PRELIMINARY OFFICIAL STATEMENT DATED APRIL __, 2014

NEW ISSUE – FULL BOOK ENTRY

Ratings: Moody's: "___"
Standard & Poor's: "___"
(See "RATINGS" herein.)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the 2014 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2014 Bonds. See "TAX MATTERS."

$210,200,000*
San Mateo County Joint Powers Financing Authority
Lease Revenue Bonds
(Capital Projects)
2014 Series A
(Maple Street Correctional Center)

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

The San Mateo County Joint Powers Financing Authority (the "Authority") is offering $210,200,000* of its Lease Revenue Bonds (Capital Projects), 2014 Series A (the "2014 Bonds"). The 2014 Bonds are being issued by the Authority pursuant to a Trust Agreement, dated as of April 1, 2014 (the "Trust Agreement"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The 2014 Bonds are being issued for the purpose of providing funds, together with other available moneys, to (i) finance the acquisition, construction, installation, implementation, equipping and improvement of the Maple Street Correctional Center (the "2014 Project"), (ii) refund certain notes previously issued by the County of San Mateo (the "County"), the proceeds of which were used to reimburse the County for the purchase price of the site for the 2014 Project, (iii) pay capitalized interest on the 2014 Bonds during the construction period of the 2014 Project, and (iv) make required deposits into the Series 2014 Reserve Account established under the Trust Agreement, and (v) pay costs of issuance of the 2014 Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The 2014 Bonds are issuable as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2014 Bonds, and individual purchases of the 2014 Bonds will be made in book-entry form only. Ownership interests in the 2014 Bonds will be in denominations of $5,000 and integral multiples thereof. Beneficial owners of the 2014 Bonds will not receive physical certificates representing the 2014 Bonds purchased, but will receive a credit balance on the books of the nominees of such purchasers. Interest on the 2014 Bonds is payable on June 15 and December 15 of each year, commencing December 15, 2014. Principal of, premium, if any, and interest on the 2014 Bonds will be paid by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2014 Bonds, as described herein. See APPENDIX B – "BOOK-ENTRY SYSTEM" attached hereto.

The 2014 Bonds are subject to optional, mandatory sinking fund and extraordinary redemption prior to maturity, all as described herein. See "THE 2014 BONDS—Redemption of the 2014 Bonds" herein.

The 2014 Bonds are limited obligations of the Authority payable solely from, and secured solely by, Revenues of the Authority, consisting primarily of Base Rental Payments to be received by the Authority from the County under a Facilities Lease, dated as of April 1, 2014 (the "Facilities Lease"), by and between the Authority and the County, for the right to use and occupy certain real property and facilities (the "Facilities"), as more fully described herein. The County has agreed in the Facilities Lease to make all Base Rental Payments, subject to abatement of such Base Rental Payments in the event of material damage to or destruction of the Facilities or a taking of the Facilities in whole or in part. Pursuant to the Trust Agreement, the 2014 Bonds are secured by a pledge of and charge and lien upon the Revenues equal to the pledge, charge and lien securing any additional bonds issued under the Trust Agreement.

The 2014 Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the Revenues. Neither the full faith and credit of the Authority, the County nor any Member of the Authority is pledged for the payment of the interest on or principal of the 2014 Bonds nor for the payment of Base Rental Payments. Neither the payment of the principal of or interest on the 2014 Bonds nor the obligation to make Base Rental Payments constitutes a debt, liability or obligation of the Authority, the County or any Member of the Authority for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

MATURITIES, PRINCIPAL AMOUNTS,
INTEREST RATES, YIELDS AND CUSIPs
(See Inside Front Cover)

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors must read the entire Official Statement to obtain information essential to making an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The 2014 Bonds are offered when, as and if issued, subject to approval of validity by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, Bond Counsel to the Authority, and subject to certain other conditions. Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, Los Angeles, California. Certain legal matters will be passed upon for the Authority and for the County by County Counsel and by Sidley Austin LLP, San Francisco, California, Disclosure Counsel to the Authority and the County. It is expected that the 2014 Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about April __, 2014.

Citigroup **Raymond James**
Barclays **Siebert Brandford Shank & Co., L.L.C.**

April __, 2014

*Preliminary, subject to change.

$210,200,000*
San Mateo County Joint Powers Financing Authority
Lease Revenue Bonds
(Capital Projects)
2014 Series A
(Maple Street Correctional Center)

MATURITY SCHEDULE
$______________* Serial Bonds

Maturity (June 15)	Principal Amount	Interest Rate	Yield	CUSIP† Number
	$	%	%	79904N___

$_______________ ____% Term Bonds due June 15, 20___ Priced @ ____

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* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standards & Poor's Financial Services LLC on behalf of the American Bankers Association. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the County, the Authority or the Underwriters and are included solely for the convenience of the registered owners of the 2014 Bonds. None of the County, the Authority or the Underwriters is responsible for the selection of uses of these CUSIP numbers, and no representation is made as to their correctness on the 2014 Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the 2014 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the 2014 Bonds.

COUNTY OF SAN MATEO

Board of Supervisors

Dave Pine, First District
Carole Groom, Second District
Don Horsley, Third District
Warren Slocum, Fourth District
Adrienne J. Tissier, Fifth District

County Officials

John L. Maltbie, County Manager
Bob Adler, County Controller
Sandie Arnott, County Treasurer-Tax Collector
Reyna Farrales, Deputy County Manager
John C. Beiers, County Counsel

SAN MATEO COUNTY JOINT POWERS FINANCING AUTHORITY

Governing Board

Paul Scannell, President
James P. Fox, Vice President
John M. Gemello, Secretary
Steve Alms, Member
Thomas F. Casey, Member

SPECIAL SERVICES

Orrick, Herrington & Sutcliffe LLP
San Francisco, California
Bond Counsel

California Financial Services
Santa Rosa, California
Financial Advisor

U.S. Bank National Association
St. Paul, Minnesota
Trustee

No dealer, broker, salesperson or any other person has been authorized by the Authority, the County or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. 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 2014 Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2014 Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the County since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be filed with the Municipal Securities Rulemaking Board.

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

IN CONNECTION WITH THIS OFFERING OF THE 2014 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2014 BONDS AT LEVELS ABOVE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include but are not limited to certain statements contained in the information under the captions "THE COUNTY OF SAN MATEO" and "COUNTY FINANCIAL INFORMATION" in this Official Statement. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The County does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

TABLE OF CONTENTS

OFFICIAL STATEMENT

$210,200,000*

San Mateo County Joint Powers Financing Authority
Lease Revenue Bonds
(Capital Projects)
2014 Series A
(Maple Street Correctional Center)

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information set forth in this Official Statement, including the cover page, the inside cover page and the appendices (the "Official Statement"). The offering of the 2014 Bonds to potential investors is made only by means of the entire Official Statement. Capitalized terms used in this Introduction and not otherwise defined herein shall have the respective meanings assigned to them elsewhere in this Official Statement. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—Certain Definitions" herein.

Purpose

The purpose of this Official Statement, including the cover page and appendices hereto, is to provide certain information concerning the sale and delivery by the San Mateo County Joint Powers Financing Authority (the "Authority") of its $210,200,000* Lease Revenue Bonds (Capital Projects), 2014 Series A (the "2014 Bonds").

The 2014 Bonds are being issued by the Authority for the purpose of providing funds, together with other available moneys, to (i) finance the acquisition, construction, installation, implementation, equipping and improvement of the Maple Street Correctional Center (the "Correctional Facility") in Redwood City, California (the "2014 Project"), (ii) refund the outstanding County of San Mateo, California 2013-2014 Notes (the "Prior Notes") previously issued by the County of San Mateo (the "County"), the proceeds of which were used to reimburse the County for the purchase price of the site for the 2014 Project (the "2014 Project Site"), (iii) pay capitalized interest on the 2014 Bonds during the construction period of the 2014 Project, and (iv) make required deposits into the Series 2014 Reserve Account (as defined herein), and (v) pay costs of issuance of the 2014 Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The County of San Mateo

The County, one of 58 counties in the State of California (referred to herein as the "State" or "California"), was established in 1856. The County is governed by a five-member Board of Supervisors (the "Board") elected to four-year terms. The Board appoints the County Manager to manage the day-to-day affairs of the County. The County occupies 447 square miles and contains 20 cities on a peninsula bounded by San Francisco to the north, Santa Clara County to the south, San Francisco Bay to the east, and the Pacific Ocean on the West. See "THE COUNTY OF SAN MATEO" and "COUNTY FINANCIAL INFORMATION" herein.

Authority for Issuance of the 2014 Bonds

The 2014 Bonds are being issued pursuant to the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State, and a Trust Agreement, dated as of April 1, 2014 (the "Trust Agreement"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The County will enter into the Facilities Lease (as defined herein) pursuant to and in accordance with the Government Code of the State, other applicable laws of the State and resolutions adopted by the County and the Authority prior to the issuance of the 2014 Bonds.

* Preliminary, subject to change.

Following delivery of the 2014 Bonds, only the 2014 Bonds will be outstanding under the Trust Agreement. The 2014 Bonds, together with any additional bonds issued under the Trust Agreement ("Additional Bonds"), are collectively referred to herein as the "Bonds."

Security for the 2014 Bonds

The 2014 Bonds are limited obligations of the Authority payable solely from, and secured solely by, Revenues of the Authority, consisting primarily of Base Rental Payments to be received by the Authority from the County under a Facilities Lease, dated as of April 1, 2014 (the "Facilities Lease"), by and between the Authority and the County. The Base Rental Payments to be made by the County pursuant to the Facilities Lease are payable by the County from its general fund (the "General Fund") to the Authority for the right of the County to use and occupy the Correctional Facility and the 2014 Project Site (collectively, the "Facilities"). The County has agreed in the Facilities Lease to make all Base Rental Payments, subject to abatement of such Base Rental Payments in the event of delayed completion or material damage to or destruction of the Facilities or a taking of the Facilities in whole or in part.

Pursuant to a Site Lease, dated as of April 1, 2014 (the "Site Lease"), between the County and the Authority, the County has leased the Facilities to the Authority. See "SECURITY FOR THE 2014 BONDS" herein.

The 2014 Bonds Constitute Limited Obligations

The 2014 Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the funds pledged pursuant to the Trust Agreement. Neither the full faith and credit of the Authority, the County, the State nor any of its political subdivisions is pledged for the payment of the interest on or principal of the 2014 Bonds nor for the payment of Base Rental Payments. Neither the payment of the principal of or interest on the 2014 Bonds nor the obligation to make Base Rental Payments constitutes a debt, liability or obligation of the Authority, the County, the State or any of its political subdivisions for which any such entity is obligated to levy or pledge any form or taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

Bondowners' Risks

Certain events could affect the County's ability to make the Base Rental Payments when due. See "RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the 2014 Bonds.

Continuing Disclosure

The County has covenanted pursuant to a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") to provide certain financial information and operating data relating to the County by not later than March 30 of each calendar year, commencing with the report for fiscal year 2013-14 (ending June 30, 2014) (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events (the "Listed Events"), not in excess of ten business days after the occurrence of a Listed Event. The Annual Report and the notices of Listed Events will be filed by the County with the Municipal Securities Rulemaking Board (the "MSRB") or any other entity designated or authorized by the Securities and Exchange Commission (the "SEC") to receive such reports. Until otherwise designated by the MSRB or the SEC, filings with the MSRB will be made through the Electronic Municipal Market Access ("EMMA") website of the MSRB, currently located at http://emma.msrb.org. Except as described under "CONTINUING DISCLOSURE," as of the date hereof, the County has never failed to comply in any material respect with any previous undertakings with regard to the provision of Annual Reports or notices of Listed Events as required by Rule 15c2-12(b)(5) adopted by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time (the "Rule"). See "CONTINUING DISCLOSURE" herein and APPENDIX F – "PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT" hereto.

Summaries Not Definitive

Brief descriptions of the 2014 Bonds, the Authority, the County and the Facilities are included in this Official Statement, together with summaries of the Site Lease, the Facilities Lease and the Trust Agreement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 2014 Bonds, the Site Lease, the Facilities Lease and the Trust Agreement are qualified in their entirety by reference to the actual documents, or with respect to the 2014 Bonds, the forms thereof included in the Trust Agreement, copies of all of which are available for inspection at the corporate trust office of the Trustee at 180 E. Fifth Street, St. Paul, Minnesota 55101.

Additional Information

The County regularly prepares a variety of publicly available reports, including audits, budgets and related documents. Any owner of the 2014 Bonds may obtain a copy of any such report, as available, from the Trustee or the County. Additional information regarding this Official Statement may be obtained by contacting the Trustee or:

Ms. Reyna Farrales
Deputy County Manager for Administrative Services
County of San Mateo
Hall of Justice and Records
400 County Center, First Floor
Redwood City, California 94063
(650) 363-4130

PLAN OF FINANCE

General

The 2014 Bonds are being issued by the Authority for the purpose of providing funds, together with other available moneys, to (i) finance the 2014 Project, (ii) refund the Prior Notes, the proceeds of which were used to reimburse the County for the purchase price of 2014 Project Site, (iii) pay capitalized interest on the 2014 Bonds during the construction period of the 2014 Project, and (iv) make required deposits into the Series 2014 Reserve Account, and (v) pay costs of issuance of the 2014 Bonds.

The 2014 Project

A portion of the proceeds of the 2014 Bonds will be used to finance the acquisition, construction, installation, implementation, equipping and improvement of the Correctional Facility. The Correctional Facility will be constructed on the 2014 Project Site, a 4.85 acre parcel of land in Redwood City. Upon completion, the Correctional Facility will consist of a 275,000 square foot three-story housing unit, including 40,000 square feet of unfinished space for future expansion (the "Shell"), an administrative building, and a surface parking lot that will accommodate 185 vehicles. The housing unit is designed to accommodate a total of 576 beds for both men and women, with the option to develop the Shell to house 256 additional inmates in the future. The first floor of the two-story support wing will include inmate processing, a natural light-filled visitor lobby, video visitation, kitchen, laundry and loading docks. The second floor of the two-story support wing will include jail administration, transitional housing, a medical clinic, locker rooms and staff dining with an outdoor dining area. The transitional housing area will include 88 additional beds for inmates participating in programs in preparation for return to the community.

The Correctional Facility has been designed to satisfy State requirements for seismic activity, including the 2010 California Building Code, and all other applicable federal, State and local building codes.

The County acquired the 2014 Project Site in 2010 for approximately $16.7 million. Demolition of existing structures and soil remediation on the 2014 Project Site was completed in March 2013. The County provided interim financing for the acquisition of the 2014 Project Site and reimbursed itself for its expenditures through the issuance of the Prior Notes. The Prior Notes will be refunded with a portion of the proceeds of the 2014 Bonds on or around the date of delivery of the 2014 Bonds. See “COUNTY FINANCIAL INFORMATION—Indebtedness—Short-Term Financing” herein.

The County is responsible for overseeing the design work and approvals and monitoring all construction activities for the 2014 Project. The design development phase of the 2014 Project was completed in February 2013 with 100% construction document completed in March 2014. The County is currently in the process of acquiring all approvals, including environmental approvals, necessary for construction of the 2014 Project.

The County has entered a “construction manager at risk” contract with Sundt/Layton, a joint venture of Sundt Construction, Inc. and Layton Construction for the construction of the 2014 Project. The contract currently identifies a construction completion date of August 2015 at a cost not to exceed $125,996,677. However, the County anticipates that the completion date will be extended to November 2015. Sundt/Layton will maintain a builder’s risk insurance policy that covers up to $125,996,677 for the duration of the 2014 Project.

Construction of the 2014 Project commenced in April 2013 and substantial completion is expected in November 2015. Interest on the 2014 Bonds has been capitalized through May 2016.

The County estimates that total costs for the 2014 Project will be approximately $165 million, of which approximately $50 million has been expended to date. Approximately $139 million of the 2014 Project costs are under contract. The 2014 Project cost estimates includes a contingency of $10 million, of which approximately $1 million has been expended to date.

ANNUAL DEBT SERVICE REQUIREMENTS

The table below shows the annual debt service on the 2014 Bonds. The 2014 Bonds will be the only Outstanding Bonds issued under the Trust Agreement subsequent to the issuance of the 2014 Bonds. Certain other long-term obligations payable from the General Fund have been issued and are currently outstanding under trust agreements other than the Trust Agreement. See "COUNTY FINANCIAL INFORMATION—Indebtedness—Long-Term Obligations" herein.

	2014 Bonds		
Period Ending (June 30)	Principal	Interest	Total Debt Service All Bonds Outstanding†
2015			
2016			
2017			
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			

† Totals may not add due to rounding.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of the proceeds of the 2014 Bonds and other available amounts are as follows:

Sources of Funds	
Principal Amount of 2014 Bonds	$
[Equity Contribution]	
Net Original Issue [Discount/Premium]	
Total Sources	$
Uses of Funds	
Deposit to Project Fund	$
Deposit to Interest Account	
Deposit to Series 2014 Reserve Account	
Refunding of Prior Notes	
Costs of Issuance[1]	
Total Uses	$

(1) Includes legal fees, financing and consulting fees, underwriters' discount, fees of bond and disclosure counsel and underwriters' counsel, financial advisory fees, printing costs, rating agency fees and other miscellaneous expenses.

THE 2014 BONDS

General

The 2014 Bonds will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the 2014 Bonds. Payments of principal, premium, if any, and interest on the 2014 Bonds will be paid by the Trustee to DTC which is obligated in turn to remit such principal, premium, if any, and interest on the 2014 Bonds to its DTC Participants for subsequent disbursement to the Beneficial Owners (as defined herein) of the 2014 Bonds. See "—DTC and the Book-Entry System" below.

The 2014 Bonds will be dated the date of their initial delivery and will bear interest from such date payable on December 15, 2014, and semi-annually thereafter on June 15 and December 15 of each year (each, an "Interest Payment Date"). Interest on the 2014 Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. Ownership interests in the 2014 Bonds will be in denominations of $5,000 or any integral multiple thereof ("Authorized Denominations").

Redemption of the 2014 Bonds

Optional Redemption. The 2014 Bonds maturing on or before June 15, 20__ are not subject to optional redemption prior to their respective stated maturities. The 2014 Bonds maturing on or after June 15, 20__ are subject to optional redemption prior to their respective stated maturities at the written direction of the Authority, from any moneys deposited by the Authority or the County, as a whole or in part (in such maturities as are designated in writing by the Authority to the Trustee) on any date on or after June 15, 20__, at a redemption price equal to 100% of the principal amount of the 2014 Bonds called for redemption plus accrued interest thereon to the Redemption Date, without premium.

Mandatory Redemption. The 2014 Term Bonds maturing on June 15, 20__ are subject to redemption prior to their stated maturity, in part on June 15 of each year, on and after June 15, 20__ by lot, from and in the amount of the Mandatory Sinking Fund payments set forth below at a redemption price equal to the sum of the principal amount thereof, plus accrued interest thereon to the Redemption Date, without premium.

2014 Term Bond due June 15, 20___

Date (June 15)	Mandatory Sinking Fund Payment
	$
†	

† Maturity.

Extraordinary Redemption. The 2014 Bonds are subject to redemption by the Authority on any date prior to their respective stated maturities, upon notice as provided in the Trust Agreement, as a whole or in part by lot within each stated maturity of the 2014 Bonds, in integral multiples of Authorized Denominations, from prepayments made by the County from the net proceeds received by the County due to a taking of the Facilities or portions thereof under the power of eminent domain, or from the net proceeds of insurance received for material damage to or destruction of the Facilities or portions thereof or from the net proceeds of title insurance, under the circumstances described in the Trust Agreement and the Facilities Lease, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest thereon to the Redemption Date. Whenever less than all of the Outstanding 2014 Bonds are to be redeemed on any one date, the Trustee shall select, in accordance with written instructions from the Authority, the 2014 Bonds to be redeemed so that the aggregate annual principal amount of and interest on the 2014 Bonds which will be payable after such Redemption Date will be as nearly proportional as practicable to the aggregate annual principal amount of and interest on the 2014 Bonds Outstanding prior to such Redemption Date.

Selection of 2014 Bonds for Redemption

If less than all of the Outstanding 2014 Bonds maturing by their terms on any one date are to be redeemed at any one time, the Trustee shall select the 2014 Bonds of such maturity to be redeemed by lot and shall promptly notify the Authority in writing of the numbers of the 2014 Bonds so selected for redemption. For purposes of such selection, the 2014 Bonds shall be deemed to be composed of multiples of minimum Authorized Denominations and any such multiple may be separately redeemed.

Notice of Redemption

Notice of redemption of any 2014 Bond will be mailed by the Trustee, not less than 20 nor more than 60 days prior to the redemption date, to the respective owners of the 2014 Bonds designated for redemption at their addresses appearing on the registration books of the Trustee. So long as DTC is acting as the securities depository for the 2014 Bonds, notice of redemption will be mailed to DTC, not to the Beneficial Owners of the 2014 Bonds. Each notice of redemption shall state the date of such notice, the date of issue of the 2014 Bonds, the redemption date, the Redemption Price, the place or places of redemption (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the maturity date or maturities, and, if less than all of any such maturity is to be redeemed, the distinctive certificate numbers of the 2014 Bonds of such maturity, to be redeemed and, in the case of 2014 Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said 2014 Bonds the Redemption Price thereof, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such 2014 Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such redemption.

The Trustee may give a conditional notice of redemption prior to the receipt of all funds or satisfaction of all conditions necessary to effect the redemption, provided that redemption shall not occur unless and until all conditions have been satisfied and the Trustee has on deposit and available or, if applicable, has received, all of the funds necessary to effect the redemption; otherwise, such redemption shall be cancelled by the Trustee and the Trustee shall mail notice of such cancellation to the recipients of the notice of redemption being cancelled.

The Authority may, at its option, on or prior to the date fixed for redemption in any notice of optional redemption, rescind and cancel such notice of redemption by Written Request to the Trustee and the Trustee shall mail notice of such cancellation to the recipients of the notice of redemption being cancelled.

Effect of Redemption

If notice of redemption has been duly given pursuant to the Trust Agreement and money for the payment of the redemption price of the 2014 Bonds called for redemption plus accrued interest to the Redemption Date is held by the Trustee, then on the redemption date designated in such notice the 2014 Bonds so called for redemption shall become due and payable, and from and after the date so designated for redemption, the interest on such 2014 Bonds will cease to accrue. Such 2014 Bonds will cease to be entitled to any benefit or security under the Trust Agreement and the bondholders of such 2014 Bonds will have no rights in respect thereof except to receive payment of the Redemption Price thereof plus accrued interest to the Redemption Date.

DTC and the Book-Entry System

DTC will act as securities depository for the 2014 Bonds. The 2014 Bonds are being issued in fully-registered form and, when issued, will be registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered 2014 Bond certificate will be issued for each maturity of the 2014 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. So long as Cede & Co. is the registered owner of the 2014 Bonds, as nominee of DTC, references herein to the owners of the 2014 Bonds shall mean Cede & Co. and shall not mean the actual purchasers of the 2014 Bonds (the "Beneficial Owners"). The information in this section and in Appendix B concerning DTC and DTC's book-entry system is based solely on information provided by DTC, and no representations can be made by the County, the Authority or the Trustee concerning the accuracy thereof. See APPENDIX B – "BOOK-ENTRY SYSTEM" for a further description of DTC and its book-entry system.

SECURITY FOR THE 2014 BONDS

Pledge Under the Trust Agreement

The Trust Agreement provides that the 2014 Bonds are payable solely from, and are secured by a lien on, all Revenues (as defined below), any other amounts (including proceeds of the sale of the 2014 Bonds) held by the Trustee in any fund or account established under the Trust Agreement (other than amounts on deposit in the Rebate Fund) and any other amounts (excluding Additional Payments) received by the Authority in respect of the Facilities. "Revenues" consist of (i) all Base Rental Payments and other payments paid by the County and received by the Authority pursuant to the Facilities Lease (but not Additional Payments), and (ii) all interest or other income from any investment of any money in any fund or account (other than the Rebate Fund) established pursuant to the Trust Agreement or the Facilities Lease.

The 2014 Bonds are limited obligations of the Authority and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any of its income or receipts, except the funds pledged pursuant to the Trust Agreement. Neither the full faith and credit of the Authority, the County, the State nor any of its political subdivisions is pledged for the payment of the interest on or principal of the 2014 Bonds nor for the payment of Base Rental Payments under the Facilities Lease. Neither the payment of the principal of or interest on the 2014 Bonds nor the obligation to make Base Rental

Payments under the Facilities Lease constitutes a debt, liability or obligation of the Authority, the County, the State or any of its political subdivisions for which any such entity is obligated to levy or pledge any form of taxation or for which any such entity has levied or pledged any form of taxation. The Authority has no taxing power.

Base Rental Payments

Revenues of the Authority pledged under the Trust Agreement to the payment of the 2014 Bonds consist primarily of the Base Rental Payments to be made by the County to the Authority under the Facilities Lease. The obligation of the County to pay Base Rental Payments to the Authority when due is a General Fund obligation of the County. THE COUNTY HAS NOT PLEDGED THE FULL FAITH AND CREDIT OF THE COUNTY, THE STATE OR ANY AGENCY OR DEPARTMENT THEREOF TO THE PAYMENT OF SUCH BASE RENTAL PAYMENTS. For a further description of the Base Rental Payments, see "BASE RENTAL PAYMENTS" herein.

FOR INFORMATION REGARDING THE COUNTY, INCLUDING FINANCIAL INFORMATION, SEE "THE COUNTY OF SAN MATEO" AND "COUNTY FINANCIAL INFORMATION" HEREIN AND APPENDIX A AND APPENDIX C ATTACHED HERETO. SEE ALSO "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING COUNTY REVENUES AND EXPENDITURES" HEREIN.

The County's obligation to pay Base Rental Payments is subject to abatement. However, during periods of abatement, any moneys, to the extent available for such purpose, in any of the funds and accounts established under the Trust Agreement (except the Series 2014 Reserve Account), or proceeds of rental interruption insurance are available to pay Base Rental Payments. See "—Abatement" and "RISK FACTORS—Abatement Risk" herein.

Series 2014 Reserve Account

The Trust Agreement establishes the "Series 2014 Reserve Account," which will be maintained by the Trustee. Funds in the Series 2014 Reserve Account will be available to pay only the principal of and interest on the 2014 Bonds. On the date of delivery of the 2014 Bonds, the County will cause to be deposited into the Series 2014 Reserve Account a portion of the proceeds of the 2014 Bonds, which amount will at least be equal to the Series 2014 Reserve Account Requirement. The "Series 2014 Reserve Account Requirement" means, [as of any date of calculation] (calculated on a Bond Year basis), an amount equal to 50% of the lesser of (i) maximum annual debt service on all Bonds Outstanding; (ii) 125% of average annual debt service on all Bonds Outstanding; or (iii) 10% of the initial principal amount of each Series of the Bonds then Outstanding. On the date of delivery of the 2014 Bonds, the Series 2014 Reserve Requirement will be $____________.

The Authority may satisfy all or a portion of the Series 2014 Reserve Account Requirement at any time with the deposit with the Trustee for the credit of the Series 2014 Reserve Account of a surety bond, an insurance policy or letter of credit, or any combination thereof if the provider of such surety bond, insurance policy or letter of credit shall be rated by at least one Rating Agency at the time of such deposit in at least one rating in one of the two highest rating categories.

All money in the Series 2014 Reserve Account will be used and withdrawn by the Trustee for the purpose of replenishing the Interest Account or the Principal Account, in that order, in the event of any deficiency at any time in either of such accounts, except that so long as the Authority is not in default under the Trust Agreement, any cash amounts in the Series 2014 Reserve Account in excess of the Series 2014 Reserve Account Requirement will be withdrawn from the Series 2014 Reserve Account and deposited in the Project Fund, prior to completion of the 2014 Project, and thereafter to the Revenue Fund on or before each Interest Payment Date.

See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—TRUST AGREEMENT—Series 2014 Reserve Account" hereto.

Substitution of Facilities

Pursuant to the Facilities Lease, the County and the Authority may substitute real property as part of the Facilities being leased for purposes of the Site Lease and the Facilities Lease ("Substitute Property"), but only after the County shall have filed with the Authority and the Trustee, all of the following:

(a) Executed copies of the Facilities Lease or amendments thereto containing the amended description of the Facilities to reflect the Substitute Property;

(b) A Certificate of the County with copies of the Facilities Lease or the Site Lease, if needed, or amendments thereto containing the amended description of the Facilities to reflect the Substitute Property stating that such documents have been duly recorded in the official records of the County Recorder;

(c) A Certificate of the County, stating that the County intends to use and maintain the Substitute Property for at least the remaining term of the Bonds, and that the annual fair rental value of the Substitute Property will be at least equal 100% of the maximum amount of Base Rental Payments becoming due in the then current year or in any subsequent year during the term of the Bonds;

(d) A Certificate of the County stating that, based upon review of such instruments, certificates or any other matters described in such Certificate of the County, the County has good merchantable title to the Substitute Property. The term "Good Merchantable Title" shall mean such title as is satisfactory and sufficient for the needs and operations of the County;

(e) A Certificate of the County stating that such substitution does not adversely affect the County's use and occupancy of the Facilities; and

(f) An Opinion of Counsel stating that such substitution (i) complies with the terms of the Constitution and laws of the State and of the Trust Agreement; and (ii) will not, in and of itself, cause the interest on the 2014 Bonds to be included in gross income for federal income tax purposes.

See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—FACILITIES LEASE—Substitution" hereto.

Change to 2014 Project

Pursuant to the Facilities Lease, the County may alter the 2014 Project or issue change orders altering the construction contract plans and specifications during the course of construction, if such changes do not materially reduce or diminish the capacity, adaptability or usefulness of the 2014 Project, and the Authority agrees to cooperate fully with the County to cause such change orders to be implemented. Before the County issues any such change orders which, together with all other change orders, would increase the aggregate cost of construction of the 2014 Project above the moneys available or to be available for such purpose in the Project Fund, or delay completion of the 2014 Project beyond _____ 20__, the County must arrange with the Authority to pay the increased cost resulting from such change orders, or to pay the Base Rental Payments to become due and payable after _______, until such time as the 2014 Project is scheduled to be completed, and, shall deposit funds sufficient to pay such increased cost or such Base Rental Payments, as the case may be, with the Trustee.

Additional Bonds

Pursuant to the Trust Agreement, the Authority and the Trustee may, by a supplemental trust agreement, provide for the issuance of Additional Bonds, including additional series to complete the build-out of the Shell, subject to satisfaction of certain provisions contained in the Trust Agreement. Additional Bonds will be payable from the Revenues as provided in the Trust Agreement and secured by a pledge of and charge and lien upon the Revenues equal to the pledge, charge and lien securing the outstanding Bonds theretofore issued under the Trust Agreement, subject to the terms and conditions of the Trust Agreement. See APPENDIX D – "SUMMARY OF

CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE TRUST AGREEMENT—Additional Bonds" herein. See also "PLAN OF FINANCE," "COUNTY FINANCIAL INFORMATION—County Debt Limit" and "—Indebtedness—Anticipated Financings" herein.

