on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds	<u>\$ 1,606,195</u>

COUNTY OF SANTA CRUZ
 BUDGETARY COMPARISON SCHEDULE
 DISTRICTS GOVERNED BY THE BOARD OF SUPERVISORS –
 PUBLIC WAYS AND FACILITIES
 SPECIAL REVENUE FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	Budget		Actual	Variance with Final Budget
	Original	Final		
FUND BALANCE, BEGINNING	\$ 4,669,161	\$ 4,669,161	\$ 4,669,161	\$ -
RESOURCES (INFLOWS)				
Taxes	699,253	699,253	807,496	108,243
Licenses and permits	30,690	30,690	3,950	(26,740)
Use of money and property	22,064	22,064	34,366	12,302
Aid from other governments	810,153	810,153	831,622	21,469
Charges for services	4,177,757	4,177,757	4,172,616	(5,141)
Other	1,500	1,500	6,601	5,101
Amounts available for appropriation	<u>5,741,417</u>	<u>5,741,417</u>	<u>5,856,651</u>	<u>115,234</u>
CHARGES TO APPROPRIATIONS (OUTFLOWS)				
Services and supplies	8,619,324	8,640,980	4,925,328	3,715,652
Other charges	11,872	11,872	11,211	661
Capital assets	701,256	679,600	502,185	177,415
Transfers out	-	100,000	-	100,000
Total charges to appropriations	<u>9,332,452</u>	<u>9,432,452</u>	<u>5,438,724</u>	<u>3,993,728</u>
Net change in fund balance	<u>(3,591,035)</u>	<u>(3,691,035)</u>	<u>417,927</u>	<u>4,108,962</u>
FUND BALANCE, ENDING	<u>\$ 1,078,126</u>	<u>\$ 978,126</u>	<u>\$ 5,087,088</u>	<u>\$ 4,108,962</u>

NONMAJOR ENTERPRISE FUNDS

Boulder Creek CSA 7, Rolling Woods CSA 10, Place de Mer CSA 2, Sand Dollar Beach CSA 5, Trestle Beach CSA 20, Summit West CSA 54, and Graham Hill CSA 57 – These County Service Areas provide sewage collection, treatment, and disposal services to residents within each district's area. User fees are the principal source of revenue.

Septic Tank Maintenance CSA 12 – This County Service Area provides maintenance for septic tanks in unincorporated areas of the County. User fees are the principal source of revenue.

Freedom County Sanitation District – This district provides sewage collection, treatment, and disposal services for the residents of the Freedom area. User fees are the principal source of revenue.

Davenport Sanitation District – This district provides sewage collection, treatment, and disposal services as well as the supplying and treatment of water to Davenport, Newtown, and San Vicente. User fees and contributions from the principal commercial customer are the principal sources of revenue.

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF NET POSITION
 NONMAJOR ENTERPRISE FUNDS
 JUNE 30, 2017

	Boulder Creek CSA 7	Rolling Woods CSA 10	Place de Mer CSA 2	Sand Dollar Beach CSA 5	Trestle Beach CSA 20
ASSETS					
Current assets:					
Cash and investments	\$ 997,265	\$ 616,493	\$ 559,561	\$ 309,911	\$ 38,623
Restricted cash	-	-	-	-	-
Receivables	-	-	-	-	-
Total current assets	<u>997,265</u>	<u>616,493</u>	<u>559,561</u>	<u>309,911</u>	<u>38,623</u>
Noncurrent assets:					
Loans receivable	-	-	-	-	-
Capital assets:					
Construction in progress	192,122	-	11,826	-	-
Buildings and structures	1,903,676	375,398	188,209	917,969	-
Equipment	171,770	-	-	-	-
Accumulated depreciation	(1,628,051)	(254,466)	(119,826)	(403,754)	-
Capital assets, net	<u>639,517</u>	<u>120,932</u>	<u>80,209</u>	<u>514,215</u>	<u>-</u>
Total noncurrent assets	<u>639,517</u>	<u>120,932</u>	<u>80,209</u>	<u>514,215</u>	<u>-</u>
Total assets	<u>1,636,782</u>	<u>737,425</u>	<u>639,770</u>	<u>824,126</u>	<u>38,623</u>
LIABILITIES					
Current liabilities:					
Payables	4,246	-	175	4,061	823
Current portion of long-term liabilities	-	-	-	-	-
Total current liabilities	<u>4,246</u>	<u>-</u>	<u>175</u>	<u>4,061</u>	<u>823</u>
Noncurrent liabilities:					
Long-term liabilities	-	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>4,246</u>	<u>-</u>	<u>175</u>	<u>4,061</u>	<u>823</u>
NET POSITION					
Net investment in capital assets	639,517	120,932	80,209	514,214	-
Restricted for:					
Debt service	-	-	-	-	-
Unrestricted	993,019	616,493	559,386	305,851	37,800
Total net position	<u>\$ 1,632,536</u>	<u>\$ 737,425</u>	<u>\$ 639,595</u>	<u>\$ 820,065</u>	<u>\$ 37,800</u>

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF NET POSITION (CONTINUED)
 NONMAJOR ENTERPRISE FUNDS
 JUNE 30, 2017

Summit West CSA 54	Graham Hill CSA 57	Septic Tank Maintenance CSA 12	Freedom County Sanitation District	Davenport Sanitation District	Total
\$ 2,268	\$ 338,271	\$ 1,077,592	\$ 1,868,205	\$ 11,062	\$ 5,819,251
-	-	-	-	16,668	16,668
-	-	485	-	170,269	170,754
2,268	338,271	1,078,077	1,868,205	197,999	6,006,673
-	-	48,837	-	-	48,837
-	-	-	-	548,082	752,030
-	-	-	9,089,310	6,606,034	19,080,596
-	-	24,235	-	17,345	213,350
-	-	(21,301)	(4,551,301)	(2,550,574)	(9,529,273)
-	-	2,934	4,538,009	4,620,887	10,516,703
-	-	51,771	4,538,009	4,620,887	10,565,540
2,268	338,271	1,129,848	6,406,214	4,818,886	16,572,213
-	-	142,924	3,097	142,349	297,675
-	-	16,400	-	31,519	47,919
-	-	159,324	3,097	173,868	345,594
-	-	43,890	-	148,212	192,102
-	-	43,890	-	148,212	192,102
-	-	203,214	3,097	322,080	537,696
-	-	7,781	4,538,009	4,441,156	10,341,818
-	-	-	-	43,427	43,427
2,268	338,271	918,853	1,865,108	12,223	5,649,272
\$ 2,268	\$ 338,271	\$ 926,634	\$ 6,403,117	\$ 4,496,806	\$ 16,034,517

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN NET POSITION
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Boulder Creek CSA 7	Rolling Woods CSA 10	Place de Mer CSA 2	Sand Dollar Beach CSA 5	Trestle Beach CSA 20
OPERATING REVENUES:					
Charges for services	\$ 474,870	\$ 102,909	\$ 88,580	\$ 269,464	\$ 47,061
Total operating revenues	<u>474,870</u>	<u>102,909</u>	<u>88,580</u>	<u>269,464</u>	<u>47,061</u>
OPERATING EXPENSES:					
Services and supplies	245,782	22,697	25,175	217,457	63,244
Depreciation and amortization	<u>66,943</u>	<u>9,208</u>	<u>5,542</u>	<u>33,322</u>	<u>-</u>
Total operating expenses	<u>312,725</u>	<u>31,905</u>	<u>30,717</u>	<u>250,779</u>	<u>63,244</u>
Operating income (loss)	<u>162,145</u>	<u>71,004</u>	<u>57,863</u>	<u>18,685</u>	<u>(16,183)</u>
NONOPERATING REVENUES (EXPENSES):					
Interest and investment income	7,515	4,889	4,467	2,212	401
Interest expense	-	-	-	-	-
Property taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>7,515</u>	<u>4,889</u>	<u>4,467</u>	<u>2,212</u>	<u>401</u>
Income (loss) before contributions	169,660	75,893	62,330	20,897	(15,782)
Capital contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	169,660	75,893	62,330	20,897	(15,782)
Net position -beginning	<u>1,462,876</u>	<u>661,532</u>	<u>577,265</u>	<u>799,168</u>	<u>53,582</u>
Net position -ending	<u>\$ 1,632,536</u>	<u>\$ 737,425</u>	<u>\$ 639,595</u>	<u>\$ 820,065</u>	<u>\$ 37,800</u>

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN NET POSITION (CONTINUED)
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

Summit West CSA 54	Graham Hill CSA 57	Septic Tank Maintenance CSA 12	Freedom County Sanitation District	Davenport Sanitation District	Total
\$ -	\$ 34,805	\$ 1,050,832	\$ 844,752	\$ 414,993	\$ 3,328,266
-	34,805	1,050,832	844,752	414,993	3,328,266
138	8,280	1,011,455	899,002	396,568	2,889,798
-	-	4,847	208,275	165,390	493,527
138	8,280	1,016,302	1,107,277	561,958	3,383,325
(138)	26,525	34,530	(262,525)	(146,965)	(55,059)
20	2,729	10,272	16,637	1,252	50,394
-	-	(1,983)	-	(5,820)	(7,803)
-	-	-	-	31,861	31,861
20	2,729	8,289	16,637	27,293	74,452
(118)	29,254	42,819	(245,888)	(119,672)	19,393
-	-	-	-	327,585	327,585
(118)	29,254	42,819	(245,888)	207,913	346,978
2,386	309,017	883,815	6,649,005	4,288,893	15,687,539
\$ 2,268	\$ 338,271	\$ 926,634	\$ 6,403,117	\$ 4,496,806	\$ 16,034,517

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Boulder Creek CSA 7	Rolling Woods CSA 10	Place de Mer CSA 2	Sand Dollar Beach CSA 5	Trestle Beach CSA 20
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipts from customers and users	\$ 497,933	\$ 103,133	\$ 176,139	\$ 472,786	\$ 47,085
Payments to suppliers for goods and services	(88,921)	(12,533)	(98,211)	(277,664)	(16,101)
Payments to other funds for services provided	(179,164)	(10,388)	(15,725)	(141,608)	(46,527)
Net cash provided (used) by operating activities	<u>229,848</u>	<u>80,212</u>	<u>62,203</u>	<u>53,514</u>	<u>(15,543)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Property taxes	-	-	-	-	-
Subsidies from other governmental agencies	-	-	-	-	-
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisition and construction of capital assets	(153,405)	-	-	-	-
Principal paid on capital debt	-	-	-	-	-
Interest paid on capital debt	-	-	-	-	-
Net cash provided (used) by capital and related financing activities	<u>(153,405)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest on investments	7,515	4,889	4,467	2,212	401
Net cash provided (used) by investing activities	<u>7,515</u>	<u>4,889</u>	<u>4,467</u>	<u>2,212</u>	<u>401</u>
Net increase (decrease) in cash and cash equivalents	83,958	85,101	66,670	55,726	(15,142)
Cash and cash equivalents at beginning of year	913,307	531,392	492,891	254,185	53,765
Cash and cash equivalents at end of year	<u>\$ 997,265</u>	<u>\$ 616,493</u>	<u>\$ 559,561</u>	<u>\$ 309,911</u>	<u>\$ 38,623</u>

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

Summit West CSA 54	Graham Hill CSA 57	Septic Tank Maintenance CSA 12	Freedom County Sanitation District	Davenport Sanitation District	Total
\$ -	\$ 34,805	\$ 1,055,227	\$ 844,752	\$ 414,409	\$ 3,646,269
(124)	(275)	(992,593)	(422,072)	(83,917)	(1,992,411)
(14)	(8,005)	-	(351,545)	(267,116)	(1,020,092)
(138)	26,525	62,634	71,135	63,376	633,766
-	-	-	-	31,861	31,861
-	-	-	-	157,316	157,316
-	-	-	-	189,177	189,177
-	-	-	(86,273)	(320,552)	(560,230)
-	-	(15,984)	-	(30,709)	(46,693)
-	-	(1,983)	-	(5,820)	(7,803)
-	-	(17,967)	(86,273)	(357,081)	(614,726)
20	2,729	10,272	16,637	1,252	50,394
20	2,729	10,272	16,637	1,252	50,394
(118)	29,254	54,939	1,499	(103,276)	258,611
2,386	309,017	1,022,653	1,866,706	131,006	5,577,308
\$ 2,268	\$ 338,271	\$ 1,077,592	\$ 1,868,205	\$ 27,730	\$ 5,835,919

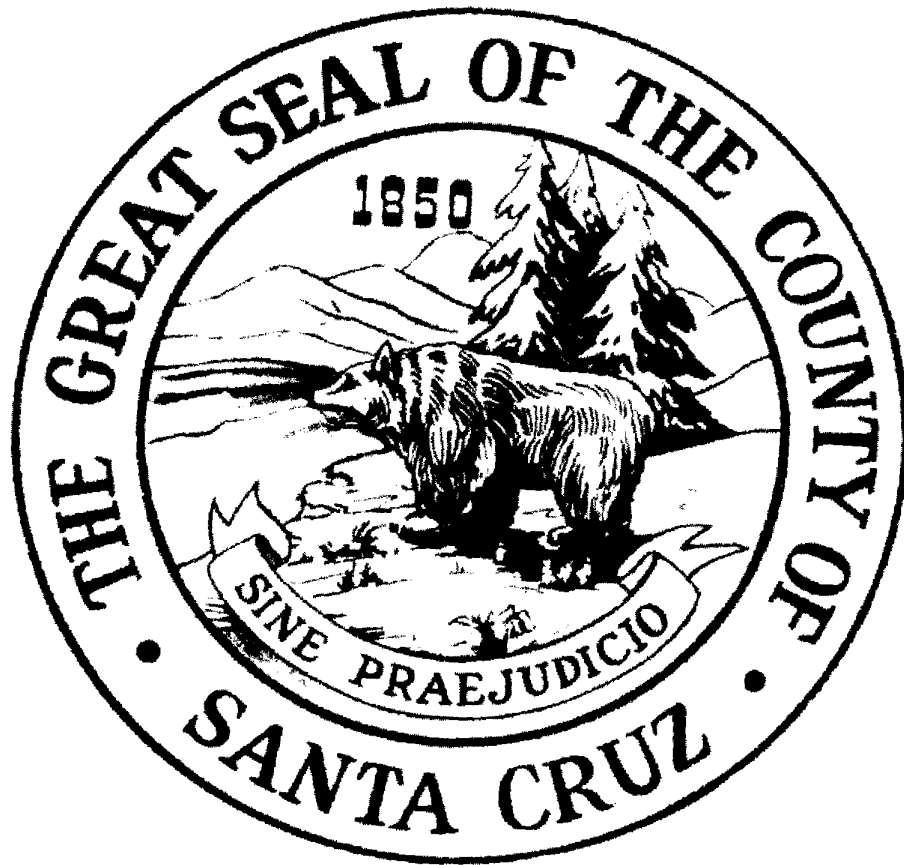
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COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Boulder Creek CSA 7	Rolling Woods CSA 10	Place de Mer CSA 2	Sand Dollar Beach CSA 5	Trestle Beach CSA 20
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ 162,145	\$ 71,004	\$ 57,863	\$ 18,685	\$ (16,183)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	66,943	9,208	5,542	33,322	-
Changes in assets and liabilities:					
(Increase) decrease in:					
Receivables	-	-	-	-	-
Increase (decrease) in:					
Payables	760	-	(1,202)	1,507	640
Total adjustments	67,703	9,208	4,340	34,829	640
Net cash provided (used) by operating activities	\$ 229,848	\$ 80,212	\$ 62,203	\$ 53,514	\$ (15,543)

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 NONMAJOR ENTERPRISE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

Summit West CSA 54	Graham Hill CSA 57	Septic Tank Maintenance CSA 12	Freedom County Sanitation District	Davenport Sanitation District	Total
\$ (138)	\$ 26,525	\$ 34,530	\$ (262,525)	\$ (146,965)	\$ (55,059)
-	-	4,847	208,275	165,390	493,527
-	-	4,395	156,611	-	161,006
-	-	18,862	(31,226)	44,951	34,292
-	-	28,104	333,660	210,341	688,825
<u>\$ (138)</u>	<u>\$ 26,525</u>	<u>\$ 62,634</u>	<u>\$ 71,135</u>	<u>\$ 63,376</u>	<u>\$ 633,766</u>



INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.

Central Duplicating Fund – The Central Duplicating Fund accounts for the County print shop, copy center, and mail room.

Information Services Fund – The Information Services Fund accounts for data processing and telecommunications services provided to County departments.

Public Works Fund – The Public Works Fund accounts for such County functions as construction and maintenance of the County road system and management of certain special districts and other related activities.

Service Center Fund – The Service Center Fund accounts for the maintenance of the County fleet of vehicles and for related services to other County departments.

Self-Insurance Funds – The Self-Insurance Funds account for the County's self-insured risk management, dental and health insurance, liability and property insurance, workers' compensation insurance, employee benefit staffing, and State unemployment insurance program.

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF NET POSITION
 INTERNAL SERVICE FUNDS
 JUNE 30, 2017

	Central Duplicating	Information Services	Public Works	Service Center
ASSETS				
Current assets:				
Cash and investments	\$ 403,132	\$ 2,420,313	\$ 2,390,167	\$ 1,801,611
Receivables	-	-	248,689	110
Due from other funds	-	-	1,908,585	-
Deposits with others	-	-	-	-
Inventory	-	-	433,019	13,485
Prepaid items	52,446	28,988	-	-
Total current assets	<u>455,578</u>	<u>2,449,301</u>	<u>4,980,460</u>	<u>1,815,206</u>
Capital assets:				
Land	-	-	62,914	34,173
Construction in progress	-	409,152	-	-
Buildings and structures	-	-	3,273,483	438,121
Equipment	195,952	10,851,119	8,092,263	10,474,441
Accumulated depreciation	(161,302)	(5,542,722)	(10,038,873)	(7,576,223)
Capital assets, net	<u>34,650</u>	<u>5,717,549</u>	<u>1,389,787</u>	<u>3,370,512</u>
Total assets	<u>490,228</u>	<u>8,166,850</u>	<u>6,370,247</u>	<u>5,185,718</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred pension	<u>73,382</u>	<u>3,115,083</u>	<u>9,759,989</u>	<u>240,497</u>
Total deferred outflows of resources	<u>73,382</u>	<u>3,115,083</u>	<u>9,759,989</u>	<u>240,497</u>
LIABILITIES				
Current liabilities:				
Payables	17,561	326,441	1,397,809	196,087
Claims liabilities	-	-	-	-
Capital leases	-	453,190	4,600	-
Compensated absences, due within one year	<u>16,794</u>	<u>647,009</u>	<u>2,635,490</u>	<u>58,804</u>
Total current liabilities	34,355	1,426,640	4,037,899	254,891
Noncurrent liabilities:				
Claims liabilities	-	-	-	-
Capital leases	-	1,495,028	4,061	-
Compensated absences, due in more than one year	4,678	429,827	617,780	13,777
Net pension liability	<u>241,705</u>	<u>9,893,251</u>	<u>31,683,653</u>	<u>790,783</u>
Total noncurrent liabilities	<u>246,383</u>	<u>11,818,106</u>	<u>32,305,494</u>	<u>804,560</u>
Total liabilities	<u>280,738</u>	<u>13,244,746</u>	<u>36,343,393</u>	<u>1,059,451</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred pension	<u>30,694</u>	<u>1,205,809</u>	<u>3,957,403</u>	<u>98,700</u>
Total deferred inflows of resources	<u>30,694</u>	<u>1,205,809</u>	<u>3,957,403</u>	<u>98,700</u>
NET POSITION				
Net investment in capital assets	34,650	3,174,251	1,389,787	2,868,217
Unrestricted	<u>217,528</u>	<u>(6,342,873)</u>	<u>(25,560,347)</u>	<u>1,399,847</u>
Total net position	<u>\$ 252,178</u>	<u>\$ (3,168,622)</u>	<u>\$ (24,170,560)</u>	<u>\$ 4,268,064</u>

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF NET POSITION (CONTINUED)
 INTERNAL SERVICE FUNDS
 JUNE 30, 2017

Self-Insurance							
Risk Management	Dental and Health Insurance	Liability and Property Insurance	Workers' Compensation Insurance	Employee Benefit Staffing	State Unemployment Insurance Program	Total	
\$ 799,912	\$ 1,340,143	\$ 12,562,205	\$ 14,639,344	\$ 399,015	\$ 435,129	\$ 37,190,971	
-	96,312	3,500,000	-	-	-	3,845,111	
-	-	-	-	-	-	1,908,585	
-	-	-	150,000	-	-	150,000	
-	-	-	-	-	-	446,504	
-	-	-	-	-	-	81,434	
<u>799,912</u>	<u>1,436,455</u>	<u>16,062,205</u>	<u>14,789,344</u>	<u>399,015</u>	<u>435,129</u>	<u>43,622,605</u>	
-	-	-	-	-	-	97,087	
-	-	-	-	-	-	409,152	
-	-	-	-	-	-	3,711,604	
55,237	-	-	-	-	-	29,669,012	
(55,237)	-	-	-	-	-	(23,374,357)	
-	-	-	-	-	-	10,512,498	
<u>799,912</u>	<u>1,436,455</u>	<u>16,062,205</u>	<u>14,789,344</u>	<u>399,015</u>	<u>435,129</u>	<u>54,135,103</u>	
303,105	-	-	-	253,920	-	13,745,976	
<u>303,105</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>253,920</u>	<u>-</u>	<u>13,745,976</u>	
58,752	38,225	3,779,385	352,187	37,771	-	6,204,218	
-	406,120	2,717,000	7,239,000	-	62,008	10,424,128	
-	-	-	-	-	-	457,790	
<u>84,724</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,860</u>	<u>-</u>	<u>3,472,681</u>	
<u>143,476</u>	<u>444,345</u>	<u>6,496,385</u>	<u>7,591,187</u>	<u>67,631</u>	<u>62,008</u>	<u>20,558,817</u>	
-	-	3,778,000	22,555,000	-	-	26,333,000	
-	-	-	-	-	-	1,499,089	
75,234	-	-	-	29,639	-	1,170,935	
1,115,519	-	-	-	635,268	-	44,360,179	
<u>1,190,753</u>	<u>-</u>	<u>3,778,000</u>	<u>22,555,000</u>	<u>664,907</u>	<u>-</u>	<u>73,363,203</u>	
<u>1,334,229</u>	<u>444,345</u>	<u>10,274,385</u>	<u>30,146,187</u>	<u>732,538</u>	<u>62,008</u>	<u>93,922,020</u>	
200,974	-	-	-	8,531	-	5,502,111	
<u>200,974</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,531</u>	<u>-</u>	<u>5,502,111</u>	
-	-	-	-	-	-	7,466,905	
(432,186)	992,110	5,787,820	(15,356,843)	(88,134)	373,121	(39,009,957)	
<u>\$ (432,186)</u>	<u>\$ 992,110</u>	<u>\$ 5,787,820</u>	<u>\$ (15,356,843)</u>	<u>\$ (88,134)</u>	<u>\$ 373,121</u>	<u>\$ (31,543,052)</u>	

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN NET POSITION
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Central Duplicating	Information Services	Public Works	Service Center
OPERATING REVENUES:				
Charges for services	\$ 617,794	\$ 12,153,325	\$ 37,761,914	\$ 2,581,453
Provision of insured events for prior years	-	-	-	-
Other revenues	-	60,515	66,946	57,291
Total operating revenues	<u>617,794</u>	<u>12,213,840</u>	<u>37,828,860</u>	<u>2,638,744</u>
OPERATING EXPENSES:				
Salaries and employee benefits	192,545	7,185,896	29,189,079	567,111
Services and supplies	340,620	3,951,157	4,945,918	933,534
Insurance and compensation claims	6,808	63,816	2,244,626	23,208
Depreciation and amortization	29,713	1,267,141	205,882	816,099
Total operating expenses	<u>569,686</u>	<u>12,468,010</u>	<u>36,585,505</u>	<u>2,339,952</u>
Operating income (loss)	<u>48,108</u>	<u>(254,170)</u>	<u>1,243,355</u>	<u>298,792</u>
NONOPERATING REVENUES (EXPENSES):				
Interest and investment income	-	-	-	-
Gain(loss) on disposal of capital assets	-	(7,998)	-	10,098
Interest expense	-	(125,418)	(1,382)	-
Total nonoperating revenues (expenses)	<u>-</u>	<u>(133,416)</u>	<u>(1,382)</u>	<u>10,098</u>
Income (loss) before transfers	48,108	(387,586)	1,241,973	308,890
Transfers in	-	-	-	554,527
Change in net position	48,108	(387,586)	1,241,973	863,417
Net position -beginning	204,070	(2,781,036)	(25,412,533)	3,404,647
Net position -ending	<u>\$ 252,178</u>	<u>\$ (3,168,622)</u>	<u>\$ (24,170,560)</u>	<u>\$ 4,268,064</u>

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF REVENUES, EXPENSES,
 AND CHANGES IN NET POSITION (CONTINUED)
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

Self-Insurance							
Risk Management	Dental and Health Insurance	Liability and Property Insurance	Workers' Compensation Insurance	Employee Benefit Staffing	State Unemployment Insurance Program	Total	
\$ 2,000,000	\$ 2,357,570	\$ 4,999,812	\$ 7,514,278	\$ 1,017,842	\$ 400,630	\$ 71,404,618	
-	-	(932,000)	3,179,000	-	-	2,247,000	
-	-	3,500,438	1,606,691	-	-	5,291,881	
<u>2,000,000</u>	<u>2,357,570</u>	<u>7,568,250</u>	<u>12,299,969</u>	<u>1,017,842</u>	<u>400,630</u>	<u>78,943,499</u>	
945,179	-	-	-	367,438	-	38,447,248	
983,030	37,415	1,662,284	767,383	841,517	4,049	14,466,907	
18,580	2,125,754	6,359,918	6,795,830	-	515,611	18,154,151	
-	-	-	-	-	-	2,318,835	
<u>1,946,789</u>	<u>2,163,169</u>	<u>8,022,202</u>	<u>7,563,213</u>	<u>1,208,955</u>	<u>519,660</u>	<u>73,387,141</u>	
<u>53,211</u>	<u>194,401</u>	<u>(453,952)</u>	<u>4,736,756</u>	<u>(191,113)</u>	<u>(119,030)</u>	<u>5,556,358</u>	
9,974	10,917	91,132	121,913	6,396	4,401	244,733	
-	-	-	-	-	-	2,100	
-	-	-	-	-	-	(126,800)	
<u>9,974</u>	<u>10,917</u>	<u>91,132</u>	<u>121,913</u>	<u>6,396</u>	<u>4,401</u>	<u>120,033</u>	
63,185	205,318	(362,820)	4,858,669	(184,717)	(114,629)	5,676,391	
-	-	-	-	-	-	554,527	
63,185	205,318	(362,820)	4,858,669	(184,717)	(114,629)	6,230,918	
(495,371)	786,792	6,150,640	(20,215,512)	96,583	487,750	(37,773,970)	
<u>\$ (432,186)</u>	<u>\$ 992,110</u>	<u>\$ 5,787,820</u>	<u>\$ (15,356,843)</u>	<u>\$ (88,134)</u>	<u>\$ 373,121</u>	<u>\$ (31,543,052)</u>	

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Central Duplicating	Information Services	Public Works	Service Center
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts from customers and users	\$ 617,794	\$ 12,213,840	\$ 563,737	\$ 2,638,733
Receipts from interfund charges for services	-	-	39,054,984	-
Payments to suppliers for goods and services	(322,432)	(4,022,974)	(9,384,711)	(934,828)
Payments to employees for salaries and benefits	(193,221)	(7,113,607)	(27,561,871)	(552,282)
Payments for judgments and claims	(6,808)	(63,816)	-	(23,208)
Other payments	-	-	(848,585)	-
Net cash provided (used) by operating activities	<u>95,333</u>	<u>1,013,443</u>	<u>1,823,554</u>	<u>1,128,415</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers from other funds	-	-	-	554,527
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>554,527</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	-	(687,921)	(187,463)	(1,318,394)
Principal paid on capital debt	-	(430,360)	(6,254)	-
Interest paid on capital debt	-	(125,418)	(1,380)	-
Proceeds from sale of capital assets	-	-	-	10,098
Net cash used by capital and related financing activities	<u>-</u>	<u>(1,243,699)</u>	<u>(195,097)</u>	<u>(1,308,296)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	-	-	-	-
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	95,333	(230,256)	1,628,457	374,646
Cash and cash equivalents at beginning of year	<u>307,799</u>	<u>2,650,569</u>	<u>761,710</u>	<u>1,426,965</u>
Cash and cash equivalents at end of year	<u>\$ 403,132</u>	<u>\$ 2,420,313</u>	<u>\$ 2,390,167</u>	<u>\$ 1,801,611</u>

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

Risk Management	Self-Insurance					Total
	Dental and Health Insurance	Liability and Property Insurance	Workers' Compensation Insurance	Employee Benefit Staffing	State Unemployment Insurance Program	
\$ 2,000,000	\$ 2,347,291	\$ 1,499,812	\$ 7,514,278	\$ 282,944	\$ 400,630	\$ 30,079,059
-	-	-	-	-	-	39,054,984
(962,343)	(193,231)	(726,626)	(2,839,880)	(826,110)	(364,049)	(20,577,184)
(932,157)	-	-	-	(383,073)	-	(36,736,211)
(18,580)	(1,968,337)	(3,772,203)	(4,577,591)	-	(155,611)	(10,586,154)
-	-	3,500,438	1,606,691	-	-	4,258,544
<u>86,920</u>	<u>185,723</u>	<u>501,421</u>	<u>1,703,498</u>	<u>(926,239)</u>	<u>(119,030)</u>	<u>5,493,038</u>
-	-	-	-	-	-	554,527
-	-	-	-	-	-	554,527
-	-	-	-	-	-	(2,193,778)
-	-	-	-	-	-	(436,614)
-	-	-	-	-	-	(126,798)
-	-	-	-	-	-	10,098
-	-	-	-	-	-	(2,747,092)
<u>9,974</u>	<u>10,917</u>	<u>91,132</u>	<u>121,913</u>	<u>6,396</u>	<u>4,401</u>	<u>244,733</u>
<u>9,974</u>	<u>10,917</u>	<u>91,132</u>	<u>121,913</u>	<u>6,396</u>	<u>4,401</u>	<u>244,733</u>
96,894	196,640	592,553	1,825,411	(919,843)	(114,629)	3,545,206
703,018	1,143,503	11,969,652	12,813,933	1,318,858	549,758	33,645,765
<u>\$ 799,912</u>	<u>\$ 1,340,143</u>	<u>\$ 12,562,205</u>	<u>\$ 14,639,344</u>	<u>\$ 399,015</u>	<u>\$ 435,129</u>	<u>\$ 37,190,971</u>

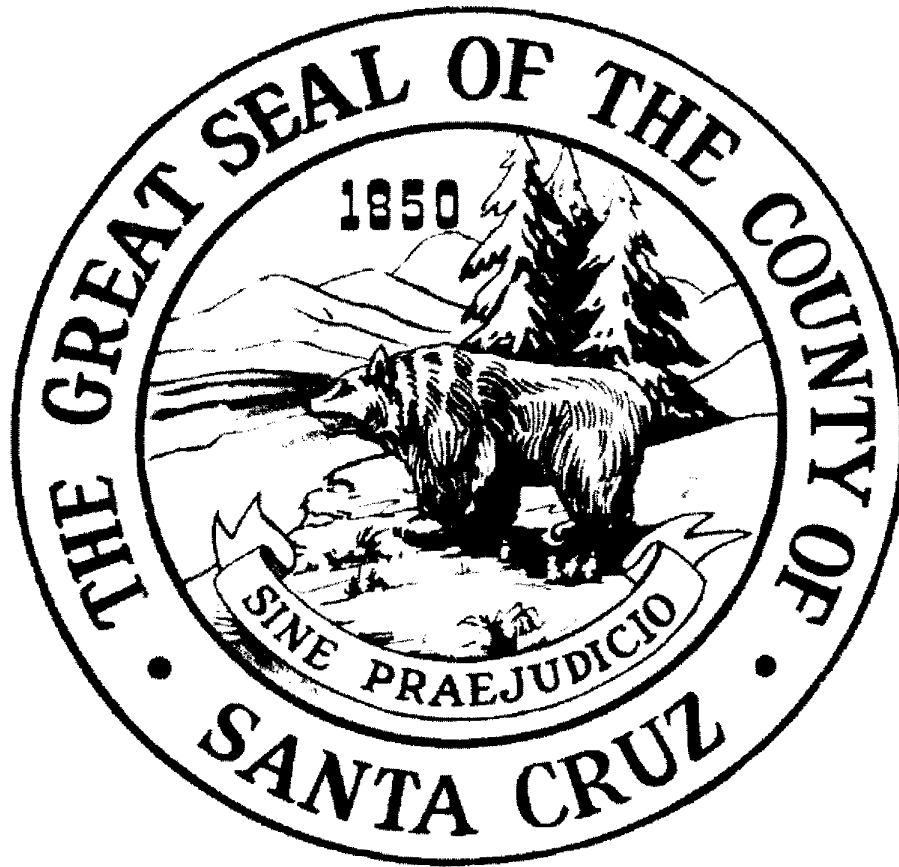
(Continued)

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Central Duplicating	Information Services	Public Works	Service Center
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 48,108	\$ (254,170)	\$ 1,243,355	\$ 298,792
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	29,713	1,267,141	205,882	816,099
Changes in assets and liabilities:				
(Increase) decrease in:				
Receivables	-	-	653,759	(11)
Inventory	-	-	53,168	3,018
Prepaid items	8,657	(28,988)	-	-
Due from other funds	-	-	(113,687)	-
Deferred outflows of resources	(15,156)	(1,252,997)	(3,888,089)	(96,771)
Increase (decrease) in:				
Payables	9,531	(42,830)	(279,645)	(4,313)
Due to other funds	-	-	-	-
Accrued salaries and benefits	489	39,292	-	2,937
Compensated absences	(1,802)	5,525	(24,523)	9,770
Claims and judgments	-	-	-	-
Deferred inflows of resources	(29,012)	(654,564)	(2,031,136)	(50,554)
Net pension liability	44,805	1,935,034	6,004,470	149,448
Total adjustments	47,225	1,267,613	580,199	829,623
Net cash provided (used) by operating activities	\$ 95,333	\$ 1,013,443	\$ 1,823,554	\$ 1,128,415

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

Risk Management	Self-Insurance					Total
	Dental and Health Insurance	Liability and Property Insurance	Workers' Compensation Insurance	Employee Benefit Staffing	State Unemployment Insurance Program	
\$ 53,211	\$ 194,401	\$ (453,952)	\$ 4,736,756	\$ (191,113)	\$ (119,030)	\$ 5,556,358
-	-	-	-	-	-	2,318,835
-	(10,279)	(3,500,000)	-	-	-	(2,856,531)
-	-	-	-	-	-	56,186
-	-	-	-	-	-	(20,331)
-	-	-	-	-	-	(113,687)
(67,564)	-	-	-	(158,901)	-	(5,479,478)
20,688	1,601	3,523,373	145,742	15,408	-	3,389,555
-	-	-	-	(734,898)	-	(734,898)
8,181	-	-	-	(3,009)	-	47,890
3,358	-	-	-	(16,110)	-	(23,782)
-	-	932,000	(3,179,000)	-	-	(2,247,000)
(35,295)	-	-	-	(83,010)	-	(2,883,571)
104,341	-	-	-	245,394	-	8,483,492
33,709	(8,678)	955,373	(3,033,258)	(735,126)	-	(63,320)
\$ 86,920	\$ 185,723	\$ 501,421	\$ 1,703,498	\$ (926,239)	\$ (119,030)	\$ 5,493,038



FIDUCIARY FUNDS

Agency Funds – Agency Funds are used to account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the County, acting in the capacity of an agent for distribution to other governmental entities or other organizations.

Intergovernmental Agency Funds – Intergovernmental Agency Funds are used to account for deposits which are under the control of various single county officers. Disbursements are made from these funds by the Auditor-Controller based on a properly written authorization from the responsible officer.

Payroll Funds – The Payroll Funds are used to account for various employee payroll deductions, tax withholdings, and employer contributions for fringe benefits.

Property Tax Collections Funds – The Property Tax Collections Funds are used to account for the collection and distribution of property taxes and interest on bank deposits of other local governmental agencies.

Private Purpose Trust Fund – The Private Purpose Trust Fund reports resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. This fund is used to report the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and activities of the Santa Cruz County Redevelopment Successor Agency.



COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF NET POSITION
 AGENCY FUNDS
 JUNE 30, 2017

	Inter- governmental Agency	Payroll	Property Tax Collections	Total
ASSETS				
Cash and investments	\$ 31,020,981	\$ 7,221,446	\$ 15,304,862	\$ 53,547,289
Receivables	-	-	11,717,529	11,717,529
Total assets	<u>\$ 31,020,981</u>	<u>\$ 7,221,446</u>	<u>\$ 27,022,391</u>	<u>\$ 65,264,818</u>
LIABILITIES				
Accounts payable	\$ -	\$ 7,221,446	\$ -	\$ 7,221,446
Due to other governmental units	-	-	27,022,391	27,022,391
Agency funds held for others	31,020,981	-	-	31,020,981
Total liabilities	<u>\$ 31,020,981</u>	<u>\$ 7,221,446</u>	<u>\$ 27,022,391</u>	<u>\$ 65,264,818</u>

COUNTY OF SANTA CRUZ
 COMBINING STATEMENT OF CHANGES IN NET POSITION
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2017

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
<u>Intergovernmental Agency</u>				
Assets:				
Cash and investments	\$ 28,647,622	\$ 3,469,179,538	\$ 3,466,806,179	\$ 31,020,981
Receivables	12,097	-	12,097	-
Total assets	<u>\$ 28,659,719</u>	<u>\$ 3,469,179,538</u>	<u>\$ 3,466,818,276</u>	<u>\$ 31,020,981</u>
Liabilities:				
Accounts payable	\$ -	\$ 2,194,441,404	\$ 2,194,441,404	\$ -
Agency funds held for others	28,659,719	197,852,416	195,491,154	31,020,981
Total liabilities	<u>\$ 28,659,719</u>	<u>\$ 2,392,293,820</u>	<u>\$ 2,389,932,558</u>	<u>\$ 31,020,981</u>
<u>Payroll</u>				
Assets:				
Cash and investments	\$ 6,138,691	\$ 340,261,473	\$ 339,178,718	\$ 7,221,446
Total assets	<u>\$ 6,138,691</u>	<u>\$ 340,261,473</u>	<u>\$ 339,178,718</u>	<u>\$ 7,221,446</u>
Liabilities:				
Accounts payable	\$ 6,138,691	\$ 989,999,489	\$ 988,916,734	\$ 7,221,446
Total liabilities	<u>\$ 6,138,691</u>	<u>\$ 989,999,489</u>	<u>\$ 988,916,734</u>	<u>\$ 7,221,446</u>
<u>Property Tax Collections</u>				
Assets:				
Cash and investments	\$ 21,499,244	\$ 1,079,363,134	\$ 1,085,557,516	\$ 15,304,862
Receivables	11,036,964	509,525,763	508,845,198	11,717,529
Total assets	<u>\$ 32,536,208</u>	<u>\$ 1,588,888,897</u>	<u>\$ 1,594,402,714</u>	<u>\$ 27,022,391</u>
Liabilities:				
Accounts payable	\$ 161,616	\$ 15,148,473	\$ 15,310,089	\$ -
Due to other governmental units	32,374,592	1,589,812,221	1,595,164,422	27,022,391
Total liabilities	<u>\$ 32,536,208</u>	<u>\$ 1,604,960,694</u>	<u>\$ 1,610,474,511</u>	<u>\$ 27,022,391</u>
<u>Total Agency Funds</u>				
Assets:				
Cash and investments	\$ 56,285,557	\$ 4,888,804,145	\$ 4,891,542,413	\$ 53,547,289
Receivables	11,049,061	509,525,763	508,857,295	11,717,529
Total assets	<u>\$ 67,334,618</u>	<u>\$ 5,398,329,908</u>	<u>\$ 5,400,399,708</u>	<u>\$ 65,264,818</u>
Liabilities:				
Accounts payable	\$ 6,300,307	\$ 3,199,589,366	\$ 3,198,668,227	\$ 7,221,446
Due to other governmental units	32,374,592	1,589,812,221	1,595,164,422	27,022,391
Agency funds held for others	28,659,719	197,852,416	195,491,154	31,020,981
Total liabilities	<u>\$ 67,334,618</u>	<u>\$ 4,987,254,003</u>	<u>\$ 4,989,323,803</u>	<u>\$ 65,264,818</u>

COUNTY OF SANTA CRUZ
SANTA CRUZ COUNTY REDEVELOPMENT SUCCESSOR AGENCY
STATEMENT OF NET POSITION
PRIVATE PURPOSE TRUST FUND
JUNE 30, 2017

	<u>Santa Cruz County Redevelopment Successor Agency</u>
ASSETS	
Current Assets:	
Cash and investments	\$ 13,224,532
Total current assets:	13,224,532
Noncurrent Assets:	
Restricted cash with fiscal agents	3,483,329
Prepaid insurance	1,446,071
Capital assets, net	9,116,907
Total assets	<u>\$ 27,270,839</u>
DEFERRED OUTFLOWS OF RESOURCES	
Loss on refunding of debt	\$ 306,819
Total deferred outflows of resources	<u>\$ 306,819</u>
LIABILITIES	
Current Liabilities:	
Accounts payable – claims	\$ 2,712
Interest payable	3,480,686
Long-term debt – due within one year	7,417,646
Total current liabilities:	<u>10,901,044</u>
Long-Term Liabilities:	
Long-term debt – due in more than one year	212,977,057
Total long-term liabilities:	<u>212,977,057</u>
Total liabilities	<u>\$ 223,878,101</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred tax increment revenue	\$ 3,758,775
Gain on refunding of debt	222,748
Total deferred inflows of resources	<u>\$ 3,981,523</u>
NET POSITION	
Net position held in trust	<u>\$ (200,281,966)</u>

COUNTY OF SANTA CRUZ
 SANTA CRUZ COUNTY REDEVELOPMENT SUCCESSOR AGENCY
 STATEMENT OF CHANGES IN NET POSITION
 PRIVATE PURPOSE TRUST FUND
 FOR THE YEAR ENDED JUNE 30, 2017

	<u>Santa Cruz County Redevelopment Successor Agency</u>
ADDITIONS :	
Investment income	\$ 81,019
Tax increment received	19,619,257
Other revenue	<u>102,491</u>
Total additions	<u>19,802,767</u>
DEDUCTIONS :	
Payments in accordance with trust agreements	21,618,627
Gain on refunding of debt	<u>131,404</u>
Total deductions	<u>21,750,031</u>
Change in net position held in trust	(1,947,264)
Net position held in trust – beginning	<u>(198,334,702)</u>
Net position held in trust – ending	<u>\$ (200,281,966)</u>

STATISTICAL SECTION

(UNAUDITED)

This part of the County of Santa Cruz's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the County's overall financial health.

Contents	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the County's financial performance and well-being have changed over time.	188-192
Revenue Capacity These schedules contain information to help the reader assess the County's most significant local revenue source, the property tax.	193-196
Debt Capacity These schedules present information to help the reader assess the affordability of the County's current level of outstanding debt and the County's ability to issue additional debt in the future.	197-200
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the County's financial activities take place.	201-205
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the County's financial report relates to the services the County provides and the activities it performs.	206-210

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

COUNTY OF SANTA CRUZ
NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS
(Reported in Thousands)

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental activities										
Net investment in capital assets	\$ 476,456	\$ 468,999	\$ 484,646	\$ 439,466	\$ 448,657	\$ 455,726	\$ 215,172	\$ 212,557	\$ 242,858	\$ 327,708
Restricted	57,360	63,880	55,856	75,773	67,014	96,980	117,713	40,865	31,660	55,167
Unrestricted	(363,118)	(374,141)	(399,332)	(72,239)	(65,133)	(66,913)	(61,396)	36,955	32,147	(21,529)
Total governmental activities net position	\$ 170,698	\$ 158,738	\$ 141,170	\$ 443,000	\$ 450,538	\$ 485,793	\$ 271,489	\$ 290,377	\$ 306,665	\$ 361,346
Business-type activities										
Net investment in capital assets	\$ 20,724	\$ 28,466	\$ 28,585	\$ 24,033	\$ 25,023	\$ 25,442	\$ 24,677	\$ 26,662	\$ 26,327	\$ 27,280
Restricted	381	390	260	476	44	256	253	317	83	187
Unrestricted	5,332	(1,962)	3,620	8,130	7,634	6,520	5,803	6,553	7,433	6,797
Total business-type activities net position	\$ 26,437	\$ 26,894	\$ 32,465	\$ 32,639	\$ 32,701	\$ 32,218	\$ 30,733	\$ 33,532	\$ 33,843	\$ 34,264
Total primary government										
Net investment in capital assets	\$ 497,180	\$ 497,465	\$ 513,231	\$ 463,499	\$ 473,680	\$ 481,168	\$ 239,849	\$ 239,219	\$ 269,185	\$ 354,988
Restricted	57,741	64,270	56,116	76,249	67,058	97,236	117,966	41,182	31,743	55,354
Unrestricted	(357,786)	(376,103)	(395,712)	(64,109)	(57,499)	(60,393)	(55,593)	43,508	39,580	(14,732)
Total primary government net position	\$ 197,135	\$ 185,632	\$ 173,635	\$ 475,639	\$ 483,239	\$ 518,011	\$ 302,222	\$ 323,909	\$ 340,508	\$ 395,610

**COUNTY OF SANTA CRUZ
GOVERNMENT-WIDE CHANGES IN NET POSITION
LAST TEN FISCAL YEARS
(Reported in Thousands)**

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Expenses										
Governmental activities:										
General government	\$ 43,566	\$ 35,068	\$ 33,544	\$ 25,451	\$ 17,725	\$ 27,417	\$ 39,206	\$ 30,407	\$ 37,098	\$ 48,765
Public protection	157,415	141,370	131,718	133,932	127,640	124,721	125,065	122,743	146,283	117,001
Public ways and facilities	24,716	28,271	32,900	18,961	47,167	32,192	36,694	45,826	32,859	47,209
Health and sanitation	123,519	114,209	108,999	108,571	111,441	113,242	107,497	105,239	111,310	112,560
Public assistance	129,000	126,834	116,902	112,840	104,889	105,835	101,990	108,121	110,208	101,454
Education	5,746	6,005	5,537	4,915	5,005	5,033	5,194	5,140	5,153	5,209
Recreation and cultural services	10,784	8,900	7,202	6,870	5,867	6,670	6,386	6,617	8,499	8,558
Interest on long term debt	2,210	2,764	3,307	8,126	3,321	10,262	17,144	15,782	13,098	13,211
Total governmental activities expenses	496,956	463,421	440,109	419,666	423,055	425,372	439,176	439,875	464,508	453,967
Business-type activities:										
County Disposal Site CSA 9C	13,283	12,018	11,785	11,464	10,904	10,506	14,792	12,283	14,317	16,088
Boulder Creek CSA 7	308	362	332	310	344	295	299	298	417	438
Rolling Woods CSA 10	32	15	12	14	14	14	12	44	93	78
Septic Tank Maintenance CSA 12	1,016	1,090	1,058	1,114	1,017	943	1,050	951	1,148	966
Freedom County Sanitation District	1,090	808	965	607	441	857	825	551	891	609
Davenport County Sanitation District	556	518	656	557	458	532	477	701	550	420
Place de Mer CSA 2	30	38	50	23	21	37	70	32	52	39
Sand Dollar Beach CSA 5	247	237	275	243	260	265	315	252	254	314
Trestle Beach CSA 20	62	45	51	59	36	41	43	71	61	73
Summit West CSA 54	-	-	-	1	1	1	1	1	1	31
Graham Hill CSA 57	8	11	35	53	35	33	27	27	27	13
Total business-type activities expense	16,632	15,142	15,219	14,445	13,531	13,524	17,911	15,211	17,811	19,069
Total primary government expenses	\$ 513,588	\$ 478,563	\$ 455,328	\$ 434,111	\$ 436,586	\$ 438,896	\$ 457,087	\$ 455,086	\$ 482,319	\$ 473,036
Program Revenues										
Governmental activities:										
Charges for services										
General government	\$ 21,379	\$ 19,053	\$ 18,605	\$ 19,150	\$ 18,071	\$ 17,695	\$ 18,305	\$ 17,083	\$ 18,494	\$ 16,953
Health, sanitation, and public assistance	38,828	34,628	28,088	25,830	23,238	33,029	27,635	24,754	27,137	23,675
Public protection	22,877	22,514	22,913	21,426	20,742	20,623	20,954	20,961	22,364	24,795
Public ways and facilities and recreation	9,408	8,051	8,217	8,286	8,869	9,412	8,453	8,555	8,633	7,672
Operating grants and contributions	261,567	244,016	243,896	227,863	219,341	207,264	199,689	209,932	187,859	208,047
Capital grants and contributions	8,193	8,798	7,006	10,541	10,678	8,016	11,298	8,673	7,885	3,542
Total governmental activities program revenues	362,252	337,060	328,725	313,096	300,939	296,039	286,334	289,958	272,372	284,684
Business-type activities:										
Charges for services	15,638	14,763	13,933	13,350	13,137	13,313	13,058	13,166	13,350	13,237
Operating grants and contributions	342	490	226	382	208	573	289	964	338	123
Capital grants and contributions	327	129	118	-	60	345	1,097	15	50	25
Total business-type activities program revenues	16,307	15,382	14,277	13,732	13,405	14,231	14,444	14,145	13,738	13,385
Total primary government program revenues	\$ 378,559	\$ 352,442	\$ 343,002	\$ 326,828	\$ 314,344	\$ 310,270	\$ 300,778	\$ 304,103	\$ 286,110	\$ 298,069
Net (expense)/revenue										
Governmental activities	\$ (134,704)	\$ (126,361)	\$ (111,384)	\$ (106,570)	\$ (122,116)	\$ (129,333)	\$ (152,842)	\$ (149,917)	\$ (192,136)	\$ (169,283)
Business-type activities	(325)	240	(942)	(713)	(126)	707	(3,467)	(1,066)	(4,073)	(5,684)
Total primary government net expense	\$ (135,029)	\$ (126,121)	\$ (112,326)	\$ (107,283)	\$ (122,242)	\$ (128,626)	\$ (156,309)	\$ (150,983)	\$ (196,209)	\$ (174,967)

COUNTY OF SANTA CRUZ
GOVERNMENT-WIDE CHANGES IN NET POSITION
LAST TEN FISCAL YEARS (CONTINUED)
(Reported in Thousands)

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Revenues and Other Changes in Net Position										
Governmental activities:										
Property taxes	\$ 107,283	\$ 100,143	\$ 93,563	\$ 88,178	\$ 84,795	\$ 97,716	\$ 109,837	\$ 111,224	\$ 115,179	\$ 111,745
Other taxes	27,410	24,256	21,831	19,046	17,201	16,044	15,265	12,978	13,951	15,622
Grants and contributions not restricted for specific purposes	-	-	-	-	117	-	-	-	-	-
Use of money and property	3,741	4,096	3,473	3,652	1,254	2,741	2,827	3,373	5,805	11,858
Miscellaneous	7,960	9,460	4,306	751	(156)	52,099	6,033	4,606	2,546	13,402
Gain (Loss) on sale of assets	6	98	-	(4)	26	1,005	(6)	101	37	(79)
Total governmental activities	<u>146,400</u>	<u>138,053</u>	<u>123,173</u>	<u>111,623</u>	<u>103,237</u>	<u>169,605</u>	<u>133,956</u>	<u>132,282</u>	<u>137,518</u>	<u>152,548</u>
Business-type activities:										
Property taxes	32	29	27	25	25	25	25	24	25	-
Use of money and property	(232)	(170)	49	95	(24)	45	12	13	174	756
Miscellaneous	333	332	6,539	531	609	705	631	760	1,068	3,048
Gain (Loss) on sale of assets	-	-	-	-	-	2	-	3	-	-
Total business-type activities	<u>133</u>	<u>191</u>	<u>6,615</u>	<u>651</u>	<u>610</u>	<u>777</u>	<u>668</u>	<u>800</u>	<u>1,267</u>	<u>3,804</u>
Total primary government	<u>\$ 146,533</u>	<u>\$ 138,244</u>	<u>\$ 129,788</u>	<u>\$ 112,274</u>	<u>\$ 103,847</u>	<u>\$ 170,382</u>	<u>\$ 134,624</u>	<u>\$ 133,082</u>	<u>\$ 138,785</u>	<u>\$ 156,352</u>
Extraordinary Item:	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (16,377)</u>	<u>\$ 174,033</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Change in Net Position										
Governmental activities	\$ 11,696	\$ 11,692	\$ 11,789	\$ 5,053	\$ (35,256)	\$ 214,305	\$ (18,886)	\$ (17,635)	\$ (54,618)	\$ (16,735)
Business-type activities	(192)	431	5,673	(62)	484	1,484	(2,799)	(266)	(2,806)	(1,880)
Total primary government	<u>\$ 11,504</u>	<u>\$ 12,123</u>	<u>\$ 17,462</u>	<u>\$ 4,991</u>	<u>\$ (34,772)</u>	<u>\$ 215,789</u>	<u>\$ (21,685)</u>	<u>\$ (17,901)</u>	<u>\$ (57,424)</u>	<u>\$ (18,615)</u>

COUNTY OF SANTA CRUZ
 FUND BALANCES OF GOVERNMENTAL FUNDS
 LAST TEN FISCAL YEARS
 (Reported in Thousands)

	Fiscal Year							
	2017	2016	2015	2014	2013	2012	2011	2010
General Fund ¹								
Nonspendable	\$ 703	\$ 751	\$ 1,135	\$ 872	\$ 3,544	\$ 3,739	\$ 4,118	\$ 1,525
Restricted	-	-	1	2	2	1	-	-
Committed	18,000	17,251	20,081	21,627	16,166	13,706	12,847	11,748
Assigned	37,159	33,767	29,059	18,214	20,857	24,722	22,231	15,430
Unassigned	(71)	(33)	(71)	-	-	-	171	-
Total general fund	<u>\$ 55,791</u>	<u>\$ 51,736</u>	<u>\$ 50,205</u>	<u>\$ 40,715</u>	<u>\$ 40,569</u>	<u>\$ 42,168</u>	<u>\$ 39,367</u>	<u>\$ 28,703</u>
All other governmental funds								
Nonspendable	\$ 61,558	\$ -	\$ 61,184	\$ 60,226	\$ 56,077	\$ 49,883	\$ -	\$ -
Restricted	54,594	124,769	55,820	69,455	67,030	97,824	166,676	183,044
Committed	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	(17)	(22)	(37)	-
Total all other governmental funds	<u>\$ 116,152</u>	<u>\$ 124,769</u>	<u>\$ 117,004</u>	<u>\$ 129,681</u>	<u>\$ 123,090</u>	<u>\$ 147,685</u>	<u>\$ 166,639</u>	<u>\$ 183,044</u>

	Fiscal Year	
	2009	2008
General Fund		
Reserved	\$ 2,919	\$ 2,151
Unreserved	14,674	25,008
Total general fund	<u>\$ 17,593</u>	<u>\$ 27,159</u>
All other governmental funds		
Reserved	\$ 38,930	\$ 44,736
Unreserved, reported in:		
Special revenue funds	121,946	123,244
Capital projects funds	10,273	1,369
Total all other governmental funds	<u>\$ 171,149</u>	<u>\$ 169,349</u>

¹ In fiscal year 2010-2011 the County implemented GASB 54 under which governmental fund balances are reported as nonspendable, restricted, committed, assigned, and unassigned.