Investment of Bond Funds

Pursuant to the Trust Agreement, all money held by the Trustee in any of the funds or accounts established pursuant to the Trust Agreement are required to be invested only in "Permitted Investments" as defined in the Trust Agreement. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—CERTAIN DEFINITIONS" herein.

BASE RENTAL PAYMENTS

General

Pursuant to the Facilities Lease, as rent for the use and occupancy the Facilities, the County covenants to pay Base Rental Payments and also to pay Additional Payments in amounts required by the Authority for the payment of all costs and expenses incurred by the Authority in connection with the Facilities as described in the Facilities Lease, including without limitation, the fees, costs and expenses and all administrative costs of the Authority related to the Facilities and the fees of auditors, accountants, attorneys or architects. The Facilities Lease provides for the County to pay all Base Rental Payments directly to the Trustee for application as provided in the Trust Agreement. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—FACILITIES LEASE—Rental Payments" hereto.

County General Fund Obligation

The obligation of the County to pay Base Rental Payments and Additional Payments when due is a General Fund obligation of the County. THE COUNTY HAS NOT PLEDGED THE FULL FAITH AND CREDIT OF THE COUNTY, THE STATE OR ANY AGENCY OR DEPARTMENT THEREOF TO THE PAYMENT OF SUCH BASE RENTAL PAYMENTS.

Notwithstanding any dispute between the County and the Authority, the County must make all Base Rental Payments and Additional Payments when due without deduction or offset of any kind and cannot withhold any such payments pending final resolution of such dispute. The Facilities Lease is a "net-net-net lease" and the County agrees that the rents provided for therein will be an absolute net return to the Authority free and clear of any expenses, charges or set-offs whatsoever. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—FACILITIES LEASE—Payments to be Unconditional" hereto.

Covenant to Budget and Appropriate

Pursuant to the Facilities Lease, the County covenants to take such action as may be necessary to include Base Rental Payments and Additional Payments due in its annual budgets and to make the necessary annual appropriations for all such payments. Such covenants are deemed to be duties imposed by law, and it is the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform such covenants. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—FACILITIES LEASE—Appropriations Covenant" hereto.

Insurance

The Facilities will be insured to the extent set forth in the Facilities Lease. The Facilities Lease requires the County to maintain or cause to be maintained insurance throughout the term of the Facilities Lease (but during the period of construction of the Facilities, only if such insurance is not provided by a Contractor under a construction contract) through the California State Association of Counties ("CSAC"), a Statewide joint powers authority risk sharing pool, or otherwise from a reputable carrier. Such insurance will, as nearly as practicable, cover loss or damage to any structures constituting any part of the Facilities by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance. The extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the greater of (a) the replacement cost (without deduction for depreciation) of all structures constituting any part of the Facilities, excluding the cost of excavations, of grading and filling, and of the land, or (b) the aggregate principal amount of the Base Rental Payments outstanding (except that such insurance may be subject to deductible clauses for any one loss of not to exceed $250,000 or comparable amount adjusted for inflation), or, in the alternative, shall be in an amount and in a form sufficient (together with moneys held under the Trust Agreement), in the event of total or partial loss, to enable all Bonds then outstanding to be redeemed. Pursuant to the Facilities Lease, the County may self-insure for such risks. The proceeds of all property insurance must be used to repair, reconstruct or replace the Facilities or any portion thereof which is destroyed or damaged or to redeem Bonds. The County self-insures its real property with respect to most hazards; the County maintains excess insurance coverage for claims over $100,000 and up to a maximum replacement value of $500 million. See "COUNTY FINANCIAL INFORMATION—Self-Insurance Programs" herein. The County currently insures all of its buildings against earthquake and flood damage through a $25 million per occurrence and in the aggregate property insurance policy, which is subject to a deductible equal to 5% of the value of each building affected, or a minimum of $250,000, whichever is greater. **The County makes no pledge to maintain such insurance and may discontinue earthquake coverage at its sole discretion.** See "RISK FACTORS—Risk of Uninsured Loss" and "—Risk of Earthquake" herein. See also APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—FACILITIES LEASE—Fire and Extended Coverage Insurance" hereto.

The Facilities Lease also requires the County to maintain or cause to be maintained (but during the period of construction of the 2014 Project only if such insurance is not provided by a Contractor under a construction contract) rental interruption or use and occupancy insurance to cover loss, total or partial, of the rental income from or loss of the use of the Facilities as a result of any of the hazards covered by the extended insurance coverage described in the previous paragraph, in an amount at least equal to the maximum Base Rental Payments coming due and payable during any two consecutive Fiscal Years during the remaining term of the Facilities Lease, such policy to be obtained through CSAC or otherwise from a reputable carrier. The County may not self-insure for rental interruption insurance. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE FACILITIES LEASE— Rental Interruption or Use and Occupancy Insurance" hereto.

Abatement

Base Rental Payments are paid by the County in each rental payment period for and in consideration of the right of use and occupancy of the Facilities during each such period for which said rental is to be paid.

The Base Rental Payments and Additional Payments will be abated proportionately during any period in which by reason of any damage or destruction or defect in title (other than by condemnation which is otherwise provided for in the Facilities Lease) there is substantial interference with the use and occupancy of the Facilities by the County, in the proportion in which the cost of that portion of the Facilities rendered unusable bears to the cost of the whole Facilities. Such abatement will continue for the period commencing with such damage or destruction or defect in title and ending with the substantial completion of the work of repair or reconstruction or resolution of the defect in title. In the event of any such damage, destruction or defect, the Facilities Lease continues in full force and effect and the County waives any right to terminate the Facilities Lease by virtue of any such damage, destruction or defect. In the event the Facilities cannot be repaired during the period of time that proceeds of the County's rental interruption insurance will be available in lieu of Base Rental Payments (a period of two years) plus the period for which funds are available from the Series 2014 Reserve Account, or in the event that casualty insurance proceeds are insufficient to provide for complete repair of the Facilities, there could be insufficient funds to cover payments to Bondowners in full. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE FACILITIES LEASE—Fire and Extended Coverage Insurance" and "—Rental Interruption or Use and Occupancy Insurance."

Default and Remedies

Events of Default under the Facilities Lease include the following: (i) the failure of the County to pay any rental payable under the Facilities Lease when the same becomes due and payable, (ii) the failure of the County to keep, observe or perform any term, covenant or condition of the Facilities Lease to be kept or performed by the County after notice and the elapse of a 60-day grace period, (iii) the County's interest in the Facilities Lease or any part thereof be assigned or transferred, either voluntarily or by operation of law or otherwise, without the written consent of the Authority, as provided for in the Facilities Lease, (iv) the County or any assignee shall file any petition or institute any proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby the County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of the County's debts or obligations, or offers to the County's creditors to effect a composition or extension of time to pay the County's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of the County's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character be filed or be instituted or taken against the County, or if a receiver of the business or of the property or assets of the County shall be appointed by any court, except a receiver appointed at the instance or request of the Authority, or if the County shall make a general or any assignment for the benefit of the County's creditors, or (v) the County shall abandon or vacate the Facilities.

Upon the occurrence of any Event of Default described above, the County will be deemed to be in default under the Facilities Lease and the Authority and the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Facilities Lease. Upon any such default, the Authority, in addition to all other rights and remedies it may have at law, shall have the option to do any of the following:

(a) To terminate the Facilities Lease in the manner in the Facilities Lease provided, notwithstanding any re-entry or re-letting of the Facilities as described by paragraph (b) below, and to re-enter the Facilities and remove all persons in possession thereof and all personal property whatsoever situated upon the Facilities and place such personal property in storage in any warehouse or other suitable place located within the County.

(b) Without terminating the Facilities Lease, (i) to collect each installment of rent as it becomes due and enforce any other terms or provision of the Facilities Lease to be kept or performed by the County, regardless of whether or not the County has abandoned the Facilities, or (ii) to exercise any and all rights of entry and re-entry upon the Facilities.

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

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

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

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

If an Event of Default occurs under the Facilities Lease, there is no remedy of the acceleration of the total Base Rental Payments due over the term of the Facilities Lease, and the Trustee is not empowered to sell a fee simple interest in the Facilities and use the proceeds of such sale to redeem the 2014 Bonds or pay debt service thereon. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE FACILITIES LEASE—Defaults and Remedies" hereto.

FOR A FURTHER DESCRIPTION OF THE PROVISIONS OF THE FACILITIES LEASE, INCLUDING THE TERMS THEREOF AND A DESCRIPTION OF CERTAIN COVENANTS THEREIN, INCLUDING CONSTRUCTION, MAINTENANCE, UTILITIES, TAXES, ASSESSMENTS, INSURANCE AND EVENTS OF DEFAULT AND AVAILABLE REMEDIES, SEE "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE FACILITIES LEASE" IN APPENDIX D ATTACHED HERETO.

THE COUNTY OF SAN MATEO

General

The County was established on April 19, 1856. Located on the San Francisco Peninsula, coastal mountains run north and south through the County, dividing the lightly-populated western part from the heavily-populated eastern corridor between San Francisco to the north and Santa Clara County to the south. The County covers 447 square miles and contains 20 incorporated cities and the San Francisco International Airport. In terms of population, it is the 14^{th} largest county in the State, with 718,451 persons according to the 2010 U.S. Census and 742,719 persons according to the California Department of Finance preliminary population estimates as of July 1, 2013. The county seat is located in Redwood City.

As of January 1, 2013, approximately 63,603 people lived in the unincorporated area of the County. The Board and County departments provide municipal services for the unincorporated area of the County including, but not limited to, law enforcement, fire prevention, land use and zoning, building permits and local road building and maintenance.

Police services are also provided by the County on a contract basis for the cities and towns of Half Moon Bay, Woodside, Portola Valley, San Carlos and Eichler Highlands, each of which are within the County's boundaries. The County also provides investigation services to the City of East Palo Alto and operates a crime suppression unit there.

County Government

The County employs a charter type of government and is governed by the Board who serve four-year terms on a full time basis. Each member of the Board (a "Supervisor") must reside in one of five geographical districts in the County. The Supervisors are elected by the eligible voters of their district. The Board appoints the County Manager to administer County affairs. The County Manager appoints all non-elected department heads with the exception of the Chief Probation Officer. The Board appoints the County Counsel. Elected officials include the Assessor-County Clerk-Recorder, the County Controller, the County Coroner, the County District Attorney, the County Sheriff and the County Treasurer-Tax Collector.

Brief biographies of the Supervisors (in alphabetical order), the County Manager, the County Treasurer-Tax Collector and the County Controller follow:

Carole Groom was elected to the Board in June 2010 and served one year as President of the Board in 2011. She currently serves as Supervisor for District 2. Prior to Supervisor Groom's appointment in 2009, she served nine years on the San Mateo City Council, including two terms as Mayor, and on the San Mateo Planning and Public Works Commissions. Supervisor Groom's legislative priorities include improved access to healthcare for all, environmental protection, maintaining and preserving our County's parks, and growing our local economy. She currently serves on the Bay Area Air Quality Management District Board of Directors, the San Mateo County Transportation Authority, and the San Mateo County Transit District's Board. In 2009, she originated "Streets Alive! Parks Alive!" in the County. In 2012, the San Mateo County Parks & Recreation Association honored her efforts with their "Champion of the Community" award. In December of 2012, she was appointed to the California Coastal Commission by Assembly Speaker John Perez. Her professional experience includes 18 years as a Vice President of Mills-Peninsula Health Services. She also serves on the Boards of Directors of the San Mateo Police Activities League, Community Gatepath, and Leadership San Mateo. She is an Advisory Board Member of Palcare, a non-profit school and childcare center. Supervisor Groom resides in the city of San Mateo.

Don Horsley was elected to the Board in 2010 and assumed office in January 2011. He served one year as President of the Board in 2013. He currently serves as Supervisor for District 3. A former San Mateo County Sheriff, Supervisor Horsley also served as an elected member of the Sequoia Healthcare District prior to being elected to the Board of Supervisors. Supervisor Horsley also serves on the boards of Health Plan of San Mateo, the City/County Association of Governments, the San Mateo County Transportation Authority, the Housing Our People Effectively ("HOPE") Interagency Council, and the Local Agency Formation Commission. Supervisor Horsley has made agricultural issues on the coast and within the unincorporated area one of his priorities as a supervisor. Since approximately 70% of all Building and Planning issues for San Mateo County take place within the Third District's unincorporated areas, Supervisor Horsley is particularly committed to facilitating interaction between the public and the permitting process. He has also made it a goal to initiate health care options for people living in the Pescadero area of the South County. Supervisor Horsley lives in Emerald Lake Hills with his wife Elaine and their son.

Dave Pine was elected to the Board in a special election in May 2011. He currently serves as President of the Board and represents District 1. Supervisor Pine serves on numerous county and regional boards and commissions including: the SF Bay Conservation and Development Commission; the SF Bay Restoration Authority; the Association of Bay Area Governments; the San Mateo County First Five Commission; and the Health Plan of San Mateo. Supervisor Pine previously was a school board member for the Burlingame School District from 2003 to 2007 and the San Mateo Union High School District from 2007 to 2011. He is a past president of the San Mateo County School Boards Association, and also was an education policy advisor to Steve Westly during his 2006 California gubernatorial campaign. Supervisor Pine has been active in a wide variety of civic and nonprofit organizations including: The Committee for Green Foothills; Community GatePath; the San Mateo County Transportation Authority Citizens Advisory Committee; and the San Mateo County Blue Ribbon Autism Task Force. Before focusing his career on public service, Supervisor Pine worked as an attorney representing start-up and high-growth technology companies. After working in private practice with Fenwick & West, he served as Vice President and General Counsel for Radius, Excite@Home and Handspring. Originally from New Hampshire, Supervisor Pine is a graduate of Dartmouth College and the University of Michigan Law School. He lives in Burlingame with his wife Jane and their two sons.

Warren Slocum was elected to the Board in November 2012 to represent District 4 and assumed office in January 2013. Prior to his election to the Board, Supervisor Slocum served as the Chief Elections Officer & Assessor-County Clerk-Recorder of San Mateo County for more than 25 years. He also served as the interim CEO of Peninsula TV for a year and a half, in between these elective posts. As a member of the Board, Supervisor Slocum sits on a number of boards and commissions, including the Association of Bay Area Governments, the Domestic Violence Council, HOPE Interagency Council, Redwood City 2020, the Workforce Investment Board, the Juvenile Justice & Delinquency Prevention Commission, and the AIDS Program Community Advisory Board. He is currently co-chairing the Measure A Funding Committee, which allocates the recently approved 10-year half-cent sales tax measure for the County of San Mateo. He is a Vietnam veteran and holds a degree in History from San Diego State University. Supervisor Slocum, his wife and their two sons live in Redwood City.

Adrienne J. Tissier is currently serving her third term as the District 5 representative on the Board. Supervisor Tissier was first elected to the Board in November 2004 and was reelected in 2008 and in 2012. In her first two terms, she was elected twice as President of the Board of Supervisors. Supervisor Tissier represents the Board of Supervisors on the Metropolitan Transportation Commission, the transportation planning, coordinating and financing agency for the nine-county San Francisco Bay Area, serves on the Board of Directors for the San Mateo County Transit District, and the Peninsula Corridor Joint Powers Board (Caltrain). She is also the Chair of the San Mateo Medical Center Board of Directors, the Board of Supervisors liaison to the Commission on Aging, the Children's Fund and Jobs for Youth, and represents the Board on the Local Agency Formation Commission. Her extensive work in transportation and the senior community have been instrumental in assisting the County to prepare to meet the needs of a rapidly aging population by improving transportation and mobility options for seniors. Before her election to the Board, Supervisor Tissier was a businesswoman for more than 20 years and served as a councilmember in Daly City for eight years (1997-2004), including two terms as mayor (1999 and 2003). Supervisor Tissier holds an economics degree from the University of California, Berkeley, and lives in Daly City.

John L. Maltbie rejoined the County as County Manager in December 2011 after initially serving as the County Manager from March 1989 through December 2008. While serving the County, Mr. Maltbie has implemented fiscal programs such as performance-based budgeting, strategic planning, comprehensive financial evaluation, and capital planning and budgeting. Under his leadership, the County was the first county in the State to develop school-based children and family services, a Medi-Cal managed care system for medical and mental health patients, and a work-first model for welfare reform. As a strong proponent of collaborative relationships with other local governments and community organizations, he continued the County's long history of this mutually beneficial partnership with the formation of the City/County Association of Governments, Peninsula Partnership for Children, Youth and Families, San Mateo County Telecommunications Authority, and the Library Joint Powers Authority. He worked closely with the cities in developing a nationally recognized model for countywide emergency medical services. Mr. Maltbie's service in Public Administration began in 1972. After fulfilling his duties in the United States Army as First Lieutenant, he began his career in Santa Clara County, California as an Administrative Analyst where his work assignments involved fiscal administration and employee relations. Mr. Maltbie has also served as the City Manager for Milpitas, California and Glendale, Arizona, as well as Assistant County Executive for Santa Clara County. Mr. Maltbie has served as a member of the Speaker's Commission on State/Local Government Finance, the Joint Venture Silicon Valley Vision 2010 Team, and ICMA (International Cities/Counties Management Association) Performance Measurement Task Force and is the Chair of the ICMA, Performance Measurement-Youth Services Task Force. Mr. Maltbie holds a Masters of Arts Degree and a Bachelor of Arts Degree in Political Science with emphasis in Public Administration from San Jose State University.

Sandie Arnott was elected to the position of County Treasurer Tax Collector in November 2010. She was initially employed by the office in 1989 and promoted to County Deputy Treasurer Tax Collector in 2002. Since her election, Ms. Arnott's priorities have been focused on improving payment processes, making them more efficient and green. She opened remote tax collection locations in South San Francisco and Half Moon Bay. Live chat website assistance and online property auctions were introduced in 2011. Centralized cashiering services to provide taxpayers with one stop shopping capability for all county departments and e billing are set to go live in fiscal year 2014-15. She is also currently researching property tax systems anticipating replacement of the current system by fiscal year 2016-17. Ms. Arnott continues to pursue legislation to reinstate the Senior Citizens and Disabled Tax Postponement Program, and to include residential property in the Property Assessed Clean Energy program for the County. Ms. Arnott currently serves as Chair of the San Mateo County Employees' Retirement Association Board. She is the Bay Area Director for the California Association of County Treasurers & Tax Collectors ("CACTTC") and also Executive Board Secretary. She serves on the CACTTC Legislation, School Finance and Education Committees. She is a Director on the Broadmoor Property Owner's Association Board and served as President of Women in County Government in 1997-98.

Bob Adler assumed the office of County Controller in April 2012. Prior to his appointment as Controller, he was the Assistant Controller for the County for 12 years. Controller Adler has been a CPA since 1984 and has specialized in governmental accounting and auditing since 1990. He has been with the County of San Mateo since 1995, beginning as the manager of the Internal Audit Division. Under his leadership, the County issued its first Comprehensive Annual Financial Report ("CAFR") in 1999. The County's CAFR has received the Government Finance Officers Association's ("GFOA") Award for Excellence each year since. Controller Adler led the effort for the County's early implementation of Governmental Accounting Standards Board Statement No. 34, which introduced full accrual accounting into governmental financial statements, thereby providing improved comparison of governmental activity to private industry. San Mateo County was the first California county to implement Governmental Accounting Standards Board ("GASB") Statement No. 34 and was the second county in the United States to do so. Controller Adler has taught intermediate and advanced accounting courses, CPA examination review courses and automated accounting information systems courses. He has been an expert panelist at the GFOA's annual conference and has spoken on internal controls relative to financial accounting systems. He has a degree from the University of California, Berkeley, and a Master's of Science in Accounting from Golden Gate University, San Francisco. After obtaining his CPA, he worked for Ernst & Whinney for seven years. Controller Adler serves on the Board of Directors of the San Mateo Credit Union, a financial institution with over 75,000 members.

County Services

Many of the County's functions are required under County ordinances or by State or federal mandate. State and federally mandated programs, primarily in the social and health services areas, are directed to be maintained at certain minimum levels, which may, under some conditions, limit the County's ability to control its budget. However, under designated State and federal programs, eligible costs are subject to reimbursement according to specific guidelines.

Health-Related Services. Under State law, the County is required to administer State and federal health programs, and to provide for a portion of their costs with local revenues, such as sales and property taxes. These services are provided under the County's health system (the "Health System"), which includes the Health Department and the San Mateo Medical Center (the "Medical Center"). The County is also responsible for all medical care of the indigent pursuant to State law. The County provides services to all County residents regardless of their ability to pay.

The County's Health Department provides a variety of health services including emergency medical services, aging and adult services, environmental health services, food and nutrition services, mental health services, alcohol and other drug treatment services, public health services and correctional health services.

The General Fund cost of all Health Department services and programs (net of State and federal reimbursements and other revenue), not including the General Fund contribution to the Medical Center, is budgeted at $55.8 million in the County's adopted budget for fiscal year 2013-14 (the "2013-14 County Budget"). This represents an increase of approximately $2.4 million from the prior fiscal year. The Board approved $269.8 million for fiscal year 2013-14 in total requirements (expenditures and department reserves) for all Health Department services and programs in the 2013-14 County Budget, or approximately 18.4% of the General Fund budget. The cost of all Health Department programs is funded with approximately 35.1% from State funds (including Realignment revenues (described below)), approximately 7.4% from federal funds, approximately 21.8% from charges for services, and approximately 22.2% from County funds, with the remaining 13.5% being funded primarily by aid from local agencies, miscellaneous revenues and existing fund balances.

The Medical Center consists of a 509-bed acute and long-term care hospital and nine clinics. The hospital provides a full array of emergency, in-patient, psychiatric, imaging, laboratory, specialty health, skilled nursing, and surgical services. The clinics provide community-oriented primary and specialty care across the County and provided approximately 236,000 ambulatory visits to County residents in fiscal year 2012-13. In fiscal year 2012-13, the Medical Center received a $77.6 million contribution from the General Fund. The contribution from the General Fund for fiscal year 2013-14 is budgeted at $59.3 million. The decrease is primarily due to one-time funds received in fiscal year 2012-13, totaling $17.8 million for the transition of the County's 275-bed long-term care facility to a private provider and related transition costs, which includes early retirement and separation pay for displaced workers. The cost of all Medical Center services and programs is being funded approximately 32.3% from State and federal funds (including Realignment revenues (described below)), approximately 36.6% from net patient revenue, approximately 23.2% from County funds, with the remaining 7.9% being funded by the sales of pharmaceuticals and medical supplies, aid from local agencies and miscellaneous revenues. See "COUNTY FINANCIAL INFORMATION—State Reimbursement Payments" herein for a description of the financing of the County Health Center. See also APPENDIX C – "AUDITED COMBINED FINANCIAL STATEMENTS OF THE COUNTY FOR FISCAL YEAR 2012-2013."

Health Care Reform. Medi-Cal, the State's Medicaid health care program, currently serves more than one out of every five Californians and implementation of the federal Affordable Care Act ("ACA") is expected to significantly expand this coverage in the County and throughout the State. Beginning in January 2014, the State exercised its option to expand Medi-Cal to include adults and adults and parent/caretaker relatives with incomes up to 138% of the federal poverty level. Under the ACA, the federal government will pay the full cost for newly eligible individuals served under the optional expansion, phasing down to 90% of the cost by 2020. Under the ACA, county costs and responsibilities for indigent health care are expected to decrease as uninsured individuals obtain health care coverage and the State, in turn, will bear increased responsibility for providing care to these newly eligible individuals. The 2013-14 State Budget sets forth two mechanisms for determining county "savings." Each county may determine which of the two formulas to use in its calculation of savings. Once determined, such savings will be redirected from the county to the State.

[The County has been proactive and collaborative in regards to its efforts aimed at maximizing enrollment of County residents in Medi-Cal and other ACA coverage. The Health System implemented a "Bridge to Reform" health coverage program that enabled 10,200 residents to be eligible for Medi-Cal coverage effective January 1, 2014. The County Human Services Agency, the Health System and a network of community-based organizations also completed training and certification to assist residents in enrolling in ACA health coverage, resulting in the enrollment of more than 5,000 residents between October 1, 2013 and January 31, 2014. The County has also worked with a broad range of partners to lead or participate in health coverage enrollment events within the County beginning in October 2013 and continuing through March 2014, and to encourage residents to enroll by the March 31, 2014 deadline for obtaining health insurance through Covered California, the State health insurance marketplace. As of March 1, the County estimates that more than 23,600 County residents have enrolled in coverage made available through the ACA. There are currently 19,000 adults and 3,600 children who remain enrolled in a locally supported health coverage program because they do not currently qualify for coverage through the ACA. Enrollment in these programs could grow after the Covered California open enrollment ends on March 31, 2014.] **[County to confirm]**

The State and counties have been negotiating a cost-sharing arrangement under which the County would return 1991 health realignment funds if the County had savings due to the ACA. For fiscal year 2013-14, the County anticipates returning $4.0 million subject to subsequent reconciliation within two years. For fiscal years 2014-15, this amount increases to $11.8 million. It is also expected that other funding for public hospitals, such as the disproportionate share hospital program, will be declining. As insurance coverage will become more available to County residents, it will be imperative that those eligible actually sign up and also continue to seek services at the Medical Center. There will also continue to be a population that the Medical Center must continue to serve who will continue to not have access to coverage. The County currently expects the ACA to have a financially neutral impact on the Health System for the first few years after the state's optional expansion. However, given the uncertainties regarding the implementation of the ACA, the County is currently not able to forecast with particularity the financial impact of the ACA beyond fiscal year 2014-15. See "STATE OF CALIFORNIA BUDGET AND RELATED INFORMATION" herein.

As stated above, the Health System will continue to remain responsible for providing healthcare for those who cannot or do not enroll in the expanded coverage. The Health System is focused on the following key priorities to maximize the success of the ACA's local reach:

- *Transitioning as many people as possible to new coverage.* The Health System has enrolled 10,200 residents in a program that allowed them to transition to Medi-Cal on January 1, 2014.

- *Earning federal incentive payments for quality and access improvements.* The federal government has recognized the importance of public health care systems like the Medical Center to provide care for the expanded Medi-Cal population. Accordingly, the federal government is offering public hospitals financial incentives for meeting increasingly stringent quality and access goals. The Health System earned the maximum incentive payments for 2010 and 2011 and earned 98% of the maximum incentive payments for 2012.

- *Increasing quality while lowering costs.* The Health System is implementing electronic health records in the Medical Center and in its related operations, and is adopting other measures to help remove bottlenecks and improve quality while reducing costs.

- *Advocating for streamlined eligibility and enrollment processes.* The County advocates on Statewide workgroups and with policymakers to make the enrollment process for health insurance as streamlined and consumer-friendly as possible. Locally, the Health System partners with the State and Human Services Agency ("HSA") to address enrollment barriers. HSA's redesign efforts to improve the accessibility of public benefits programs will be critical in enrolling additional people into Medi-Cal.

Justice Services. The County criminal justice system is supported primarily by local County revenues and State funding. State legislation adopted in 1997 transferred responsibility from the counties to the State for local trial court operations. The County is responsible for maintenance of effort ("MOE") requirements for court-related fines and forfeitures and court operations, including County facility payments for court facilities transferred to the State in fiscal year 2008-09 in compliance with the Trial Court Facilities Act of 2002 (the "Trial Court Act"). The County's MOE obligations in fiscal year 2013-14 total $16.2 million. Under the Trial Court Act, the State has assumed responsibility of providing court facilities for all judicial officers, support positions and court operations. This includes those judicial positions created prior to July 1, 1996.

The County Sheriff's Department provides Countywide law enforcement services to local police departments on request, including training of police officers employed by cities, narcotics and vice enforcement, investigation of arson, homicide and consumer fraud, and assistance through the crime laboratory in locating and analyzing evidence from crime scenes. The County Sheriff is also responsible for the incarceration of pre-trial and post-adjudicated adults by running the County jails. The adopted budget for the County's Sheriff's Office is $198.8 million or 13.6% of the General Fund budget, including a General Fund cost (net of State and federal reimbursements and other revenue, including Proposition 172 sales tax revenue collected by the State and apportioned to the County for public safety services) of $91.2 million.

The County currently operates the following four adult jails: the Maguire Correctional Facility, the Women's Correctional Center, the Minimum Security Transitional Facility and the Weekender Dorm. For fiscal year 2012-13, the average daily inmate population was 1,847 inmates.

Jail overcrowding has been an issue within the County. To address the women's inmate population, overflow from the Maguire Correctional Facility, and inmate growth projections that result from the passage of Assembly Bill 109 – Public Safety Realignment ("AB 109") in 2011, which shifts the responsibility of housing low-level offenders from the State to counties, the County decided to construct the Correctional Facility. As discussed in "PLAN OF FINANCE" herein, a portion of the proceeds of the 2014 Bonds will be used to finance construction of the Correctional Facility and to refinance a portion of the costs of the 2014 Project Site. See also "ESTIMATED SOURCES AND USES OF FUNDS" herein.

In further response to overcrowding at the Maguire Correctional Facility, the County applied for State funding created by Senate Bill 1022 ("SB 1022"), which provides $500 million for the acquisition, design and construction of adult criminal justice facilities in State counties. SB 1022 was passed in 2012 in order to help offset the influx of new inmates into county jails as a result of the passage of AB 109. SB 1022 funding requires counties to match funds of not less than 10% of the total eligible project cost as the county's contribution. In January 2014, the County was notified that the State had awarded $24 million of SB 1022 funding to the County for structural and programming improvements to the Maguire Correctional Facility. The County intends to provide $4.0 million of its funds for the project pursuant to SB 1022.

The County also maintains a juvenile justice facility within a youth services center, which was refinanced with the proceeds of the Authority's Refunding Lease Revenue Bonds (Youth Services Campus), 2008 Series A. The 300,000 square foot youth services center includes the following: a 170-bed juvenile hall; a 10-bed girls' camp that is housed within the juvenile hall and currently used for providing daytime school and counseling services to female youth; juvenile courts; probation offices; administration and education building; and a health clinic.

Human Services. The County provides a variety of services through its Human Services Agency including shelter services, employment services, vocational rehabilitation, child care services, children and family services, out-of-home placement and administration of welfare aid payments.

The General Fund cost of all human services programs (net of State and federal reimbursements and other revenue) is budgeted at $32.0 million, a 7.7% increase from fiscal year 2012-13. The Board approved $194.2 million in total requirements for all human services programs in the 2013-14 County Budget (as defined herein) or approximately 13.3% of the General Fund budget. The cost of all human service programs is being funded approximately 51.5% with State funds (including Realignment revenues (described below)), approximately 25.2% with federal funds and approximately 16.5% with County funds, with the remaining 6.8% being funded from miscellaneous revenues, charges for services and existing fund balances.

Disaster Services. The County coordinates a network of disaster services to handle floods, fires, storms, earthquakes and other major emergencies.

The San Mateo Office of Emergency Services ("OES"), a division of the County Sheriff's Department, operates under a Joint Powers Agreement between the County and the 20 cities of the County. OES provides training, emergency response coordination, and planning and related services.

General Government. 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, successor agencies to redevelopment agencies, special districts, local school districts and the County.

A second major government service is the County's voter registration and election system, which serves over 357,000 registered voters and provides 486 voting precincts and 211 polling places throughout the County.

Parks and Recreation. The County operates a network of 17 parks and recreational facilities which serve over 1.8 million park visitors annually. The County park system encompasses 16,183 acres and contains reservable buildings, campgrounds and shelters.

Libraries. The County operates a library system, governed by a joint powers authority, which is comprised of 12 community libraries and one bookmobile. The network of libraries serves approximately 2.4 million visitors annually.

County Employment

The number of authorized permanent employment positions in the 2013-14 County Budget was 5,301, of which 480 are currently vacant. The following table sets forth the total number of authorized County employment positions for fiscal years 2004-05 through 2013-14.

Table 1
COUNTY OF SAN MATEO
AUTHORIZED PERMANENT EMPLOYMENT POSITIONS
Fiscal Years 2004-05 to 2013-14

Fiscal Year	Authorized Permanent Employment Positions
2004-05	5,285
2005-06	5,547
2006-07	5,719
2007-08	5,871
2008-09	5,844
2009-10	5,530
2010-11	5,441
2011-12	5,305
2012-13	5,135
2013-14	5,301

Source: County.

Employee Relations and Collective Bargaining

County employees are represented by 27 bargaining units comprising ten represented and three unrepresented labor organizations. The principal represented labor organizations include the American Federation of State, County and Municipal Employees Local 829 ("AFSCME") and Service Employees International Union Local 521 ("SEIU"), which together represented approximately 60.2% of all County employees in a variety of classifications as of February 10, 2014. There has never been any major work stoppage by County employees. As of February 10, 2014, approximately 87.1% of all County employees were covered under negotiated agreements.

Labor contracts are in place for all bargaining units. Unionized County employees and their appropriate bargaining agents as well as non-represented employees are shown in the following table as of February 10, 2014.

Table 2
COUNTY OF SAN MATEO
EMPLOYEE BARGAINING REPRESENTATION
AND NON-REPRESENTED EMPLOYEES
(As of February 10, 2014)

Bargaining Agents:	Number of Employees[1]	Contract Expiration Date
AFSCME	1,572	October 15, 2014
California Nurses Association	348	July 5, 2014
Deputy Sheriffs Association	372	January 2, 2016
SEIU	1,269	October 15, 2014
Building Construction and Trades Council	74	February 1, 2015
Union of American Physicians and Dentists	109	May 9, 2015
San Mateo County Council of Engineers	15	February 28, 2015
Probation and Detention Association	257	May 21, 2016
Organization of Sheriff's Sergeants	57	April 10, 2016
Law Enforcement	37	June 7, 2014
Non-represented employees:		
Unrepresented Attorneys	74	N/A
Confidential	82	N/A
Management	454	N/A

(1) Excludes Court employees.
Source: County.

The County expects to renegotiate its soon-to-expire contracts over the next several months. Although the County is not currently involved in active negotiations with any group at this time, negotiations with the California Nurses Association, Law Enforcement Unit, AFSCME and SEIU are planned to resume in the upcoming months. In the event a labor contract expires before the County reaches an agreement, the existing terms and conditions of employment will remain in place throughout the negotiations process. If the County and the represented organization reach an impasse (i.e., there is a deadlock in negotiations), mediation is available wherein a State "mediator" will confer with the parties and attempt to resolve any remaining issues. If such mediation is unsuccessful, then the represented organization may request further oversight by a three-person panel, consisting of one representative selected by each the County and the represented organization, and a chairperson that is mutually agreed upon by the County and the represented organization. If the County and the represented organization cannot reach agreement, the chairperson is selected by the Public Employment Relations Board. The three-person panel is empowered to conduct investigations and take any steps necessary to resolve the bargaining impasse. If the impasse is not settled within 30 days after the appointment of the three-person panel, the panel must submit written findings of fact and recommended terms of settlement to the parties. These findings and recommendations are made available to the public within 10 days of their receipt. Finally, should the mediation and fact finding procedures be exhausted, which would occur no earlier than 10 days after the issuance of the panel's written findings and recommendations, the County may implement its last, best and final offer. Prior to doing so the County must hold a public hearing regarding the impasse.

COUNTY FINANCIAL INFORMATION

The following is a description of the County's budget process, historical budget information, changes in fund balance, balance sheets, its major revenues and expenditures, indebtedness, investments and certain other financial information relating to the County.

Budget Procedures and Policies

The County is required by State law to adopt a balanced budget by October 2nd of each year. The County Manager's Office (the "CMO") prepares a five-year forecast of the County's General Fund revenues and expenditures based on current year expenditures, the Governor's annual proposed State budget, the State and local economy, and other projected revenue trends. Based on this forecast, the County budget is developed and projected resources are tentatively allocated to the various County programs. The County implemented a two-year budget process for fiscal years 2013-14 and 2014-15, and, as part of its process for developing the budgets for such fiscal years, the County has projected General Fund discretionary revenue and expenses over a five-year planning horizon. See "—Fiscal Year 2014-15 and Future Year Budgets" below.

The CMO presents the recommended current year budget to the Board. The Board is required by the County Budget Act to adopt a recommended current year budget no later than June 30th.

Between January and the time the State adopts its own budget (which is legally due no later than June 15th, but is often subject to delay), representatives of the CMO monitor, review and analyze the State budget and all adjustments made by the Legislature of the State (the "State Legislature"), as well as all other expenditure and revenue trends. Upon adoption of the final State budget, the CMO recommends revisions to the recommended budget to align County expenditures with revenues.

The County has historically employed extensive fiscal planning and conservative budget practices to ensure that annual revenues plus available resources are sufficient to cover ongoing annual expenses while maintaining healthy fund balances. As a matter of policy, the County conservatively differentiates ongoing revenues and ongoing expenditures from revenue sources that it deems temporary. In addition, fund balances and reserves are viewed as one-time sources of funding used only for one-time purposes or as part of a multi-year financial plan to balance the budget. By adhering to these policies, the County avoids operating deficits created through dependency on one-time funding for ongoing expenditures.

In order to ensure that the budget remains in balance throughout each fiscal year, each month the CMO monitors actual expenditures and revenue receipts. In the event of a projected year-end deficit, immediate steps are taken to ensure expenditures and revenues are balanced.

On June 3, 2013, the County Civil Grand Jury (the "Grand Jury"), a volunteer body, released a report finding that the public benefits from thorough yet understandable financial reporting and that highlighting certain major financial elements in the County's budget and Popular Annual Financial Report ("PAFR") would make the County's finances more understandable. The Grand Jury recommended that the County's budget and PAFR report certain major financial elements, such as the total County revenues, total employee payroll, and the total cost of benefits received by employees, in one location in a simple, straightforward manner, with the goal of making the County's financial reporting more understandable by the public. In response to the Grand Jury report, the County implemented some of the Grand Jury's recommendations in the fiscal year 2013-15 recommended budget document, and intends to include most other recommendations in future budget documents. In addition, the County has implemented an online "open checkbook" where the public can review any transaction over $5,000 made by the County. Finally, the Controller's Office follows the GASB guidelines for reporting liability in the CAFR and the next budget will reflect SamCERA's 7.5% assumed rate of return. Grand Jury reports are not legally binding.

The 2013-14 County Budget was adopted on September 18, 2013.

2013-14 County Budget

The County implemented a two-year budget process for fiscal years 2013-14 and 2014-15. The initial two-year budget was presented to the Board in September 2013, and there will be periodic check-ins through June 30, 2015 through County Manager Reports. The General Fund budget for fiscal year 2013-14, including mid-year adjustments, amounts to $1.46 billion, representing an increase of 16.0% over fiscal year 2012-13. However, if the one-time expenditures for the Correctional Facility and other capital and information technology expenditures are removed, there is a net increase of 1.8%. As discussed in "PLAN OF FINANCE" above, a portion of the proceeds of the 2014 Bonds will be used to finance the construction of the Correctional Facility and to refinance a portion of the costs of the 2014 Project Site.

Based on current estimates, the General Fund is projected to end fiscal year 2013-14 with a balance of $296.0 million inclusive of General Fund contingencies and reserves, which is $20.0 million less than the prior fiscal year. This reduction is largely due to a one-time contribution of $50.0 million that the County intends to make in the current fiscal year that will be made to the Retiree Health Plan (as defined herein), as further described in "—Retirement Program—Annual Pension Cost" below, and mid-year budget adjustments totaling $21.8 million, partially offset by Excess ERAF revenues totaling $108.0 million (or $68.0 million more than budgeted). The mid-year budget adjustments include $7.5 million for a 3% salary increase for employees represented by major bargaining units (the first since 2008); $1.0 million for a 3% cost-of-living adjustment ("COLA") for community-based organizations; an $8.7 million loan to the Crystal Springs Sanitation District; and $4.0 million for the County's match of SB 1022 funds for improvements to the Maguire Correctional Facility, as further described in "THE COUNTY OF SAN MATEO—County Services—Justice Services" herein. The projected year-end General Fund Balance of $296 million represents 26.1% of ongoing General Fund net appropriations.

The following table presents the summary of the General Fund budget for the current fiscal year and each of the four previous fiscal years, as set forth in the respective adopted budgets.

Table 3
COUNTY OF SAN MATEO
ADOPTED COUNTY BUDGET – COUNTY GENERAL FUND
Fiscal Years 2009-10 through 2013-14

	Adopted 2009-10 Budget	Adopted 2010-11 Budget	Adopted 2011-12 Budget	Adopted 2012-13 Budget	Adopted 2013-14 Budget
SOURCES:					
Taxes:					
Property Taxes[(1)]	$252,188,625	$262,424,135	$264,593,522	$275,148,732	279,709,294
Excess ERAF[(2)]	29,303,145	44,629,557	39,639,993	40,000,000	40,000,000
Sales Taxes[(3)]	18,146,323	17,339,414	18,831,727	23,505,899	25,441,900
Measure A Sales Tax[(4)]	–	–	–	–	41,064,557
All Other Taxes	6,226,131	7,216,085	6,652,644	13,502,276	17,726,440
Licenses, Permits and Franchises	5,463,360	5,245,583	5,559,151	5,815,816	5,682,291
Fines, Forfeitures and Penalties	8,472,218	8,333,072	8,562,142	8,735,972	8,651,873
Use of Money and Property	9,806,788	6,766,958	6,893,990	7,186,424	9,018,203
Intergovernmental Revenues[(5)]	396,429,922	400,562,921	379,813,945	414,809,236	456,473,762
Charges for Services	95,382,926	103,923,895	101,866,236	107,754,073	109,433,736
Interfund Revenue	73,251,223	66,651,625	70,195,107	65,431,741	55,215,079
Miscellaneous Revenue	28,177,648	28,027,716	28,162,432	21,823,507	35,907,837
Other Financing Sources	949,493	785,980	242,363	172,266	63,081,962[(6)]
Total Revenue	923,797,802	951,906,941	931,013,252	983,885,942	1,147,406,934
Fund Balance	290,449,482	308,437,645	254,422,776	280,370,149	315,930,723
TOTAL SOURCES	$1,214,247,284	$1,260,344,586	$1,185,436,028	$1,264,256,091	$1,463,337,657
REQUIREMENTS:					
Salaries and Benefits	$541,682,848	$564,846,448	$556,479,576	$573,910,876	$ 651,904,153
Services and Supplies	355,020,125	350,699,298	342,929,539	326,618,492	373,027,662
Other Charges	225,960,817	225,852,165	222,952,388	221,478,565	228,671,819
Fixed Assets	3,858,337	8,976,218	7,396,753	9,587,350	14,519,732
Other Financing Uses	71,368,180	59,444,803	44,631,334	121,715,839	161,191,988
Gross Appropriations	1,197,890,307	1,209,818,932	1,174,389,590	1,253,311,122	1,429,315,354
Intrafund Transfers	(180,568,854)	(171,755,608)	(172,029,508)	(169,049,487)	(176,675,714)
Net Appropriations	1,017,321,453	1,038,063,324	1,002,360,082	1,084,261,635	1,252,639,640
Contingencies/Dept Reserves	196,925,831	222,281,262	183,075,946	179,994,456	210,698,017
TOTAL REQUIREMENTS	$1,214,247,284	$1,260,344,586	$1,185,436,028	$1,264,256,091	$1,463,337,657

(1) Property Taxes include Secured, Unsecured, Supplementals and In-Lieu VLF amounts. See "—Sales Tax Triple Flip and VLF Property Swap" herein.
(2) See "—Return of Local Property Taxes—Excess ERAF" below.
(3) Sales Tax includes Sales and Use Taxes and In-Lieu Sales & Use Tax Revenue.
(4) Measure A became effective July 1, 2012. The County began receiving Measure A Sales Tax revenues in June 2013.
(5) Includes Realignment Revenues.
(6) Increase in fiscal year 2013-14 includes reimbursement for expenditures relating to 2014 Project costs.
Source: County Controller.

Fiscal Year 2014-15 and Future Year Budgets

General. Beginning in 2014, cross-departmental performance review teams will evaluate program outcomes and productivity, and compare program performance to similar organizations (benchmarks). The teams will work closely with supervisors, who are responsible for program success and for engaging and coaching their staff to perform work that aligns with organizational and community goals. County fiscal staff will also use the "off-budget" year to focus on process improvement initiatives to enhance organization efficiency and improve service delivery and to develop performance dashboards on the County's website that demonstrate progress in achieving the Board of Supervisor's Shared Vision 2025 community goals as well as goals being established for the Measure A sales tax proceeds.

As part of its process for developing the budgets for fiscal years 2013-14 and 2014-15, the County has projected General Fund discretionary revenue and expenses over a five-year planning horizon.

Revenue Growth Projections. The following table represents the County's General Fund discretionary "revenue growth projections" for the current fiscal year and the following five fiscal years.

Table 4
COUNTY OF SAN MATEO
GENERAL FUND DISCRETIONARY REVENUE PROJECTIONS
Fiscal Years 2013-14 through 2018-19

	Fiscal Year 2013-14	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19
Secured Property Tax	6.0%	3.5%	3.5%	3.8%	3.8%	4.0%
Unsecured Property Tax	-0.7%	1.0%	1.0%	1.0%	1.0%	1.0%
Excess ERAF (Ongoing Portion)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Vehicle Rental Tax (Measure T)[1]	66.9%	2.0%	2.0%	2.0%	2.0%	2.0%
Sales Tax	0.6%	1.6%	3.4%	3.7%	3.0%	3.0%
Property Transfer Tax[3]	11.5%	3.0%	3.0%	3.0%	3.0%	3.0%
Transient Occupancy Tax	3.9%	2.0%	2.0%	2.0%	2.0%	2.0%
Property Tax In-Lieu of VLF	6.0%	3.5%	3.5%	3.8%	3.8%	4.0%
Interest & Investment Income	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Other Revenue	-6.2%[4]	2.2%	0.5%	0.5%	0.5%	0.5%
Overall Growth	4.6%	2.7%	2.7%	2.9%	2.9%	3.1%
Public Safety Sales Tax	5.2%	3.3%	3.8%	4.3%	4.6%	3.0%
Measure A Sales Tax[2]	1515.6%	3.3%	3.8%	4.3%	4.6%	3.0%

(1) Measure T became effective July 1, 2012. The County began receiving Measure T Vehicle Rental Tax revenues in October 2012.
(2) Measure A became effective April 1, 2013. The County began receiving Measure A Sales Tax revenues in June 2013.
(3) The County has experienced 50% growth in Property Transfer Tax over the past three fiscal years and expects moderate and sustained growth in future fiscal years.
(4) Reduction in Other Revenue in fiscal year 2013-14 is primarily due to reduced overhead charged to Non-General Fund departments pursuant to the federal Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Governments.

Source: County.

The following table shows the five-year projected aggregate growth in General Fund discretionary revenues from fiscal year 2013-14 to fiscal year 2018-19.

Table 5
COUNTY OF SAN MATEO
GENERAL FUND DISCRETIONARY REVENUE PROJECTIONS – 5-YEAR PROJECTED GROWTH[(1)]
Fiscal Year 2013-14 to Fiscal Year 2018-19

	Fiscal Year 2013-14	Fiscal Year 2018-19	5-Year Aggregate Growth
Secured Property Tax	$190,482,360	$226,907,084	$36,424,723
Unsecured Property Tax	8,438,611	8,869,065	430,454
Excess ERAF (Ongoing)	40,000,000	40,000,000	–
Vehicle Rental Tax (Measure T) [(2)]	13,200,000	14,573,867	1,373,867
Sales Tax	23,435,698	27,086,029	3,650,331
Property Transfer Tax	7,500,000	8,694,556	1,194,556
Transient Occupancy Tax	1,290,478	1,424,792	134,314
Property Tax In-Lieu of VLF	76,786,364	92,081,917	15,295,553
Interest & Investment Income	5,456,824	5,735,177	278,353
Other Revenue	27,956,717	29,114,997	1,158,280
General Purpose Revenue Growth	$394,547,052	$454,487,484	$59,940,432
Public Safety Sales Tax	$72,926,863	$87,869,555	$14,942,692
Measure A Sales Tax[(3)]	$71,041,979	$85,598,458	$14,556,479
Excess ERAF (One-Time)	$68,146,172	–	($68,146,172)

(1) One-half of anticipated Excess ERAF is budgeted and no assumptions for one-time revenues is made in future years.
(2) Measure T became effective July 1, 2012. The County began receiving Measure T Vehicle Rental Tax revenues in October 2012.
(3) Measure A became effective April 1, 2013. The County began receiving Measure A Sales Tax revenues in June 2013.
Source: County.

These growth assumptions represent an increase in General Fund revenues of $59.9 million over the next five years. Secured Property Tax revenues are expected to increase 3.5-4.0% annually and grow $36.4 million over the five-year period. A ballot measure, known as the San Mateo County Car Rental Tax, Measure T ("Measure T"), which took effect July 1, 2012, requires car rental companies located in the unincorporated area of the County to pay 2.5% of their gross receipts to the County. Vehicle rental tax revenues from Measure T are expected to generate approximately $13.2 million in the current fiscal year and grow $1.4 million over the five-year period. Sales tax growth is projected at 1.6-3.7% in the out years and is also expected to grow $3.7 million. In addition, Public Safety Sales Tax, which is impacted by both local and Statewide sales activity, is projected to grow $14.9 million over the five-year period. Finally, Property Tax In-Lieu of VLF is projected to grow by $15.3 million over the next five years. See "—Impact of State Budget" and "—Sales Tax Triple Flip and VLF Property Tax Swap" herein.

A ballot measure to impose a temporary Countywide half-cent sales tax increase, known as San Mateo County Sales Tax Increase, Measure A ("Measure A"), was approved by County voters and took effect April 1, 2013. The County expects sales tax revenues from Measure A proceeds to increase to $85.6 million by fiscal year 2018-19. Importantly, because Measure A sunsets March 31, 2023, sales tax revenues generated from Measure A are not considered "ongoing" for purposes of the County's budget planning. See "—Five-Year Revenue and Expenditure Projections" below.

The County also receives certain property tax revenues known as Excess ERAF (as defined below). Local taxing entities within the State, including the County, are mandated to shift a portion of their property tax dollars to the local Educational Revenue Augmentation Fund ("ERAF"), which is utilized to pay certain obligations of the State. The State uses funds from the ERAF to fund school districts up to their minimum State-guaranteed amounts. For some school districts, the combination of the local property taxes and ERAF are not enough to fully fund the school district and the State is required to provide the difference ("Revenue Limit Districts"). A school district that has property taxes equal to or exceeding the State guaranteed funding amount ("Basic Aid Districts") does not require funds from the ERAF. Pursuant to the State Revenue and Taxation Code, any property tax contributions made by local taxing entities to the ERAF in excess of the State mandated school funding levels ("Excess ERAF") are returned to the local taxing entities that contributed to the ERAF. Since fiscal year 2003-04, the County has received approximately $769.5 million of Excess ERAF payments, including approximately $108 million in fiscal year 2013-14. Because these distributions may be impacted by future property tax growth, school enrollment or State legislation reallocating ERAF funds, 50% of ERAF funds are not included in "ongoing revenues" and, by Board policy, are only available for "one time" uses. See "—County General Fund Reserves and Reserves Policies" and "—Return of Local Property Taxes - Excess ERAF" below.

Expenditure Growth Projections. Ongoing expenditures are expected to grow $89 million in the aggregate over the five-year period. The major contributors to the growth in expenditures include:

- Salaries and Benefits are expected to grow by $45.8 million largely due to the annualization of a 3% negotiated increase for most of the bargaining units effective November 10, 2013, continuation of a 38% retirement contribution rate as part of the County's plan to pay down its retirement plans' unfunded accrued actuarial liability ("UAAL") by fiscal year 2021-22, and annual increases in health benefits of 9%;

- Operation of the Correctional Facility with 320 beds in the first three years of operation is expected to cost an additional $29 million annually; and

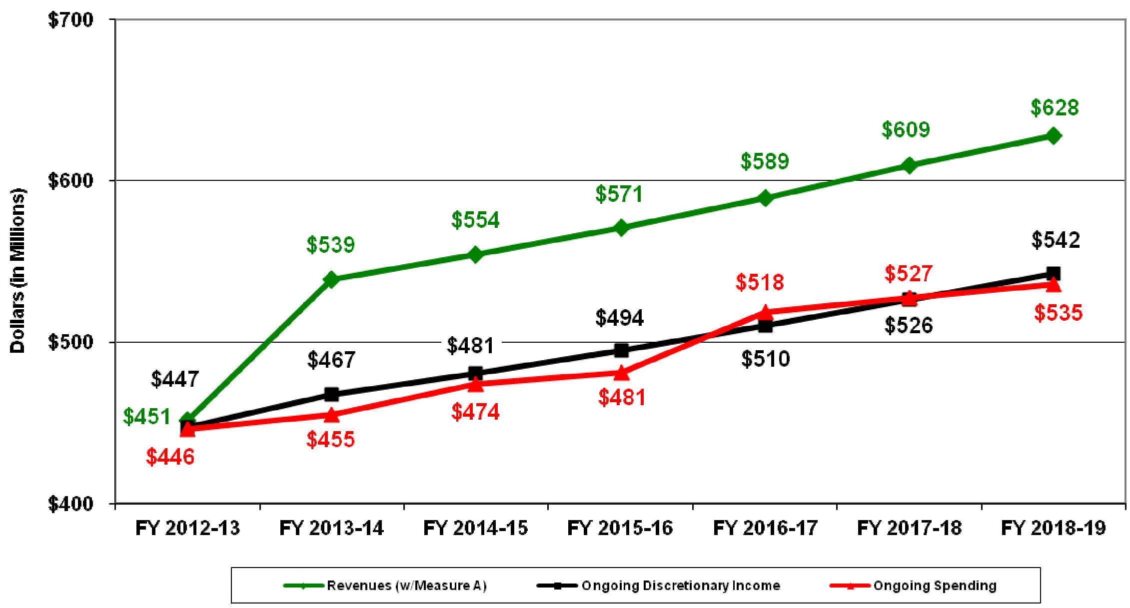
- Contracts with outside providers for critical/mandated services, which are expected to increase by $3.6 million.

These projections do not include the County's plan to make additional contributions to the County's retirement system of $50 million in fiscal year 2013-14 and $10 million for the next nine fiscal years thereafter, as further described in "—Retirement Program—Annual Pension Cost" below. These contributions, though ten years in duration, are considered one-time in nature.

Five-Year Revenue and Expenditure Projections. The table below illustrates that, given the factors above, ongoing discretionary income will exceed ongoing spending by approximately $2 million in fiscal year 2018-19. However, these projections do not include Measure A sales tax revenues which are expected to generate between $71.0-85.6 million each year for the next 10 years. If Measure A revenues are included, then revenues would *exceed* expenditures by approximately $92 million in fiscal year 2018-19. However, the table below does not include the additional spending that will result from the allocation of Measure A revenues.

Because of its limited term nature, Measure A will primarily be allocated toward one-time or short-term purposes. Also not included in these projections is the remaining 50% of Excess ERAF moneys, about $40-50 million per year, which is currently being allocated for one-time purposes.

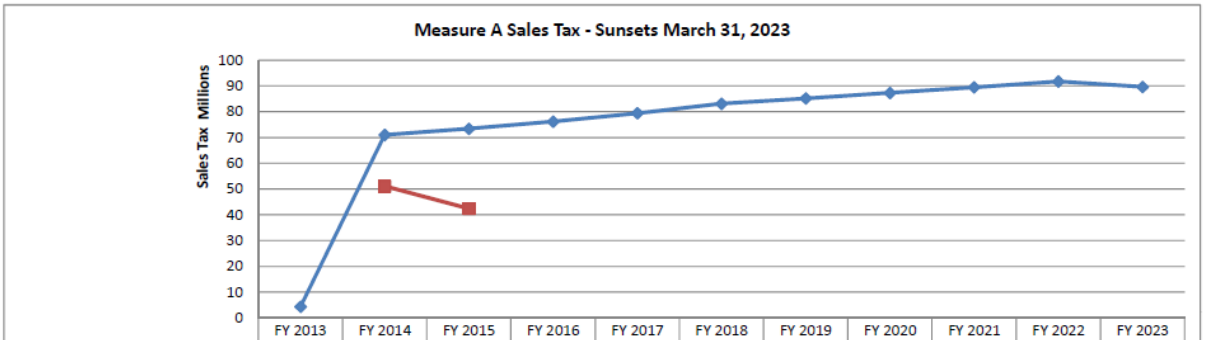
Table 6
COUNTY OF SAN MATEO
GENERAL FUND DISCRETIONARY REVENUE AND EXPENDITURE PROJECTIONS(1)
Fiscal Years 2012-13 through 2018-19
($ in Millions)



(1) Amounts for fiscal year 2012-13 are actual. Amounts for fiscal years 2013-14 through 2018-19 are projected.
Source: County.

In 2013, the Board approved the use of $93.5 million of funds generated by Measure A for a variety of Countywide projects in fiscal years 2013-14 and 2014-15. The Measure A funded projects include contributions to Seton Medical Center; the San Mateo County Transit District (SamTrans); early childhood learning (also known as the "Big Lift"); enhanced services to at risk children, seniors and veterans; and a number of capital expenditures, including funds for new fire engines and vehicles, a new 9-1-1 public safety dispatch center, library remodels, and funds to develop a financing plan to replace the Cordilleras Mental Health Facility. For further information regarding the Cordilleras Mental Health Facility, see "—Indebtedness—Anticipated Financings" herein. Assuming current revenue projections, it is estimated that additional Measure A funds totaling $54.0 million remain unallocated for fiscal years 2013-14 and 2014-15. The Board will review additional proposals for Measure A funds later this summer. The table below shows the actual revenues from Measure A for fiscal year 2012-13, Measure A revenue projections for the next 10 fiscal years and the amounts of Measure A funds appropriated to date by the Board.

Table 7
COUNTY OF SAN MATEO
MEASURE A SALES TAX REVENUE PROJECTIONS AND ALLOCATIONS[(1)]
Fiscal Years 2012-13 through 2022-23



	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Measure A Sales Tax	4,397,205	71,041,979	73,386,364	76,175,046	79,450,573	83,105,299	85,182,932	87,312,505	89,495,318	91,732,701	89,628,813
Measure A Appropriated		51,100,537	42,420,349								

(1) Amount for fiscal year 2012-13 is actual. Amounts for fiscal year 2013-14 through 2022-23 are projected.
Source: County

Impact of State Budget

2013-14 State Budget. On June 27, 2013, the Governor of the State (the "Governor") signed the State budget for fiscal year 2013-14 (the "2013-14 State Budget") into law. The 2013-14 State Budget included $97.10 billion in State General Fund revenues and other resources, $96.28 billion in State General Fund expenditures and a $1.07 billion reserve. It also proposed to continue paying down the State's debt and incorporated a long-term plan to continue this process for the next several years. An improved economy, in addition to passage of tax increases in November 2012, including Proposition 30 (as described herein), allowed the Governor to propose additional spending increases in K-12 and higher education and implementation of the ACA. Still, a number of risks, specifically federal government cost shifts, the pace of the nation's and State's economic recovery, court injunctions on past budget actions, and rising health care costs, could return the State to fiscal deficits. See "STATE OF CALIFORNIA BUDGET AND RELATED INFORMATION" herein.

Overall, the 2013-14 State Budget maintained current funding levels for a majority of health and human service programs provided by the County that experienced deep cuts in recent budget years. It also did not propose any changes to the current public safety realignment funding formulas and anticipated notable growth to the Statewide community corrections subaccount. See "—Realignment Revenues" below.

However, the 2013-14 State Budget created a new funding formula for K-12 education by collapsing K-12 revenue limits and most categorical program funding and is expected to have a negative impact on the County's revenues derived from Excess ERAF. See "—Return of Local Property Taxes—Excess ERAF" herein.

The County Controller's Office has been working closely with the County Office of Education in order to obtain more information regarding the potential impact of the Governor's proposals on Excess ERAF. Since the overall impacts are not expected to exceed the one-half portion of Excess ERAF that is treated as one-time, no assumptions regarding these changes are factored into the five-year revenue projections. For further information regarding Excess ERAF and the impact of the new funding formula for K-12 education on Excess ERAF, see "—Return of Local Property Taxes—Excess ERAF" below.

The County and cities within the County also potentially face shortfalls in their property tax receipts as the number of Revenue Limit Districts shrink. The County had a property tax shortfall of $180,000 in fiscal year 2011-12, but the 2013-14 State Budget appropriated funding to make the County whole. However, there are no

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guarantees that similar State budget appropriations will be made in future years. The County sustained a shortfall of $1.9 million in Triple Flip Sales Tax for fiscal year 2012-13, but the County does not anticipate a shortfall for fiscal year 2013-14. See "—Sales Tax Triple Flip and VLF Property Tax Swap" herein.

See "STATE OF CALIFORNIA BUDGET AND RELATED INFORMATION" for a brief description of the 2013-14 State Budget.

2014-15 Proposed State Budget. On January 9, 2014, the Governor released his proposed State budget for fiscal year 2014-15 (the "2014-15 Proposed State Budget"), which includes $104.5 billion in revenues and transfers $106.8 billion in proposed expenditures and $1.9 billion in total reserves. Overall, the 2014-15 Proposed State Budget holds spending at the current fiscal year's level for most State- funded County programs and services.