COUNTY OF SANTA CRUZ
CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(Reported in Thousands)

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues										
Taxes	\$ 134,693	\$ 124,399	\$ 115,394	\$ 107,224	\$ 101,997	\$ 113,760	\$ 125,101	\$ 123,718	\$ 129,130	\$ 127,367
Licenses and permits	13,268	11,881	11,053	9,847	9,819	10,356	9,046	9,247	9,177	10,085
Fines, forfeits, and penalties	4,101	3,630	4,720	4,758	4,474	4,737	5,200	5,231	5,088	4,911
Use of money and property	3,623	4,083	3,417	3,480	1,264	2,635	2,718	3,197	5,451	11,082
Aid from other governmental agencies	269,760	252,814	250,902	238,404	230,019	215,280	210,987	219,090	195,758	211,572
Charges for services	75,124	68,734	62,050	60,087	56,626	65,666	61,115	56,845	62,364	58,100
Other revenues	8,313	9,685	10,168	12,927	5,320	2,274	5,341	4,617	4,815	14,617
Total revenues	508,882	475,226	457,704	436,727	409,519	414,708	419,508	421,945	411,783	437,734
Expenditures										
Current										
General government	33,189	31,414	32,532	29,206	28,311	26,747	29,084	26,198	29,994	33,490
Public protection	156,582	146,434	137,893	134,296	129,562	118,671	117,531	118,848	126,014	123,435
Public ways and facilities	34,217	20,249	24,440	18,730	41,232	32,074	37,534	53,095	45,023	37,736
Health and sanitation	122,842	117,041	111,509	108,967	108,688	107,810	104,191	102,048	103,920	109,152
Public assistance	129,505	130,035	119,199	112,967	101,437	101,204	99,120	100,294	101,562	102,976
Education	5,535	5,793	5,325	4,915	4,781	4,810	4,974	4,921	5,420	5,040
Recreation and cultural services	10,014	8,667	7,156	6,951	6,900	7,004	6,928	7,345	7,876	9,189
Capital outlay	14,862	7,607	9,306	18,875	-	-	35,417	769	3,380	10,671
Debt service										
Principal	15,477	4,744	3,992	3,797	3,815	7,790	7,603	6,958	6,836	7,344
Bond redemption	-	-	-	-	-	-	-	-	771	-
Bond issue costs	-	-	-	-	-	-	1,127	-	181	263
Interest and fiscal charges	2,904	2,770	3,239	3,151	3,318	10,482	15,677	15,742	12,360	13,343
Total expenditures	525,127	474,754	454,591	441,855	428,044	416,592	459,186	436,218	443,337	452,639
Excess of Revenues Over (Under) Expenditures	(16,245)	472	3,113	(5,128)	(18,525)	(1,884)	(39,678)	(14,273)	(31,554)	(14,905)
Other Financing Sources (Uses)										
Sale of capital assets	6	98	-	-	-	1,139	-	57	(33)	1,255
Gain/(Loss) on land held for resale	-	-	-	-	-	(137)	(9)	-	-	(34)
Debt issue cost	-	-	-	-	-	(248)	-	-	-	-
Escrow transfers in	-	-	-	-	-	-	29,876	-	49,411	-
Escrow transfers out	-	-	-	-	-	-	(29,876)	-	-	-
Proceeds from long-term debt	-	9,945	-	11,810	-	7,490	-	-	-	-
Contributed capital	-	-	-	-	233	45,701	35,410	-	-	-
Bond premium/discount	951	60	-	812	-	(23)	(914)	-	-	225
Gain on conversion of receivables	-	-	-	-	-	5,024	-	-	-	-
Bonds issued	10,500	13,770	-	-	-	-	-	-	60,492	7,370
Payment to bond refunding escrow agent	(10,620)	(13,097)	-	(6,362)	-	(1,399)	-	-	-	(8,012)
Transfers in	21,582	17,489	12,312	36,185	17,620	24,252	145,035	29,843	29,760	31,921
Transfers out	(21,750)	(17,701)	(18,706)	(37,268)	(18,379)	(24,282)	(145,709)	(30,551)	(79,777)	(32,043)
Inception of capital lease	129	70	93	403	36	80	123	-	110	94
Miscellaneous	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	798	10,634	(6,301)	5,580	(490)	57,597	33,936	(651)	59,963	776
Extraordinary Item	-	-	-	-	(7,179)	(71,866)	-	-	-	-
Net change in fund balance	\$ (15,447)	\$ 11,106	\$ (3,188)	\$ 452	\$ (26,194)	\$ (16,153)	\$ (5,742)	\$ (14,924)	\$ 28,409	\$ (14,129)
Debt service as a percentage of noncapital expenditures	3.77%	1.61%	1.69%	1.64%	1.79%	4.59%	5.76%	5.57%	4.66%	4.85%

COUNTY OF SANTA CRUZ
GENERAL FUND TAX REVENUES BY SOURCE
LAST TEN FISCAL YEARS
(Reported in Thousands)

Fiscal Year	Current Property Taxes	Prior Property Taxes ¹	Delinquent Penalties and Costs	Sales and Use Tax	Occupancy Tax	Business Tax ²	Property Transfer Tax	Other Taxes	Total Tax Revenues
2008	\$ 70,879	\$ 187	\$ 3,595	\$ 8,904	\$ 4,622	\$ -	\$ 1,464	\$ 74	\$ 89,725
2009	72,032	224	5,291	8,038	3,887	-	1,532	74	91,078
2010	69,970	89	4,671	7,212	3,511	-	1,630	74	87,157
2011	69,606	118	5,156	7,892	4,101	-	1,709	72	88,654
2012	69,497	77	4,249	8,378	4,605	-	1,528	72	88,406
2013	69,152	65	3,522	9,129	4,515	-	1,936	72	88,391
2014	71,929	41	3,656	9,840	5,514	-	1,906	72	92,958
2015	77,497	146	2,017	10,248	6,482	978	2,243	76	99,687
2016	82,863	260	2,436	10,071	7,084	2,504	2,267	82	107,567
2017	88,414	174	3,210	11,863	8,002	2,805	2,321	85	116,874

¹ The County uses the Alternative Tax Apportionment Method, which treats prior taxes as payments against an outstanding taxes receivable balance. Amounts shown are either past adjustments or present delinquent payments applicable to the supplemental tax roll.

² The County began collecting Cannabis Business Tax during 2014-2015.

COUNTY OF SANTA CRUZ
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
(Reported in Thousands)

Fiscal Year Ended June 30	Total Secured Tax Levy for Fiscal Year ¹	Collections within the Fiscal Year of the Levy ²		Collections in Subsequent Years ³	Total Collections to Date	
		Amount	Percentage of Levy		Total Tax Collections	Percentage of Levy
2008	\$ 387,834	\$ 373,296	96.3%	\$ 258	\$ 373,554	96.3%
2009	402,589	387,153	96.2%	596	387,749	96.3%
2010	395,628	383,707	97.0%	792	384,499	97.2%
2011	394,498	385,099	97.6%	923	386,022	97.9%
2012	395,546	388,135	98.1%	1,040	389,175	98.4%
2013	399,146	393,223	98.5%	2,025	395,248	99.0%
2014	418,414	413,276	98.8%	2,210	415,486	99.3%
2015	443,002	437,476	98.8%	2,695	440,171	99.4%
2016	470,552	465,411	98.9%	2,354	467,765	99.4%
2017	503,093	496,571	98.7%	-	496,571	98.7%

¹ Secured tax levy for the County itself, school districts, cities, and special districts under the supervision of their own governing boards.

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

³ Under the Alternative Method of Tax Apportionment (the Teeter Plan), the County allocates to all taxing jurisdictions under the County 100% of the secured property taxes billed, even if not yet collected. In return, the County retains the subsequent delinquent payments and associated penalties and interest. Refer to schedule of General Fund Tax Revenues by Source for property tax collections applicable to the County.

COUNTY OF SANTA CRUZ
 ASSESSED VALUE OF TAXABLE PROPERTY AND ACTUAL VALUE OF PROPERTY¹
 LAST TEN FISCAL YEARS
 (Reported in Thousands)

Fiscal Year Ended June 30,	Secured ²	Unsecured	Total Taxable Assessed Value ³	Total Direct Tax Rate ⁴
2008	\$ 33,586,675	\$ 861,576	\$ 34,448,251	1.00%
2009	32,531,717	865,265	33,396,982	1.00%
2010	32,390,765	801,371	33,192,136	1.00%
2011	32,332,271	767,714	33,099,985	1.00%
2012	32,033,769	767,064	32,800,833	1.00%
2013	33,625,169	764,939	34,390,108	1.00%
2014	35,996,363	823,369	36,819,732	1.00%
2015	38,321,843	873,141	39,194,984	1.00%
2016	40,296,052	876,810	41,172,862	1.00%
2017	42,608,504	936,890	43,545,394	1.00%

¹ Assessed value of taxable property represents all taxable property within the County except as excluded or exempted by the State Constitution and the Legislature.

² Includes unitary properties (e.g., railroads, utilities), which are assessed by the State Board of Equalization.

³ The County does not track the estimated actual value of all County properties due in part to the manner in which assessed value is calculated following the passage of California Proposition 13. Thus, the total taxable assessed value reported represents all property within the County.

⁴ The maximum tax rate is 1% of the full cash value or \$1/\$100 of the assessed value, excluding the tax rate for debt service.

COUNTY OF SANTA CRUZ
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
(Reported in Thousands)

Fiscal Year	Property Tax Rates Per \$100 of Assessed Valuation		County	Cities	School Districts	Special Districts	Total
	Low	High					
2008	1.056	1.147	26.5	5.0	56.0	12.5	100.0
2009	1.064	1.161	26.5	5.0	56.0	12.5	100.0
2010	1.059	1.174	26.5	5.0	56.0	12.5	100.0
2011	1.065	1.190	26.5	5.0	56.0	12.5	100.0
2012	1.067	1.195	26.5	5.0	56.0	12.5	100.0
2013	1.064	1.197	26.5	5.0	56.0	12.5	100.0
2014	1.058	1.189	26.0	5.0	56.5	12.5	100.0
2015	1.058	1.189	25.5	5.0	57.0	12.5	100.0
2016	1.056	1.178	25.5	5.0	57.0	12.5	100.0
2017	1.051	1.163	25.5	5.0	57.0	12.5	100.0

COUNTY OF SANTA CRUZ
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
(Reported in Thousands, Except Per Capita Information)

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental Activities										
Capital Leases	\$ 5,968	\$ 6,739	\$ 4,731	\$ 5,077	\$ 5,075	\$ 5,337	\$ 5,544	\$ 5,673	\$ 5,942	\$ 6,051
Refunding Certificates of Participation – 1996	12,830	19,770	21,440	23,025	24,534	25,959	27,334	28,634	29,889	31,086
Lease Revenue Bonds	14,504	14,927	12,325	12,325	6,450	6,670	6,885	7,090	7,290	7,840
Refunding Certificates of Participation – 2015	10,915	12,305	–	–	–	–	–	–	–	–
Lease Revenue Refunding Bonds – 2012	1,561	1,627	1,690	1,751	1,812	1,866	1,404	1,535	1,667	1,797
Revenue Bonds	–	–	–	–	–	405	785	1,145	1,480	1,800
Local Agency Revenue Bonds – 1999	105	135	165	195	225	250	275	295	320	360
Certificates of Participation	6,991	13,390	27,266	29,307	31,278	33,024	29,110	30,746	32,312	28,822
Refunding Certificates of Participation – 2014	5,748	6,020	6,286	6,583	–	–	–	–	–	–
Refunding Certificates of Participation – 2016	11,403	–	–	–	–	–	–	–	–	–
City of Scotts Valley Writ of Mandate	–	–	–	725	1,450	2,175	–	–	–	–
McGaffigan Mill Road HOA	–	–	–	–	1	33	63	91	–	–
CA Energy Resources Conservation and Development Commission	16	58	–	–	–	–	–	–	510	711
CA Transportation Finance Bank	–	–	–	–	–	–	–	–	600	600
RDA Tax Allocation Bonds	–	–	–	–	–	–	247,995	217,472	220,938	168,549
Internal Service Funds	–	–	26	19	16	29	22	–	–	329
Business-Type Activities										
Lease Revenue Bonds	6,550	6,799	–	–	–	–	–	–	–	–
Loans Payable	240	287	449	490	531	570	608	646	404	448
Capital Leases	3	4	–	2	3	–	–	–	178	605
Total Primary Government¹	\$ 76,834	\$ 82,061	\$ 74,378	\$ 79,499	\$ 71,375	\$ 76,318	\$ 320,025	\$ 293,327	\$ 301,530	\$ 248,998
Percentage of Personal Income ^{2,4}	0.49%	0.52%	0.47%	0.54%	0.50%	0.55%	2.44% ³	2.33% ³	2.53%	2.04%
Per Capita ^{3,4}	\$ 280	\$ 299	\$ 271	\$ 293	\$ 265	\$ 286	\$ 1,208 ³	\$ 1,114 ³	\$ 1,160	\$ 971

¹ Excludes Component Unit. Total primary government, percentage of personal income, and per capita data for prior periods were restated here to exclude amounts related to the Component Unit.

² Percentage of personal income is calculated from personal income data for the preceding calendar year (e.g., percentage of personal income for Fiscal Year 2017 is based on 2016 calendar year personal income data). Personal income data is provided by the Bureau of Economic Analysis (BEA).

³ Per capita data is calculated from per capita income data for the preceding calendar year (e.g., per capita for Fiscal Year 2017 is based on 2016 calendar year per capita income data). Per capita income data is provided by the Bureau of Economic Analysis.

⁴ Some prior period personal and per capita income data was revised by the Bureau of Economic Analysis and thus some prior period calculations have been restated here.

COUNTY OF SANTA CRUZ
COMPUTATION OF LEGAL DEBT MARGIN
LAST TEN FISCAL YEARS

Fiscal year	Assessed Value ¹	Legal Debt Limit ²	Total Net Applicable Debt	Legal Debt Margin	Debt Margin/ Debt Limit
2008	\$ 33,586,675,030	\$ 419,833,438	\$ -	\$ 419,833,438	100%
2009	32,531,716,741	406,646,459	-	406,646,459	100%
2010	32,390,764,838	404,884,560	-	404,884,560	100%
2011	32,332,270,918	404,153,386	-	404,153,386	100%
2012	32,033,769,082	400,422,114	-	400,422,114	100%
2013	33,625,169,225	420,314,615	-	420,314,615	100%
2014	35,996,363,446	449,954,543	-	449,954,543	100%
2015	38,321,843,499	479,023,044	-	479,023,044	100%
2016	40,296,052,356	503,700,654	-	503,700,654	100%
2017	42,608,503,591	532,606,295	-	532,606,295	100%

¹ Total Assessed Value includes exempt property.

² Section 29909 of the California Government Code limits the General Obligation Bond indebtedness to 1.25 percent of the total full cash valuation of all real and personal property within the County. The Legal Debt Margin is the Legal Debt Limit reduced by the General Bonded Debt. The County does not have any General Bonded Debt.

COUNTY OF SANTA CRUZ
STATEMENT OF DIRECT AND OVERLAPPING DEBT
JUNE 30, 2017
(Reported in Thousands)

2016-2017 Total Net Assessed Valuation	\$	43,284,454		
			Percentage Applicable ¹	Net Debt Outstanding
<u>Overlapping Tax and Assessment and General Obligation Debt</u>				
SCHOOL DISTRICTS				
Live Oak Elementary			100%	\$ 12,056
Santa Cruz City Elementary			100%	15,800
Soquel Union Elementary			100%	28,870
Santa Cruz City High			100%	87,724
Scotts Valley Unified			100%	46,020
San Lorenzo Valley Unified			100%	26,984
Pacific			100%	823
Pajaro Valley Unified			100%	154,084
Cabrillo College			100%	120,154
SPECIAL DISTRICTS				
Zayante Fire			100%	40
Lompico Water			100%	61
Rolling Woods Water			100%	970
Rolling Woods Sewer Improvements			100%	640
Orchard Drive			100%	815
North Polo Drive Sewer Extension			100%	155
Felton Community Facilities –District No. 1			100%	8,420
Total Overlapping Tax and Assessment and General Obligation Debt				503,616
<u>Direct Debt</u>				
Santa Cruz County ²			100%	70,042
Total Direct Debt				70,042
Total Combined Overlapping and Direct Debt				\$ 573,658
<u>Ratio to 2016-2017 Assessed Valuation</u>				
Total Overlapping Tax and Assessment and General Obligation Debt			1.16%	
Total Direct Debt			0.16%	
Total Combined Direct Debt and Overlapping Debt			1.33%	

¹Percentage of overlapping agency's assessed valuation located within the boundaries of the County.

²Governmental activities debt excluding tax and revenue anticipation notes, compensated absences and estimated claims, business-type activities, and debt related to the Santa Cruz County Sanitation District.

COUNTY OF SANTA CRUZ
 OUTSTANDING DEBT OF THE PUBLIC FINANCING AUTHORITY ¹
 JUNE 30, 2017
 (Reported in Thousands)

YEAR OF ISSUANCE	PRINCIPAL	INTEREST	TOTAL
Debt ²			
1996	\$ 12,830	\$ 3,915	\$ 16,745
1999	105	9	114
2008	1,955	252	2,207
2011	4,995	2,707	7,702
2012A	1,576	734	2,310
2014	5,500	1,969	7,469
2014	4,720	1,952	6,672
2014	6,285	2,600	8,885
2015	9,530	5,661	15,191
2015	10,915	1,564	12,479
2016	10,500	3,374	13,874
Total debt outstanding for the Public Financing Authority	<u>\$ 68,911</u>	<u>\$ 24,737</u>	<u>\$ 93,648</u>

¹ The Public Financing Authority is a separate legal entity for whose debt the County is not liable.

² Certificates of Participation, Refunding Certificates of Participation, Lease Revenue Bonds, Lease Revenue Refunding Bonds, Revenue Bonds, and Local Agency Revenue Bonds.

COUNTY OF SANTA CRUZ
GENERAL INFORMATION
LAST TEN FISCAL YEARS

Santa Cruz County is the second smallest county in the State of California, with an area of 440 square miles. It is also one of the original 27 counties formed in 1850, and prior to California's independence it was one of three Spanish Pueblos in California.

Santa Cruz County is located in the northern crescent of Monterey Bay, 74 miles south of San Francisco, 375 miles north of Los Angeles, 159 miles southwest of Sacramento, and 164 miles northwest of Fresno.

Fiscal Year	Population ¹ (in thousands)	Budget Requirements ² (in thousands)	Budget Per Capita	Current Property Taxes (in thousands)	Taxes Per Capita
2008	267	\$ 441,194	\$ 1,652	\$ 70,879	\$ 265
2009	269	441,726	1,642	72,032	268
2010	272	411,120	1,511	69,970	257
2011	264	422,464	1,600	69,606	264
2012	266	432,514	1,626	69,497	261
2013	267	447,006	1,674	69,152	259
2014	272	458,496	1,686	71,929	264
2015	272	505,725	1,859	77,497	285
2016	276	539,798	1,956	82,863	300
2017	277	552,333	1,994	88,414	319

Fiscal Year	Assessed Valuation (in thousands)	Per Capita Income ³	Personal Income ³ (in thousands)	School Enrollment ⁴	Unemployment Rate ⁵
2008	\$ 33,586,675	\$ 47,585	\$ 12,206,441	68,647	5.9%
2009	32,531,717	45,801	11,908,765	69,640	7.4%
2010	32,390,765	47,729	12,565,434	69,958	11.1%
2011	32,332,271	49,439	13,100,030	68,543	13.3%
2012	32,033,769	52,256	13,931,267	69,336	13.1%
2013	33,625,169	52,908	14,246,799	69,194	11.8%
2014	35,996,363	54,585	14,814,476	69,342	10.3%
2015	38,321,843	57,257	15,696,689	70,516	8.8%
2016	40,296,052	n/a	n/a	70,411	7.5%
2017	42,608,504	n/a	n/a	70,282	6.9%

SOURCES

¹ Based on information compiled by the California Department of Finance.

² Santa Cruz County Final/Adopted Budgets.

³ U.S. Bureau of Economic Analysis (BEA). Figures are for the preceding calendar year (e.g., Fiscal Year 2017 is 2016 calendar year data). All prior period numbers have been revised by the BEA and have been restated here. Data for 2016 was not available when General Information was compiled.

⁴ Total includes data obtained from the California Department of Education, the University of California at Santa Cruz, and Cabrillo College.

⁵ Data reflects the annual average rate for the calendar year (e.g., Fiscal Year 2017 is annual average for 2016 calendar year) as calculated by the California Employment Development Department. Calendar year 2013 was revised by the EDD and has been restated here.

COUNTY OF SANTA CRUZ
PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS
LAST TEN CALENDAR YEARS

Calendar Year	New Dwelling Units ¹			Valuation of New Units ¹ (in thousands)			Deposits ²
	Single Family	Multiple Family	Total Units	Residential	Non-Residential	Total Valuation	Amount (in thousands)
2007	236	342	578	\$ 165,997	\$ 62,612	\$ 228,609	\$ 4,238,971
2008	194	63	257	100,176	66,206	166,382	4,108,322
2009	107	2	109	54,300	50,809	105,109	4,224,669
2010	92	23	115	61,446	40,841	102,287	4,172,547
2011	79	111	190	58,010	40,165	98,175	4,235,090
2012	80	173	253	68,932	51,671	120,603	4,308,423
2013	94	32	126	69,559	44,708	114,267	4,441,443
2014	113	5	118	70,444	79,182	149,626	4,729,351
2015	101	62	163	72,860	42,430	115,290	5,439,646
2016	116	202	318	102,393	93,011	195,404	6,076,534

¹ Compiled by the California Department of Finance - Economic Research Unit. Calendar year 2017 new construction and property valuation data is not available.

² Compiled by the Federal Deposit Insurance Corporation (FDIC) as reported in the Deposit Market Share Report reflecting deposits as of June 30, 2016.