The 2014-15 Proposed State Budget assumes a $1.6 billion supplemental payment on the State's outstanding Economic Recovery Bonds ("ERBs"), which were sold in order to address State budget deficits. In connection with the sale of the ERBs, the State Legislature enacted provisions that changed how sales and use taxes and other revenues are distributed to schools and local governments, known as the "Triple Flip," as further discussed in "—Sales Tax Triple Flip and VLF Property Tax Swap" below. This supplemental payment will retire all outstanding ERBs and thereby eliminate the need for the Triple Flip. The 2014-15 Proposed State Budget provides partial funding for the County's $1.9 million Triple Flip deficit that occurred in fiscal year 2012-13. See "—Sales Tax Triple Flip and VLF Property Tax Swap" herein.

The 2014-15 Proposed State Budget proposes to expand the use of Infrastructure Financing Districts ("IFDs"), which use tax increment financing to divert future tax revenue from other local agencies in order to finance economic development. The 2014-15 Proposed State Budget proposes to reduce voter approval of IFDs from the current two-thirds requirement to 55% and seeks to expand the list of local projects that can be financed through IFDs. Should this proposal be approved and other substantial approval requirements be met, the County anticipates that the creation of an IFD will have revenue effects essentially identical to redevelopment agencies, in that any increase in property tax value following creation of an IFD will accrue to the IFD for its life rather than to the County and other affected taxing entities.

In 2011, AB 109 realigned responsibility for certain lower-level offenders from the State to counties. Currently, these offenders may receive either a "straight sentence" (jail time only) or a "split sentence" (jail time followed by mandatory supervisions). The 2014-15 Proposed State Budget proposes to require the use of split sentences for any county jail felony sentence unless the court finds it to be in the interests of justice to impose a straight sentence, in order to help reduce recidivism and relieve jail overcrowding. Additionally, the 2014-15 Proposed State Budget proposes that lower-level offenders who receive sentences longer than 10 years be required to serve their time in State prison rather than in county jail. This is anticipated to have a minimal impact in the County due to the high percentage of split sentences for inmates within the County as well as the small percentage of inmates that are sentenced to 10 years or more.

See "STATE OF CALIFORNIA BUDGET AND RELATED INFORMATION" for a brief description of the 2014-15 Proposed State Budget.

County General Fund Reserves and Reserves Policies

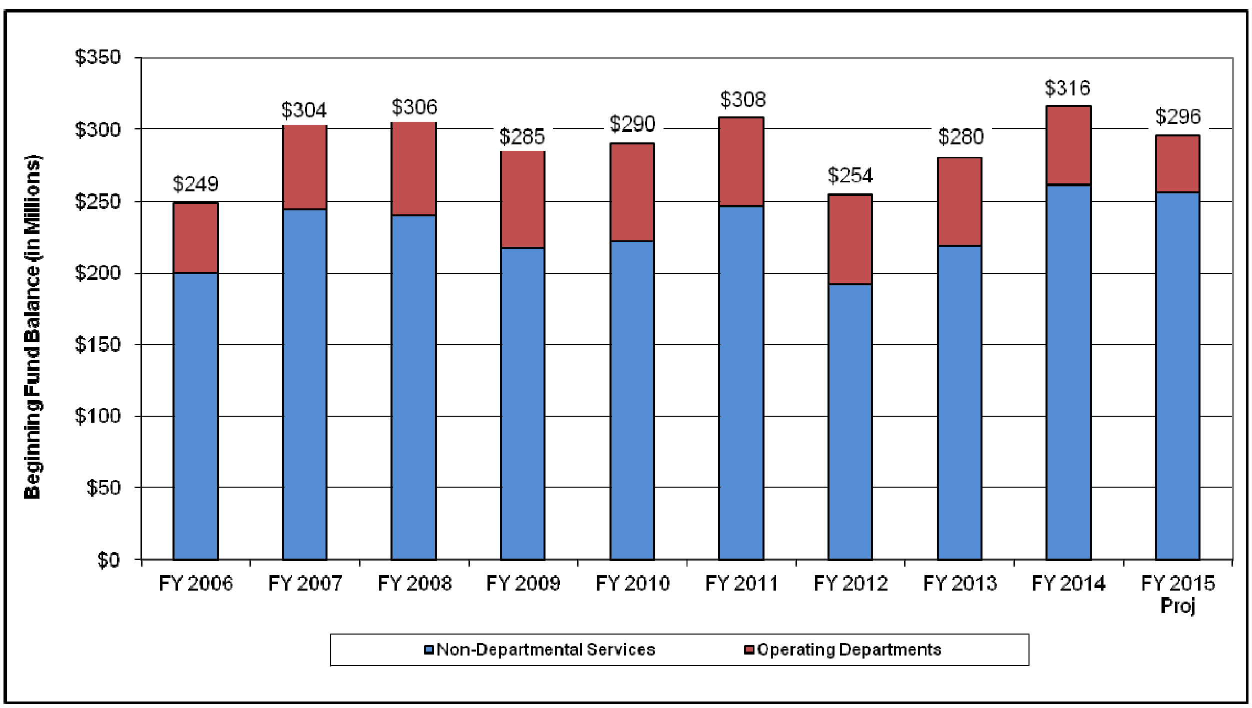
The Board approved the original County Reserves Policy in April 1999 (the "Reserves Policy"). The County's Fiscal Officers initiated the creation of the Reserves Policy to reduce the negative fiscal impacts on the County during times of economic uncertainty and potential funding losses from other governmental agencies. On January 31, 2012, the Board authorized the use of 50% of future Excess ERAF proceeds for ongoing purposes. The current ERAF reserves and 50% of future proceeds can only be used for one-time purposes as described in the Reserves Policy. In recent years, the County has used Excess ERAF proceeds to make a one-time contribution to the California Public Employees' Retirement System ("CalPERS") to prefund the County's Other Post Employment Benefits ("OPEB") ($141.2 million) in fiscal year 2007-08; to purchase two office buildings and a parking garage for County use ($40 million) and the 2014 Project Site ($16.7 million) in fiscal year 2010-11. In addition, the County spent $11.0 million in fiscal year 2012-13 and appropriated $51.6 million in fiscal year 2013-14 for jail planning, architecture and site preparation relating to the Correctional Facility and the 2014 Project Site. The

County will reimburse itself for the purchase of the 2014 Project Site and other 2014 Project costs with a portion of the 2014 Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Reserves Policy establishes a minimum General Fund reserves requirement of 10%, as follows: General Fund operating departments (2%), a General Reserve (5%), and General Fund Appropriation for Contingencies (3%). In addition, the Reserves Policy requires that the County set aside reserves for Countywide Capital Improvements ($2 million) and Countywide Automation Projects ($2 million), and provides guidelines for the use of these funds. Pursuant to the Reserves Policy, departments shall maintain reserves of at least 2% of Net Appropriations to be used only for the following: (i) one-time emergencies, (ii) unanticipated mid-year losses of funding, (iii) short-term coverage of costs associated with unanticipated caseload increases, and (iv) short-term coverage of costs to avoid employee lay-offs provided there is a long-term financial plan to attain a structurally balanced budget. The General Fund Appropriation for Contingencies shall be used for one-time emergencies and economic uncertainties. The General Reserve of 5% bolsters the County's minimum reserves requirement to 10%. The reserves for capital improvements and for automation projects shall be used for unplanned Countywide projects. In fiscal year 2013-14, the appropriated General Fund Reserves and Contingencies of $210.7 million (or 16.8%) exceed the Reserves Policy's minimum reserves requirements of 10%.

The following table presents the General Fund reserves balance at the beginning of each of fiscal years 2006-07 through 2013-14 and the projected General Fund reserve balance at the beginning of fiscal year 2014-15. The reduction from the current fiscal year to the projected level for fiscal year 2014-15 is primarily due to large one-time expenses in fiscal year 2013-14 such as the $50 million contribution to SamCERA as further described in "—Retirement Program—Annual Pension Cost" and the $8.8 million loan to Crystal Springs Sanitation District.

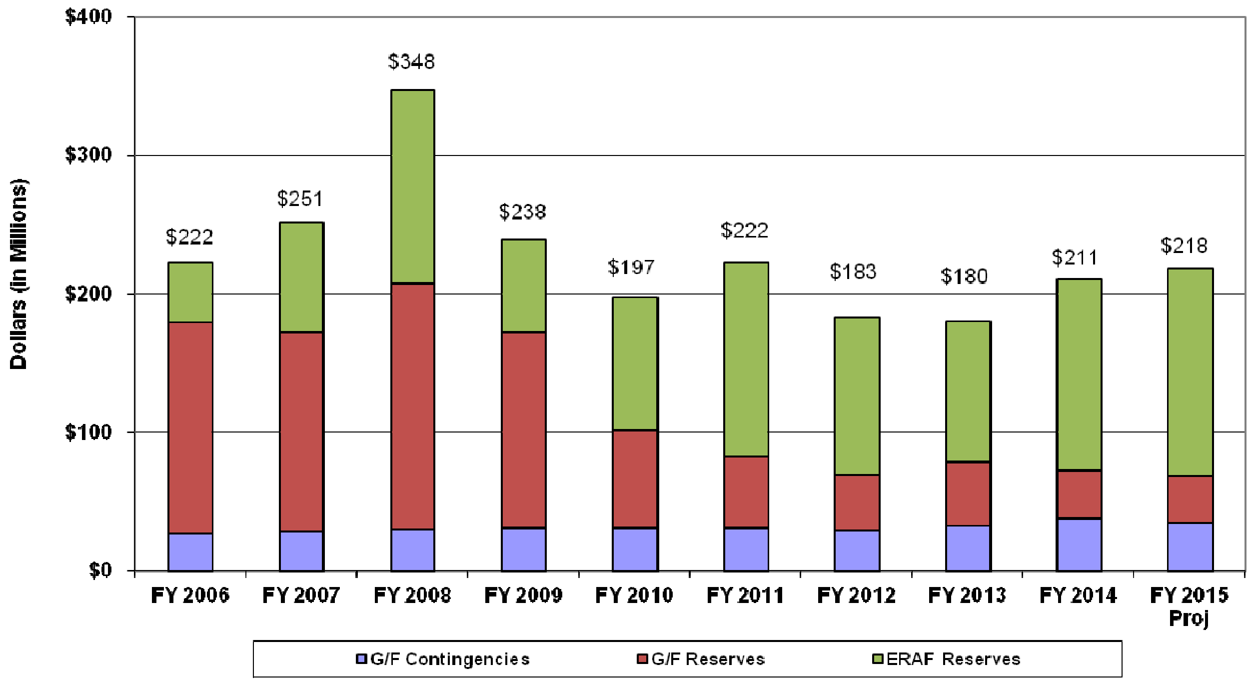
Table 8
COUNTY OF SAN MATEO
BEGINNING GENERAL FUND BALANCES
Fiscal Years 2006-07 through 2014-15
($ in Millions)



Source: County.

The following table represents appropriated General Fund contingencies and reserves, including 100% of Excess ERAF, for fiscal years 2006-07 through 2013-14 and the projected General Fund contingencies and reserves for fiscal year 2014-15.

Table 9
COUNTY OF SAN MATEO
GENERAL FUND CONTINGENCIES AND RESERVES
Fiscal Years 2006-07 through 2014-15



Source: County.

Major Revenues

The County derives its revenues from a variety of sources including *ad valorem* property taxes, sales and use taxes, licenses and permits issued by the County, use of County property and money, aid from federal and State governmental agencies, charges for services provided by the County and other miscellaneous revenues. The approximate percentages of the County's total budgeted Governmental Funds revenues for fiscal years 2012-13 and 2013-14 are set forth in the following table.

Table 10
COUNTY OF SAN MATEO
SUMMARY OF BUDGETED REVENUE SOURCES
Fiscal Years 2012-13 and 2013-14

	Budgeted 2012-13	Budgeted 2013-14
Taxes:		
Property Taxes[1]	24.19%	20.46%
Excess ERAF[2]	3.46	2.88
Sales Taxes[3]	2.19	1.96
Measure A Sales Tax[4]	–	3.43
All Other Taxes	1.17	1.27
Intergovernmental Revenues:		
Aid from Federal Agencies	9.55	9.06
Aid from State[5]	26.84	23.90
Aid from Local Agencies	2.87	3.48
Charges for Services	9.59	8.09
Interfund Revenue	7.41	5.42
Licenses, Permits and Franchises	0.73	0.59
Fines, Forfeitures and Penalties	0.97	0.80
Use of Money and Property	0.65	0.68
Miscellaneous Revenue	1.90	2.65
Other Financing Sources	8.48	15.33
Total Revenue	100.00%	100.00%

(1) Property Taxes include Secured, Unsecured, Supplementals and In-Lieu VLF amounts. See "—Sales Tax Triple Flip and VLF Property Tax Swap" herein.
(2) See "—Return of Local Property Taxes–Excess ERAF" below.
(3) Sales Tax includes Sales and Use Taxes and In-Lieu Sales & Use Tax Revenue.
(4) Measure A became effective July 1, 2012. The County began receiving Measure A Sales Tax revenues in June 2013. Only allocated Measure A funds are appropriated.
(5) Includes Realignment Revenues. See "—Realignment Revenues" below.
Source: County Controller.

Ad Valorem Property Taxes

Taxes are levied for each fiscal year on taxable real and personal property 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 each 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, property on the secured roll with respect to which taxes are delinquent is declared to be in default on or about June 30 of the fiscal year. Such property taxes may thereafter be prepaid by payment of the delinquent taxes and the delinquency penalty, plus a prepayment penalty of 1.5% per month to the time of prepayment. If taxes are unpaid for a period of five years or more, the property is subject to sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue on November 1. The County has the following four ways of collecting unsecured personal property taxes: (i) filing a civil action against the taxpayer; (ii) filing a certificate in the office of the County Clerk-Recorder specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (iii) filing a certificate of delinquency for recording in the County Recorder's office, in order to obtain a lien on certain property of the taxpayer; and (iv) seizing and selling of personal property, improvements or possessory interests belonging or assessed to the assessee.

State law allows exemptions from *ad valorem* property taxation of $7,000 of full value of owner occupied dwellings. However, the State reimburses all local taxing authorities for the loss of revenues imputed on these exemptions. The State Constitution and various statutes provide exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, tax-exempt nonprofit hospitals and tax-exempt charitable institutions.

The following three tables set forth certain information regarding County property tax collections for fiscal years 2003-04 through 2012-13. During fiscal year 2012-13, these tax collections, after the transfer required by State law to the ERAF, which the State maintains for schools, were allocated as follows: approximately 22% to the County, 16% to the cities, 9% to the special districts, 8% to the former redevelopment agencies and 45% to the schools within the County. See "—Return of Local Property Taxes – Excess ERAF" below. These property tax collections do not include property tax allocations to redevelopment agencies within the County. See "—Redevelopment Agencies" below.

Table 11
COUNTY OF SAN MATEO
SUMMARY OF TAX LEVIES AND COLLECTIONS[1]
SECURED PROPERTY TAX ROLL
Fiscal Years 2003-04 through 2012-13

Fiscal Year	General Fund Secured Levy at June 30	Amount of Current Levy Uncollected at June 30	Percent Current Levy Delinquent at June 30	Total Non-Current Levy Collections[2]
2003-04	$120,897,792	$2,040,755	1.69%	$14,283,252
2004-05	128,953,560	2,144,543	1.64	12,182,959
2005-06	140,328,127	1,866,364	1.33	13,500,067
2006-07	152,677,203	2,942,090	1.09	14,181,594
2007-08	164,670,885	5,453,900	3.31	21,149,692
2008-09	175,408,516	4,941,258	2.82	30,337,555
2009-10	177,454,751	3,886,259	2.19	36,181,418
2010-11	176,406,635	2,504,974	1.42	34,098,966
2011-12	176,571,467	1,977,600	1.12	23,983,232
2012-13	175,093,889	1,418,260	0.81	18,006,202

(1) Portion of the 1% levy expected to be directly allocated to the County General Fund.
(2) Includes outstanding current and prior years' redemptions, penalties and interest due to the County. See "—The Teeter Plan" herein.
Source: County Controller.

Table 12
COUNTY OF SAN MATEO
SUMMARY OF TAX LEVIES AND COLLECTIONS[1]
UNSECURED PROPERTY TAX ROLL
Fiscal Years 2003-04 through 2012-13

Fiscal Year	Unsecured Property Levy at June 30	Total Current and Non-Current Levy Collections[2]	Percentage of Total Collections to Original Levy
2003-04	$12,576,781	$11,964,515	95.1%
2004-05	10,592,031	10,286,247	97.1
2005-06	9,887,966	8,971,357	90.7
2006-07	9,529,637	8,104,306	85.0
2007-08	9,758,096	8,489,663	87.0
2008-09	12,110,729	9,188,849	75.9
2009-10	11,102,420	9,950,214	89.6
2010-11	8,857,596	8,537,093	96.4
2011-12	9,050,050	7,320,649	80.9
2012-13	8,893,859	8,511,465	95.7

(1) Portion of the 1% levy expected to be directly allocated to the County General Fund.
(2) Includes outstanding current and prior years' redemptions, penalties and interest due to the County. See "—The Teeter Plan" herein.
Source: County Controller.

Table 13
COUNTY OF SAN MATEO
SUMMARY OF TAX LEVIES AND COLLECTIONS[1]
SUPPLEMENTAL ROLL
Fiscal Years 2003-04 through 2012-13

Fiscal Year	Supplemental Roll Tax Change (Net)	Total Collections at June 30[2]	Percentage of Total Collections to Current Charge
2003-04	$ 5,384,204	$ 5,457,777	101.3%
2004-05	9,484,577	8,768,582	92.5
2005-06	13,226,295	10,411,335	78.7
2006-07	13,933,373	8,955,450	64.3
2007-08	12,911,574	9,099,483	70.5
2008-09	9,244,822	8,038,564	87.0
2009-10	6,532,771	4,663,007	71.4
2010-11	5,154,158	3,705,805	71.9
2011-12	5,326,311	4,145,402	77.8
2012-13	6,713,008	5,370,134	80.0

(1) Portion of the 1% levy expected to be directly allocated to the County General Fund.
(2) Includes outstanding current and prior years' redemptions, penalties and interest due to the County. See "—The Teeter Plan" herein.
Source: County Controller.

Redevelopment Agencies

The California Community Redevelopment Law authorized redevelopment agencies to issue bonds payable from the allocation of tax revenues resulting from increases in assessed valuation of properties within designated project areas. In effect, in such project areas, local taxing authorities, such as the County, realized property tax revenues only on the frozen base year assessed valuations, and not on any subsequent increases in value.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the State budget for fiscal year 2011-12, to be constitutional. As a result, all redevelopment agencies in California were dissolved as of February 1, 2012, and all net tax increment revenues, after payment of pass-through payments, redevelopment bonds debt service costs, administrative costs, and other recognized obligations allowed by the State are distributed to cities, counties, special districts and K-14 school districts. The California Supreme Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22 (Proposition 22 prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies and eliminates the State's authority to shift property taxes temporarily during a severe financial hardship of the State). See "—Proposition 22" herein. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to K-14 school districts and county offices of education, totaling $1.7 billion Statewide. Trailing legislation to the State budget for fiscal year 2012-13 (the "2012-13 State Budget") further amended and supplemented ABx1 26.

The cities with redevelopment agencies within the County are the successor agencies for their respective redevelopment agencies, and the Board has appointed members to provide oversight for the "winding down" of those agencies' financial affairs. After the wind-down is complete and all redevelopment obligations are paid, it is expected that the total tax allocations will be distributed to local taxing agencies, including the County. This will increase property tax revenues over time, which will be available for discretionary purposes. The following table shows the tax allocations paid to redevelopment agencies (or their successor agencies) located in the County in fiscal years 2003-04 through 2012-13.

Table 14
REDEVELOPMENT AGENCY PROJECTS
OF CITIES IN COUNTY OF SAN MATEO -
FROZEN BASE VALUE, FULL CASH VALUE INCREMENTS AND TAX ALLOCATIONS
Fiscal Years 2003-04 through 2012-13

Fiscal Year	Frozen Base Value	Full Cash Value Increments[1]	Total Tax Allocations[2]
2003-04	$2,541,404,900	$ 8,646,330,683	$ 76,616,938
2004-05	2,541,404,900	9,042,912,548	80,757,245
2005-06	2,541,404,900	9,589,381,755	85,704,899
2006-07	2,541,404,900	11,005,439,878	98,226,985
2007-08	2,541,404,900	12,179,941,196	109,859,014
2008-09	2,541,404,900	14,322,769,511	129,905,727
2009-10	2,541,404,900	14,344,512,253	129,799,309
2010-11	2,541,404,900	14,225,518,546	142,383,362[3]
2011-12	2,510,261,043	12,486,132,817	124,959,909
2012-13	2,520,261,043	12,666,523,923	126,785,305

(1) Full cash value for all redevelopment projects above the "frozen" base year valuations. This data represents growth in full cash values generating tax revenues for use by the redevelopment agencies within the County.
(2) Actual cash revenues collected by the County and subsequently apportioned to redevelopment agencies' successor agencies.
(3) In fiscal year 2010-11, Foster City Project One, which encompassed an area near the Civic Center and Metro Center, reached its tax increment cap for the life of the project. Starting in fiscal year 2011-12, Foster City Project One no longer receives tax increment revenues.
Source: County Controller.

Assessed Valuations

General. The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization ("SBOE"). Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIII A of the State Constitution ("Article XIIIA"), except as provided therein.

The following table sets forth information relating to the assessed valuation of property in the County subject to taxation for fiscal years 2009-10 through 2013-14.

Table 15
COUNTY OF SAN MATEO
SECURED ROLL ASSESSED VALUATION
Fiscal Years 2009-10 through 2013-14
($ in Thousands)

Fiscal Year	Land	Improvements	Personal Property	Exemption	Net Total	% Change from Prior Fiscal Year
2009-10	$63,889,921	$71,279,377	$2,330,584	$3,649,341	$133,860,541	1.1%
2010-11	64,133,596	70,834,406	2,151,169	3,956,686	133,162,485	-0.5
2011-12	64,685,154	71,699,581	1,937,942	3,776,891	134,545,786	1.0
2012-13	66,691,823	74,236,516	1,888,200	3,954,805	138,861,734	3.2
2013-14	71,325,753	78,511,586	1,761,223	4,092,508	147,506,053	6.2

Source: County Controller.

Under the California Constitution, property owners may protest the assessed value of their property to the County assessment appeals board. The assessment appeals board has jurisdiction to determine a property's full value which may raise or lower a property's assessed valuation, thereby affecting the amount of property taxes payable by the property owner for the tax year in question as well as future tax years. Annually, the County evaluates the protests filed by property owners and maintains, based on the opinion of County Counsel, adequate reserves to fund significant tax refunds in the event of a successful protest.

Appeals may be based on Proposition 8, the 1978 voter approved amendment to Article XIIIA of the State Constitution, which requires that for each January 1 lien date, the taxable value of real property must be the lesser of its base year value, annually adjusted by the inflation factor pursuant to Article XIIIA, or its full cash value, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in value. Pursuant to State law, a property owner may apply for a reduction of the property tax assessment for such owner's property, or the County Assessor may initiate Proposition 8 reductions in assessed value, independent of any individual property owner's appeal.

As described under "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING COUNTY REVENUES AND EXPENDITURES—Property Tax Rate Limitations – Article XIIIA," the full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or to reflect a reduction in the consumer price index or comparable data for the area under taxing jurisdiction or reduced in the event of declining property value caused by substantial damage, destruction or other factors.

Property Tax Revenues and the Housing Market. Data published by Dataquick Information Systems shows that home sales in the County decreased 0.5% in 2013 as compared to 2012; however, the median price of a home in the County in 2013 increased by 19.4% as compared to the median price in 2012, from $620,000 to $740,000. As of January 2014, the median price of a home in the County was $834,700. Given that property tax revenues make up the County's largest source of General Fund revenues, the health of the local real estate market and the associated changes in property assessed values are key indicators of the financial outlook for the County. The fiscal year 2013-14 net Property Assessment Roll values (approximately $156.1 billion as of July 1, 2013) for the County increased 6.0% or approximately $8.6 billion compared to the prior year's property tax roll. This increase in property assessment value translates to an increase in property tax revenues of about $86.0 million that are shared by all local agencies, including schools, cities, special districts and the County. However, this increase in property tax revenues does not take into account refunds, which are difficult to predict for any fiscal year. For example, in fiscal year 2012-13 the County processed approximately $33.0 million in secured, unsecured and supplemental refunds.

Taxation of State-Assessed Utility Property. The State Constitution provides that most classes of property owned or used by regulated utilities be assessed by the SBOE and taxed locally. Property valued by the SBOE as an operating unit in a primary function of the utility taxpayer is known as "unitary property," a concept designed to permit assessment of the utility as a going concern rather than assessment of each individual element of real and personal property owned by the utility taxpayer. State-assessed unitary and "operating nonunitary" property (which excludes nonunitary property of regulated railways) is allocated to the counties based on the situs of the various components of the unitary property. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating nonunitary property is taxed at special county-wide rates and distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year. Currently, approximately 0.9553% of the County's total net assessed valuation constitutes unitary property subject to State assessment by the SBOE, for which approximately $14.3 million of property taxes were collected in fiscal year 2012-13. The portion of these tax collections attributable to the General Fund was $2.7 million.

Principal Taxpayers

General. The County's employer base is diverse and there is no concentration of employees in any one company or industry. In fiscal year 2013-14, the top ten property taxpayers only account for approximately 4.4% of the total assessed valuation in the County and the top taxpayer accounts for approximately 1.2% of the total assessed valuation in the County. Table 16 shows the ten largest taxpayers in the County, as shown on the 2013-14 tax rolls as of January 1, 2013, and the approximate amounts of their total assessed values. Table 17 shows the taxes paid by the ten largest taxpayers based on the combined local rolls in fiscal year 2013-14. Table 18 shows the taxes paid by the ten largest taxpayers based on the secured roll in fiscal year 2013-14. Approximately 22% of these tax revenues are paid to the County.

Table 16
COUNTY OF SAN MATEO
TEN LARGEST TAXPAYERS
2013-14 TAX ROLL
ENTIRE ROLL—SECURED AND UNSECURED[(1)]
($ in Thousands)

Taxpayer	Nature of Business	Total Assessed Value	% of Total Assessed Value
Genentech, Inc.	Biotechnology	$1,732,000	1.2%
United Airlines Inc.	Air Carrier	1,077,864	0.7
Gilead Sciences Incorporation	Biopharmaceutical	690,124	0.5
Slough BTC	Lease	571,241	0.4
Slough SSF LLC	Lease	486,639	0.3
Oracle Corporation	Software	477,493	0.3
VII Pac Shores Investors LLC	Investment	408,204	0.3
Virgin America Inc.	Air Carrier	385,701	0.3
Wells REIT II – University Circle	Real Estate	325,159	0.2
Continental Airlines Inc	Air Carrier	312,497	0.2
	TOTAL	$6,466,922	4.4%
	COUNTY TOTAL[(1)]	$149,629,538	

(1) Assessed valuation (including unitary utility valuation) as of January 1, 2013.
Source: County CAFR, Fiscal Year Ended June 30, 2013.

Table 17
COUNTY OF SAN MATEO
TEN LARGEST TAXPAYERS
PRINCIPAL TAXES PAYABLE AND PAID[(1)]
Fiscal Year 2013-14

Taxpayer	Amount
Genentech, Inc.	$18,060,317
United Airlines Inc.	11,695,977
Slough BTC LLC	7,570,656
Slough SSF LLC DE	6,010,596
Oracle Corporation	5,229,982
Gilead Sciences	5,120,412
VII Pac Shores Investors LLC	4,386,972
Virgin America Inc.	4,216,672
Wells REIT II University Circle	3,551,388
Britannia Pointe Grand LP	3,415,591
TOTAL	$69,258,563

(1) Utilities not included.
Source: County Tax Collector.

Table 18
COUNTY OF SAN MATEO
TEN LARGEST TAXPAYERS
SECURED TAXES PAYABLE AND PAID[(1)]
Fiscal Year 2013-14

Taxpayer	Amount
Genentech, Inc.	$15,763,250
Slough BTC LLC	7,570,656
Slough SSF LLC DE	6,010,596
Oracle Corporation	5,229,981
Gilead Sciences	5,120,412
VII Pac Shores Investors LLC	4,386,972
Wells REIT II University Circle	3,551,388
Britannia Pointe Grand L P	3,010,128
Slough Redwood City LLC	2,913,597
ASN Bay Meadows I LLC	2,772,430
TOTAL	$56,329,410

(1) Utilities not included.
Source: County Tax Collector.

Genentech Tax Settlement. In April 2011, the County settled property tax claims brought by Genentech, Inc. ("Genentech"), the County's largest tax payer, that the company paid excess taxes for the tax years 1990 through 1999 (the "Genentech Settlement"). The original dispute arose when Genentech challenged the methodology used to determine the taxable value of its land, buildings, fixtures and equipment. The allegations included claims for refunds of tax payments and claims asking for revisions to the methods, formulas, and calculations used to determine taxable property categories and values. The Genentech Settlement not only included a resolution of the valuation of the property at issue, but also encompassed a refund due pursuant to a 2008 Court-issued Writ ordering the enrollment of the property values on certain Genentech assessment appeal applications for tax years 1994 to 1999. The Genentech Settlement resolved all claims spanning 10 years and brought to an end years of litigation. The County agreed to credit Genentech with $26.5 million in property taxes plus interest over the next six years. The County credited $7.1 million, $7.0 million and $5.9 million in fiscal years 2010-11, 2011-12 and 2012-13, respectively. The remaining balance will be credited in fiscal years 2013-14 through 2016-17 at approximately $3.1 million per year.

Return of Local Property Taxes – Excess ERAF

Pursuant to the State Revenue and Taxation Code, Excess ERAF is returned to contributing local taxing entities in proportion to their contributions. The County is one of three "excess" ERAF counties in the State. This is due to the relatively high number of Basic Aid Districts in the County and the relatively high property tax revenues received by County school districts. Excess ERAF distributions from the State could be impacted by property tax revenues received by school districts, changes in school enrollment, implementation of the LCFF (as defined below) or State legislation attempting to utilize ERAF funds for other State purposes.

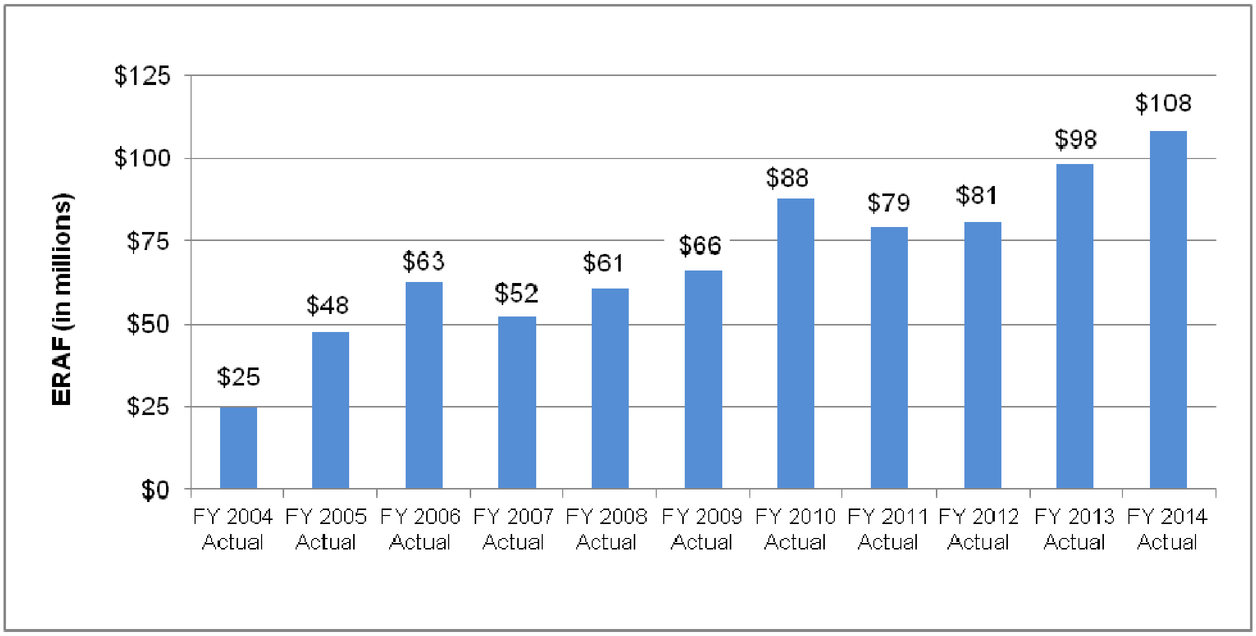
The 2013-14 State Budget restructured the State's funding system for school districts and charter schools through the implementation of the Local Control Funding Formula (the "LCFF"). The LCFF system replaces existing funding formulas for funding limits and most categorical programs with a weighted student formula. The LCCF is expected to reduce the Excess ERAF amounts returned to local taxing entities, including the County.

The CMO is working closely with the County Controller's Office, the County Counsel's Office and the County Office of Education to determine the fiscal impact of the LCFF to the County's share of Excess ERAF.

Due to the potential volatility of Excess ERAF, the County continues to conservatively budget 50% of the projected General Fund apportionment of Excess ERAF for ongoing purposes. Pursuant to Board policy, the remaining portion of Excess ERAF may only be used for one-time purposes, including reductions in unfunded liabilities, capital and technology payments, productivity enhancements, and cost avoidance projects. For further information describing the County's budgeting and receipt of Excess ERAF payments, see "—County General Fund Reserves and Reserves Policies" above. See also "COUNTY FINANCIAL INFORMATION—Impact of State Budget" and "STATE OF CALIFORNIA BUDGET AND RELATED INFORMATION" herein.

Since fiscal year 2006-07, the County has received approximately $769.5 million in excess ERAF, including approximately $108 million in fiscal year 2013-14. The following table presents the County's share of Excess ERAF payments received for fiscal year 2003-04 through 2013-14.

Table 19
COUNTY OF SAN MATEO
SHARE OF EXCESS ERAF PAYMENTS
Fiscal Years 2003-04 to 2013-14
($ in Millions)



Source: County.

Sales Tax Triple Flip and VLF Property Tax Swap

In 2004, Senate Bill 1096 ("SB 1096") mandated a revenue shift whereby certain moneys previously distributed to local government entities (i.e., sales and use taxes and vehicle license fees ("VLF")) would instead be diverted to the State for its purposes or otherwise eliminated. These revenue shifts became known as the "Triple Flip" and the "VLF Swap."

In the case of "Triple Flip," sales and use taxes that previously went to counties and cities were instead pledged for the repayment of the State's ERBS. Counties and cities were repaid their lost sales and use taxes from the local ERAF moneys that were to be distributed to Revenue Limit Districts.

With respect to the "VLF Swap," the loss in VLF revenues to the cities and counties resulting from the permanent decrease in the VLF rate was replaced by a property tax amount ("In-Lieu VLF") to be taken from the ERAF and, if necessary, from Revenue Limit Districts' local property taxes. No funds can be taken from Basic Aid Districts.

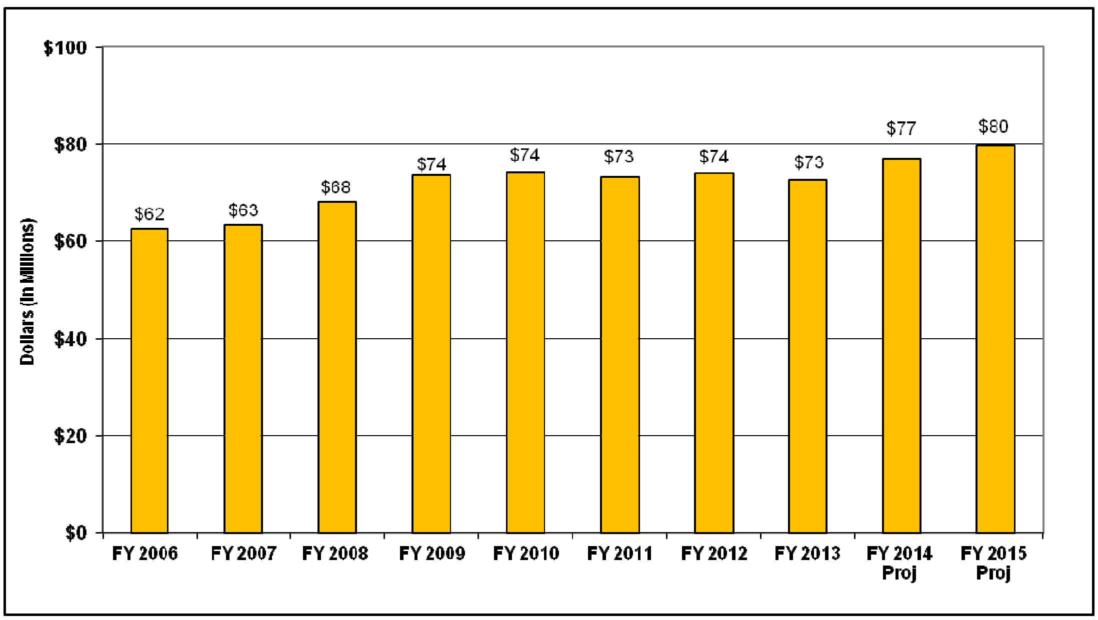
As the number of Basic Aid Districts in a county increases, the pool of ERAF and property tax revenues from which the Triple Flip and In-Lieu VLF amounts can be paid decreases. As a result, counties that have all, or almost all, Basic Aid Districts lack sufficient ERAF moneys and Revenue Limit District property taxes to pay the Triple Flip and In-Lieu VLF amounts. As the number of Basic Aid Districts increases, the County and cities within the County could potentially face shortfalls in their Triple Flip and In-Lieu VLF amounts.

SB 1096 provides that ERAF to be paid to Revenue Limit Districts is the only source of moneys available to pay the State's Triple Flip obligation. In fiscal year 2012-13, only $24.3 million in ERAF was available to fund the State's $35.0 million Triple Flip obligation, resulting in a $10.7 million Triple Flip shortfall to the County and cities. The County's portion of this shortfall was $1.9 million in fiscal year 2012-13. The Governor's proposed State budget for fiscal year 2014-15 (the "Proposed 2014-15 State Budget") includes funding for the County to partially fund the Triple Flip deficit that occurred in fiscal year 2012-13. However, there can be no assurance that the adopted budget will provide State funding to make the County whole for this deficit or that the State would appropriate funds to make the County whole should any Triple Flip deficits occur in future years.

Since fiscal year 2006-07, the County has received $37.3 million from Triple Flip payments, and $9.0 million is projected for fiscal year 2013-14. However, as discussed in "—Impact of State Budget—2014-15 Proposed State Budget," the 2014-15 Proposed State Budget proposes an accelerated payment on the State's outstanding ERBs, thereby eliminating the need for the Triple Flip.

Since fiscal year 2006-07, the County has received $561.6 million from In-Lieu VLF amounts, and $80.9 million is projected for fiscal year 2013-14. The following table shows the amounts the County has received from In-Lieu VLF amounts for fiscal years 2006-07 through fiscal year 2012-13 and the projected In-Lieu VLF amount for fiscal year 2013-14.

Table 20
COUNTY OF SAN MATEO
PROPERTY TAX IN-LIEU OF VEHICLE LICENSE FEES
Fiscal Years 2006-07 through 2013-14
($ in Thousands)



Source: County

The County experienced a VLF shortfall of approximately $180,000 in fiscal year 2011-12. However, the State Legislature provided funds to make up this deficiency in fiscal year 2013-14. A VLF shortfall in fiscal year 2012-13 did not occur and preliminary estimates indicate there will not be one for fiscal year 2013-14. There can be no assurance that if a VLF shortfall did occur in future years that the State Legislature would appropriate State funds to make the County whole.

The Teeter Plan

In 1993, the Board adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan") as provided for in Section 4701 *et seq.* of the Revenue and Taxation Code of the State. Generally, the Teeter Plan provides for a tax distribution procedure in which secured roll taxes are distributed to taxing agencies within the County 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 taxing agencies is avoided. Pursuant to the Teeter Plan, the County establishes a tax losses reserve fund and a tax resources fund and each entity levying property taxes in the County may draw on the amount of uncollected taxes and assessments credited to its fund in the same manner as if the amount credited had been collected. The Teeter Plan has resulted in net revenue for the County for each year since its adoption.

The tax losses reserve fund covers losses that 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 in property tax). The appropriate amount in the fund is determined by one of the following two alternatives: (i) 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 (ii) 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 legally required set aside, at the end of fiscal year 2012-13, was approximately \$17.5 million, or 1.0%, of the total tax levies on secured properties within the tax areas of participating entities. As of June 30, 2013, the County had reserved \$119.9 million of non-General Fund funds for the Teeter Plan.

The County is responsible for determining the amount of the tax levy on each parcel which is entered onto the secured real property tax roll. Upon completion of the secured real property tax roll, the County's Controller determines the total amount of taxes and assessments actually extended on the roll for each fund for which a tax levy has been included, and apportions 100% of the tax and assessment levies to that fund's credit. Such moneys may thereafter be drawn against by the taxing agency in the same manner as if the amount credited had been collected. The County determines which moneys in the County Treasury (including those credited to the tax losses reserve fund) shall be available to be drawn on to the extent of the amount of uncollected taxes credited to each fund for which a levy has been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax-defaulted property, Teeter Plan moneys are distributed to the apportioned tax resources fund.

Intergovernmental Revenues

Aid from other governmental agencies is one of the County's largest revenue sources, accounting for approximately \$597.3 million in the 2013-14 County Budget, or approximately 27.4% of the County's total revenues (all funds). The County derives approximately 38.0% of its revenues from State and federal sources. Decreases in revenues received by the State can affect subventions made to the County and other counties in the State. In addition, actions taken by Congress and federal executive branch agencies including, without limitation, reductions in federal spending, could materially reduce the revenues received by the County. The potential impact of State budget actions for future fiscal years on the County is uncertain at this time. See "COUNTY FINANCIAL INFORMATION—Intergovernmental Revenues" herein. See also "—State Budget Concerns" below.

For additional information, see "STATE OF CALIFORNIA BUDGET AND RELATED INFORMATION" herein.

State Reimbursement Payments

The San Mateo County Health Center (the "Health Center") is part of the Medical Center. In fiscal year 2013-14, approximately \$8.2 million, or 26.7% of the County's total debt service, was attributable to the costs of building the Health Center. Approximately 35.7% of the Health Center related debt service costs were payable from State reimbursements described below. There can be no assurance that the reimbursement rate will not decrease in future years.

Section 14085.5 of the California Welfare and Institutions Code ("Section 14085.5") was adopted by the State Legislature in 1988. Section 14085.5 permits hospitals which contract to provide Medi-Cal in-patient hospital services to receive reimbursement for a portion of the costs of qualified capital projects and directs the State to make supplemental reimbursement payment to those hospitals which meet the requirements set forth therein. The amount of reimbursement for a hospital during any fiscal year is computed through a formula which takes into account debt service for that year on the indebtedness issued to finance any such capital project and the percentage of hospital patient days attributed to Medi-Cal patients. The formula also provides that with respect to at least the State's 50% share of such reimbursements, the percentage of Medi-Cal patient days shall not be reduced below 90% of the initial ratio. The 50% federal share of such reimbursement currently does not contain any such specified floor percentage, and accordingly, may be reduced by a greater proportion should Medi-Cal patient days decline. The County does not presently expect a significant decline in its Medi-Cal patient ratio in the future.

Supplemental reimbursement received under Section 14085.5 is required to be placed by the County in a special account exclusively for debt service with respect to such indebtedness. As with all Medi-Cal payments, the supplemental reimbursements under Section 14085.5 are dependent on the continued existence of the Medi-Cal programs and appropriations for the program through the State budget process. In addition, since approximately 50% of Section 14085.5 funds are derived from federal Medicaid appropriations, discontinuance of such federal reimbursement is not within the control of the State. Eligible costs, moreover, are defined differently under the federal program and do not include the cost of some out-patient service facility costs. Accordingly, there can be no assurance that either the State or federal payments under the provisions of Section 14085.5 will continue.

The Health Center currently meets the disproportionate share status requirement of Section 14085.5. The statute requires that in order to be eligible to receive funds, a hospital must meet the criteria defining disproportionate share status for the three most recent years for which final data is available. The hospital must also maintain an in-patient service contract under the Selective Provider Contracting Program ("SPCP"). The County believes that the Health Center has met the disproportionate share criteria through June 30, 2013, and continued disproportionate share eligibility is expected by the County. The Health Center also maintains an SPCP contract. Therefore, it currently meets the eligibility criteria. However, the Health Center must continue to maintain disproportionate share status and its Medi-Cal contract in order to receive reimbursement.

Realignment Revenues

In 1991, the State shifted responsibility for a number of mental health, social services and health programs to counties. This shift is known as "Realignment" and resulted in the creation of two dedicated funding streams to pay for the services shifted by Realignment. The first is a one-half (½) cent sales tax and the second is a change in the depreciation schedule for vehicles which resulted in a 24.33% increase in VLF revenues collected by the State. Pursuant to SB 1096, the VLF was reduced from 2.00% of the market value of a vehicle to 0.65% of the market value. SB 1096 also changed the percentage of the VLF revenue allocated to Realignment from 24.33% to 74.90%, although this change did not result in increased VLF revenues to Realignment, but reflected the same funding amount expressed as a percentage of the reduced revenue collected. Each of the mental health, social services and health programs areas was required to have their own separate account established and each of those service areas receive a different share of Statewide Realignment revenues.

Charges for Current Services

A significant source of revenues is received from charges for current services provided by the County, accounting for approximately $223.5 million in the 2013-14 County Budget, or approximately 10.2% of the County's total Governmental Funds requirements. This revenue source is a recoupment of costs for services such as recording fees, legal fees, health services fees, court and law enforcement fees.

Miscellaneous Other Revenue

General. Other significant sources of revenue, including the tobacco settlement payments discussed below, are included in the Miscellaneous Other Revenue category, which accounted for approximately $52.0 million in the 2013-14 County Budget, or approximately 2.4% of the County's total Governmental Funds requirements.

Tobacco Settlement Payments. On August 5, 1998, the State and participating California counties and cities entered into a Memorandum of Understanding which allocates a portion of tobacco settlement proceeds to the participating counties and cities. On December 9, 1998, the Master Settlement Agreement (the "MSA") between participating States and various tobacco companies received court approval. The Board has allocated most of these funds to the operations of the Medical Center. The County received approximately $9.6 million in fiscal year 2012-13. It is projected that the County's share of settlement payments for fiscal year 2013-14 will be approximately $5.2 million. The continued receipt of these settlement payments depends upon the ability of the tobacco companies to make continued payments under the MSA.

Major Expenditures

As noted in the financial statements included herein and as discussed above under "THE COUNTY OF SAN MATEO—County Services," the County's major expenditures each year are public health and public protection, accounting for approximately $619.6 million and $393.1 million, respectively, in the 2013-14 County Budget, or approximately 32.0% and 20.3%, respectively, of the County's total Governmental Funds expenditures. The largest County expenditure is for non-discretionary public health, primarily consisting of State-mandated programs.

Retirement Program

Plan Description. The San Mateo County Employees' Retirement Association (the "Association" or "SamCERA"), operating under the County Employee's Retirement Law of 1937 (the "Retirement Law") and the California Public Employees' Pension Reform Act of 2013 ("PEPRA"), is a cost-sharing multiple-employer defined benefit pension plan established to provide pension benefits for substantially all full-time and permanent part-time employees of the County. The administration, investment and disbursement of the Association's funds are under the exclusive control of the Retirement Board (the "Retirement Board"), which is composed of nine individuals, four appointed by the Board, four elected by the Association participants, and the County Treasurer.

County employees fall into one of the following three types of membership: General, Safety or Probation. As of June 30, 2013, the total number of plan participants (active, retired and deferred) was 10,621.

Both employers and employees pay contributions, with the exception of Plan 3, which does not require a member contribution. Plan 3 is contained in the Retirement Law and was closed to new members in December 2012. Plan 3 currently has approximately 124 active members that are either 100% Plan 3 or "split plan" members, with service credit in both Plan 3 and one of the contributory plans.

In general, employee and employer contribution rates are adjusted annually. Although the plan covers other employers, the County is responsible for approximately 99% of the Association's annual required employer contribution. Most members pay a contribution rate based on their entry age, which is their age when they became a member of SamCERA (for reciprocal members, this may be their entry age in a reciprocal system). In addition to the basic member contribution, certain members pay a "cost share" based upon what plan they are in. The cost share is an additional flat percentage based upon the terms of the applicable bargaining unit memorandum of understanding or management resolution. Some members also may be required to pay a COLA share, which is a payment to cover future projected cost of living adjustments. The requirement to pay a COLA cost share and the amount of the COLA share may vary based on bargaining group or date of hire.

The PEPRA plan member contribution is not based upon age of entry, but rather a flat contribution rate that is a certain percentage of pensionable compensation. The percentage differs depending on whether the member is a general member, safety member, or probation member. For further information regarding PEPRA, see "California Public Employees' Pension Reform Act" below.

For the fiscal year 2012-13, the average employer contribution rate by the County was 35.49% of the covered payroll and the average member contribution rate was 10.52%. The County picks up a 75% share of the employee's contributions for Sheriff Sergeants and a 50% share for Management, Confidential and Attorneys. There is also a graduated pickup of the employee contribution based on longevity for general employees that have worked at the County for longer than 10 years. Assuming the County's actuarial assumptions are realized (including an investment return of 7.5%) and after giving effect to additional excess contributions to be made by the County as described below under "—Annual Pension Costs," the County projects that the County's contribution rate is expected to reach approximately 38% of payroll in fiscal year 2014-15 (the last year of the 5-year smoothing period for losses from the 2008 financial crisis). County contribution rates are projected to remain at 38% through the end of fiscal year 2022-23, at which point the County's actuary projects the Association will be fully funded. Thereafter, the County contribution rates are projected to fall dramatically, to 16% of payroll in fiscal year 2023-24 and to approximately 8% thereafter.

California Public Employees' Pension Reform Act. On September 12, 2012, the Governor signed Assembly Bills 340 and 197, which enacted the PEPRA and amended sections of the Retirement Law. Among other things, PEPRA creates a new benefit tier for public employees hired after January 1, 2013, who are defined as "new members." The PEPRA requires a single general member benefit formula and three safety member benefit formulas that must be implemented by all affected public agency employers unless the formulas in existence on December 31, 2012 have both a lower normal cost and a lower benefit factor at normal retirement age. PEPRA requires all new members have an initial contribution rate of at least 50% of the normal cost rate or the current contribution rate of similarly situated employees, whichever is greater. The normal contribution rate, as calculated by the retirement system's actuary covers the cost of a current year of service. PEPRA prohibits employers from paying any of PEPRA members' contribution on the employees' behalf, with certain exceptions. PEPRA also limits the types of compensation that can be used and caps the total amount of compensation that can be used to calculate a pension. The County believes that the provisions of PEPRA will help to control its pension benefit liabilities in the future.

PEPRA also introduced new rules which apply to all SamCERA members. Some of the notable provisions include: (1) limits on pension spiking; (2) restrictions on post-retirement employment; (3) elimination of ARC (Additional Retirement Credit) purchases; (4) and forfeiture of pension benefits if a member is convicted of a job-related felony.

PEPRA's impact will not be as significant for SamCERA as for many other systems because the County had already adopted similar cost cutting steps prior to PEPRA's implementation: (1) reduced benefit formulas for new hires which meant a higher age to receive maximum pension; (2) reduced the pick-up of the employee share of retirement costs, and required cost sharing for certain formulas since 2003; (3) excluded certain pay items which can lead to spiking such as in-service leave cash outs; and (4) since 1997 instituted a three-year final compensation period for new employees.

GASB Statement No. 67 and GASB Statement No. 68. On June 25, 2012, GASB adopted final changes in pension accounting and financial reporting standards for state and local governments ("GASB Statement No. 67" and "GASB Statement No. 68"). These changes will impact the accounting treatment of pension plans, such as CalPERS, in which state and local governments, like the County, participate. Major changes include: (i) the inclusion of net pension liabilities on the government's balance sheet (prior to the changes, such net liabilities were typically included as notes to the government's financial statements); (ii) full pension costs are required to be shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates are required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter amortization periods for unfunded liabilities are required to be used for certain purposes of the financial statements, which generally increase pension expenses. The provisions of GASB Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions of GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014. The County is taking steps to comply with these requirements.

Pension Benefits. There are five contributory plans for general members and six contributory plans for safety and probation members. The plans have different benefits factors, maximum annual cost of living adjustments, final average compensation periods, final average compensation calculations, eligibility requirements, and contribution rates. Plan membership is for the most part based on date of hire, but it can be affected by a redeposit, upgrade, or membership history with SamCERA or reciprocity. Employees become eligible for membership in the contributory benefit plans on their first day of regular employment and become fully vested after five years of service in the benefit plan. The respective benefit formulas are set forth in the following two tables.

Table 21
COUNTY OF SAN MATEO
PENSION PLAN MEMBERSHIP - GENERAL MEMBERS

Date of Hire		Benefit Factor
On or before 8/7/11		2% at age 55.5
8/8/11-12/31/13		2% at age 61.25
On or after 1/1/13	PEPRA	2% at age 62

Table 22
COUNTY OF SAN MATEO
PENSION PLAN MEMBERSHIP - SAFETY AND PROBATION MEMBERS

Date of Hire		Benefit Factor
On or before 1/7/12		3% at age 50
1/8/12-12/31/13		3% at age 55
8/8/11-12/31/13		2% at age 50
On or after 1/1/13	PEPRA	2.7% at age 57

Members under the Retirement Law are eligible for a service retirement benefit when they meet one of the following minimum age and service credit requirements:

- At least age 50 with 10 years of service credit.
- 30 years (General members) or 20 years (Safety and Probation members) of service credit, regardless of age.
- At least age 70, regardless of service credit.
- Part-time or seasonal employee at least age 55 with 5 years of service credit and 10 years of county employment.
- A "deferred member" who meets the eligibility for a deferred retirement.
- Plan 3 members must be at least age 55 with 10 years of service credit.

Members under the PEPRA plan are eligible for a service retirement benefit when they meet the following minimum age and service credit requirements:

- For General members, at least age 52 with 5 years of service credit.
- For Safety and Probation members, at least age 50 with 5 years of service credit.

Noncontributory vesting occurs after 10 years of service. Members may retire at a minimum age of 55. The non-contributory plan benefit uses significantly lower factors for each retirement age and payments are offset by payments from the Social Security Administration.

Annual Pension Cost. For fiscal year 2012-13, the County's annual pension cost was equal to the County's required contributions of $144.3 million. The County has historically prepaid its annual pension cost to the SamCERA. The required contribution was determined by the actuarial valuation as of June 30, 2012, using the entry age normal actuarial cost method. The actuarial assumptions included 3.5% annual inflation rate, 7.50% annual investment rate of return, and 5.2% average annual projected salary increase attributed to inflation (4.0%) and adjustment for merit and longevity (1.2%).

In May 2012, in consultation with its actuarial services consultant, Milliman, Inc., SamCERA lowered its investment earnings assumption from 7.75% to 7.50%, beginning with fiscal year 2012-2013. As a result of the change, employer contributions will increase by 1.15% beginning with the 2012 valuation effective July 1, 2013 for approximately $1.7 million for fiscal year 2013-2014. SamCERA conducts an actuarial valuation every year.

The total UAAL as of June 30, 2008 was amortized over a declining 15-year period Future changes in the UAAL, including the change in UAAL as of June 30, 2013 is amortized over new 15-year periods, referred to as 15-year layered amortization.

The Association smoothes gains and losses over a five-year period with a 20% corridor. Gains and losses falling outside of the 20% corridor are fully recognized in the determination of the actuarial asset value. Actuarial assumptions are adjusted by the Retirement Board from time-to-time based on actual demographic changes and non-demographic factors such as economic conditions. The following table presents information for fiscal years 2008-09 through 2012-13, estimated information for fiscal year 2013-14 and projected information for fiscal years 2014-15 through 2016-17.

Table 23
COUNTY OF SAN MATEO
ANNUAL PENSION COST
Fiscal Years 2009-10 through 2016-17
($ in Thousands)

Fiscal Year	Annual Pension Cost	% of Annual Pension Cost Contributed
2008-09	$106,123	100.0%
2009-10	106,265	100.0
2010-11	150,475	100.0
2011-12	150,950	102.6
2012-13	144,308	103.0
2013-14(1)	203,093	133.7
2014-15(2)	167,449	108.6
2015-16(2) (3)	167,870	111.5
2016-17(2)	168,290	110.0

(1) Figures are estimated.
(2) Figures are projected.
(3) Projections assume 50 new positions for the Correctional Facility.
Source: County.

Following the financial crisis in 2008, the Board, in collaboration with SamCERA, took the uncommon step of agreeing to make contributions to the SamCERA in excess of the required actuarial contributions to enhance the solvency of SamCERA and accelerate the payment of the UAAL. The County made $24.4 million of additional contributions to SamCERA in fiscal years 2011-12 and 2012-13. In August 2013, the County and SamCERA formalized the County's intention to continue this uncommon practice by entering into a Memorandum of Understanding (the "MOU"). Pursuant to the MOU, the County expressed its intention to make additional contributions of $50 million in fiscal year 2013-14, and $10 million in each of the next nine fiscal years. The total supplemental payments under the MOU would amount to $140 million in excess of the County's actuarially required contributions. The first $50 million contribution will be made by the County following the issuance of the 2014 Bonds. In the MOU, the County has also committed to maintain its annual contribution rate at no less than the 38% of payroll. The County reserves the right to reduce any future additional contribution to SamCERA and/or to terminate the MOU at any time.

Funded Status and Funding Progress. Funding progress is measured by a comparison of plan assets set aside to pay plan benefits versus plan liabilities. The actuarial value of assets is based on a five-year smoothed market method. This method spreads the difference between the actual investment return achieved by the investment portfolio of the Association and the assumed investment return over a five- year period.

The following table shows the funding progress of SamCERA based on the actuarial value of assets for the five most recent actuarial valuation dates. As of June 30, 2013, the most recent actuarial valuation date, the plan was 73.3% funded. The actuarial accrued liability ("AAL") for benefits was approximately $3.57 billion, and the actuarial value of assets was approximately $2.62 billion, resulting in a UAAL of approximately $954.11 million. The annual covered payroll (annual payroll of active employees covered by the plan) was approximately $406.92 million, and the ratio of the UAAL to the annual covered payroll was 234.5%.

Table 24
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
ACTUARIAL VALUE OF ASSETS
($ in Thousands)

Actuarial Valuation Date (As of June 30)	Actuarial Value of Assets (a)	AAL– Entry Age (b)	UAAL[1] (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
2009	$1,909,679	$2,987,712	$1,078,033	63.9	$436,424	247.0%
2010	2,179,076	3,098,453	919,377	70.3	428,559	214.5
2011	2,405,140	3,246,727	841,587	74.1	424,061	198.5
2012	2,480,271	3,442,553	962,282	72.0	419,779	229.2
2013	2,618,639	3,572,750	954,111	73.3	406,921	234.5

(1) The County is responsible for approximately 99% of UAAL.
Sources: County CAFR, Fiscal Year Ended June 30, 2013; County; and SamCERA Actuarial Valuation as of June 30, 2013.

The actuarial value of assets is different from the market value of assets, as gains and losses are smoothed over a number of years. The following table shows the funding progress of SamCERA based on the market value of association assets allocated to retirement benefits for the five most recent actuarial valuation dates. As of June 30, 2013, the most recent actuarial valuation date, the plan was 76.4% funded. The AAL for benefits was approximately $3.57 billion, and the market value of assets was approximately $2.72 billion, resulting in an UAAL of approximately $844.93 million. The annual covered payroll (annual payroll of active employees covered by the plan) was approximately $406.92 million, and the ratio of the UAAL to the annual covered payroll was 207.6%.

Table 25
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
MARKET VALUE OF ASSETS[1]
($ in Thousands)

Actuarial Valuation (As of June 30)	Market Value of Assets	AAL	Underfunded Or (Overfunded) Liability[2]	Funded Ratio (Market Value)[3]	Covered Payroll[4]	Unfunded Liability as a % Of Covered Payroll (Market Value)[5]
2009	$1,591,400	$2,987,712	$1,396,312	53.3%	$436,424	319.9%
2010	1,815,896	3,098,453	1,282,557	58.6	428,559	299.3
2011	2,317,776	3,246,727	928,951	71.4	424,061	219.1
2012	2,360,304	3,442,553	1,082,249	68.6	419,779	257.8
2013	2,727,825	3,572,750	844,925	76.4	406,921	207.6

(1) Table includes funding for retirement benefits only. OPEB are not included.
(2) AAL minus market value of assets. Positive numbers represent a funded ratio less than 100%.
(3) Market value of assets divided by AAL.
(4) Annual payroll for members of SamCERA.
(5) Unfunded liability divided by covered payroll.
Sources: SamCERA Actuarial Valuation as of June 30, 2013; County.

Assuming that the County makes contributions of no less than 38% of payroll (as set forth in the MOU) and that actuarial assumptions (including a 7.5% investment return) are realized, the County's actuaries have projected that SamCERA will be fully funded by the beginning of fiscal year 2023-24.

The County has not issued pension bonds and has no pension related bond indebtedness in addition to the ongoing annual pension costs.