COUNTY OF SANTA CRUZ
SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS
LAST TEN FISCAL YEARS

Year ended June 30,	Debt Service Funds		Enterprise Funds	
	Special Assessment Billed	Special Assessment Collected	Special Assessment Billed	Special Assessment Collected
2008	\$ 132,072	\$ 132,072	\$ 114,938	\$ 114,938
2009	129,337	128,488	92,315	92,307
2010	206,325	203,641	90,075	90,139
2011	201,300	201,300	92,629	92,653
2012	199,146	223,739	89,947	89,946
2013	195,230	199,209	92,052	92,171
2014	197,814	221,247	93,061	93,062
2015	195,882	185,882	90,298	90,298
2016	193,708	204,728	91,601	91,598
2017	264,054	275,353	91,707	91,703

Note: The billings and collections shown are for those special assessment bonds for which the County has established redemption funds for the purpose of facilitating bond payment in the case of delinquent accounts.

COUNTY OF SANTA CRUZ
PRINCIPAL TAXPAYERS
CURRENT AND TEN YEARS AGO

Taxpayer	Type of Business	Assessed Value 2016-2017	Percentage of Total Assessed Valuation 2016-2017 ¹
Pacific Gas & Electric Company	Gas & Electric Utility	\$ 272,331,891	0.63 %
Santa Cruz Seaside Company	Amusement Park	111,243,992	0.26
Watsonville Hospital	Hospital	60,574,364	0.14
AT&T	Telephone Utility	60,499,386	0.14
Capitola Mall, LLC	Property Management	59,779,061	0.14
Rancho Del Mar Center	Property Management	55,556,111	0.13
Safeway	Grocery Store	47,844,545	0.11
Beiscott Company, LLC	Property Management	46,272,692	0.11
Cypress Point Real Estate Investors	Real Estate	46,227,717	0.11
SC Beach Hotel Partners	Hotel Operator	45,821,941	0.11
Totals		<u>\$ 806,151,700</u>	<u>1.88 %</u>

Taxpayer	Type of Business	Assessed Value 2006-2007	Percentage of Total Assessed Valuation 2006-2007 ²
Pacific Gas & Electric Company	Gas & Electric Utility	\$ 161,199,707	0.52 %
Lone Star	Cement Manufacturer	75,060,423	0.24
NNN Enterprise Way LLC et al	Software producer	63,799,109	0.21
Macerich Partnership LP	Commercial Real Estate	63,263,622	0.20
Watsonville Hospital Corp	Hospital	57,037,519	0.18
AT&T California	Telephone Utility	52,280,664	0.17
Santa Cruz Seaside Company	Amusement Park	48,153,968	0.16
Cypress Point RE Investors, LLC	Apartment Complex	39,802,437	0.13
Seagate Technology	Electronic Manufacturer	39,231,837	0.13
George Ow, Jr. et al	Real Estate	36,599,349	0.12
Totals		<u>\$ 636,428,635</u>	<u>2.06 %</u>

Note: Principal taxpayer data for fiscal year 2016-2017 is derived from the 2016 tax roll, which was billed and collected during 2017.

Note: Data for fiscal year 2007-2008 is derived from the 2007 tax roll, which was billed and collected during 2008.

¹ Percentage of total assessed valuation for 2016-2017 is calculated from the total net assessed valuation of \$43,284,453,899.

² Percentage of total assessed valuation for 2006-2007 is calculated from the total net assessed valuation of \$33,343,469,636.

COUNTY OF SANTA CRUZ
PRINCIPAL EMPLOYERS
CURRENT AND FIVE YEARS AGO

Employer	Product/Service	Number of Employees 2016-2017 ¹	Percentage of Total Employment 2016-2017 ²
University of California at Santa Cruz	Education	1,000-4,999	2.15 %
Pajaro Valley Unified School District	Education	1,000-4,999	2.15
County of Santa Cruz	County Services	1,000-4,999	2.15
Dominican Hospital	Hospital	1,000-4,999	2.15
Santa Cruz Beach Boardwalk	Amusement/Recreation	1,000-4,999	2.15
Dutra Farms	Grocery/Wholesale	1,000-4,999	2.15
Granite Rock	Excavating Contractors	500-999	0.54
Cabrillo College	Education	500-999	0.54
City of Santa Cruz	City Services	500-999	0.54
Watsonville Community Hospital	Hospital	500-999	0.54
West Marine	Retail	500-999	0.54
Pantronics	Telephone Apparatus Mfg.	500-999	0.54

Employer ³	Product/Service ³	Number of Employees 2011-2012 ³	Percentage of Total Employment 2011-2012 ³
University of California at Santa Cruz	Education	5,000-9,999	5.11 %
Pajaro Valley Unified School District	Education	1,000-4,999	2.05
County of Santa Cruz	County Services	1,000-4,999	2.04
Dominican Hospital	Hospital	1,000-4,999	2.04
Santa Cruz Beach Boardwalk	Amusement/Recreation	1,000-4,999	2.04
Cabrillo College	Education	500-999	0.51
Santa Cruz City School District	Education	500-999	0.51
City of Santa Cruz	City Services	500-999	0.51
Seagate Technology	Manufacturing	500-999	0.51
Watsonville Hospital	Hospital	500-999	0.51
West Marine	Retail	500-999	0.51
City of Watsonville	City Services	500-999	0.51

¹ Number of employees reflects a range provided by California Employment Development Department (EDD) data.

² Average of the reported range divided by total civilian employment of 139,400 as reported by the EDD for March 2016.

³ Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2012.

**COUNTY OF SANTA CRUZ
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS**

Function	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Public Assistance										
Human Services Department										
Adult Protective Services										
Referrals received	1,011 ²	936 ¹	754	630	603	626	547	542	585	610
Investigations completed	906 ²	816 ¹	601	444	420	386	352	320	416	468
Family and Children's Services										
Annual referrals (families)	2,770 ²	2,635 ¹	2,727	2,591	2,457	3,200	2,870	2,624	3,096	3,093
Finalized adoptions	52 ²	50 ¹	45	72	58	51	41	32	42	41
Licensed foster homes (monthly average)	139 ²	130 ¹	125	113	106	112	105	100	109	124
Benefit Services										
Average number of Medi-Cal recipients	76,713 ²	73,060 ¹	64,344	44,600	37,971	31,624	30,786	28,998	27,487	26,655
Public Ways and Facilities										
Public Works										
Roads										
Miles of road maintained	596	600	600	600	600	600	600	600	600	600
Potholes repaired	4,013	3,750	3,994	4,130	3,700	4,500	3,552	2,500	2,500	3,500
Minor culverts maintained	2,262	2,262	2,262	2,262	2,262	2,262 ⁴	1,010	2,000	2,000	2,000
Bridges and major culverts maintained	160	160	160	160	160	160	160	160	160	160
Traffic signs replaced/repared	1,047	1,377	1,238	1,452	1,463	1,516	1,850	1,029	1,400	1,475
Miles of street swept	285	518	381	1,607	1,800	1,555	1,465	4,000	4,500	5,000
Sanitation										
Miles of pipe maintained	245	245	244	236	236	230	230	230	222	222
Maintenance call responses	150	209	319	100	138	168	182	238	216	272
Landfill										
Waste generated (tons)	197,810	155,789	172,555	166,594	139,529	138,448	139,365	153,873	164,717	183,993
Waste disposed (tons)	125,610	91,399	83,642	79,292	60,974	61,503	71,470	71,701	76,203	77,745
Recreation and Cultural Services										
Parks, Open Space, and Cultural Services										
Facility bookings	6,927	6,716	7,621	7,532	6,877	6,114	5,545	5,942	5,772	6,114
Recreation registrations	7,591	7,295	6,720	6,831	6,218	6,165	6,273	5,518	5,888	4,982
Swim admissions	184,064	178,882	178,289	158,573	130,059	77,022	76,334	90,771	86,834	82,800

Sources: Various County Departments

¹ Prior period reported an estimate which has been restated here to reflect actual data.

² Data is estimated as presented in the 2016-2017 Proposed Budget.

³ Prior periods reported a range which has been averaged here.

⁴ Prior period restated here consistent with Capital Assets Statistics by Function.

COUNTY OF SANTA CRUZ
OPERATING INDICATORS BY FUNCTION (CONTINUED)
LAST TEN FISCAL YEARS

Function	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Public Protection										
Agricultural Commissioner										
High risk quarantine inspections	1,400 ²	1,400 ¹	1,347	1,293	1,569	1,450	1,669	1,900	2,800	2,640
District Attorney										
Criminal Prosecution										
Felony filings	2,379 ²	1,757 ¹	2,113	2,703	2,322	2,164	2,169	2,457	2,155	2,128
Juvenile filings	591 ²	817 ¹	413	652	709	799	503	594	731	1,046
Consumer Affairs										
Number of calls received	2,198 ²	1,821 ¹	2,143	2,040	2,410	2,345	2,410	2,622	2,880	2,960
Number of written complaints received	148 ²	127 ¹	129	121	195	272	302	462	288	440
Planning										
Building permits issued	4,600 ²	4,532 ¹	4,097	3,487	3,446	2,899	2,787	2,463	2,611	3,162
Building permit inspection sites visited	11,000 ²	10,800 ¹	10,084	9,081	8,700	8,601	7,620	7,093	9,353	10,061
Code compliance cases resolved	130 ²	90 ¹	105	77	112	249	228	400	574	1,192
Probation										
Juvenile division referrals	n/a ³	n/a ³	1,220	1,074	1,160	1,453	1,613	1,649	2,323	2,378
Juvenile division petitions filed	n/a ³	n/a ³	569	430	445	637	851	880	1,166	1,148
Juvenile court investigations	n/a ³	n/a ³	60	62	54	96	110	116	178	183
Public Defender										
Total cases	10,900 ²	10,800 ¹	10,445	10,910	11,268	10,731	10,311	10,805	12,385	12,455
Sheriff/Coroner (Investigation Division)										
Total cases reviewed	n/a ³	1,048	10,471	10,425	10,686	10,989	11,660	12,535	12,929	12,617
Total arrests	n/a ³	86	168	216	188	98	269	307	238	254
Detention										
Main jail bookings	10,641	11,305	10,964	10,487	9,658	10,699	12,274	12,716	13,576	12,941
Weights and Measures										
Establishments visited	1,200 ²	1,200 ¹	1,039	1,237	1,043	1,027	1,139	1,500	1,742	1,836
Special District										
Mosquito Abatement/Vector Control CSA #53										
Mosquito inspections	4,000 ²	3,100 ¹	4,208	2,995	3,342	3,885	4,500	5,515	5,515	4,396

Sources: Various County Departments

¹ Prior period reported an estimate which has been restated here to reflect actual data.

² Data is estimated as presented in the 2016-2017 Proposed Budget.

³ Data is presented on a calendar year basis, which is not yet available.

**COUNTY OF SANTA CRUZ
BUDGETED POSITIONS
LAST TEN FISCAL YEARS**

<u>DEPARTMENT/FUNCTION</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
COUNTY ADMINISTRATIVE OFFICE	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	22.00	22.00
CANNABIS LICENSING OFFICE	-	-	-	-	-	-	-	-	-	5.00
AGRICULTURAL COMMISSIONER ¹	22.00	22.00	19.75	19.70	19.60	19.40	19.40	20.40	16.40	16.40
MOSQUITO ABATEMENT/VECTOR CONTROL	8.00	9.00	9.00	8.00	8.00	8.00	9.00	9.00	10.00	10.00
AGRICULTURAL EXTENSION	2.00	2.00	1.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00
ASSESSOR	38.00	37.50	35.50	33.50	33.25	33.25	33.25	33.25	29.00	26.00
AUDITOR-CONTROLLER-TREASURER-TAX COLLECTOR	29.50	29.50	29.00	29.00	29.00	29.00	29.00	30.00	42.75	42.75
BOARD OF SUPERVISORS	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00	18.00
RECORDER	13.00	11.00	11.00	11.00	11.00	11.00	11.00	9.00	9.00	9.00
COUNTY CLERK,ELECTIONS	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
COUNTY COUNSEL	19.50	19.00	18.50	18.50	18.50	18.50	18.50	18.50	18.50	18.50
DISTRICT ATTORNEY	91.50	92.50	92.50	90.50	89.50	89.50	89.50	90.50	94.00	97.00
CHILD SUPPORT SERVICES	69.50	66.50	66.50	65.50	62.00	63.00	64.00	61.00	59.00	59.00
EMERGENCY SERVICES	2.00	3.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00	1.50
FIRE MARSHALL	2.30	-	-	-	-	-	-	-	-	-
GENERAL SERVICES	11.00	9.00	9.00	9.00	8.80	8.80	8.80	8.80	8.00	9.00
FACILITIES MAINTENANCE	47.75	47.00	47.00	44.00	44.00	44.00	44.00	44.00	42.00	42.00
CENTRAL STORES,DUPLICATING	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
PURCHASING	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	2.00
SERVICE CENTER	6.00	6.00	6.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
HEALTH SERVICES ²	661.05	526.55	486.50	498.25	522.00	508.05	512.40	526.95	534.30	531.85
HUMAN SERVICES	527.60	463.00	445.50	434.50	435.50	441.00	489.50	515.00	574.50	570.00
VETERANS SERVICES	5.00	4.00	4.00	4.00	4.00	3.00	4.00	4.00	4.00	4.00
INFORMATION SERVICES /TELEPHONE	78.25	76.25	65.00	65.00	64.00	64.50	64.50	64.50	57.00	56.00
INFORMATION SERVICES,COMM. TECH.	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	7.00	7.00
PARKS, OPEN SPACE, AND CULTURAL SERVICES	57.00	56.00	47.50	42.10	29.80	34.80	33.80	40.80	44.75	45.75
PERSONNEL	27.50	27.50	25.50	24.50	24.25	24.25	24.50	26.50	25.00	27.00
RISK MANAGEMENT	10.75	10.75	12.00	11.00	11.00	11.00	11.00	11.00	12.00	12.00
PLANNING	100.00	100.00	87.25	75.60	63.25	66.00	66.00	65.25	64.00	65.25
PROBATION	101.00	94.00	81.00	77.00	77.50	93.75	98.25	93.25	91.25	96.25
JUVENILE HALL	31.00	31.00	30.50	30.50	30.50	30.50	30.50	30.50	30.50	31.00
PUBLIC WORKS	300.50	290.00	274.00	272.50	272.50	267.50	267.50	267.50	256.00	256.80
RDA	14.00	14.00	22.00	22.00	1.00	1.00	1.00	-	-	-
SHERIFF-CORONER	177.25	176.25	173.75	170.75	171.00	171.00	170.00	173.00	173.00	175.00
CORRECTIONS	148.00	168.00	165.25	155.00	156.50	164.50	145.00	149.00	151.00	150.00
COURT SECURITY	26.00	26.00	26.00	25.00	24.00	24.00	24.00	24.00	24.00	24.00
TREASURER-TAX COLLECTOR ³	16.25	16.75	14.75	13.50	13.50	13.50	13.50	13.75	-	-
TOTAL	<u>2,705.20</u>	<u>2,496.80</u>	<u>2,370.00</u>	<u>2,318.90</u>	<u>2,292.95</u>	<u>2,311.80</u>	<u>2,350.90</u>	<u>2,398.45</u>	<u>2,443.95</u>	<u>2,452.05</u>

Source: Annual Adopted County Budget

¹ Weights and Measures was incorporated into the Agricultural Commissioner.

² On July 1, 2005, the Public Guardian was transferred to Health Services Agency. Its positions are incorporated into Health Services Agency.

³ On January 5, 2015, the County began consolidating of the offices of Auditor-Controller and Treasurer-Tax Collector.

COUNTY OF SANTA CRUZ
SCHEDULE OF INSURANCE IN EFFECT
JUNE 30, 2017

COVERAGE	DETAILS OF COVERAGE	LIMITS
Property	CSAC-Excess Insurance Authority Blanket buildings and equipment including EDP, Vehicles, Contractors' Equipment, Boiler & Machinery. All Risk, flood, replacement cost-agreed amount including earthquake at scheduled locations All Risk & Flood Limits Earthquake Limits Deductible	\$ 600,000,000 640,000,000 5,000
Crime Bond	CSAC-Excess Insurance Authority Faithful Performance Bond (covers failure to faithfully perform duties and employee dishonesty). Includes all employees and Treasurer Deductible	15,000,000 2,500
Non-Owned Aircraft	Wells Fargo National Union Fire Includes passengers' bodily injury, terrorism, and property damage combined each occurrence	5,000,000
Excess Workers' Compensation	CSAC-Excess Insurance Authority \$500,000 Self-Insured Retention Deductible (per occurrence) Workers' Compensation and Employer's Liability	Statutory Limits
Medical Malpractice and General Liability	CSAC-Excess Insurance Authority Comprehensive hospital professional and general liability for HSA staff and operations and Jail Medical Unit Deductible	21,500,000 10,000
Fine Arts	Wells Fargo/Travelers Includes fossils and fine arts for all County locations Deductible	125,000 500
Excess Liability (GLII)	CSAC-Excess Insurance Authority Excess Liability Insurance \$1,000,000 Self-Insured Retention to \$25,000,000	25,000,000
Optional Excess	CSAC -Excess Insurance Authority \$25,000,000 in excess of \$25,000,000	25,000,000
County Fire, Auto, and Liability Insurance	Wells Fargo/American Alternative Insurance Corp. Includes property insurance for County owned fire stations, including contents, business interruption, money and securities, boiler and machinery Fire Liability Auto Liability Deductible Equipment Deductible	3,000,000 3,000,000 1,000,000 1,000 100
Pollution Program	CSAC-Excess Insurance Authority Pollution Program Self-Insured Retention Deductible	10,000,000 250,000
Cyber Liability	CSAC-Excess Insurance Authority Claims Made Policy protecting against information security and privacy insurance with electronic media liability Self-Insurance Retention Deductible	2,000,000 50,000
Watercraft Coverage	CSAC-Excess Insurance Authority Protection and Indemnity Deductible	1,000,000 1,000

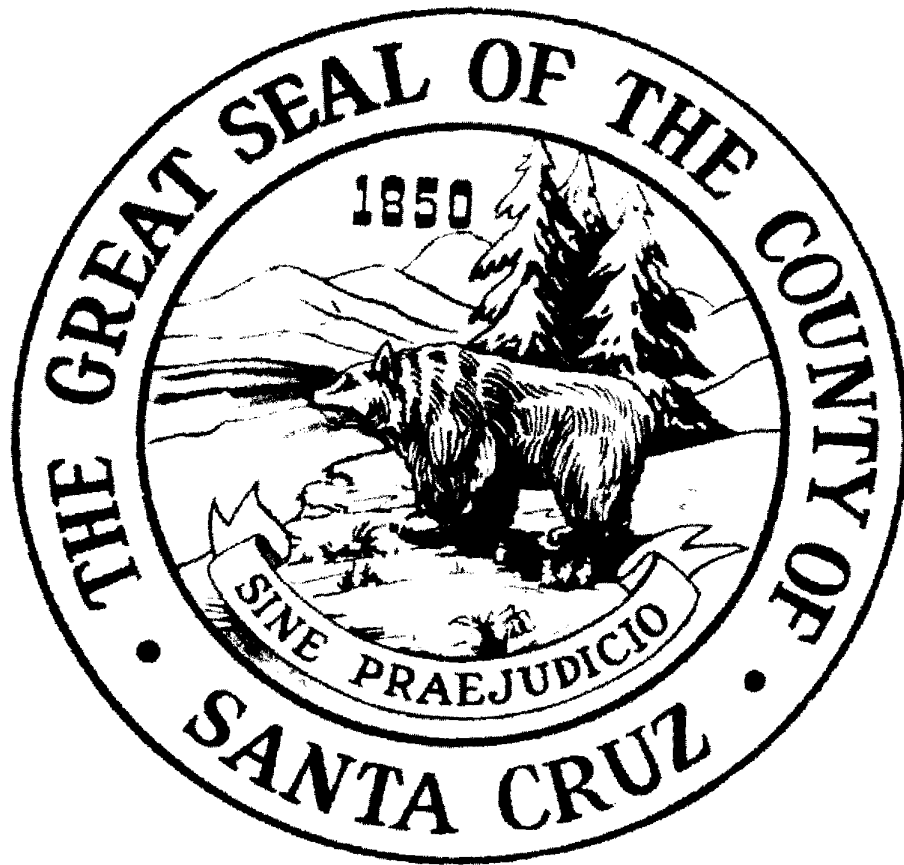
COUNTY OF SANTA CRUZ
CAPITAL ASSETS STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS

Function	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Public protection										
Jail facilities	3	3	3	3	3	3	3	3	3	3
Rehabilitation center	1	1	1	1	1	1	1	1	1	1
Juvenile center	2	1	1	1	1	1	1	1	1	1
Courthouses	3	2	3	3	3	3	3	3	3	3
Morgue	1	1	1	1	1	1	1	1	1	1
Center for Public Safety	1	1	1	1	-	-	-	-	-	-
Public assistance										
Child day care center	1	1	1	1	1	1	1	1	1	1
Elder day care center	1	1	1	1	1	1	1	1	1	1
Residential care facility	1	1	1	1	1	1	1	1	1	1
Volunteer center	1	1	1	1	1	1	1	1	1	1
Veterans centers	2	2	2	2	2	2	2	2	2	2
Behavioral Health Unit	1	1	1	1	-	-	-	-	-	-
Recreation and culture										
Parks acreage	228	228	228	228	226	225	223	223	223	223
Sites	63	60	60	60	59	59	57	57	57	57
Athletic fields	17	17	17	17	17	17	17	17	17	17
Swimming pools	4	4	4	4	4	4	4	4	4	2
Public ways and facilities										
Roads										
Pavement (miles)	596	600	600	600	600	600	600	600	600	600
Junction structures	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Minor culverts	2,262	2,262	2,262	2,262	2,262	2,262	1,010	2,000	2,000	2,000
Bridges and major culverts	160	160	160	160	160	160	160	160	160	160
Sanitation										
Pipe (miles)	245	245	244	236	236	230	230	230	222	222
Pump stations/treatment plants	61	63	64	63	63	62	62	62	62	62
General government										
Administrative/other facilities ¹	13	12	12	12	11	11	10	10	10	10

Sources: Various County Departments

¹ Includes buildings and centers utilized by various departments within different functions.