2012-13 Grand Jury Report. On April 15, 2013, the Grand Jury released a report regarding the SamCERA unfunded liability (the "2012-13 Grand Jury Report"). The 2012-13 Grand Jury Report stated that although SamCERA's CAFR for the fiscal year ended June 30, 2012 showed a UAAL of approximately $962 million, the Grand Jury believed, "based upon current economic conditions and SamCERA's actual investment performance, as opposed to its investment assumptions, the unfunded liability is closer to $2 billion." Further, the 2012-13 Grand Jury Report states that although some of the estimated $60 million annual increase in County revenues resulting from the passage of the Measure A sales tax within the County could be used to pay down SamCERA's unfunded liability, as of the date of the 2012-13 Grand Jury Report, the Board of Supervisors has not committed to use Measure A funds to reduce SamCERA's unfunded liability.

The Grand Jury recommended in the 2012-13 Grand Jury Report to the Retirement Board and the Board that they acknowledge that SamCERA's reported UAAL is materially understated. The Grand Jury further recommended to the Retirement Board that it set a more realistic assumed rate of return; improve the reporting of its financial results and employ only money managers for the alternative investment portion of the investment portfolio ranking in the top 10% of their peers; and to the Board of Supervisors that it implement GASB Statement No. 68 for fiscal year 2013-14; assure the financial qualifications of its Retirement Board appointees; formally review SamCERA's financial performance on a regular basis; give priority to the funding of SamCERA's unfunded liability over other new or expanded programs; adopt a minimum funded ratio for SamCERA and implement meaningful pension reform.

On May 28, 2013, the Retirement Board approved its responses (the "SamCERA Responses") to the 2012-13 Grand Jury Report's findings and recommendations pertaining to matters under the control of the Retirement Board. In the SamCERA Responses, the Retirement Board disagrees with most of the findings in the 2012-13 Grand Jury Report, responding, that, among other things, the County and SamCERA have "worked collaboratively and aggressively to manage retirement costs in the wake of the recession," and "… the County has exceeded funding requirements and continues its … commitment to meet or exceed its actuarial and legal commitments to the plan." The SamCERA Responses further state that none of the recommendations set forth in the 2012-13 Grand Jury Report will be implemented, as they are neither warranted nor reasonable. The SamCERA responses were submitted to the Grand Jury on July 3, 2013.

On July 9, 2013, the Board approved its responses (the "County Responses") to the 2012-13 Grand Jury Report's findings and recommendations pertaining to matters under the control of the County. In the County Responses, the Board disagreed with most of the findings in the 2012-13 Grand Jury Report, responding like the Retirement Board, that among other things, the County has "exceeded funding requirements and met or exceeded its actuarial and legal commitments to the retirement plan." The County Responses further state that the recommendation set forth in the 2012-13 Grand Jury Report to implement GASB Statement No. 68 will be implemented for fiscal year 2014-15, but that the remainder of the recommendations pertaining to matters under County control either have already been implemented or will not be implemented, as they are either unwarranted or unreasonable. See "—GASB Statement No. 67 and GASB Statement No. 68" above.

The County believes that it has one of the most conservative retirement funding structures in the State, with a 7.5% earnings rate assumption, losses outside a 20% corridor are recognized immediately, losses within the corridor are smoothed over five years, and the UAAL is amortized over 15 years. In fiscal year 2011-12, the County implemented lower retirement tiers for new employees and the lower PEPRA tiers and contribution rates were implemented effective January 1, 2013. See "—California Public Employees' Pension Reform Act" herein. In addition, as of June 30, 2013, the County's retirement plan was 73.3% funded without the assistance of pension obligation bonds (based on the actuarial value of assets). See "Funded Status and Funding Progress" above.

Investments. The Association's investments are managed by independent investment management firms subject to the guidelines and controls specified in its investment policy and contracts approved by the Retirement Board and executed by the Chief Executive Officer of the Association. The Retirement Board utilizes third-party institutions as custodians over the plan's assets.

The following table compares the Association's target allocations, which were adopted on August 24, 2010, and the actual allocations as of June 30, 2013.

Table 26
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
ASSET ALLOCATION AS A PERCENTAGE OF FAIR VALUE

Asset Class	Target Allocation	June 30, 2013 – Actual
Equity	53.0%	60.4%
Bonds	22.0%	20.1%
Alternatives	20.0%	13.3%
Real Estate	5.0%	6.1%
Cash	-	0.1%
Equity Management Style	**Target Allocation**	**June 30, 2013 – Actual**
Domestic Large Capitalization	28.0%	34.6%
Indexed	12.3%	18.1%
Active	15.7%	16.5%
Domestic Small Capitalization	7.0%	7.2%
Active	7.0%	7.2%
International	18.0%	18.7%
Active	18.0%	18.7%
Total Equity	53.0%	60.4%
Fixed Income Management Style	**Target Allocation**	**June 30, 2013 – Actual**
Domestic Bond Managers	17.6%	15.7%
Global Bond Managers	4.4%	4.4%
Total Fixed Income	22.0%	20.1%
Real Estate Management Style	**Target Allocation**	**June 30, 2013 – Actual**
Active	5.0%	6.1%
Total Real Estate	5.0%	6.1%

Source: County.

The following table summarizes the composition and market value of the Association's assets as of June 30, 2013.

Table 27
SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
MARKET VALUE OF ASSET ALLOCATION
As of June 30, 2013

Asset Allocation	Market Value
Large Capitalized U.S. Equities	$ 939,377,367
Small Capitalized U.S. Equities	196,478,975
International Equities	494,939,553
U.S. Bonds	428,578,645
Global Bonds	112,393,585
Alternative Investments	364,569,878
Real Estate	166,154,482
Cash & Deposits	25,332,847
Total	$2,727,825,332

Source: County.

Returns

For the past five and ten years ending June 30, 2013, the total plan return has averaged 4.3% and 6.4% per annum, respectively. For the fiscal year ended June 30, 2013, total plan return was 13.6%, or 0.9% above the 12.7% return on its policy index, and above the Association's 7.50% actuarial return expectation.

Post Employment Benefits Other Than Pensions

Plan Description. The County administers a single-employer defined benefit post-employment healthcare plan (the "Retiree Health Plan"). The Retiree Health Plan provides healthcare benefits to members who retire from the County and are eligible to receive a pension from the Association. Eligible retirees may elect to continue healthcare coverage in the Retiree Health Plan and convert their sick leave balance at retirement to a County-paid monthly benefit that will partially cover their retiree health premiums. The duration and amount of the County paid benefits depend on the amount of sick leave at retirement, the date of hire, the date of retirement and the bargaining unit to which the retiree belonged. After the County paid benefits expire, the retirees may continue coverage in the Retiree Health Plan at their own expense.

The County prefunds its OPEB obligations through the California Employers' Retiree Benefits Trust ("CERBT"), an irrevocable trust fund established on March 1, 2007 that allows public employers to prefund the future costs of their retiree health insurance benefits and OPEB for their covered employees or retirees. In May 2008, the County elected to participate in CERBT and deposited $145.4 million with CalPERS, the CERBT's administrator, to prefund its OPEB obligations. The prefunding was intended to reduce and stabilize the County's annual required contribution to the Retiree Health Plan in future years at an expected level for budgeting purposes.

The current funding policy of the County is to contribute the annual required contribution each year. Contribution requirements or amendments for Retiree Health Plan members and the County are established through negotiations with individual bargaining units. For fiscal year 2013-14, the County will contribute approximately $18.6 million, or 100%, of the actuarially required contributions, to the Retiree Health Plan. The following table sets forth the County's retiree health costs for fiscal years 2009-10 through 2013-14.

Table 28
COUNTY OF SAN MATEO
COUNTY RETIREE HEALTH COSTS
Fiscal Years 2009-10 through 2013-14

	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13	Fiscal Year 2013-14
General Fund	$10,058,321	$9,483,733	$10,790,296	$11,713,084	$14,732,136
Other Funds	2,818,679	2,779,267	3,281,704	3,297,916	3,903,864
Total Annual Required Contribution	$12,877,000	$12,263,000	$14,072,000	$15,011,000	$18,636,000

Source: County.

Annual OPEB Cost and Net OPEB Obligation. The County's annual OPEB cost is equal to (i) the annual required contribution (the "ARC"), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, plus (ii) one year's interest on the beginning balance of the net OPEB obligation, and minus (iii) an adjustment to the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over thirty years.

The County currently has a net OPEB asset as a result of the $145.4 million contribution made in May 2008. If the County does not set aside funds equal to the ARC (less current year benefit payments made directly by the County) each year, then the ARC (less benefit payments) will offset the net OPEB asset that has accumulated on the County's statement of net position. Similarly, if the County sets aside funds greater than the ARC each year, it will increase the net OPEB asset on the County's statement of net position.

The County contributes to its Retiree Health Plan based upon a combined actuarial assessment, including current employees. This results in the County paying a higher rate for current employees and a lower rate for retirees. The implicit subsidy represents 38% of the AAL.

The following table presents historical information about the funding status of the County's OPEB plan with the CERBT for the four most recent valuation dates. As of June 30, 2013, the most recent actuarial valuation date, the County's OPEB plan was 60.4% funded.

Table 29
COUNTY OF SAN MATEO
CALIFORNIA EMPLOYERS' RETIREE BENEFITS TRUST
($ in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	AAL– Entry Age (b)	UAAL (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
1/01/2009[1]	$101,362	$207,742	$106,380	48.8%	$479,981	22.2%
1/01/2011	153,171	243,149	89,978	63.0	451,307	19.9
6/30/2011	167,852	267,927	100,075	62.6	465,111	21.5
6/30/2013	192,789	319,359	126,570	60.4	452,750	28.0

(1) Based on the revised valuation on June 17, 2010, which covers Medicare Part B premium reimbursements for management employees.
Source: County; County CAFR, Fiscal Year Ended June 30, 2012 and Fiscal Year Ended June 30, 2013.

CalPERS, the administrator of the CERBT, issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811, but is not incorporated herein by such reference.

For further information on the Retiree Health Plan and the County's OPEB obligations, see note 14 to the County's audited financial statements included as APPENDIX C hereto.

Self-Insurance Programs

The County has established self-insurance programs for workers' compensation, unemployment, personal injury, property damage, dental, vision, long-term disability and automobile liability insurance. All County departments participate in the self-insurance program and make payments to the insurance funds and internal service funds. The insurance funds are responsible for collecting fees from other County funds, administering and paying claims and arranging the excess insurance coverage.

The County carries excess property insurance coverage subject to a $100,000 deductible, as follows: up to a maximum replacement value of $500 million after the first $100,000 claimed per incident; earthquake and flood damage up to a maximum of $25 million per occurrence and in the aggregate subject to a deductible equal to 5% of the replacement value per location or $250,000, whichever is greater; general liability and auto liability insurance up to $55 million per event after the first $1,000,000 claimed per incident; workers' compensation claims up to the maximum statutory limits after the first $1,000,000 claimed per incident; and medical malpractice insurance up to $25 million after the first $500,000 claimed per incident.

The activities related to such self-insurance programs are accounted for in trust funds. Accordingly, estimated liabilities for claims filed or to be filed for incidents which have occurred through June 30, 2013 are reported in these funds. County officials believe that assets of the trust funds, together with funds to be provided in the future, will be adequate to meet all self-insured claims for property, general liability, unemployment, disability income, medical malpractice and workers' compensation claims as they come due. In case of a catastrophic event, however, no assurance can be given that such assets and funds will be adequate to meet all self-insured claims that will become payable by the County. Revenues of the trust funds are primarily provided by contributions from other County funds and are intended to cover self-insured claim liabilities, insurance premiums and operating expenses.

County Debt Limit

In 1997, the Board adopted an ordinance (the "Debt Limit Ordinance"), which provides that annually at the time of approving the County budget, the Board will establish the County debt limit for such fiscal year. The Debt

Limit Ordinance has expired, but the County continues to abide by the Debt Limit Ordinance as a matter of policy. Pursuant to the Debt Limit Ordinance, the debt limit is applicable to non-voter approved debt that is the obligation of the County, including lease revenue obligations such as the 2014 Bonds. It does not include any voter approved debt or any debts of agencies, whether governed by the Board or not, other than the County. It also excludes any debt which is budgeted to be totally repaid from the current fiscal year budget. The Debt Limit Ordinance provides that the annual debt limit shall not exceed the amount of debt which can be serviced by an amount not to exceed 4% of the average annual County budget for the current and the preceding four fiscal years. The annual debt limit once established may be exceeded only by a four-fifths (4/5) vote of the Board and upon a finding that such action is necessary and in the best interests of the County and its citizens. Pursuant to the Debt Limit Ordinance, the County's annual debt service limit for fiscal year 2013-14 is $75.2 million and the amount of debt service subject to the debt limit is approximately $29.2 million.

Indebtedness

Short-Term Financing. The County issued the Prior Notes on December 19, 2013 in the aggregate principal amount of $16,300,000, all of which are currently outstanding. The Prior Notes were issued in order to reimburse the County for the purchase price of the 2014 Project Site. A portion of the 2014 Bonds will be used to refund the Prior Notes on or about May 1, 2014. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Long-Term Obligations.

General Obligation Bonds. The County has no outstanding general obligation bonds.

Authority Lease Revenue Bonds. The County has issued all of its lease revenue obligations through bond issuances of the Authority (collectively referred to herein as the "Authority Lease Revenue Bonds"). Authority Lease Revenue Bonds include the following amounts, outstanding as of March 14, 2014.

	Outstanding Principal Amount
Authority Lease Revenue Bonds (Capital Projects Program) 1993 Refunding Series A (the "1993A Bonds"), fixed rate, bearing (or accruing) interest at an average rate of 5.62%, payable semiannually (at maturity or earlier redemption) with annual principal requirements due through 2021	$34,730,000
Authority Lease Revenue Bonds Series of 1993 (North County Satellite Clinic Project) (the "1993 Bonds"), fixed rate, bearing (or accruing) interest at an average rate of 5.93%, payable semiannually (at maturity or earlier redemption) with annual principal requirements due through 2026	6,850,000
Authority Refunding Lease Revenue Bonds (Youth Services Campus), 2008 Series A (the "2008 Bonds"), fixed rate, bearing or accruing interest at an average rate of 5.30%, payable semiannually (at maturity or earlier redemption) with annual principal requirements due through 2036	127,200,000
Authority Lease Revenue Bonds (Capital Projects), 2009 Series A (the "2009 Bonds"), fixed rate, bearing or accruing interest at an average rate of 4.91%, payable semiannually (at maturity or earlier redemption) with annual requirements due through 2026	94,625,000
Authority Lease Revenue Bonds (Refunding and Capital Projects) 2013 Series A (the "2013 Bonds"), fixed rate, bearing interest at an average rate of ___%, payable semiannually (at maturity or earlier redemption) with annual principal requirements due through 2032	40,065,000
Total	$303,470,538

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The County paid approximately $28.9 million in debt service in fiscal year 2012-13 with respect to the Authority Lease Revenue Bonds, and will pay approximately $29.1 million and $28.3 million in debt service due in fiscal years 2013-14 and 2014-15, respectively with respect to such obligations.

The following table sets forth the estimated annual debt service on each series of the Authority Lease Revenue Bonds.

Table 30
COUNTY OF SAN MATEO
AUTHORITY LEASE REVENUE BONDS
ANNUAL DEBT SERVICE REQUIREMENT

Period Ending (June 30)	1993 Bonds	1993A Bonds	2008 Bonds	2009 Bonds	2013A Bonds	Total
2015	-	$5,353,338	$9,296,319	$10,630,225	$ 2,941,063	$28,220,944
2016	-	5,343,200	9,297,569	10,643,550	3,073,063	28,357,381
2017	-	5,337,788	9,293,969	10,684,675	3,070,963	28,387,394
2018	$ 925,000	5,355,206	9,294,969	9,844,175	3,065,713	28,485,063
2019	955,000	5,352,781	9,295,269	9,863,200	3,071,463	28,537,713
2020	995,000	5,323,500	9,294,969	9,883,700	3,068,838	28,566,006
2021	1,035,000	5,344,250	9,296,969	9,902,425	2,185,463	27,764,106
2022	1,075,000	5,335,125	9,298,719	9,920,113	2,187,213	27,816,169
2023	1,115,000	-	9,294,844	9,937,581	2,187,463	22,534,888
2024	1,160,000	-	9,294,844	9,577,319	2,191,088	22,223,250
2025	1,205,000	-	9,297,969	9,418,394	2,183,213	22,104,575
2026	1,255,000	-	9,298,603	9,649,400	2,183,838	22,386,841
2027	1,305,000	-	9,294,781	8,276,706	2,182,713	21,059,200
2028	-	-	9,295,125	-	11,473,313	20,768,438
2029	-	-	9,294,588	-	5,673,263	14,967,850
2030	-	-	9,295,500	-	5,546,419	14,841,919
2031	-	-	9,297,750	-	3,103,906	12,401,656
2032	-	-	9,298,125	-	3,121,081	12,419,206
2033	-	-	9,295,875	-	2,236,538	11,532,413
2034	-	-	9,295,125	-	-	9,295,125
2035	-	-	9,294,875	-	-	9,294,875
2036	-	-	9,294,125	-	-	9,294,125
2037	-	-	9,296,750	-	-	9,296,750
2038	-	-	-	-	-	-
2039	-	-	-	-	-	-
2040	-	-	-	-	-	-

Anticipated Financings. In addition to financing the Maguire Correctional Facility project as described in "THE COUNTY OF SAN MATEO—County Services—Justice Services," the County also plans on financing the replacement of the Cordilleras Mental Health Facility, a 117-bed psychiatric facility in Redwood City. In August 2013, the Board approved $250,000 in Measure A funds to develop a financing plan for a replacement facility. A report from the consultant on the preliminary designs and estimated costs is expected in May 2014.

The County also intends to fund the construction of a new Public Safety Dispatch Center and the replacement of the Pescadero Fire Station (Station #59) with Measure A funds. **[County to provide cost info]** See "COUNTY FINANCIAL INFORMATION—Fiscal Year 2014-15 and Future Year Budgets—Five-Year Revenue and Expenditure Projections" herein.

The County is currently engaged in a Capital Facility Master Planning process that will identify capital facility needs over the next five years. The County is likely to issue additional lease revenue bonds to fund any identified facility needs, including issuing Additional Bonds under the Trust Agreement or additional bonds under separate trust agreements within the next five years.

Estimated Direct and Overlapping Debt. The table that follows is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics Inc. and dated as of March 1, 2014. The Debt Report is included for general information purposes only. None of the County, the Authority or the Underwriters has reviewed the Debt Report for completeness or accuracy and none of the County, the Authority or the Underwriters make any representations in connection therewith. Inquiries concerning the scope and methodology of procedures carried out to complete the information presented should be directed to California Municipal Statistics, Inc., Oakland, California.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the County in whole or in part. Such long-term obligations generally are not payable from revenues of the County (except as indicated) nor are they necessarily obligations secured by land within the County. In many cases, long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report are as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the Debt Report and whose territory overlaps the County (2) the second column shows the respective percentage of the assessed valuation of the overlapping public agencies identified in column 1 which is represented by property located in the County; and (3) the third column is an apportionment of the dollar amount of each public agency's outstanding debt (which amount is not shown in the table) to property in the County, as determined by multiplying the total outstanding debt of each agency by the percentage of the County's assessed valuation represented in column 2.

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Table 31
COUNTY OF SAN MATEO
DIRECT AND OVERLAPPING DEBT
AS OF MARCH 1, 2014
($ in Thousands)

Assessed Valuation (including unitary utility valuation): $158,463,786
Redevelopment Incremental Assessed Valuation[1]: $13,152,596

	Debt Outstanding	Estimated Percentage Applicable[2]	Estimated Share of Overlapping Debt
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Mateo County General Fund Obligations	$298,705	100%	$298,705
San Mateo County Flood Control District Certificates of Participation	21,860	100	21,860
	$320,565		$320,565
OVERLAPPING GENERAL FUND DEBT:			
Cities			
City of Brisbane General Fund and Pension Obligations	$27,975	100%	$27,975
City of Burlingame General Fund and Pension Obligations	41,595	100	41,595
City of Daly City Pension Obligations	29,810	100	29,810
City of Pacifica General Fund Obligations and Pension Obligations	34,380	100	34,380
City of San Mateo General Fund Obligations	36,305	100	36,305
Other City General Fund and Pension Obligations	59,060	100	59,060
Special Districts			
Midpeninsula Regional Open Space Park General Fund Obligations	133,210	30.843	41,086
Granada Sanitary District Certificates of Participation	271	100	271
Menlo Park Fire Protection District Certificates of Participation	11,515	100	11,515
School District			
Mateo County Board of Education Certificates of Participation	11,455	100	11,455
South San Francisco Unified School District Certificates of Participation	903	100	903
Portola Valley School District Certificates of Participation	2,569	100	2,569
Redwood City School District General Fund Obligations	1,509	100	1,509
San Bruno Park School District General Fund Obligations	4,725	100	4,725
TOTAL OVERLAPPING GENERAL FUND DEBT	$395,282		$303,158
OVERLAPPING TAX AND ASSESSMENT DEBT:			
Cities	$62,675	100%	$62,675
Special Districts			
Montara Sanitary District	12,655	100	12,655
Community Facilities District	112,805	100	112,805
1915 Act Bonds	17,168	100	17,168
School Districts			
San Mateo Community College District	563,370	100	563,370
Cabrillo Unified School District	27,543	100	27,543
La Honda-Pescadero Unified School District	5,377	100	5,377
South San Francisco Unified School District	121,571	100	121,571
Jefferson Union High School District	147,462	100	147,462
San Mateo Union High School District	514,147	100	514,147
Sequoia Union High School District	328,635	100	328,635
Belmont-Redwood Shores School and School Facilities Improvement Districts	90,464	100	90,464
Burlingame School District	85,947	100	85,947
Hillsborough School District	56,031	100	56,031
Jefferson School District	62,045	100	62,045
Menlo Park City School District	93,854	100	93,854
Millbrae School District	58,590	100	58,590
Redwood City School District	40,103	100	40,103
San Carlos School District	70,692	100	70,692
San Mateo-Foster City School District	186,857	100	186,857
Other School Districts	91,514	100	91,514
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT	$2,749,505		$2,749,505
OVERLAPPING TAX INCREMENT DEBT:	$306,394	100	$306,394
TOTAL OVERLAPPING DEBT	**$3,451,181**		**$3,359,057**
TOTAL DIRECT AND OVERLAPPING DEBT	**$3,771,746**[3]		**$3,679,622**

Ratio of Total Direct and Overlapping Debt to Assessed Valuation: 2.32%
Ratio of Total Overlapping Tax Increment Debt to Redevelopment Incremental Valuation: 2.33%

State School Building Aid Repayable as of 6/30/13: $0

(1) Redevelopment incremental valuation refers to the difference between base year assessed value and current year assessed value of properties in areas designated for redevelopment. Base year assessed value is the agreed upon value of a property at the time the redevelopment agency was established.
(2) Percentage of overlapping agency's assessed valuation located within the boundaries of the county.
(3) Excludes enterprise revenue, mortgage revenue, tax and revenue anticipation notes, and non-bonded capital lease obligations.

Financial Statements

The general purpose financial statements of the County for the fiscal year ended June 30, 2013, pertinent sections of which are included in Appendix C to this Official Statement, were audited by Macias, Gini & O'Connell LLP, independent accountants (the "Auditor"), as stated in their report appearing in Appendix C. The County has not requested, nor has the Auditor given, the Auditor's consent to the inclusion in Appendix C of its report on such financial statements. The Auditor's review in connection with the audited financial statements included in Appendix C included events only as of June 30, 2013 and no review or investigation with respect to the subsequent events has been undertaken in connection with such financial statements by the Auditor. The County has certified that it is not aware of any events occurring since June 30, 2013 that would cause the financial information in Appendix C hereof to be incorrect or misleading in any material respect.

Except as noted below, the County's accounting policies and audited financial statements conform to generally accepted accounting principles and standards for public financial reporting established by the GASB. The County's basis of accounting for its governmental type funds is the modified accrual basis with revenues being recorded when available and measurable and expenditures being recorded when services or goods are received and with all unpaid liabilities being accrued at year-end. All of the financial statements for governmental fund types contained in this Official Statement have been prepared on this modified accrual basis and all financial statements for proprietary funds contained in the Official Statement have been prepared on an accrual basis.

Funds accounted for by the County are categorized as follows:

Governmental Funds	Proprietary Funds	Fiduciary Funds
General Fund	Enterprise Funds	Trust and Agency Funds
Special Revenue Funds	Internal Service Funds	
Debt Service Fund		
Capital Project Funds		

The following table presents, with respect to the County's General Fund, the County's statement of revenue and expenses for fiscal years 2008-09 through 2012-13.

Table 32
COUNTY OF SAN MATEO
COMBINED STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Years 2008-09 through 2012-13
($ in Thousands)

	2008-09	2009-10	2010-11[3]	2011-12	2012-13
REVENUES					
Taxes	$376,626	$386,649	$375,088	$367,234	$440,808
Licenses and Permits	5,372	5,251	5,415	5,891	6,250
Aid From Governmental Agencies	358,477	359,024	376,708	433,201	457,867
Charges for Services	95,711	90,395	91,380	98,155	94,266
Fines, Forfeitures and Penalties	9,011	10,712	12,232	10,532	9,958
Rents and Concessions	1,264	1,090	1,859	1,510	1,613
Investment Income	1,324[2]	7,657	6,602	8,157	3,401
Securities Lending Activities:					
Securities Lending Income	237	31	21	–	–
Securities Lending Expenditures	(183)	(24)	(17)	–	–
Other	25,603	26,530	24,690	23,489	26,850
TOTAL REVENUES	$873,442	$887,315	$893,978	$948,169	$1,041,013
EXPENDITURES					
Current:					
General Government	$ 70,749	$69,368	$59,005	$59,660	$69,279
Public Protection	281,796	283,939	314,501	326,717	320,517
Health and Sanitation	207,640	209,946	197,778	203,066	205,650
Public Assistance	206,098	190,352	195,904	187,570	184,840
Recreation	8,638	8,727	9,110	8,222	8,005
Capital Outlay	2,214	1,643	7,503	7,336	6,815
Debt Service:					
Principal Retirement	15	–	–	–	–
Interest	–	–	–	3	3
TOTAL EXPENDITURES	$777,150	$763,975	$783,801	$792,574	$795,109
EXCESS OF REVENUES OVER EXPENDITURES	$ 96,292	$123,340	$110,177	$155,595	$245,904
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	$ 1,207	$ 292	$ 288	$ 268	$ 814
Operating Transfers Out[1]	(113,884)	(95,503)	(150,121)	(92,671)	(118,081)
Proceeds From Sale of Capital Assets	2	2	5	2	3
Total Other Financing Sources (Uses)	$(112,675)	$(95,209)	$(149,828)	$(92,401)	($118,081)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	$(16,383)	$28,131	$(39,651)	$63,194	$127,823
Fund Balance, Beginning of Year	$273,858	$257,475	$285,606	$245,955	$309,149
Fund Balance, End of Year	$257,475	$285,606	$245,955	$309,149	$436,972

(1) Operating transfers from the General Fund consist primarily of the subsidy to the County Medical Center's Enterprise Fund. Transfers from the General Fund are also made to other County funds, including payments made for the General Fund portion of capital projects, debt service and in-home supportive services.
(2) In fiscal year 2008-09, the County's investment earnings declined $20.3 million primarily due to the onset of the Great Recession and the Lehman bankruptcy, discussed below under the heading "—County Treasurer's Investment Pool—Lehman Bankruptcy."
(3) In fiscal year 2010-11, the County made one-time capital purchases totaling $56.7 million for the Circle Star Plaza and the 2014 Project Site.
Source: County General Purpose Financial Statements.

The following table presents, with respect to the County General Fund, the County's general balance sheet as of June 30 for each of the past five fiscal years ended June 30, 2009 through June 30, 2013.

Table 33
COUNTY OF SAN MATEO
GENERAL FUND
COMBINED BALANCE SHEET
AT JUNE 30, 2009, 2010, 2011, 2012 AND 2013
($ in Thousands)

	June 30,				
	2009	**2010**	**2011**	**2012**	**2013**
ASSETS:					
Cash and Investments	$275,982	$326,193	$295,692	$362,404	$456,081
Securities Lending Collateral	19,446	49,986	–	–	–
Receivables					
Taxes, net of allowances for uncollectible amounts	16,195	13,403	13,423	14,488	15,070
Accounts, net of allowances for uncollectible amounts	16,098	17,961	7,474	7,716	19,796
Mortgages	60,188	61,547	63,657	67,555	68,836
Interest	12,345	8,407	12,306	12,405	13,388
Other	28,424	22,307	21,442	23,113	25,814
Due from Other Governmental Agencies	177,937	168,883	178,369	163,725	183,861
Due from Other Funds	13,867	372	717	2,640	6,536
Advances to Other Funds	7,029	7,324	7,731	5,345	4,138
Inventories	125	103	89	61	84
Other Assets	6,114	13	186	357	2,676
TOTAL ASSETS	$633,750	$676,499	$601,086	$659,809	$796,280
LIABILITIES:					
Accounts Payable	$ 26,880	$26,742	$24,016	$28,405	$32,069
Accrued Salaries and Benefits	22,593	24,433	27,437	10,132	10,466
Accrued Liabilities	2,219	2,045	–	14,492	120
Securities Lending Collateral – Due to Borrowers	19,446	49,986	–	–	–
Due to Other Funds	6,375	657	385	551	3,868
Due to Other Governmental Agencies	19,616	17,961	21,214	23,990	25,034
	–	–	–	–	49,575
Deferred Revenues	279,146	269,069	282,079	273,090	238,176
Total Liabilities	$376,275	$390,893	$355,131	$350,660	$359,308
Reserved for:					
Encumbrances	$ 7,154	$10,666	$12,099	$27,124	$24,397
Advances to other funds and inventories	31,668	33,466	35,653	46,149	4,138
Committed	789	1,834	1,572	–	60,119
Unreserved:					
Designated	38,583	92,881	1,763	4,590	6,190
Undesignated	179,281	146,759	194,868	231,286	342,146
TOTAL LIABILITIES	$633,750	$676,499	$601,086	$659,809	$796,280

Source: County Controller.

See also APPENDIX C – "AUDITED COMBINED FINANCIAL STATEMENTS OF THE COUNTY FOR FISCAL YEAR 2012-2013."

County Treasurer's Investment Pool

General. The County sponsors an investment pool (the "County Pool") to invest funds of the County and external public entities. The County Treasurer manages, in accordance with California Government Code Section 53600 et seq., funds deposited in the County Treasury by the County, all County school districts, various special districts, and some cities within the County. Moneys of the County, school districts and certain special districts are held in the County Treasury by the County Treasurer. The County Treasurer accepts funds primarily from agencies located within the County. As of December 31, 2013, there were 1,119 participant accounts in the County Pool, the largest single agencies being the school districts and community college districts (representing 34.6% of the County Pool) and the County (representing 39.4% of the County Pool). The moneys on deposit are predominantly derived from local government revenues consisting of property taxes, State and federal funding and other fees and charges. The following table sets forth the investments in the County Pool held for local agencies as of December 31, 2013.

Table 34
SAN MATEO COUNTY
INVESTMENT POOL PARTICIPANTS
As of December 31, 2013

Participant Category	Invested Funds	% of Total
School Districts and Community College Districts	$1,205,603,228.92	34.6%
Cities	337,769,632.53	9.7
Special Districts	133,780,456.04	3.8
Bay Area Air Quality Management District	175,017,797.72	5.0
San Mateo County Transportation Authority/JPB	263,278,962.84	7.5
All Other San Mateo County Funds	1,376,670,070.47	39.4
Total	$3,492,120,148.52	100.0%

Source: County.

The following table sets forth the composition, carrying amount, and market value of the County Pool as of December 31, 2013.

Table 35
SAN MATEO COUNTY
INVESTMENT POOL
SUMMARY OF ASSETS HELD
As of December 31, 2013

Security	Carrying Value(1)	Market Value(2)	% of Total
Repurchase Agreements	$ 61,160,000.00	$ 61,166,099.01	1.8%
Floating Rate Securities	380,452,400.00	381,349,435.53	11.0
Corporate Bonds	444,832,777.78	446,517,603.01	12.9
Commercial Paper	334,484,931.53	334,655,633.92	9.7
Local Agency Investment Fund	45,000,000.00	45,017,597.22	1.3
Federal Agency-Floating Rate Securities	48,500,000.00	48,526,971.39	1.4
Federal Agency Securities	1,575,216,687.06	1,573,536,890.94	45.5
United States Treasuries	577,629,114.98	571,038,188.77	16.5
Total	$3,467,275,911.35	$3,461,808,419.79	100.0%

(1) The "carrying value" of the pool securities represents the cost of such securities to the County.
(2) The "market value" of the pool securities is composed of the market value of such securities plus accrued interest.
Source: County.

The composition and value of investments under management in the County Pool will vary from time to time depending on cash flow needs of the County and public agencies invested in the County Pool, maturity or sale of investments and purchase of new securities, and due to fluctuations in interest rates generally.

As reflected in the table above, as of December 31, 2013, the carrying value and market value of investments credited to the County Pool were both approximately $3.46 billion and included approximately $489 billion in cash or cash equivalents, which represents the County Pool's liquidity. As of December 31, 2013, the dollar weighted average maturity of the County Pool was 1.75 years with a duration of 1.71 years and approximately 26% of the assets of the County Pool come from public agencies which can make discretionary withdrawals for the purposes of making alternative investments. The County Treasurer believes the liquidity in the portfolio is adequate to meet expected cash flow requirements and would preclude the County from the need to sell investments at below carrying value. However, the County has in the past and may in the future elect to sell securities below carrying value, borrow short-term debt to fund cash flow needs and take other actions as the County Treasurer may deem warranted by prudent fiscal management.

County Investment Policy. The current investment policy was adopted by the Board on February 1, 2014 (the "County Investment Policy"). To meet the requirements of both liquidity and long-term investment needs, the County Investment Policy established the County Pool. The County Pool attempts to match maturities with capital expenditures and other planned outlays. It is designed as an income fund to maximize the return on investable funds over various market cycles, consistent with limiting risk and prudent investment principles. Yield is considered only after safety and credit quality have been met. The purpose of the fund is to provide investors with a reasonably predictable level of income.

The maximum allowable maturity of instruments in the County Pool at the time of investment is seven years and the maximum dollar weighted average maturity of the fund is three years. Subject to California law, funds deposited in the County Pool under the County Investment Policy may only be reclaimed at the rate of 20% of the principal balance per month, exclusive of apportionment, payrolls and day-to-day operations, unless specifically authorized by the County Treasurer. Gains and losses in the County Pool are proportionately allocated to each depositor quarterly, each being given credit for accrued interest earnings and capital gains based on their average daily pool balance. The minimum balance for an outside agency to maintain an account in the County Pool is $250,000.

The County Treasurer may not leverage the County Pool through any borrowing collateralized or otherwise secured by cash or securities held unless authorized by the County Investment Policy in accordance with California law. The County Investment Officer is prohibited from doing personal business with brokers that do business with the County.

The fund also permits investments in repurchase agreements in an amount not exceeding 100% of the fund value. Collateralization on repurchase agreements is set at 102%. Reverse repurchase agreements are limited to 20% of the fund and must have a maximum maturity of 92 days or a maturity date equal to, or shorter than, the stated final maturity of the security underlying the reverse repurchase agreement itself. Currently there are no reverse repurchase agreements in the County Pool and the County does not generally invest in reverse repurchase agreements. The County has not been required to make any collateral calls with respect to reverse repurchase agreements previously maintained in the fund.

The County Investment Policy permits certain securities lending transactions up to a maximum of 20% of the County Pool. The program is conducted under a Custody Agreement by and between the County and The Bank of New York, as custodian.

The Board has established an eight-member County Treasury Oversight Committee (the "Oversight Committee") pursuant to State law. Members are selected pursuant to State law.

The Oversight Committee meets at least three times a year to evaluate general strategies, to monitor results and to evaluate the economic outlook, portfolio diversification, maturity structure and potential risks to the funds. It will also consider cash projections and needs of the various participating entities, control of disbursements and cost-effective banking relationships.

The County Treasurer prepares a monthly report for the County Pool participants, the Board and members of the Oversight Committee stating the type of investment, name of the issuer, maturity date, par and dollar amount of the investment. The report also lists average maturity and market value. In addition, the County Treasurer prepares a cash flow report which sets forth projections for revenue inflows and interest earnings as compared to the projections for the operating and capital outflows of depositors. The projection will be for at least the succeeding twelve months. An annual audit of the portfolios, procedures, reports and operations related to the County Pool will be conducted in compliance with California law.

The County Investment Policy is reviewed and approved annually by the Board. All amendments to the policy must be approved by the Board.

Lehman Bankruptcy. On September 15, 2008, Lehman Inc. ("Lehman") filed the largest bankruptcy in United States history. In addition to private investors around the world, numerous public agencies from around the country that had retirement or investment funds in Lehman experienced losses. The County had invested about 5.9% of its investment pool in Lehman securities. Specifically, of a total County Pool of approximately $2.6 billion, the County Pool wrote down approximately $155 million in value as a result of the bankruptcy. This write down resulted in a projected $8.6 million loss to the County's General Fund and a total $30 million loss to the County. The County Treasurer charged the loss against investment income for the quarter ending September 30, 2008, with the net result of a loss of 4.7% against each pool participant based on their average daily balance for the quarter ending September 2008. The County subsequently engaged in an aggressive effort to recover the Lehman loss by becoming a creditor in the bankruptcy action, becoming actively involved in a nationwide effort to recover the lost funds through federal legislative efforts, and by filing a lawsuit in 2009 against former Lehman officers and directors and Ernst & Young LLP, as Lehman's independent accounting firm, seeking damages for alleged securities fraud.

The Bankruptcy Court approved the Lehman liquidation plan in 2011, which included a total distribution (i.e. the total payout from the liquidation of Lehman) to take approximately 2 years with 4-5 semiannual distributions occurring in spring and fall. The first bi-annual distribution took place in April 2012, and as of April 2013 three separate distributions were made whereby the County received approximately 14.8% of its $155 million claim. In August 2013, the County's remaining interests in Lehman were sold for approximately $38.6 million, bringing the County Pool's total recovery through the bankruptcy proceedings to approximately $61.6 million, or 39.8%, of the $155 million claim.

A settlement was recently reached in connection with the County's lawsuit against former Lehman officers and directors. As of February 2014, the former officers and directors of Lehman had paid $5.2 million to the County, for a total recovery to date of $66.8 million or 43.2% of its $155 million claim. The lawsuit against Ernst & Young LLP continues.

Thirteen school districts sued the County and the County Treasurer claiming over $50 million dollars in damages due to the County Pool losses as a result of the Lehman bankruptcy. The County had its demurrer sustained in the Superior Court in San Francisco and the case was appealed by the plaintiffs to the Court of Appeals. The Court of Appeal upheld the trial Court's ruling, and the State Supreme Court has denied hearing the plaintiffs' appeal of the lower courts' decisions.

Since the Lehman loss, the performance of the County Pool has improved. The average investment return from the County Pool was 0.99% and 0.70% in fiscal years 2011-12 and 2012-13, respectively.

For further information regarding the existing County Pool, see note 2 to the audited financial statements of the County included in Appendix C hereto.

RISK FACTORS

The following factors, which represent material risk factors that have been identified at this time, should be considered along with all other information in this Official Statement by potential investors in evaluating the 2014 Bonds. There can be no assurance made that other risk factors will not become evident at any future time.

Base Rental Payments Not County Debt

THE COUNTY HAS NOT PLEDGED THE FULL FAITH AND CREDIT OF THE COUNTY, THE STATE OR ANY AGENCY OR DEPARTMENT THEREOF TO THE PAYMENT OF THE BASE RENTAL PAYMENTS OR ANY OTHER PAYMENTS DUE UNDER THE FACILITIES LEASE. In the event the County's revenue sources are less than its total obligations, the County could choose to fund other municipal services before making Base Rental Payments and other payments due under the Facilities Lease. The same result could occur if, because of State Constitutional limits on expenditures, the County is not permitted to appropriate and spend all of its available revenues.

Abatement Risk

During any period in which, by reason of material damage or destruction, there is substantial interference with the use and occupancy by the County of any portion of the Facilities, rental payments due under the Facilities Lease with respect to the Facilities will be abated proportionately, and the County waives any and all rights to terminate the Facilities Lease by virtue of any such interference and the Facilities Lease shall continue in full force and effect. See "SECURITY FOR THE 2014 BONDS—Base Rental Payments" and "BASE RENTAL PAYMENTS—Abatement" herein.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the total Base Rental Payments due over the term of the Facilities Lease and the Trustee is not empowered to sell a fee simple interest in the Facilities and use the proceeds of such sale to prepay the 2014 Bonds or pay debt service thereon. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest as described below.

Limitation on Remedies

The enforcement of any remedies provided in the Facilities Lease and the Trust Agreement could prove both expensive and time consuming. Although the Facilities Lease provides that if the County defaults the Authority may reenter the Facilities and re-let it, portions of the Facilities may not be easily recoverable, and even if recovered, could be of little value to others because of the Facilities' specialized nature. Additionally, the Authority may have limited ability to re-let the Facilities to provide a source of rental payments sufficient to pay the principal and interest on the Bonds so as to preserve the tax-exempt nature of interest on the 2014 Bonds. Furthermore, due to the governmental nature of the Facilities, it is not certain whether a court would permit the exercise of the remedy of re-letting with respect thereto.

Alternatively, the Authority may terminate the Facilities Lease and proceed against the County to recover damages pursuant to the Facilities Lease. Any suit for money damages would be subject to limitations on legal remedies against public agencies in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

Risk of Uninsured Loss

The County covenants under the Facilities Lease to maintain certain insurance policies on the Facilities. These insurance policies do not cover all types of risk. For example, the Facilities could be the subject of an eminent domain proceeding. Under these circumstances an abatement of Base Rental Payments could occur and could continue indefinitely. In cases where the casualty is covered by insurance, there can be no assurance that the

County's insurance carriers will in all events be able or willing to make payments under their respective policies should a claim be made. Further, there can be no assurances that amounts received as proceeds from insurance or from condemnation of the Facilities will be sufficient to repair or replace the Facilities or to redeem the 2014 Bonds.

The County currently insures all its buildings against earthquake and flood damage. However, the County makes no pledge to maintain such insurance and may discontinue earthquake coverage at its sole discretion. See "—Risk of Earthquake" below.

Certain of the County's insurance policies provide for deductibles that vary according to insured peril. Should the County be required to meet such deductible expenses, the availability of General Fund revenues to make Base Rental Payments may be correspondingly affected.

No Limitation on Incurring Additional Obligations

Neither the Facilities Lease nor the Trust Agreement contains any limitations on the ability of the County to enter into other obligations that may constitute additional claims against its General Fund revenues. To the extent that the County incurs additional obligations, the funds available to make Base Rental Payments may be decreased. The County is currently liable on other obligations payable from General Fund revenues. See "COUNTY FINANCIAL INFORMATION—Indebtedness" herein.

Bankruptcy

In addition to the limitation on remedies contained in the Trust Agreement, the rights and remedies provided in the Trust Agreement and the Facilities Lease may be limited by and are subject to the provisions of federal bankruptcy laws and to other laws or equitable principles that may affect the enforcement of creditors' rights. The County is a governmental unit and therefore cannot be the subject of an involuntary case under the United States Bankruptcy Code (the "Bankruptcy Code"). However, the County is a municipality and therefore may seek voluntary protection from its creditors pursuant to Chapter 9 of the Bankruptcy Code for purposes of adjusting its debts. If the County were to become a debtor under the Bankruptcy Code, the County would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 case. Among the adverse effects of such a bankruptcy might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the County or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the County and could prevent the Trustee from making payments from funds in its possession; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or secured debt which may have a priority of payment superior to that of Owners of the 2014 Bonds; and (iv) the possibility of the adoption of a plan (an "Adjustment Plan") for the adjustment of the County's various obligations over the objections of the Trustee or all of the Owners of the 2014 Bonds and without their consent, which Adjustment Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that such Adjustment Plan is "fair and equitable" and in the best interests of creditors. The adjustment of similar obligations is currently being litigated in federal court in connection with bankruptcy applications by the cities of San Bernardino and Stockton. The Adjustment Plans in these cities propose significant reductions in the amounts payable by the cities under lease revenue obligations substantially identical to the 2014 Bonds. The County can provide no assurances about the outcome of the bankruptcy cases of other California municipalities or the nature of any Adjustment Plan if it were to file for bankruptcy.

In addition, the County could either reject the Site Lease or the Facilities Lease or assume the Site Lease or the Facilities Lease despite any provision of the Site Lease or the Facilities Lease that makes the bankruptcy or insolvency of the County an event of default thereunder. If the County rejects the Facilities Lease, the Trustee, on behalf of the Owners of the 2014 Bonds, would have a pre-petition unsecured claim that may be substantially limited in amount, and this claim would be treated in a manner under an Adjustment Plan over the objections of the Trustee or Owners of the 2014 Bonds. Moreover, such rejection would terminate the Facilities Lease and the County's obligations to make payments thereunder. The County may also be permitted to assign the Facilities Lease (or the Site Lease) to a third party, regardless of the terms of the transaction documents. If the County rejects the Site Lease, the Trustee, on behalf of the Owners of the 2014 Bonds, would have a pre-petition unsecured claim and this claim would be treated in a manner under an Adjustment Plan over the objections of the Trustee or Owners of the 2014 Bonds. Moreover, such rejection may terminate both the Site Lease and the Lease and the obligations of the County to make payments thereunder.

The Authority is a public agency and, like the County, cannot be the subject of an involuntary case under the Bankruptcy Code. The Authority may also seek voluntary protection under Chapter 9 of the Bankruptcy Code. If the Authority were to become a debtor under the Bankruptcy Code, the Authority would be entitled to all of the protective provisions of the Bankruptcy Code as applicable in a Chapter 9 case. Such a bankruptcy could adversely affect the payments under the Trust Agreement. Among the adverse effects might be: (i) the application of the automatic stay provisions of the Bankruptcy Code, which, until relief is granted, would prevent collection of payments from the Authority or the commencement of any judicial or other action for the purpose of recovering or collecting a claim against the Authority and could prevent the Trustee from making payments from funds in its possession; (ii) the avoidance of preferential transfers occurring during the relevant period prior to the filing of a bankruptcy petition; (iii) the existence of unsecured or secured debt which may have priority of payment superior to that of the Owners of the 2014 Bonds; and (iv) the possibility of the adoption of an Adjustment Plan for the adjustment of the Authority's various obligations over the objections of the Trustee or all of the Owners of the 2014 Bonds and without their consent, which Adjustment Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that such Adjustment Plan is fair and equitable and in the best interests of creditors.

In addition, in a bankruptcy of the Authority, the assignment by the Authority to the Trustee of the Site Lease and the Facilities Lease could be characterized as a pledge rather than an absolute assignment. Under such circumstances, the Authority may be able to either reject the Site Lease or the Facilities Lease or assume the Site Lease or the Facilities Lease despite any provision of the Site Lease or the Facilities Lease that makes the bankruptcy or insolvency of the Authority an event of default thereunder. If the Authority rejects the Site Lease, the Trustee, on behalf of the Owners of the 2014 Bonds, would have a pre-petition unsecured claim that may be substantially limited in amount and this claim would be treated in a manner under an Adjustment Plan over the objections of the Trustee or Owners of the 2014 Bonds. Moreover, such rejection would terminate both the Site Lease and the Facilities Lease and the obligations of the County to make payments thereunder. If the Authority rejects the Facilities Lease, the Trustee, on behalf of the Owners of the 2014 Bonds, would have a pre-petition unsecured claim and this claim would be treated in a manner under an Adjustment Plan over the objections of the Trustee or Owners of the 2014 Bonds. Moreover, such rejection may terminate the Facilities Lease and the County's obligations to make payments thereunder. The Authority may also be permitted to assign the Site Lease or the Facilities Lease to a third-party, regardless of the terms of the transaction documents.

Loss of Tax Exemption

As discussed under the heading "TAX MATTERS," certain acts or omissions of the County in violation of its covenants in the Trust Agreement and the Facilities Lease could result in the interest evidenced by the 2014 Bonds being includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the 2014 Bonds. Should such an event of taxability occur, the 2014 Bonds would not be subject to a special redemption and would remain Outstanding until maturity or until redeemed under the provisions contained in the Trust Agreement.

Risk of Earthquake

There are several earthquake faults in the greater San Francisco Bay Area that potentially could result in damage to buildings, roads, bridges, and property within the County in the event of an earthquake. Past experiences, including the 1989 Loma Prieta earthquake, have resulted in minimal damage to the infrastructure and property in the County. Earthquake faults that could affect the County include the San Andreas Fault within portions of the County.

The Facilities Lease does not require the County to maintain earthquake insurance on the Facilities. The County currently insures all of its buildings against certain risks, including earthquake damage, through a $25 million per occurrence and in the aggregate property insurance policy, subject to certain deductibles as described under "COUNTY FINANCIAL INFORMATION—Self-Insurance Programs" herein. Earthquake insurance may be reduced or eliminated at the County's sole discretion.

Risk of Sea Level Changes and Flooding

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

The County is unable to predict whether sea-level rise or other impacts of climate change or flooding from a major storm will occur, when they may occur, and if any such events occur, whether they will have a material adverse effect on the business operations or financial condition of the County and the local economy. The obligation of the County to make payments of Base Rental may be abated if the Facilities or any improvements thereon are damaged or destroyed by sea-level rise or other impact of climate change. There can be no assurance that the Facilities would not be damaged in whole or in part by a sea-level rise or other impact of climate change.

Natural Gas Transmission and Distribution Pipelines

In September 2010, a Pacific Gas and Electric Company ("PG&E") high pressure natural gas transmission pipeline exploded in San Bruno, California, a city within the County. The results of the explosion were catastrophic. There are numerous gas transmission and distribution pipelines owned, operated and maintained by PG&E throughout the County. There is no natural gas transmission pipeline in the neighborhood where the Facilities are located. However, there is high pressure natural gas pipeline service to the Facilities located at the frontage of Maple Street and opposite to Blomquist Street.

The County cannot provide any assurances as to the current or future condition of PG&E pipelines in the County, or predict the extent of damage to surrounding property that would occur if a PG&E pipeline located within the County were to explode in the future. The obligation of the County to make payments of Base Rental may be abated if the Facilities or any improvements thereon are damaged or destroyed by a pipeline explosion. There can be no assurance that the Facilities would not be damaged in whole or in part by a pipeline explosion.

Hazardous Substances

Owners and operators of real property may be required by law to remedy conditions of the property relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance whether or not the owner (or operator) has anything to do with creating or handling the hazardous substance. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly and adversely affect the operations and finances of the County.

The County has undertaken significant remedial action on the 2014 Project Site. The County implemented contaminated soil removal actions at the 2014 Project Site between October 2012 and March 2013, in accordance with an approved site management plan. The State of California Water Board approved of the County's soil removal action and acknowledged that the extent of the soil removal was greater than what was planned for and met more stringent environmental standards established for residential use. Accordingly, the County knows of no existing hazardous substances which require further remedial action on the 2014 Project Site. However, it is possible that such substances do currently or potentially exist and that the County is not aware of them.

Limitation on Revenues

There are limitations on the ability of the County to increase revenues. The ability of the County to increase the *ad valorem* property taxes (which have historically been an important source of revenues for counties in California) is limited pursuant to Article XIIIA, which was enacted in 1978. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING COUNTY REVENUES AND EXPENDITURES" herein.

The County receives a significant portion of its revenue from State and federal sources. Decreases in revenues received by the State can affect subventions made to the County and other counties in the State. In addition, actions taken by Congress and federal executive branch agencies including, without limitation, reductions in federal spending, could materially reduce the revenues received by the County. The potential impact of State budget actions for future fiscal years on the County is uncertain at this time. See "COUNTY FINANCIAL INFORMATION—Intergovernmental Revenues" herein. See also "—State Budget Concerns" below.

State Budget Concerns

The State, upon which the County relies for a material portion of its revenues, has experienced budget shortfalls in recent years. While there has been recent significant budgetary improvements, there remain a number of major risks and pressures that threaten the State's financial condition. In addition, the State's revenues can be volatile. Decreases in State revenues may significantly affect appropriations made by the State to counties and the timing of payment to counties by the State may depend upon the ability of the State to access the credit markets with respect to its own cash flow borrowings in the future. See "COUNTY FINANCIAL INFORMATION—Intergovernmental Revenues" and "STATE OF CALIFORNIA BUDGET AND RELATED INFORMATION" herein.

STATE OF CALIFORNIA BUDGET AND RELATED INFORMATION

Information regarding the State Budget is regularly available at various State-maintained websites. The 2013-14 State Budget and the 2014-15 Proposed State Budget, each as further described below, may be found at the website of the Department of Finance, www.dofca.gov. Additionally, an impartial analysis of the State's Budgets is posted by the Legislative Analyst's Office (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. These websites are not incorporated herein by reference and none of the County, its counsel (including Disclosure Counsel) take any responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there.

2013-14 State Budget

The 2013-14 State Budget was signed by the Governor on June 28, 2013. The 2013-14 State Budget projects fiscal year 2013-14 State General Fund revenues and transfers of $97.1 billion, total State General Fund expenditures of $96.3 billion and a year-end State General Fund surplus of $1.7 billion (inclusive of the projected $872 million State General Fund balance as of June 30, 2013, which would be available for fiscal year 2013-14), of which $618 million would be reserved for the liquidation of encumbrances and $1.1 billion would be deposited in a reserve for economic uncertainties. The 2013-14 State Budget states that the State's budget is projected to remain balanced for the foreseeable future, but cautions that substantial risks, uncertainties and liabilities remain. The 2013-14 State Budget dedicates several billion dollars to the repayment of previous budgetary borrowing and projects that outstanding budgetary borrowing will be reduced to approximately $4.7 billion as of June 30, 2017 from $26.9 billion as of June 30, 2013.

Significant features of the 2013-14 State Budget affecting counties in the State in general include, but are not limited to, the following:

Education. From fiscal years 2011-12 through 2016-17, the Proposition 98 minimum funding guarantee was projected to increase from $47.2 billion to $67.1 billion, an increase of approximately $20 billion for K-12 schools, and funding levels will increase by $1,045 per student through fiscal year 2013-14 and by $2,835 per student through fiscal year 2016-17. The centerpiece of the 2013-14 State Budget is the restructuring of the State's funding formula for K-12 schools through the implementation of the LCFF. The 2013-14 State Budget allocates $2.1 billion to support first-year implementation of the LCFF. This amount was expected to close approximately 12% of the funding gap between each school district's current revenue limit entitlement and the target funding rates set by the LCFF. The 2013-14 State Budget also provided $32 million to fund implementation of the LCFF for county offices of education. See also "COUNTY FINANCIAL INFORMATION—Impact of State Budget" and "—Return of Local Property Taxes – Excess ERAF" herein. The 2013-14 State Budget also estimates increased funding for higher education by between $1,649 and $2,491 per student through fiscal year 2016-17.

Repayment of K-14 Deferrals. Since 2002, the State has engaged in the practice of deferring certain apportionments to school districts and community colleges in order to manage the State's cash flow. This practice has included deferring certain apportionments from one fiscal year to the next. Some school districts and community college were able to borrow to manage these deferrals, while others had to implement the deferrals as cuts. Those that borrowed incurred substantial interest costs. The 2013-14 State Budget proposed repayment of $272.3 million in fiscal year to reduce such deferrals, which was projected to reduce outstanding deferrals to $6.2 billion by the end of fiscal year 2013-14.

Health Care Reform. The 2013-14 State Budget provides a State-based approach to the optional expansion of health care, whereby the State will assume greater financial responsibility for health care programs. The 2013-14 State Budget is based on the assumption that increased coverage will generate substantial savings for the counties, which pay for care for adults who are not currently eligible for Medi-Cal through their local indigent health care services programs. Counties currently meet this responsibility by operating hospitals, clinics and other facilities and/or by contracting with private providers. Under the State-based approach, county costs and responsibilities for indigent health care are expected to decrease, but the 2013-14 State Budget requires each county to select one of two formulas to calculate its savings. The 2013-14 State Budget redirects to the State any such savings to support human service programs at the local level. In fiscal year 2013-14, the counties will shift up to $300 million to the State. The amount shifted from counties to the State will likely be significantly higher in subsequent years. However, the size of each fiscal year's shift will depend on various factors, including which of the two formulas each county adopts to determine how much of its health care savings must be shared with the State. It is uncertain whether the formulas to determine county savings will leave counties sufficient funds to provide health care for the 3-4 million State residents who are projected to lack health care coverage after full implementation of the ACA.

Redevelopment Agency Funds. In those areas that contained redevelopment agencies, the 2013-14 State Budget anticipates that over fiscal years 2012-13 and 2013-14, approximately $1.4 billion in redevelopment agency funds will be distributed back to counties. On an ongoing basis, it is estimated that over $675 million annually will be distributed to counties, cities and special districts. This is a significant amount of unrestricted funding that can be used by local governments to fund police, fire or other critical public services. See "COUNTY FINANCIAL INFORMATION—Redevelopment Agencies" herein. However, recent court decisions, if finalized and upheld, would put a substantial amount of these funds at risk.

California Work Opportunity and Responsibility to Kids ("CalWORKs"). The CalWORKs program, the State's version of the federal Temporary Assistance for Needy Families program, provides temporary cash assistance to low-income families with children to meet basic needs and also provides welfare-to-work services. Eligibility requirements and benefit levels are established by the State, while counties have flexibility in program design, services and funding to meet local needs. The 2013-14 State Budget includes an increase of $142.8 million in fiscal year 2013-14 to support the CalWORKs refocusing measures enacted as part of the 2012-13 State Budget, which established a prospective 24-month time limit on cash assistance and employment services for adults. Counties will need to enhance and expand their array of employment services and job development activities for program participants, and intensify case management efforts for individuals not currently participating in activities that will eventually lead to self-sufficiency.

IHSS. The IHSS program provides over 400,000 eligible low-income State residents with domestic and personal services. IHSS services are designed to allow IHSS recipients to remain safely in their own homes and prevent premature institutionalization. The 2013-14 State Budget includes $1.8 billion State General Fund revenues for the IHSS program in fiscal year 2013-14, a 6.5% increase from the level set by the 2012-13 State Budget. A portion of this increase is related to the recently enacted county MOE requirement. Effective July 1, 2012, counties' share of the non-federal portion of IHSS costs is based on actual expenditures by counties in fiscal year 2011-12. The counties' MOE requirement will increase by 3.5% annually, beginning in fiscal year 2014-15.

Corrections. The California Community Corrections Performance Incentive Act of 2009 ("SB 678") established a system of performance-based funding that shares State General Fund savings with county probation departments when they demonstrate success in reducing the number of adult felony probationers going to state prison. The 2013-14 State Budget includes changes to the SB 678 funding formula to account for county probation departments' success in reducing the number of adult felony probationers incarcerated in county jail. This provides total funding of $106.9 million in fiscal year 2013-14 to continue support for probation efforts targeted at reducing recidivism and encouraging alternatives to incarceration.

Veterans Affairs. The 2013-14 State Budget includes one-time increase of $3.0 million from the State General Fund for County Veterans Service Officers to better provide veterans free assistance for claims with the United States Department of Veterans Affairs and information and referral to local, state, and federal programs.

Property Tax Revenues. The 2013-14 State Budget expected Statewide property tax revenues to increase 2.8% in fiscal year 2013-14 over the prior fiscal year. The base 1% rate is expected to generate approximately $50.9 billion in revenue in fiscal year 2013-14, of which over half ($27.2 billion) would be distributed to K-14 schools. Of this amount, approximately $1.5 billion was expected to be shifted from schools to cities and counties to replace sales and use tax revenues redirected from those entities to repay the State's ERBs, and approximately $6.1 billion would be shifted from schools to cities and counties to replace VLF revenue losses stemming from the reduced VLF rate. In fiscal year 2013-14, the estimated value of the VLF backfill to cities and counties is $6.0 billion. See "COUNTY FINANCIAL INFORMATION—Sales Tax Triple Flip and VLF Property Tax Swap" herein.

Proposed 2014-15 State Budget

On January 9, 2014, Governor Brown released the 2014-15 Proposed State Budget, which revised the State General Fund Budget summary for fiscal year 2013-14. The 2014-15 Proposed State Budget projects State General Fund revenues and transfers of $100.2 billion, total State General Fund expenditures of $98.5 billion and a fiscal year-end surplus of $4.2 billion (inclusive of the revised projected $2.5 billion State General Fund balance as of June 30, 2013, which would be available for fiscal year 2013-14), of which $955 million would be reserved for liquidation of encumbrances and $3.3 billion would be deposited in a reserve for economic uncertainties. The 2014-15 Proposed State Budget projects fiscal year 2014-15 State General Fund revenues and transfers of $104.5 billion, total expenditures of $106.8 billion and a year-end surplus of $1.9 billion (inclusive of the projected $4.2 billion State General Fund balance as of June 30, 2014), of which $955 million would be reserved for liquidation of encumbrances and $967 million would be deposited in a reserve for economic uncertainties. The 2014-15 Proposed State Budget also proposes a deposit of $1.6 billion into the State's Budget Stabilization Account (the "BSA"), also known as the "Rainy Day Fund," which would be the first deposit since 2007. The 2014-15 Proposed State Budget also proposes a constitutional amendment to strengthen the State's BSA by, among other things, by requiring deposits into the BSA on when capital gains revenues rise to more than 6.5% of State General Fund tax revenues and by creating a Proposition 98 reserve to attempt to reduce volatility within the Proposition 98 budget. The 2014-15 Proposed State Budget recognizes recent improvements in the State's budget situation, but warns that there remain a number of major risks that threaten the State's fiscal stability, including threats of future recession, federal fiscal changes, stock market performance, the prison population cap, issues regarding the dissolution of redevelopment agencies in the State, rising health care costs, and an unprecedented level of debts, deferrals and budgetary obligations accumulated by the State over the prior decade (known as the "Wall of Debt").