GLOSSARY
(UNAUDITED)



ACCOUNTS PAYABLE. A short-term liability account reflecting amounts owed to private persons or organizations for goods and services received by a government.

ACCOUNTS RECEIVABLE. An asset account reflecting amounts due from private persons or organizations for goods and services furnished by a government (but not including amounts due from other funds or other governments).

ACCRUAL BASIS. The recording of the financial effects on a government of transactions and other events and circumstances that have cash consequences for the government in the periods in which those transactions, events, and circumstances occur, rather than only in the periods in which cash is received or paid by the government.

ACCUMULATED DEPRECIATION. A contra-asset account used to report the accumulation of periodic credits to reflect the expiration of the estimated service life of capital assets.

ADVANCE FROM OTHER FUNDS. A liability account used to record noncurrent portions of a long-term debt owed by one fund to another fund within the same reporting entity. See **DUE TO OTHER FUNDS** and **INTERFUND RECEIVABLE/PAYABLE**.

ADVANCE TO OTHER FUNDS. An asset account used to record noncurrent portions of a long-term loan from one fund to another fund within the same reporting entity. See **DUE FROM OTHER FUNDS**.

AGENCY FUND. A fund normally used to account for assets held by a government as an agent for individuals, private organizations, or other governments and/or other funds.

AMORTIZATION. (1) The portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity.

APPROPRIATION. A legal authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation usually is limited in amount and time it may be expended.

ASSESSED VALUATION. A valuation set upon real estate or other property by a government as a basis for levying taxes.

ASSIGNED FUND BALANCE. Amounts that are constrained by the County's intent to be used for specific purposes. The intent can be established at either the highest level of decision-making authority or by a body or an official designated for that purpose. This is also the classification for residual funds in the County's special revenue funds.

AUDITOR'S REPORT. In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination, and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with GAAP or some other comprehensive basis of accounting.

BALANCE SHEET. The financial statement disclosing the assets, liabilities, and equity of an entity at a specified date in conformity with GAAP.

BASIC FINANCIAL STATEMENTS (BFS). The minimum combination of financial statements and note disclosures required for fair presentation in conformity with GAAP. Basic financial statements have three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

BASIS OF ACCOUNTING. A term used to refer to when revenues, expenditures, expenses, and transfers and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the nature of the measurement, on either the cash or the accrual basis.

BUDGET. A plan of financial operation embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. Used without any modifier, the term usually indicates a financial plan for a single fiscal year. The term "budget" is used in two senses in practice. Sometimes it designates the financial plan presented to the appropriating governing body for adoption, and sometimes, the plan finally approved by that body.

BUDGETARY CONTROL. The control or management of a government or enterprise in accordance with an approved budget to keep expenditures within the limitations of available appropriations and available revenues.

CAPITAL ASSETS. Long-lived tangible assets obtained or controlled as a result of past transactions, events, or circumstances. Capital assets include buildings, equipment, improvements other than buildings, land, and infrastructure. In the private sector, these assets are referred to most often as property, plant, and equipment.

CAPITAL EXPENDITURES. Expenditures resulting in the acquisition of or addition to the government's general capital assets.

CAPITALIZATION POLICY. The criteria used by a government to determine which outlays should be reported as capital assets.

CAPITAL LEASE. An agreement that conveys the right to use property, plant, or equipment, usually for a stated period of time. See LEASE-PURCHASE AGREEMENTS.

CAPITAL PROJECTS FUND. A fund created to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

CASH BASIS. A basis of accounting under which transactions are recognized only when cash is received or disbursed.

CASH WITH FISCAL AGENT. An asset account reflecting deposits with fiscal agents, such as commercial banks, for the payment of bond principal and interest.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING PROGRAM. A voluntary program administered by the GFOA to encourage governments to publish efficiently organized and easily readable CAFRs and to provide technical assistance and peer recognition to the finance officers preparing them.

CHANGE IN THE FAIR VALUE OF INVESTMENTS. The difference between the fair value of investments at the beginning of the year and at the end of the year, taking into consideration investment purchases, sales, and redemptions.

COMMITTED FUND BALANCE. Amounts that can only be used for specific purposes determined by formal action of the County's highest level of decision-making authority (the Board of Supervisors), and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

COMPENSATED ABSENCES. Absences, such as vacation and illness, for which it is expected employees will be paid. The term does not encompass severance or termination pay, post-retirement benefits, deferred compensation, or other long-term fringe benefits, such as group insurance and long-term disability pay.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR). A financial report that encompasses all fund and component units of the government. The CAFR should contain (a) the basic financial statements and required supplementary information, (b) combining statements to support columns in the basic financial statements that aggregate information from more than one fund or component unit, and (c) individual fund statements as needed. The CAFR is the governmental unit's official annual report and also should contain an introductory information, schedules necessary to demonstrate compliance with finance related legal and contractual provisions, and statistical data.

CONTINGENT LIABILITY. Items that may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending lawsuits, judgments under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts. Contingent liabilities should be disclosed within the financial statements (including the notes) when there is a reasonable possibility a loss may have been incurred. Guarantees, however, should be disclosed even though the possibility of loss may be remote.

COST-SHARING MULTIPLE-EMPLOYER PLAN. A single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members and the same contribution rate(s) applies for each employer.

CURRENT FINANCIAL RESOURCES MEASUREMENT FOCUS. Measurement focus according to which the aim of a set of financial statements is to report the near-term (current) inflows, outflows, and balances of expendable (spendable) financial resources. The current financial resources measurement focus is unique to accounting and financial reporting for State and local governments and is used solely for reporting the financial position and results of operations of governmental funds.

DEBT. An obligation resulting from the borrowing of money or from the purchase of goods and services. Debts of governments include bonds, time warrants, and notes.

DEBT SERVICE FUND. A fund established to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

DEFERRED CHARGES. Expenditures that are not chargeable to the fiscal period in which they were made but that are carried as an asset on the balance sheet, pending amortization or other disposition (e.g., bond issuance costs). Deferred charges differ from prepaid items in that they usually extend over a long period of time (more than five years) and are not regularly recurring costs of operation.

DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES. The consumption or acquisition of net assets in one period that are applicable to future periods.

DEFICIT. (1) The excess of the liabilities of a fund over its assets. (2) The excess of expenditures over revenues during an accounting period or, in the case of proprietary funds, the excess of expenses over revenues during an accounting period.

DEFINED BENEFIT PENSION PLAN. A pension plan having terms that specify the amount of pension benefits to be provided at a future date or after a certain period of time; the amount specified usually is a function of one or more factors such as age, years of service, and compensation.

DEPRECIATION. (1) Expiration in the service life of capital assets, other than wasting assets, attributable to wear and tear, deterioration, action of the physical elements, inadequacy, and obsolescence. (2) The portion of the cost of a capital asset, other than a wasting asset, charged as an expense during a particular period. In accounting for depreciation, the cost of a capital asset, less any salvage value, is prorated over the estimated service life of such an asset and each period is charged with a portion of such cost. Through this process, the entire cost of the asset is ultimately charged off as an expense.

DUE FROM OTHER FUNDS. An asset account used to indicate amounts owed to a particular fund by another fund for goods sold or services rendered. This account includes only short-term obligations on open account, not interfund loans.

DUE TO OTHER FUNDS. A liability account reflecting amounts owed by a particular fund to another fund for goods sold or services rendered. These amounts include only short-term obligations on open account, not interfund loans.

ECONOMIC RESOURCES MEASUREMENT FOCUS. Measurement focus under which the aim of a set of financial statements is to report all inflows, outflows, and balances affecting or reflecting an entity's net position. The economic resources measurement focus is used for proprietary and fiduciary funds, as well as for government-wide financial reporting. It is also used by business enterprises in the private sector.

ENCUMBRANCES. Commitments related to unperformed (executory) contracts for goods or services. Used in budgeting, encumbrances are not GAAP expenditures or liabilities, but represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed.

ENTERPRISE FUND. Proprietary fund type used to report an activity for which a fee is charged to external users for goods and services.

EXPENDITURE-DRIVEN GRANTS. Government-mandated or voluntary nonexchange transactions in which expenditure is the prime factor for determining eligibility. Also referred to as reimbursement grants.

EXCHANGE-LIKE TRANSACTION. Transaction in which there is an identifiable exchange between the reporting government and another party, but the values exchanged may not be quite equal or the direct benefits of the exchange may not be exclusively for the parties to the exchange.

EXPENDITURES. Decreases in net financial resources. Expenditures include current operating expenses requiring the present or future use of net position, debt service and capital outlays, and intergovernmental grants, entitlement, and shared revenues.

EXPENSES. Outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.

EXTERNAL AUDITORS. Independent auditors typically engaged to conduct an audit of a government's financial statements.

EXTERNAL INVESTMENT POOL. An arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsors reporting entity. An external investment pool can be sponsored by an individual government, jointly by more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual State or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes only the primary government and its component units, it is an internal investment pool and not an external investment pool.

FAIR VALUE. The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

FIDUCIARY FUNDS. The trust and agency funds used to account for assets held by a government unit in a trustee capacity or as an agent for individuals, private organizations, other government units, and/or other funds.

FINANCIAL RESOURCES. Resources that are or will become available for spending. Financial resources include cash and resources ordinarily expected to be converted to cash (e.g., receivables, investments). Financial resources may also include inventories and prepaids (because they obviate the need to expend current available resources).

FISCAL AGENT. A fiduciary agency, usually a bank or county treasurer, who performs the function of paying debt principal and interest when due.

FUND. A fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources, all related liabilities and residual equities, or balances, and changes therein, are recorded and segregated to carry on specific activities or attain certain objectives in accordance with special regulations, restrictions or limitations.

FUND BALANCE. The difference between fund assets and fund liabilities of governmental and similar trust funds.

FUND FINANCIAL STATEMENTS. Basic financial statements presented on the basis of funds. Term used in contrast with government-wide financial statements.

FUND TYPE. Any one of seven categories into which all funds are classified in governmental accounting. The seven fund types are: general, special revenue, debt service, capital projects, enterprise, internal service, and trust and agency.

GENERAL REVENUES. All revenues that are not required to be reported as program revenues. All taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax – for example, property tax, sales tax, transient occupancy tax. All other nontax revenues (including interest, grants, and contributions) that do not meet the criteria to be reported as program revenues should also be reported as general revenues.

GENERAL FUND. The General Fund is one of five governmental fund types and typically serves as the chief operating fund of the government. The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP). The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements. The various sources of GAAP for State and local governments are set forth by Statements of Auditing Standards (SAS) No. 69, The Meaning of “Present Fairly in Conformity with Generally Accepted Accounting Principles” in the Independent Auditor’s Report.

GOVERNMENTAL ACCOUNTING. The composite activity of analyzing, recording, summarizing, reporting, and interpreting the financial transactions of governments.

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB). The ultimate authoritative accounting and financial reporting standard-setting body for State and local governments. The GASB was established in June 1984 to replace the National Council on Governmental Accounting (NCGA).

GOVERNMENTAL FUNDS. Funds generally used to account for tax-supported activities. There are five different types of governmental funds: the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

GOVERNMENT-WIDE FINANCIAL STATEMENTS. Financial statements that incorporate all of a government’s governmental and business-type activities, as well as its nonfiduciary component units. There are two basic government-wide financial statements: the statement of net position and the statement of activities. Both basic governmental financial statements are presented using the economic resources measurement focus and the accrual basis of accounting.

INFRASTRUCTURE. Long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems.

INTERFUND RECEIVABLE/PAYABLE. Short-term loans made by one fund to another, or the current portion of an advance to or from another fund.

INTERFUND TRANSFERS. Flow of assets (such as cash or goods) between funds and blended component units of the primary government without equivalent flows of assets in return and without a requirement for payment.

INTERNAL SERVICE FUND. A fund used to account for the financing of goods or services provided by one department or agency to other departments or agencies of a government, or to other governments, on a cost-reimbursement basis.

JOINT VENTURE. A legal entity or other contractual arrangement in which a government participates as a separate and specific activity for the benefit of the public or service recipients and in which the government retains an ongoing financial interest.

LAPSE. As applied to appropriations, the automatic termination of an appropriation. Except for indeterminate appropriations and continuing appropriations, an appropriation is made for a certain period of time. At the end of the period, any unexpended or unencumbered balance thereof lapses, unless otherwise provided by law.

LEASE-PURCHASE AGREEMENTS. Contractual agreements that are termed leases, but that in substance are purchase contracts.

LEGAL LEVEL OF BUDGETARY CONTROL. The level at which spending in excess of budgeted amounts would be a violation of law.

LEVEL OF BUDGETARY CONTROL. The level at which a government's management may not reallocate resources without special approval from the legislative body.

LIABILITIES. Probable future sacrifices of economic benefits, arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

LOANS RECEIVABLE. An asset account reflecting amounts loaned to individuals or organizations external to a government, including notes taken as security for such loans. Loans to other funds and governments should be recorded and reported separately.

MAJOR FUND. A governmental fund or enterprise fund reported as a separate column in the basic fund financial statements. The General Fund is always a major fund. Otherwise, major funds are funds whose revenues/expenditures, assets, or liabilities are at least 10 percent of corresponding totals for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds for the same item. Any other governmental or enterprise fund may be reported as a major fund if the government's officials believe that fund is particularly important to financial statement users.

MANAGEMENT'S DISCUSSION AND ANALYSIS. A component of required supplementary information used to introduce the basic financial statements and to provide an analytical overview of the entity's financial activities.

MEASUREMENT FOCUS. A way of presenting an entity's financial performance and position by considering which resources are measured (financial or economic) and when the effects of transactions or events involving those resources are recognized (the basis of accounting). The measurement focus of government-wide financial statements, proprietary fund financial statements, and fiduciary fund financial statements is economic resources. The measurement focus of governmental fund financial statements is current financial resources.

MODIFIED ACCRUAL BASIS. The accrual basis of accounting adapted to the governmental fund-type measurement focus. Under it, revenues and other financial resource increments (e.g., bond issue proceeds) are recognized when they become susceptible to accrual, that is when they become both "measurable" and "available to finance expenditures of the current period." "Available" means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Generally, expenditures are recognized when the fund liability is incurred. All governmental funds, expendable trust funds, and agency funds are accounted for using the modified accrual basis of accounting.

NET INVESTMENT IN CAPITAL ASSETS. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

NET POSITION. The residual of all other elements of the statement of financial position. In other words, the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources.

NONSPENDABLE FUND BALANCE. Amounts that cannot be spent because they are either (1) not spendable in form or (2) legally or contractually required to be maintained intact.

OTHER FINANCING SOURCES. An increase in current financial resources that is reported separately from revenues to avoid distorting revenue trends. The use of the other financing sources category is limited to items so classified by GAAP.

OTHER FINANCING USES. A decrease in current financial resources that is reported separately from expenditures to avoid distorting expenditure trends. The use of other financing uses category is limited to items so classified by GAAP.

OVERLAPPING DEBT. The proportionate share that property within each government must bear of the debts of all local governments located wholly or in part within the geographic boundaries of the reporting government. Except for special assessment debt, the amount of debt of each unit applicable to the reporting unit is arrived at by (1) determining what percentage of the total assessed value of the overlapping jurisdiction lies within the limits of the reporting unit, and (2) applying this percentage to the total debt of the overlapping jurisdiction. Special assessment debt is allocated on the basis of the ratio of assessment receivable in each jurisdiction, which will be used wholly or in part to pay off the debt, to total assessments receivable, which will be used wholly or in part for this purpose.

PROGRAM REVENUES. Term used in connection with the government-wide statement of activities. Revenues that derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's general revenues.

PROPRIETARY FUNDS. Funds that focus on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. There are two different types of proprietary funds: enterprise funds and internal service funds.

PRIVATE PURPOSE TRUST FUND. Trust fund used to report resources of other trust arrangements in which principal and income benefit individuals, private organizations, or other governments.

REBATABLE ARBITRAGE. A term used in connection with the reinvestment of the proceeds of tax-exempt debt. A requirement to remit to the Federal government interest revenue in excess of interest costs when the proceeds from the sale of tax-exempt securities are reinvested in a taxable money market instrument with a materially higher yield.

REPORTING ENTITY. The oversight unit and all of its component units, if any, that are combined in the CAFR/BFS.

REQUIRED SUPPLEMENTARY INFORMATION. Consists of statements, schedules, statistical data, or other information which, according to the GASB, is necessary to supplement, although not required to be a part of the basic financial statements.

RESERVED FUND BALANCE. The portion of a governmental fund's net position that is not available for appropriation.

RESTRICTED ASSETS. Assets whose use is subject to constraints that are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

RESTRICTED FUND BALANCE. Amounts with constraints placed on their use that are either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

RESTRICTED NET POSITION. A component of net position calculated by reducing the carrying value of restricted assets by the amount of any related debt outstanding.

REVENUE BONDS. Bonds whose principal and interest are payable exclusively from earnings of an enterprise fund. In addition to a pledge of revenues, such bonds sometimes contain a mortgage on the enterprise fund's property.

RISK MANAGEMENT. All the ways and means used to avoid accidental loss or to reduce its consequences if it does occur.

SELF-INSURANCE. A term often used to describe the retention by an entity of a risk of loss arising out of the ownership of property or from some other cause, instead of transferring that risk to an independent third party through the purchase of an insurance policy. It is sometimes accompanied by the setting aside of assets to fund any related losses. Because no insurance is involved, the term self-insurance is a misnomer.

SINGLE AUDIT. An audit performed in accordance with the Single Audit Act of 1997 and the Uniform Guidance. The Single Audit Act allows or requires governments (depending on the amount of Federal assistance received) to have one audit performed to meet the needs of all Federal agencies.

SPECIAL DISTRICT. An independent unit of local government organized to perform a single government function or a restricted number of related functions. Special districts usually have the power to incur debt and levy taxes; however, certain types of special districts are entirely dependent upon enterprise earnings and cannot impose taxes. Examples of special districts are water districts, drainage districts, flood control districts, hospital districts, fire protection districts, transit authorities, port authorities, and electric power authorities.

SPECIAL REVENUE FUND. A fund used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

TAX AND REVENUE ANTICIPATION NOTES (TRANS). Notes issued in anticipation of the collection of taxes and revenues, usually retireable only from tax collections, and frequently only from the proceeds of the tax and revenues levy whose collection they anticipate.

TRUST FUNDS. Funds used to account for assets held by a government in a trustee capacity for individuals, private organizations, other governments, and/or other funds.

UNASSIGNED FUND BALANCE. The residual classification for the County's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

UNMODIFIED OPINION. An opinion rendered without reservation by the independent auditor that financial statements are fairly presented.

UNRESERVED FUND BALANCE. That portion of a fund balance available for spending or appropriation in the future.

UNRESTRICTED NET POSITION. That portion of net position that is neither restricted nor invested in capital assets (net of related debt).

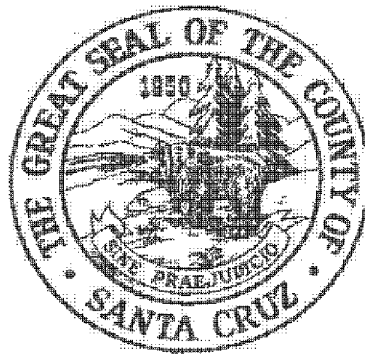
APPENDIX B
COUNTY OF SANTA CRUZ INVESTMENT POLICY

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COUNTY OF SANTA CRUZ

2018

INVESTMENT POLICY



Adopted by Board of Supervisors on: December 5, 2017

Policy in effect for calendar year 2018.

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County of Santa Cruz

STATEMENT OF INVESTMENT POLICY

Under the laws of the State of California, it is the responsibility of the County Treasurer, at the direction of the Board of Supervisors, to secure and protect the public funds of the County and the participants of the Investment Pool, and to establish proper safeguards, controls, and procedures to maintain these funds in a lawful, rational and auspicious manner. Said maintenance shall include the prudent and secure investment of those funds that are deemed temporarily available for investment, in a manner anticipated to provide additional benefit to the people of the County of Santa Cruz. In addition, the County Treasurer acts as the Treasurer, cash manager, and investor for a sizable number of public agencies within the County rather than each entity having to locate and hire a knowledgeable person to handle the entity's banking, investments, and other financial duties separately. This pooling of public funds eliminates duplication of expenses, smooths out cash flow, permits cost savings through higher volume, and attracts more professional service providers.

This Statement of Investment Policy will be provided annually for the review of the Treasury Oversight Commission and the approval of the Board of Supervisors in an open public meeting.

COUNTY TREASURER

The County Treasurer referred to in the Statement of Investment Policy is the County Auditor-Controller-Treasurer-Tax Collector.

SCOPE

This Statement of Investment Policy pertains to those temporarily excess funds under the control of the Treasurer, designated for the daily ongoing operations of the County and pool participants; and concerns the deposit, maintenance, and safekeeping of all such funds, and the investments made with these funds. This Policy does not apply to pension moneys, deferred compensation funds, trustee, and certain other non-operating funds not participating in the County Investment Pool.

PURPOSE OF POLICY STATEMENT

The purpose of this Statement of Investment Policy is to provide the Board of Supervisors, the Treasury Oversight Commission, those entities invested in the County Investment Pool, those involved in servicing the investment requirements of the County, and any other interested party, a clear understanding of the regulations and internal guidelines that will be observed in maintaining and investing those pooled funds deemed temporarily excess.

TREASURY OBJECTIVES

The primary objective of the Treasurer is to protect the safety of the principal of the County Investment Pool through the judicious purchase of those legal investments permitted to local agencies, as defined in the State of California Government Codes, consistent with current conditions and the other dominant objectives pursuant to managing a local agency portfolio, namely:

Safety: It is the primary responsibility of the Treasurer to maintain the safe return of all principal placed in investments by avoiding decisions that might result in losses through either fraud, default, or adverse market conditions. Import is also accorded the protection of accrued interest earned on any investment instrument.

Liquidity: It is imperative that most investments be in items that are immediately negotiable, as the portfolio is a cash management fund. It shall always be assumed that all investments could require immediate liquidation in order to meet unexpected cash calls.

Availability: Due to the nature of a public funds portfolio, it is mandatory that moneys be available to meet the monetary requirements inherent to operating a public entity. Thus funds need to be invested in such a manner that money will always be available to pay normal cash requirements. A sufficient portion of all funds shall be invested in securities providing a high degree of liquidity and availability, that is, in securities easily sold or converted to cash in a timely manner, with little or no loss of interest earnings.

Yield: While it is considered desirable to obtain a yield commensurate to current market conditions, yield shall not be the driving force in determining which investments are to be selected for purchase. Yield is definitely considered to be of much lesser importance than safety, liquidity or availability.

The Treasurer places investments with the objective of obtaining a yield commensurate to current market conditions, not attempting to maximize yield at the expense of safety, liquidity, or availability, yet not totally ignoring those factors within the marketplace that may be indicative of either favorable or hazardous conditions. The portfolio will be managed very conservatively, but actively enough to avert avoidable losses due to adverse market conditions.

PRUDENCE

The Treasurer is subject to the "Prudent Investor Standard" whenever making a decision regarding the investment of the County's funds. This rule states in principle:

"When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent investor acting in a like capacity and familiarity with those

matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The Treasurer, and those acting for the Treasurer, are considered to have a fiduciary, trustee, relationship with the public for the public funds, and all investment decisions will be made in a manner sustaining this responsibility.

DELEGATION OF AUTHORITY

In accordance with Government Code section 27000.1 and County of Santa Cruz Ordinance 4434, the County Treasurer has been delegated the authority to invest and reinvest the funds of the County and the funds of other depositors in the County Pool.

While the Treasurer has final responsibility for all investment decisions, other Treasury personnel may aid in the day-to-day operations. Those staff members, in addition to the Treasurer, currently authorized to act on behalf of the County, as of the date entered on this Policy, are listed below. This list is subject to change, and those parties involved in transactions with the Treasurer's department should always obtain a current Trading Authorization and Agreement form, and be verbally introduced by a known Treasury employee, prior to accepting unconfirmed verbal instructions from any previously unknown Treasury staff member.

Authorized Personnel

Title

Josephine Burke
Minerva Torres
David Zweig

Accounting Technician
Senior Accounting Technician
Treasury-Tax-Collection Manager

Other persons, both inside and outside County employment, may act in the role of assistant or advisor to aid in the timely and proper settlement of investment transactions. While these persons may provide information or aid in the expedient delivery of securities, they may not authorize, approve, or initiate any trading activities. Only the Treasurer and the persons listed on the current *Trading Authorization and Agreement* may initiate trading activity.

SECURITIES CUSTODY

The Treasurer has established a third party custody and safekeeping account to which all negotiable instruments shall be delivered upon purchase on a payment versus delivery basis. No negotiable or deliverable securities or investments will be left in the custody of any brokerage firm or issuing party, including any collateral from Repurchase Agreements.

DESIGNATED SERVICE BANK

The Treasurer shall designate a State or Federally chartered bank operating within the State of California to serve as the County's Primary Service Bank. The Treasury shall use this bank as a clearinghouse for all funds.

AUTHORIZED INVESTMENTS AND LIMITATIONS

The Government Codes of the State of California, primarily within sections 53600 et. seq., establish the legality of certain types of investment vehicles for a California local agency's portfolio. Thereby, under no circumstances is the Treasurer permitted to purchase an investment that is not specifically authorized for a local agency under these, or other code sections that may apply, or might later be enacted, pertaining to local agency investments. Investment professionals dealing with the County should possess a complete understanding of these Code sections.

An attached Exhibit A briefly describes the types of securities that are legal within the Government Code sections noted above and outlines the various limitations included in these sections. Excepting the restrictions noted below in this section, all legally permitted investment options described in the Government Code are authorized at this time. Funds placed in the State's Local Agency Investment Fund (LAIF) shall follow the limitations placed on these deposits by the State and may change in accordance with these restrictions.

Though these Government Code sections define the investment types and terms permissible to the Treasurer, the Treasurer will not:

- Invest in any security or investment with a stated or potential final maturity longer than five years, unless it contains a non-retractable "put" exercisable within five years. In other words, such a security cannot be purchased by the Treasurer unless it permits the investor the unrestricted choice of selling the security back to the issuer at par, or above, at a time prior to five years.
- Invest in any security or investment wherein, by the terms of the investment, interest might not be earned during any period the security or investment exists.
- Purchase floating rate securities containing an inherent yield structure that could result in a return substantially below rates available for similar maturity periods on the dates the coupon changes.
- Enter into a reverse repurchase agreement.
- Purchase any Collateralized Mortgage Obligations.
- Lend securities.
- Invest in futures or options.

Nothing in the preceding prohibitions is intended to preclude the purchase of authorized investments that are callable.

In addition to the limitations provided in State law and this Statement of Investment Policy, various temporary and more restrictive constraints may at times be beneficial due to transient conditions within the marketplace. These flexible constraints are not part of this Policy but are presented in a document prepared by the Treasurer entitled "Temporary Constraints and Restrictions on Investments", and will change on an "as needed" basis. The attached Exhibit B is the "Temporary Constraints and Restrictions on Investments" that were in effect when the Board of Supervisors approved this policy. When these constraints and restrictions change, a copy will be immediately sent to members of the Treasury Oversight Commission and the Board of Supervisors. These constraints or restrictions may only be *more* restrictive than those of the Policy, but may *not* be less restrictive. Investment professionals should be aware of these temporary conditions in order to save time and best serve the County.

AUTHORIZED DEALER LIST

It is prohibited for a transaction to be entered into with any securities broker, dealer or bank investment department or subsidiary prior to that entity being designated an Authorized Dealer, and placed on the Authorized Dealer List. For a firm to become authorized it must first demonstrate that it will add value to the Treasurer's efforts to best manage the cash portfolio, as well as fulfill certain other minimum requirements. Preference will be given to primary dealers or others who possess a strong capital capacity and willingness to make a market in the various fixed income securities that the County holds. To qualify for Authorized Dealer status, a brokerage firm or bank must be one of the following:

- 1) Be a dealer operation properly licensed to deal with local agencies in California and have a minimum of \$50 million in capital or;
- 2) Be a Primary Dealer of the Federal Reserve Bank of New York or;
- 3) Be a department or subsidiary of an insured bank with minimum assets of \$500 million that the County has a comprehensive banking relationship with or;
- 4) Be a broker operation properly licensed to deal with local agencies in California that has capital of not less than \$5 million, that is not directly involved in the actual custody, and transfer of money or securities purchased or sold by the County, but that represents established accounts opened in the County name at those firms meeting the requirements of this section, wherein all dealings would be the responsibility of the dealer operation, and wherein all deliveries, payments, written confirmation, etc. will originate with the qualified dealer operation and are sent directly to the County.

If meeting the above requirements, a salesperson may apply to become an Authorized Dealer by sending to the Treasurer their most recent annual and interim audited financial statements and a letter furnishing:

- 1) Their reasons for believing they would add value to the present coverage; and,
- 2) A general roster of those markets they participate in, and specifics on those types of securities they as a firm, regularly issue or regularly hold dealer trading positions in; and,
- 3) A list of five references, at least three being California local agency treasurers, including telephone numbers and email addresses that the Treasurer or his representative may contact.

The Treasurer will initiate an investigation of the applying salesperson and the firm through various sources, including the Financial Industry Regulatory Authority (FINRA), to determine market participation, knowledge, reputation, and financial stability. All salespeople and their supervisors will be expected to have a working knowledge of the appropriate sections of the State of California Government Code, sufficient experience in covering public entities, a willingness to well serve their customers, a complete and total understanding of this Investment Policy, and demonstrate an ongoing ability to work with the Treasurer and staff. The Treasurer will review all new requests annually, and if the decision is made that additional dealers would be beneficial to best service the portfolio's needs, those dealers selected will be informed of their addition to the Authorized Dealer List. All dealers are subject to removal from the Authorized Dealer List at any time, solely at the discretion of the Treasurer.

The Treasurer, or Treasury staff, are prohibited from dealing with a salesperson, broker, or account executive from any broker, dealer or bank investment department or subsidiary until the Acknowledgment form found on the last page of the *Trading Authorization and Agreement* is signed by all parties and received by the Treasurer. The *Trading and Authorization Agreement* is sent to all approved dealers and is an integral part of this Policy Statement for Broker/Dealers, etc. doing investment business with the County Treasurer or Treasury staff.

Similar restrictions and forms will be required of those firms doing business with the County through retained financial advisors or managers. Certain selected firms may be chosen or appointed by the Treasurer to render specific services the Treasurer determines they are uniquely qualified to provide, wherein some of the requirements of this section may be waived.

Neither the Treasurer, nor any member of the Treasurer's staff, may accept any gift, honoraria, gratuity or service of value in violation of the regulations set forth by the Fair Political Practices Commission, the Government Codes, additional limitations set forth by County ordinance, or internal requirements of the Treasurer. The Treasurer and all members of the Treasury staff are prohibited from conducting any business with any broker, dealer, or securities firm that has made a political contribution within any consecutive 48 month period beginning January 1, 1996, in an amount exceeding the limitation contained in Rule G37 of the Municipal Securities Rulemaking Board, to the County Treasurer or any member of the Board of Supervisors, or any candidate for these offices.

THE COUNTY TREASURY OVERSIGHT COMMISSION

In accordance with Government Code section 27130 et seq. and County Ordinance 4433, there shall be a Treasury Oversight Commission of five members appointed from the following:

- a) An appointed representative of the Board of Supervisors.
- b) The County Superintendent of Schools, or designee.
- c) A representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts of the County.
- d) A representative selected by a majority of the presiding officers of the legislative bodies of the special districts within the County that are required or authorized to deposit money in the County Investment Pool.
- e) A public member who shall have expertise in, or an academic background in, public finance.

Restriction of Members - All members of the Treasury Oversight Commission are restricted as follows:

- * A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer; or (b) contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the commission.
- * A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the commission.
- * A member may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the treasurer is doing business during the period that the person is a member of the commission or for one year after leaving the commission.
- * Members may not receive honoraria, gifts, gratuities or service of value from advisors, brokers, dealers, bankers, or other persons with whom the county treasury conducts business.

The Treasurer will annually provide a copy of the Investment Policy for review and monitoring by the Treasury Oversight Commission. The Treasurer will provide a report quarterly to the Board of Supervisors and the Treasury Oversight Commission, identifying all investments held in the County Investment Pool, or elsewhere by the Treasurer. The Treasury Oversight Commission shall, via this report and other appropriate means, monitor the activities of the Treasurer, and cause to be performed an annual audit to determine the Treasurer's compliance with this Investment Policy, and other appropriate regulations.

Commission meetings shall be open to the public and in compliance with the appropriate sections of the Ralph M. Brown Act. By Code, all costs related to the duties of the Treasury Oversight Commission will be considered normal charges against earnings of the Investment Pool.

The Treasury Oversight Commission shall have no authority to direct the process or daily operation of any portion of the Treasury department, nor shall the Commission play any role in determining which

banks, firms, or individuals the Treasurer does business with, nor shall the Commission be involved in determining which investments the Treasurer purchases, but shall act only to review the actions of the Treasurer to determine that they are in accordance with the Investment Policy and all other legal requirements or regulations.

TERMS FOR FUNDS INVESTED WITH THE COUNTY INVESTMENT POOL

The Government Code requires the County Treasurer to define the limits and conditions under which local agencies having their money in the Investment Pool may deposit and withdraw their funds. The Government Codes confer upon the Treasurer the final authority as to how funds for which the Treasurer is held responsible for overseeing, are to be invested. The Treasurer must take into account the current financial condition of the sum total of the Pools' agencies, the conditions of the marketplace, as well as the cash flow projections and the potential for changes in the Pool's cash needs. The Treasurer must protect the earnings of each individual local agency in the Pool, and also see that no decision will reward a particular agency or group of agencies within the Pool at the expense of another or others within the Pool. If the Treasurer determines that a request for a withdrawal of funds for a specific or outside investment is not, in the Treasurer's opinion, in the best interest of a particular agency, or is overly detrimental to the Pool as a whole, the Treasurer must legally deny the request, or find a means of neutralizing the harm to all those affected.

Any funds deposited in accounts that are consolidated into the County Investment Pool that are not immediately required to meet cash flows of the Pool will be invested by the Treasurer or the Treasurer's staff. All Pool entities agree that by placing funds in such accounts that they agree to proportionately participate in all investments within the Investment Pool.

FUNDS OF AGENCIES REQUIRED TO INVEST WITHIN THE POOL

Funds will be accepted at all times, in the manner prescribed, from those local agencies where the County Treasurer is also the Treasurer for the local agency, or from any agencies that by statute must place their money in the County Investment Pool. Funds will earn interest based on the average daily balance distributed on a monthly basis.

Should a legislative body of a local agency determine that certain funds will not be required by the local agency for a period of at least one year, the local agency may petition the County Treasurer to invest that portion of the local agency's excess funds in a specific investment under the control of the County Treasurer. Such a petition should state the nature of the funds the legislative body wishes to invest specifically, and the reasons why the legislative body believes a specific investment is a preferable and viable alternative to the general Pool participation. Should the Treasurer determine that the request for a specific investment is valid and not overly counter-productive to the Pool as a whole, the Treasurer will consult with the local agency's legislative body, or its appointed representative, to suggest and determine exactly what investment(s) should be purchased to fulfill the needs of the local agency. The Treasurer will then purchase the specific investment(s) upon receipt of a written resolution, issued by the legislative body of the local agency, requesting the specific investment. The resolution must acknowledge that the local agency's legislative body takes full responsibility for the decision to purchase the specific investment(s), and that should conditions

change requiring a sale prior to maturity of the specific investment(s), any loss that might be suffered as a result, will be solely that of the local agency, and that this loss shall not be shared by the Pool as a whole, nor by the County.

Under language added to the Government Code in 1995, it is not permissible for local agency legislative bodies, required to have their funds within the Pool, to withdraw funds from the Pool in order to invest outside the County Pool in any manner, at any time without specific permission of the Treasurer. Any such investments shall be either terminated and all funds returned to the Pool, or the securities so purchased must be transferred to the custody of the County Treasurer immediately. Upon receipt of any such securities by the Treasurer, the Treasurer shall at the Treasurer's option, place the investment in the Pool, terminate the investment at the current market value and credit the local agency with the proceeds, or place the security in the name of the local agency as a specific investment.

MONEY VOLUNTARILY INVESTED WITH THE COUNTY INVESTMENT POOL

By Code, the County Treasurer shall limit the amounts and set conditions under which money from local agencies, not required to have their funds in the Investment Pool, may deposit and withdraw voluntarily invested funds. Local agencies from outside the County will not be permitted to deposit funds in the County Pool. Funds from local agencies within the County, voluntarily wishing to participate in the Pool, will not be accepted under normal conditions unless the Treasurer is assured that these funds are in lieu of longer-term investments. Such deposits are subject to withdrawal restrictions for a set minimal term as to be agreed to, prior to the funds being accepted into the Pool, and may not be withdrawn at any time without a minimum of thirty days notice of "intent to withdraw."

Under normal conditions, voluntary money withdrawn from the Pool will be disbursed on a dollar for dollar basis, plus appropriate interest, but under adverse market conditions, when the Treasurer deems the withdrawal of voluntary funds would cause undue losses or significantly lower earnings for those local agencies remaining within the Pool, the Treasurer may require one or more of three remedies:

1) restrict the percentage of funds that may be withdrawn in any given month 2) restrict the rate at which the funds may be withdrawn, or 3) require the local agency withdrawing their funds to accept their funds based on the current market value of the overall Pool.

These terms will be agreed to and contracts signed prior to any voluntary money being accepted into the County Investment Pool. Such terms may exceed minimum requirements set forth in the Government Codes.

Specific investments are not normally permitted with voluntary funds, though on a cost recovery basis and under circumstances that dictate such activity, exceptions may be permitted.

POOLING FUNDS AND DISTRIBUTING EARNINGS

Funds available from all sources may be pooled in order to achieve greater investment potential. The earnings from the pooled investments shall be deposited in a dedicated fund. Each month, accrued interest will be distributed to each participant in the Pool proportional to their average daily balance in the pool during the month.

Funds placed in specific investments earn the yield of the investment, not the return earned by the Pool. Earnings on specific investments will be distributed within thirty days of receipt. The Treasury will charge the cost of administration against the earnings of the specific investment.

CALCULATING AND APPORTIONING COSTS

The County Treasurer, following the criteria outlined by the Federal Office of Management and Budget Circular A-87, will determine the "administrative cost" of investing or handling of funds as well as the cost of equipment which expedites processing. This cost shall be deducted prior to interest apportionment and shall be shared proportionately by all pooled and specific investments.

REPORTING

The Treasurer will report to the Board of Supervisors and the Treasury Oversight Commission on a quarterly basis the holdings, status, and earnings of the portfolio. The Statement of Investment Policy will be reviewed by the Treasury Oversight Commission and adopted by the County Board of Supervisors annually. Should circumstances require revision within this Policy during the year, the changes will be presented to the Treasury Oversight Commission, and approval obtained from the Board of Supervisors prior to these alterations being adopted.

The Treasurer reports monthly to the County Board of Supervisors all investment transactions completed in the prior month.

The Auditor reports quarterly to the County Board of Supervisors the results of their regular cash audit of the Treasury.

EXHIBIT A

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE

	INVESTMENT TYPE	MAXIMUM MATURITY	MAXIMUM SPECIFIED % OF PORTFOLIO	MINIMUM QUALITY REQUIREMENTS
A	LOCAL AGENCY BONDS	5 YEARS	NONE	NONE
B	U.S. TREASURY OBLIGATIONS	5 YEARS	NONE	NONE
C	STATE OBLIGATIONS -CA AND OTHERS	5 YEARS	NONE	NONE
D	CA LOCAL AGENCY OBLIGATIONS	5 YEARS	NONE	NONE
E	US AGENCY OBLIGATIONS	5 YEARS	NONE	NONE
F	BANKERS' ACCEPTANCES	180 DAYS	40%	NONE
G	COMMERICAL PAPER ^b	270 DAYS	40%	"A-1" If the issuer has issued long-term debt it must be rated "A" without regard to modifiers
H	NEGOTIABLE CERTIFICATES OF DEPOSIT	5 YEARS	30% ^d	NONE
I	CD PLACEMENT SERVICES	5 YEARS	30% ^d	NONE
J	REPURCHASE AGREEMENTS	1 YEAR	NONE	NONE
K	REVERSE REPURCHASE AGREEMENTS AND SECURITIES LENDING AGREEMENTS	92 DAYS	20% OF THE BASE VALUE OF THE PORTFOLIO	NONE
L	MEDIUM-TERM NOTES ^{a, e}	5 YEARS	30%	"A" Rating
M	MUTUAL FUNDS AND MONEY MARKET MUTUAL FUNDS	N/A	20% ^f	MULTIPLE ^g
N	COLLATERALIZED BANK DEPOSITS	5 YEARS	NONE	NONE
O	MORTGAGE PASS-THROUGH SECURITIES	5 YEARS	20%	"AA" RATING
P	BANK/TIME DEPOSITS	5 YEARS	NONE	NONE
Q	JOINT POWERS AUTHORITY POOL	N/A	NONE	MULTIPLE ^h
R	LOCAL AGENCY INVESTMENT FUND (LAIF)	N/A	NONE	NONE
S	SUPRANATIONALS	5 YEARS	30%	"AA" RATING ⁱ

EXHIBIT A

- a. Sources: Sections 16429.1, 53601, 53601.8, 53635, 53635.2, and 53638.*
- b. No more than 10 percent of the agency's money may be invested in any one issuer's commercial paper.*
- c. Issuing corporation must be organized and operating within the U.S. and have assets in excess of \$500 million.*
- d. No more than 30 percent of the agency's total funds may be invested in CDs authorized under Sections 53601.8, 53635.8, and 53601(i).*
- e. "Medium-term notes" are defined in Section 53601 as "all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the U.S. or by depository institutions licensed by the U.S. or any state and operating within the U.S."*
- f. No more than 10 percent invested in any one money market mutual fund.*
- g. A money market mutual fund must receive the highest ranking by not less than two nationally recognized statistical rating organizations or retain an investment advisor registered with the SEC or exempt from registration and who has not less than five years experience investing in money market instruments with assets under management in excess of \$500 million.*
- h. A joint powers authority pool must retain an investment advisor who is registered with the SEC (or exempt from registration), has assets under management in excess of \$500 million, and has at least five years experience investing in instruments authorized by Section 53601, subdivisions (a) to (o).*
- i. Includes International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank eligible for purchase or sale within the United States*

EXHIBIT B

Temporary Constraints and Restrictions on Investments

A. Bonds issued by the County or County Agencies. The Treasurer may purchase debt issued by the County or its agencies, but any such debt purchased will normally be obtained only directly from the issuing agency and not in the secondary market. Such issues, along with issues from 'C' and 'D' below, shall not exceed 10% of the total portfolio.

B. US Treasury obligations. The Treasurer currently invests in US Treasury obligations. US Treasuries provide the greatest liquidity in the market and should be a preferred investment for their very strong liquidity and high credit quality. There is no limit on the percentage of the portfolio in US Treasuries.

C. State of California Obligations. The Treasurer may invest in state obligations, including notes, bonds, or other instruments of the State of California. Interest bearing state issued warrants as an investment alternative are permissible investments. Such issues, along with issues from 'A' and 'D' below, shall not exceed 10% of the total portfolio.

D. Obligations of another California local agency. The Treasurer does not currently purchase these securities due to tax considerations, but may purchase taxable issues. The total of such issues, along with issues from 'A' and 'C' above, shall not exceed 10% of the overall portfolio. LAIF investments (see 'R' below) shall not be included when calculating this percentage, nor shall investments in joint powers authority pools (see 'Q' below) that resemble money market mutual funds such as CAMP and CALTRUST. Maximum investments in LAIF shall be governed by the maximum permitted by the State. Neither of these limits shall include specific investments or individual local agency's investments of bond proceeds not made through the pool.

E. Obligations of the various Federal Agencies. The Treasurer currently does not invest in any long term pooled securities issued by GNMA, FHLMC, SBA, or any federal agency with a maturity based on average life calculations. Due to the frequent concerns for the safety and liquidity levels of many agency obligations, the Treasurer monitors and may restrict the purchase of any particular agency's securities at any time. No single Government Sponsored Enterprise (GSE) will account for more than 25% of the portfolio at this time. The total of all GSEs may compose 100% of the portfolio. The GSEs referred to above include FHLMC, FNMA, FHLB and FFCB.

F. Bankers Acceptance. The Treasurer currently purchases bankers acceptances from those banks rated "AA" or higher by both Moody's and Standard and Poor's rating agencies. Additionally, the Treasurer monitors, and therefore may possibly eliminate those banks whose marketability and liquidity may be considered suspect due to their pricing within the secondary markets. Foreign banks shall be headquartered in certain Western European countries, Canada, or Japan. For additional potential restrictions see section 'S' below.

EXHIBIT B

G. Commercial Paper. The Treasurer currently does not allow the percent of commercial paper to exceed 25% of the total portfolio. See section 'S' below for additional restrictions on particular commercial paper issues. The Treasurer is currently only purchasing commercial paper with maturities of 90 days or less.

H. Negotiable Certificates of Deposit (NCD). The Treasurer currently purchases those types of NCD permitted by the Government Codes only from banks with a long term rating of "A" and short term rating of A1 / P1 or better from both Moody's and Standard and Poor's rating agencies. Additionally, the Treasurer monitors, and therefore may possibly eliminate those banks whose marketability and liquidity may be considered suspect due to their pricing within the secondary markets. NCD issued by S&Ls, savings banks and credit unions are not currently purchased. The Treasurer currently is not purchasing NCD with maturities greater than one year. Please see sections 'P' and 'S' below for additional restrictions on non-negotiable Certificates of Deposit (CD) purchases.

I. Certificate of Deposit (CD) Placement Services. The Treasurer may invest or participate in CD Placement Services. See section 'P' below for restrictions on time deposits.

J. Repurchase Agreements. Repurchase agreements will only be entered into with Primary Dealers, and all collateral will be delivered to a third party designated by the Treasurer, as per state law. Due bills are not acceptable, nor, except in cases of extreme emergency, are substitutions of collateral on agreements under thirty days. The Treasurer will constantly monitor the market value of all collateral and shall require additional collateral if the market value falls to a level of 100% of the cash value invested, when Treasury Notes and Bonds are the collateral, and at higher levels for other types of collateral. Treasury Notes and Bonds will be collateralized at a minimum of 102% of market at the start of the repo, for short-term repos, and possibly at higher levels for longer-term repos, (percentage determined by market conditions, etc.). Repo agreements with Treasury Bills or other discounted securities as collateral will be priced to market and collateralized at a minimum of 102% of market, (actual percentage to be determined by collateral type, conditions, etc.). Collateral with maturities beyond five years are not acceptable, (except in certain limited cases where unrestricted 'puts' are included with the issue), and all collateral must meet the same requirements as purchased securities. Repurchase Agreements will not be entered into for periods longer than ninety days. Repurchase Agreement contracts will be on file for any dealer with which the County does Repos. See section 'S' below for other potential restrictions on Repo collateral.

K. Reverse Repurchase Agreements. The County Investment Policy does not allow the Treasurer to enter into reverse repurchase agreements.

L. Medium Term Notes. The Treasurer currently purchases medium term notes with a rating of "A" or higher from both Moody's and Standard and Poor's rating agencies. See section "S" below for additional potential restrictions on medium term notes. Medium term notes shall not exceed 30% of the portfolio.

EXHIBIT B

M. Mutual Funds. The Treasurer currently imposes no additional restrictions on mutual fund purchases beyond those in the Codes.

N. Collateralized Bank Deposits. The Treasurer currently imposes no additional restrictions on collateralized bank deposits beyond those in the Codes.

O. Mortgage Pass-Through Securities. The Treasurer does not invest in Mortgage pass-through securities nor in any collateralized mortgage investments.

P. Bank/Time Deposits. The Treasurer will enter into contracts for time deposits (including CDs) of amounts greater than \$250,000 only with those banks that meet the requirements for investment in NCD. Time deposits of less than or equal to \$250,000 (not including accrued interest) will require FDIC insurance. The total of all time deposits shall not exceed 10% of the total portfolio. Mandated deposits or investments specifically invested by pool participant's request are not included in this percentage restriction. See section 'S' below for additional potential restrictions.

Q. Joint Powers Authority (JPA) Pool. The Treasurer does not currently participate or invest in JPA pools. Investments in JPA investment funds shall not exceed 25% of the pool's portfolio.

R. Local Agency Investment Fund (LAIF). The Treasurer does currently invest in LAIF. The current limit is \$65 million as determined by the State.

S. Exposure Limits. Presently the total exposure to any one issuer, when totaling all types of securities shall not exceed 10% of the total portfolio on date of purchase. Exceptions to this limit shall include US Treasury issues, federal agency or government sponsored enterprise issues, and funds in LAIF. Repurchase agreement collateral shall not be excluded from this calculation unless the repurchase agreement is for 5 business days or less. Exposure to the overall credit of individual foreign countries shall be monitored and maintained at prudent levels.

T. Lending Securities. The County Investment Policy does not allow the County Treasurer to lend securities.

U. Futures and Options. The County Investment Policy does not allow the Treasurer to invest in futures or options. The purchase of callable securities is permitted.

V. Maturities over Three Years. Any investment made with a maturity exceeding three years shall require prior written approval of the Treasurer. The Treasurer may provide temporary exemptions for specific employees for a period not to exceed one year such that each individual investment shall not require specific approval.

EXHIBIT B

X. Calculating Limits. State law states that all required percentages included within investment related sections of the Government Codes are only binding on the day the investment is made, and that future changes in the size of the portfolio do not require the Treasurer to readjust the total percentage of each security type within the portfolio to reflect the change in size. Neither is it necessary to sell an investment when changes occur such that the security no longer meets the minimum requirements of the Codes or the Codes are changed such as to no longer include certain current holdings. The Treasurer shall weigh the change in risk and determine whether or not a security should be sold within the portfolio after a change in conditions or the Codes result in a particular security no longer meeting existing or new regulations.

Y. Asset backed securities The Treasurer may purchase asset backed commercial paper with a maturity of less than or equal to 90 days and a short term rating of A1 / P1 / F1. The Treasurer currently does not purchase medium term notes issued by structured investment vehicles.

Z. Supranationals. The Treasurer may purchase United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank eligible for purchase and sale within the United States. The issue shall be rated "AA" or better by an NRSRO and shall not exceed 30 percent of the portfolio.

AA. Bank Restrictions. The Treasurer is restricted from engaging as broker-dealer or purchasing bonds issued by the following banks through June 8, 2020:

- 1) Citigroup
- 2) JP Morgan Chase
- 3) Barclays
- 4) Royal Bank of Scotland
- 5) United Bank of Switzerland (UBS)

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the County of Santa Cruz (the "County") in connection with the issuance of \$45,000,000 County of Santa Cruz, California 2018-2019 Tax and Revenue Anticipation Notes (the "Notes"). The Notes are being issued pursuant to a Resolution adopted by the County on May 22, 2018. The County covenants and agrees as follows:

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

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

"Dissemination Agent" shall mean Harrell & Company Advisors, LLC or any successor Dissemination Agent designated in writing by the County and which has filed with the County a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 3(a) and (b) of this Disclosure Certificate.

"Official Statement" shall mean the final Official Statement dated June 13, 2018, relating to the Notes.

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

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

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

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of California.

SECTION 3. Provision and Content of Quarterly Reports.

(a) The County shall, not later than October 31, 2018, provide to the Repository a Budget Change Summary which contains a summary of the changes to the Proposed Budget.

(b) The County shall, not later than October 31, 2018, January 31, 2019 and April 30, 2019, provide to the Repository a Quarterly Report which contains a quarterly update of the information found in Table No. 12 of the Official Statement for the Notes for the quarter ending September 30, 2018, December 31, 2018 and March 31, 2019, respectively.

(c) Not later than 5 Business Days prior to the date specified in subsection (a) for providing the Quarterly Report to the MSRB, the County shall provide the Quarterly Report to the Dissemination Agent (if other than the County).

(d) If the County is unable to provide to the MSRB a Quarterly Report by the date required in subsection (a), the County shall send a notice to the MSRB.

SECTION 4. Reporting of Significant Events.

(a) Reportable Events. The County shall, or shall cause the Dissemination (if not the County) to, give notice of the occurrence of any of the following events with respect to the Notes:

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 County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Notes, if material:

1. Non-payment related defaults.
2. Modifications to rights of security holders.
3. Note 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 paying agent, or the change of name of a paying agent.

(c) Time to Disclose. The County shall, or shall cause the Dissemination Agent (if not the County) to, file a notice of occurrence of a Listed Event with EMMA, in an electronic format as prescribed

by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Notes under the Resolution.

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

SECTION 6. Dissemination Agent. The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

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

(a) the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the County, or type of business conducted;

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

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

SECTION 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the County chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the County shall have no obligation under this Disclosure Certificate to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the County to comply with any provision of this Disclosure Certificate any owner or beneficial owner of the Notes may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the County to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the County agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

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

Date: July 2, 2018

COUNTY OF SANTA CRUZ, CALIFORNIA

By: _____
Auditor-Controller-Treasurer-Tax Collector

Accepted By:

Harrell & Company Advisors, LLC
As Dissemination Agent

APPENDIX D
FORM OF BOND COUNSEL OPINION

July __, 2018

Board of Supervisors
County of Santa Cruz
701 Ocean Street
Santa Cruz, CA 95060

OPINION: \$45,000,000 County of Santa Cruz, California 2018-2019 Tax and Revenue Anticipation Notes

Members of the Board:

We have acted as bond counsel to the County of Santa Cruz (the "County") in connection with the issuance by the County, of the tax and revenue anticipation notes captioned above, dated July __, 2018 (the "Notes"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we deem necessary to render this opinion.

The Notes are issued pursuant to Article 7.6 (commencing with Section 53850) of Chapter 4, Part 1, Division 2, Title 5 of the California Government Code (the "Act"), and a resolution (the "Resolution") of the Board of Supervisors of the County adopted on May 22, 2018.

Regarding questions of fact material to our opinion, we have relied upon certified proceedings and other certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of the opinion that, under existing law:

1. The County is duly created and validly existing as a political subdivision of the State of California with the power to adopt the Resolution, perform the agreements on its part contained therein, and issue the Notes.
2. The Resolution constitutes a valid and binding obligation of the County, enforceable against the County.
3. Pursuant to the Act, the Resolution creates a first lien on funds pledged by the Resolution for the security of the Notes.

4. The Notes have been duly authorized and executed by the County, and are valid and binding general obligations of the County.

5. The interest on the Notes 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, although, in the case of tax years beginning prior to January 1, 2018, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest earned by a corporation prior to the end of its tax year in 2018 is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the County comply with all requirements of the Internal Revenue Code of 1986, as amended, relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Notes. The County has made certain representations and covenants in order to comply with each such requirement. Inaccuracy of those representations, or failure to comply with certain of those covenants, may cause the inclusion of such interest in gross income for federal income tax purposes, which may be retroactive to the date of issuance of the Notes.

6. The interest on the Notes is exempt from personal income taxation imposed by the State of California.

We express no opinion regarding any other tax consequences arising with respect to the ownership, sale or disposition of, or the amount, accrual or receipt of interest on, the Notes.

The rights of the owners of the Notes and the enforceability of the Notes are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

APPENDIX E

THE BOOK-ENTRY SYSTEM

The following description of The Depository Trust Company (“DTC”), the procedures and record keeping with respect to beneficial ownership interests in the Notes, payment of principal, interest and other payments on the Notes to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Notes and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

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

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

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

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

AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information contained on this Internet site is not incorporated herein by reference.

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

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

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

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

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

8. Redemption proceeds and distributions on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in

“street name,” and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

11. The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.