Certain of the features of the 2014-15 Proposed State Budget which could affect counties in the State include the following:

Education. The 2014-15 Proposed State Budget includes Proposition 98 funding of $61.8 billion for fiscal year 2014-15, an increase of $6.3 billion over the 2013-14 State Budget level. The 2014-15 Proposed State Budget provides $4.5 billion in funding to school districts and charter schools to continue the implementation of the LCFF, which is estimated to close 28% of the remaining funding gap between school districts' fiscal year 2013-14 funding levels and the LCFF full implementation rates. The 2014-15 Proposed State Budget also provides an increase of $25.9 million of funding to fully implement the LCFF funding rates for county offices of education. Finally, the 2014-15 Proposed State Budget provides approximately $107.0 million for the first year of scholarship awards under the financial aid program that was approved in the 2013-14 State Budget (the "Middle Class Scholarship Program"). The Middle Class Scholarship Program will provide scholarships beginning in fiscal year 2014-15 of up to 40% tuition for University of California and California State University students with annual family incomes of up to $150,000.

Repayment of K-14 Deferrals. The 2014-15 Proposed State Budget proposes to retire all $6.2 billion of outstanding school and community college deferrals by the end of fiscal year 2014-15.

Health Care. The 2014-15 Proposed State Budget reflects the full implementation of the ACA in the State. As discussed above in "—2013-14 State Budget," counties will shift funds to the State in order to offset the State's Medi-Cal costs. The 2014-15 Proposed State Budget estimates that $900 million will be shifted from counties to the State in fiscal year 2014-15.

Redevelopment Agency Funds. The Proposed 2014-15 State Budget anticipates that cities will receive $525 million in general purpose revenues in fiscal year 2013-14 and 2014-15 combined, with counties receiving $605 million and special districts receiving $205 million. On an ongoing basis, the Proposed 2014-15 State Budget estimated that over $700 million annually will be distributed to counties, cities and special districts. This is a significant amount of unrestricted funding that can be used by local governments to fund police, fire or other critical public services. However, there could be a significant impact to the fiscal benefits achieved to date as a result of recent court decisions. See "COUNTY FINANCIAL INFORMATION—Redevelopment Agencies" herein.

Infrastructure Financing Districts. The 2014-15 Proposed State Budget proposes to expand the use IFDs, which use tax increment financing to divert future tax revenue from other local agencies in order to finance economic development. The 2014-15 Proposed State Budget proposes to reduce voter approval of IFDs from the current two-thirds requirement to 55% and seeks to expand the list of local projects that can be financed through IFDs to include projects that have "quality of life benefits" such as affordable housing and urban infill. In cases where a city or county formerly operated a redevelopment agency, the 2014-15 Proposed State Budget would require the entity to meet certain goals prior to establishing an IFD, including paying in full any amounts owed to cities, counties and/or school districts and complying with State audit findings. Further, if the new IFD overlaps with a dissolved redevelopment agency, the amount of funding available for the IFD would depend on the extent to which the redevelopment agency's existing payment obligations have been met.

CalWORKs. The 2014-15 Proposed State Budget includes a three-year pilot program that would provide additional assistance to approximately 2,000 CalWORKs families by providing program participants with access to licensed child care and activities designed to enhance parenting and life skills. The project is expected to operate in six counties with a cost of $9.9 million to the State General Fund in fiscal year 2014-15 and a total cost of $115.4 million to the State General Fund over the duration of the program.

IHSS. The 2014-15 Proposed State Budget includes approximately $2.0 billion State General Fund revenues for the IHSS program in fiscal year 2014-15, a 6.4% increase from 2013-14 State Budget level. In September 2013, the United States Department of Labor issued new regulations effective January 1, 2015, which extend minimum wage and overtime protections to home care workers, including IHSS providers. The 2014-15 Proposed State Budget proposes to prohibit IHSS providers from working overtime in order to control potential costs as a result of the new regulations. IHSS recipients who require more than 40 hours of care a week would have to hire an additional provider. The 2014-15 Proposed State Budget would establish a "Provider Backup System" to help connect IHSS consumers with additional providers.

Repayment of the ERBs. The 2014-15 Proposed State Budget assumes a $1.6 billion supplemental payment on the outstanding ERBs. In connection with the sale of the ERBs, the State Legislature enacted the Triple Flip, as further discussed in "COUNTY FINANCIAL INFORMATION—Sales Tax Triple Flip and Property Tax VLF Swap" herein. This supplemental payment will retire all outstanding ERBs and thereby eliminate the need for the Triple Flip.

Corrections. In order to help reduce recidivism and relieve jail overcrowding, the 2014-15 Proposed State Budget proposes to require the use of split sentences for any county jail felony sentence unless the court finds it to be in the interests of justice to impose a straight sentence. Additionally, the 2014-15 Proposed State Budget proposes that lower-level offenders who receive sentences longer than 10 years be required to serve their time in State prison rather than in county jail. Finally, the 2014-15 Proposed State Budget includes $500 million to build county jail facilities, with counties subject to a 10% matching requirement.

Legislative Analyst's Office Response to 2014-15 Proposed State Budget

In its January 13, 2014 report on the 2014-15 Proposed State Budget, the LAO recognized that recent, sharp increases in personal income tax collections have significantly improved the State's budget condition, and that the 2014-15 Proposed State Budget would place California "on an even stronger fiscal footing, continuing California's budgetary progress." The LAO commented that the Governor's focus on making Wall of Debt repayments is a prudent one, that the Governor's BSA Proposal has the right goals, and that the Governor's overall Proposition 98 spending plan is reasonable. Nonetheless, the LAO provided its additional recommendations to address the huge unfunded liabilities associated with the teachers' retirement system ("CalSTRS") and State retiree benefits, including setting aside additional money for CalSTRS.

Future State Budgets

Changes in the revenues received by the State can affect the amount of funding, if any, to be received from the State by the County and other cities and counties in the State. The County cannot predict the extent of the budgetary problems the State will encounter in this or in any future Fiscal Year, and it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the County cannot predict the final outcome of current or future State budget negotiations, the impact that such budgets will have on its 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 are being and will be affected by national and State economic conditions and other factors, including the current economic conditions, over which the County has no control. See "COUNTY FINANCIAL INFORMATION—Impact of State Budget" herein.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING COUNTY REVENUES AND EXPENDITURES

Property Tax Rate Limitations — Article XIIIA

Article XIIIA of the State Constitution limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." The full cash value may be increased at a rate not to exceed 2% per year to account for inflation.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in other minor or technical ways.

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the County and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the 2% annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls, with tax rates expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of market value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Appropriations Limitations — Article XIIIB

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979 thereby adding Article XIIIB to the State Constitution ("Article XIIIB"). In June 1990, Article XIIIB was amended by State voters through their approval of Proposition 111. Under Article XIIIB, the State and each local governmental entity has an annual "appropriations limit" and is not permitted to spend certain moneys that are called "appropriations subject to limitation" (consisting of tax revenues, State subventions and certain other funds) in an amount higher than the appropriations limit. Article XIIIB does not affect the appropriations of moneys that are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain fiscal year 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' 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 over the subsequent two years.

"Appropriations subject to limitation" are authorizations to spend "proceeds of taxes," which consist of tax revenues, state subventions and certain other funds, including proceeds from regulatory licenses, user charges or other fees to the extent that such proceeds exceed "the cost reasonably borne by such entity in providing the regulation, product or service," but "proceeds of taxes" excludes tax refunds and some benefit payments such as unemployment insurance. No limit is imposed on appropriations of funds which are not "proceeds of taxes," such as reasonable user charges or fees, and certain other non-tax funds.

Not included in the Article XIIIB limit are appropriations for the debt service costs of bonds existing or authorized by January 1, 1979, or subsequently authorized by the voters, appropriations required to comply with mandates of courts or the federal government and appropriations for qualified capital outlay projects. The appropriations limit may also be exceeded in certain cases of emergency.

The appropriations limit for the County in each year is based on the County's limit for the prior year, adjusted annually for changes in the cost of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the County's option, either (i) the percentage change in State per capita personal income, or (ii) the percentage change in the local assessment roll on nonresidential property. Either test is likely to be greater than the change in the cost of living index, which was used prior to Proposition 111.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by a County over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years. As originally enacted in 1979, the County's appropriations limit was based on fiscal year 1978-79 authorizations to expend proceeds of taxes and was adjusted annually to reflect changes in cost of living and population (using different definitions, which were modified by Proposition 111). Starting with fiscal year 1990-91, the County's appropriations limit was recalculated by taking the actual fiscal year 1986-87 limit, and applying the annual adjustments as if Proposition 111 had been in effect. The County's appropriations limit for fiscal year 2013-14 is approximately $426.5 million. For fiscal year 2013-14 the estimated appropriations subject to the limit amount is approximately $396.0 million.

Articles XIIIC and XIIID — Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Article XIIIC ("Article XIIIC") and Article XIIID ("Article XIIID") to the State Constitution, which contains a number of provisions affecting the ability of the County to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIIIC requires that all new local taxes or increases in existing local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes of the County require a majority vote and taxes for specific purposes, even if deposited in the County's General Fund, require a two-thirds vote. The voter-approval requirements of Proposition 218 reduce the flexibility of the County to raise revenues for the General Fund, and no assurance can be given that the County will be able to impose, extend or increase such taxes in the future to meet any increased expenditure requirements.

Article XIIID contains provisions relating to how local agencies may levy and maintain "assessments" for municipal services and programs. "Assessment" is defined to mean any levy or charge upon real property for a special benefit conferred upon the real property. Article XIIID also contains several provisions affecting "property-related fees" and "charges," defined for purposes of Article XIIID to mean "any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and existing property-related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property-related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property-related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. Fees for electrical and gas service are explicitly exempted from the definition of "property-related" under Article XIIID. Property-related fees or charges for services other than sewer, water and refuse collection services may not be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. In addition to the provisions described above, Proposition 218 removes many of the limitations on the initiative power in matters of reducing or repealing any local tax, assessment, fee or charge.

Proposition 218 continues to be interpreted by California courts. The State Supreme Court's 2006 decision in *Bighorn-Desert View Water Agency* found that metered charges for consumption of water by a public agency fell within the "property-related" fees subject to Proposition 218. Fees for sewer and refuse collection could also be found to be within the definition of property-related fees. If such charges are property-related charges, rate increases would be subject to notice, hearing and majority protest, but not prior voter approval, and rates and charges could be reduced by referendum.

Statutory Revenue Limitations — Proposition 62

Proposition 62 is a Statewide statutory initiative adopted by the voters at the November 4, 1986 general election. It added Sections 53720 to 53730 to the Government Code of the State to require that all new local taxes be approved by the voters. The statute provides that all local taxes are either general taxes or special taxes. General taxes are imposed for general governmental purposes. Special taxes are imposed for specific purposes only. General taxes may not be imposed by local government unless approved by a two-thirds vote of the entire legislative body and a majority of the voters voting on the proposed general tax. Special taxes may not be imposed by local government unless approved by a majority of the entire legislative body and by two-thirds of the voters voting on the special tax. Soon after Proposition 62 was adopted by the voters, legal challenges to taxes adopted contrary to its provisions were filed. In 1991, in the most significant case, *City of Woodlake v. Logan*, the California Court of Appeal held that the statutory voter approval requirement for general taxes was unconstitutional. The California Supreme Court refused to review *Woodlake*.

On September 28, 1995, the California Supreme Court, on a 5-2 vote, in a decision entitled *Santa Clara County Local Transportation Authority v. Guardino* (Case No. S036269), "disapproved" *Woodlake* and held that the voter approval requirements of Proposition 62 are valid. On December 14, 1995, the Supreme Court made minor nonsubstantive changes to its written opinion and denied the petition for rehearing. The decision provides that the voter approval requirements of Proposition 62 for both general and special taxes are valid. The *Guardino* case fails to say (i) whether the decision is retroactively applicable to general taxes adopted prior to the decision; (ii) whether taxpayers have any remedies for refund of taxes paid under a tax ordinance that was not voter approved; (iii) what statute of limitations applies to taxes adopted without voter approval prior to *Guardino*; (iv) whether Proposition 62 applies only to new taxes or to tax increases as well.

Several questions raised by the *Guardino* decision remain unresolved. Proposition 62 provides that if a jurisdiction imposes a tax in violation of Proposition 62, the portion of the 1% general *ad valorem* tax levy allocated to that jurisdiction is reduced by $1 for every $1 in revenue attributable to the improperly imposed tax for each year that such tax is collected. The practical applicability of this provision has not been fully determined. Potential future litigation and legislation may resolve some or all of the issues raised by the *Guardino* decision.

Proposition 1A

Proposition 1A (SCA 4), proposed by the Legislature in connection with the State budget for fiscal year 2004-05 and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. By adding Section 25.5 to Article XIII of the State Constitution, 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 State 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 of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county.

By amending Section 15 of Article XI of the State Constitution, Proposition 1A also provides that if the State reduces the VLF rate currently in effect, which is 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, by amending Section 6 of Article XIIIB, Proposition 1A requires the State, beginning July 1, 2005, to suspend State mandates affecting cities, counties and special districts, schools or community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance 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 XIIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (i) 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; (ii) 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; (iii) 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; (iv) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (v) 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; (vi) a charge imposed as a condition of property development; and (vii) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a 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 and adversely affect its ability to pay Base Rental Payments when due.

Proposition 30

On November 6, 2012, voters approved Proposition 30, also known as "Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment," which provided temporary increases in personal income tax rates for high-income taxpayers and a temporary increase in the States sales tax rate, and specified that the additional revenues will support K-14 public schools and community colleges as part of the Proposition 98 guarantee. Proposition 30 also adds to the State Constitution certain requirements related to the transfer of specified State program responsibilities to local governments, mostly counties, including incarcerating certain adult offenders, supervising parolees and providing substance abuse treatment services.

Future Initiatives

Article XIIIA, Article XIIIB and the other Propositions referenced above were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other State or local initiative measures could be adopted, which may place further limitations on the ability of the State, the County or local districts to increase revenues or to increase appropriations which may affect the County's revenues or its ability to expend its revenues.

THE AUTHORITY

The San Mateo County Joint Powers Financing Authority was formed pursuant to the provisions of Articles 1 and 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and a Joint Exercise of Powers Agreement, dated May 15, 1993, as amended, by and between the County and the Community Development Commission. The Authority was formed to assist the County in the financing of public capital improvements. The Authority presently acts as lessor for the Facilities, as well as the issuer in other County financings. The Authority functions as an independent entity and its policies are determined by a five-member board appointed by the Board. The Authority has no employees and all staff work is done by the County staff or by consultants to the Authority.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the 2014 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the 2014 Bonds is less than the amount to be paid at maturity of such 2014 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2014 Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2014 Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2014 Bonds is the first price at which a substantial amount of such maturity of the 2014 Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2014 Bonds accrues daily over the term to maturity of such 2014 Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2014 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2014 Bonds. Beneficial Owners of the 2014 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2014 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2014 Bonds in the original offering to the public at the first price at which a substantial amount of such 2014 Bonds is sold to the public.

2014 Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2014 Bonds. The Authority and the County have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2014 Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2014 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2014 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2014 Bonds may adversely affect the value of, or the tax status of interest on, the 2014 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2014 Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the 2014 Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2014 Bonds to be subject, directly or indirectly, in whole or in part, 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. For example, the House Ways and Means Committee Chair recently released draft legislation. This draft legislation would subject interest on the 2014 Bonds to federal income tax at an effective rate of 10% or more for individuals, trusts or estates in the highest income tax bracket. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2014 Bonds. Prospective purchasers of the 2014 Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2014 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the County have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2014 Bonds ends with the issuance of the 2014 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the County or the Beneficial Owners regarding the tax-exempt status of the 2014 Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the County and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the County legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2014 Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2014 Bonds, and may cause the Authority, the County or the Beneficial Owners to incur significant expense.

INDEPENDENT ACCOUNTANTS

The financial statements of the County for the fiscal year ended June 30, 2013 included in Appendix C to this Official Statement, have been audited by Macias Gini & O'Connell LLP, the County's independent auditor, as set forth in their report dated October 31, 2013, which also appears in Appendix C. Macias Gini & O'Connell LLP has not been engaged to and has not performed any procedures subsequent to the date of their report related to the financial statements included herein nor performed any procedures related to this Official Statement. See "COUNTY FINANCIAL INFORMATION—Financial Statements" herein.

CONTINUING DISCLOSURE

The County will covenant pursuant to a Continuing Disclosure Agreement to provide each Annual Report by not later than March 30 of each calendar year, commencing with the report for fiscal year 2013-14 to be filed on or before March 30, 2015, and to provide notices of the Listed Events not later than ten business days after the occurrence of the event. The Annual Report and the notices of Listed Events will be filed by the County with the MSRB or any other entity designated or authorized by the SEC to receive such reports. Until otherwise designated by the MSRB or the SEC, filings with the MSRB will be made through the EMMA website of the MSRB, currently located at http://emma.msrb.org. These covenants will be made in order to assist the Underwriters (as defined herein) in complying with the Rule. Except as described in the following sentence, the County has not failed to comply in all material respects with any previous undertakings with regard to the Rule. [The County did not file on a timely basis certain listed event notices relating to bond insurer downgrades required to be made by the County pursuant to its continuing disclosure agreements entered into in connection with the 1997 Bonds, the 1999 Bonds, the 2001 Bonds, the 2008 Bonds and the 2009 Bonds during fiscal year 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13. All filings have since been made.] **[Citi to confirm with BLX]** See APPENDIX F – "PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

LEGAL MATTERS

The validity of the 2014 Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in Appendix E hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness, or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriters by Fulbright & Jaworski LLP, a member of Norton Rose Fulbright, Los Angeles, California. Certain legal matters will be passed upon for the Authority and for the County by County Counsel and by Sidley Austin LLP, San Francisco, California, Disclosure Counsel to the Authority and the County. Eric Tashman, a partner in the law firm of Sidley Austin LLP, which is serving as Disclosure Counsel to the County and the Authority in connection with the issuance of the 2014 Bonds, is a member of the Retirement Board of SamCERA.

LITIGATION

The County is not currently aware of any litigation that is pending or threatened concerning the validity of the 2014 Bonds, the Site Lease, the Facilities Lease or the Trust Agreement, and with that continuing to be the case, an opinion of County Counsel to that effect will be furnished to the Underwriters at the time of the original delivery of the 2014 Bonds. There are a number of lawsuits and claims pending against the County. In the opinion of County Counsel, the aggregate amount of liability that the County might incur as a result of adverse decisions in such cases would be covered under the County's self-insurance program, its excess insurance coverage, or other sources of funds that would not materially adversely affect the payment of the 2014 Bonds.

The Authority is not aware of any litigation pending or threatened questioning the political existence of the Authority or the County or contesting the County's ability to appropriate or make Base Rental Payments.

CONFLICTS

In January 2013, the County and seven other public entities filed complaints against a number of financial institutions, including two of the Underwriters of the 2014 Bonds—Barclays Plc, an affiliate of Barclays Capital Inc., Citigroup, Inc. and Citibank, N.A., affiliates of Citigroup—alleging violations of antitrust laws, negligence and unjust enrichment in connection with the alleged manipulation of the benchmark London interbank offered rate, or LIBOR, and seeking to recover losses and treble damages. The case is *San Mateo County v. Bank of America*, 13-108, U.S. District Court, Northern District of California (San Francisco).

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") have assigned ratings of "[___]" and "[___]," respectively, to the 2014

Bonds. Such ratings express only the views of the rating agencies and are not a recommendation to buy, sell or hold the 2014 Bonds. There is no assurance that such ratings will continue for any given period of time or that they will not be revised, either downward or upward, or withdrawn entirely by the rating agencies, or either of them, if in their, or its, judgment, circumstances so warrant. The Authority, the County and the Trustee undertake no responsibility either to notify the Owners of the 2014 Bonds of any revision or withdrawal of the ratings or to oppose any such revision or withdrawal. Any such downward revision or withdrawal may have an adverse effect on the market price of the 2014 Bonds.

UNDERWRITING

The 2014 Bonds are being purchased by Citigroup Global Markets Inc., Raymond James & Associates, Inc., Barclays Capital Inc. and Siebert Brandford Shank & Co. LLC (collectively, the "Underwriters"). The Underwriters have agreed to purchase the 2014 Bonds at a purchase price of $__________ (representing the aggregate principal amount of the 2014 Bonds, less an Underwriters' discount of $__________, [plus/minus] a net original issue [premium/discount] of $__________). The Underwriters will purchase all of the 2014 Bonds if any are purchased. The obligation of the Underwriters to make such purchase is subject to certain terms and conditions set forth in the contract of purchase relating to the 2014 Bonds.

The Underwriters may also offer and sell the 2014 Bonds to certain dealers and others at prices lower than the respective public offering prices stated or derived from information stated on the inside cover page hereof. The initial public offering prices may be changed from time to time by the Underwriters.

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EXECUTION AND DELIVERY

The preparation and distribution of this Official Statement have been authorized by the Authority and the County.

SAN MATEO COUNTY JOINT POWERS
FINANCING AUTHORITY

By: ________________________________
Secretary

COUNTY OF SAN MATEO

By: ________________________________
County Manager

APPENDIX A

ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF SAN MATEO

There follows in this Official Statement a brief description of the County of San Mateo, California (the "County"), together with current information concerning the County's demographics and economy. The general information in this section concerning the County is provided as supplementary information only. Such information is provided as general information and has been obtained from sources that the County believes to be reliable, but the County makes no representations as to the accuracy or completeness of the information included.

Population

The following table shows the population of State of California, the County and the six largest cities within the County for 2009 to 2013.

COUNTY OF SAN MATEO AND INCORPORATED CITIES
POPULATION
2009 through 2013(1)

	2009	2010	2011	2012	2013
Six Largest Cities:					
Daly City	107,099	101,072	101,442	102,308	103,347
San Mateo	96,557	37,234	97,557	98,076	99,061
Redwood City	77,819	76,815	77,299	78,068	79,074
South San Francisco	65,020	41,114	63,827	64,161	65,127
San Bruno	43,811	97,207	41,663	42,355	42,828
Pacifica	39,995	63,632	37,367	37,572	37,948
Total County	745,858	718,451	722,372	727,795	735,678
State of California	38,292,687	37,253,956	37,427,946	37,688,804	37,966,471

(1) As of January 1 for the year shown. Data for 2014 is not yet available.
Source: Population Estimates for Cities, Counties and the State, 2001-2009, with 2000 Benchmark, California Department of Finance, October 2009; Historical Population Estimates for Cities, Counties and the State, 2011-2013, with 2010 Benchmark, California Department of Finance, May 2013.

Employment

The following table compares labor force, employment and unemployment for the County, the State of California and the United States for the years 2008 through 2013. The unemployment rate in the County has consistently been lower than that of the State of California and the nation, as illustrated in the following table.

COUNTY OF SAN MATEO
ANNUAL AVERAGE LABOR FORCE AND INDUSTRY EMPLOYMENT
2008 through 2013[1]

Year	Area	Labor Force	Civilian Employment	Unemployment	Unemployment Rate
2008	County of San Mateo	373,100	355,000	18,100	4.9%
	State of California	18,207,300	16,893,900	1,313,500	7.2%
	United States	154,287,000	145,362,000	8,924,000	5.8%
2009	County of San Mateo	374,200	342,800	31,400	8.4%
	State of California	18,215,700	16,151,100	2,064,600	11.3%
	United States	154,142,000	139,877,000	14,265,000	9.3%
2010	County of San Mateo	375,200	342,400	32,900	8.8%
	State of California	18,330,500	16,063,500	2,267,000	12.4%
	United States	153,889,000	139,064,000	14,825,000	9.6%
2011	County of San Mateo	383,800	353,400	30,300	7.9%
	State of California	18,404,500	16,237,300	2,167,200	11.8%
	United States	153,617,000	139,869,000	13,747,000	8.9%
2012	County of San Mateo	394,300	367,800	26,500	6.7%
	State of California	18,494,900	16,560,300	1,934,500	10.5%
	United States	154,975,000	142,469,000	12,506,000	8.1%
2013	County of San Mateo	404,500	384,500	19,000	4.9%
	State of California	18,551,000	16,970,000	1,581,000	8.5%
	United States	154,381,000	143,526,000	10,855,000	7.0%

[1] Data not seasonally adjusted. Data may not add due to rounding. The County's unemployment date is calculated using rounded data.
Source: State of California Employment Development Department; United States Department of Labor Bureau of Labor and Statistics.

Major Employers

The ten largest employers in the County and their respective average number of employees as of April 12, 2013 are as follows:

COUNTY OF SAN MATEO
TEN LARGEST EMPLOYERS
(As of April 12, 2013)

Employer	Type of Business	Number of San Mateo County Employees
Genentech, Inc.	Biotechnology	8,800
Oracle Corporation	Hardware and Software	7,000
County of San Mateo	County Government	5,826
Kaiser Permanente	Health Care	3,927
Visa Inc.	Payments Technology	3,707
Dignity Health	Health Care	2,832
Mills-Peninsula Health Services	Health Care	2,500
Safeway Inc.	Retail Grocer	2,250
Gilead Sciences Inc.	Biopharma	2,147
San Mateo County Community College District	Education	2,126

Source: San Francisco Business Times, 2014 Book of Lists.

Industry and Employment

The largest industries in the County during 2012, in terms of the percentage of employment in each respective industry, are as follows:

COUNTY OF SAN MATEO
ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY
2012[1]

Industry	% of County Employment
Trade, Transportation & Public Utilities	21.15%
Professional and Business Services	19.60
Leisure and Hospitality	10.95
Education and Health Services	10.76
Government	9.46
Other	8.53
Manufacturing	8.19
Finance, Insurance & Real Estate	5.98
Information	5.40

(1) All information updated per March 2012 Benchmark. Data for 2013 is not yet available.
Source: State of California Employment Development Department, Labor Market Information Division.

The following table shows employment by industry group in the County from 2008 to 2012:

COUNTY OF SAN MATEO
ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY GROUP[1]
2008 through 2012[2]
(In Thousands)

Industry Group	2008	2009	2010	2011	2012
Total Farm	1.9	1.7	1.7	1.6	1.6
Total Nonfarm	337.6	319.2	313.3	322.1	335.1
Manufacturing	15.7	26.7	26.3	25.5	24.5
Durable Goods	13.9	13.1	12.7	12.2	11.9
Nondurable Goods	29.6	13.6	13.6	13.3	12.6
Trade, Transportation & Public Utilities	74.6	69.9	68.4	68.5	69.8
Wholesale Trade	11.9	11.3	11.2	11.1	11.4
Retail Trade	35.6	33.3	32.8	33.2	33.2
Information	18.8	18.1	17.5	17.9	19.5
Financial Activities	20.5	19.1	18.6	19.4	19.9
Services					
Professional and Business	65.4	60.9	60.0	64.0	71.0
Educational and Health	32.6	34.6	33.3	34.5	35.3
Leisure and Hospitality	34.3	33.5	33.8	35.4	36.9
Other Services	12.0	11.5	11.2	12.2	12.9
Government[3]	31.8	31.3	31.3	30.6	30.2
Federal	3.5	3.5	4.0	3.8	3.7
State & Local	28.3	27.9	27.3	26.8	26.5
Total All Industries[4]	339.4	320.9	315.0	323.6	336.7

(1) Employment is by place of work and does not include persons who are involved in labor management trade disputes, self employed, or unpaid family workers.
(2) All information updated per March 2012 Benchmark. Data for 2013 is not yet available.
(3) Includes all civilian government employees regardless of activity in which engaged.
(4) Totals may not add due to rounding.
Source: State of California Employment Development Department, Labor Market Information Division.

Commercial Activity

Commercial activity is an important contributor to the County's economy. The following table shows the County's taxable transactions from 2009 through 2011.

COUNTY OF SAN MATEO
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
2009 through 2011[1]
($ in Thousands)

Type of Business	2009	2010	2011
Motor Vehicle and Parts Dealers	$ 1,063,294	$ 1,117,487	$ 1,241,177
Furniture and Home Furnishings Stores	300,412	317,652	342,833
Electronics and Appliance Stores	330,175	346,647	365,610
Building Materials and Garden Equipment and Supplies	713,094	699,781	716,722
Food and Beverage Stores	501,724	508,941	532,524
Clothing and Accessories Stores	568,905	595,402	633,937
General Merchandise Stores	950,724	1,026,497	1,088,960
Miscellaneous Store Retailers	453,346	458,350	472,251
Food Services and Drinking Places	1,226,275	1,279,295	1,391,048
Total Retail and Food Services	7,455,767	7,846,274	8,536,043
All Other Outlets	3,871,255	4,120,063	4,484,599
Total All Outlets	$11,327,022	$11,966,338	$13,020,643

(1) Calendar year data is not yet available for 2012 and 2013.
Source: Taxable Sales In California (Sales and Use Tax) Reports, California State Board of Equalization.

Construction Activity

The total valuation of building permits issued in the County amounted to approximately $1.12 billion in 2013 for both residential and commercial construction. The following table provides a building permit valuation summary for the County for 2009 through 2013.

COUNTY OF SAN MATEO
NEW BUILDING PERMIT VALUATION
2009 through 2013
($ in Thousands)

Type of Permit	2009	2010	2011	2012	2013
Residential:					
New Single-Dwelling	$147,515	$189,297	$194,950	$248,414	$286,238
New Multi-Dwelling	74,330	21,309	107,040	162,233	124,289
Additions/Alterations	204,482	262,592	250,364	188,187	269,246
Total Residential(1)	$426,327	$473,198	$552,354	$598,834	$679,773
Non Residential:					
New Commercial	$17,942	$61,315	$6,734	$29,783	$66,843
New Industrial	5,000	0	3,359	2,022	15,724
Other	41,283	41,272	55,495	40,316	120,295
Additions/Alterations	240,481	289,031	249,545	159,618	241,362
Total Non Residential(1)	$304,705	$391,618	$315,133	$231,739	$444,224
Total Valuation(1)	$731,032	$864,816	$867,487	$830,573	$1,123,997

(1) Totals may not add up due to independent rounding.
Source: California Homebuilding Foundation | Construction Industry Research Board.

Transportation

San Francisco International Airport. San Francisco International Airport (the "Airport") is located in an unincorporated area of the County. According to the preliminary results of Airport Council International's 2012 survey of U.S. airports, it is the seventh busiest airport in the nation in terms of passenger volume and the seventeenth busiest in cargo volume. Fifty major passenger and commuter airlines fly from the Airport, and twenty-nine of them serve international destinations. The Airport Commission of the City and County of San Francisco reports that air traffic at the Airport in fiscal year ended June 30, 2013 included approximately 44.6 million passengers, a 4.1% increase from the previous fiscal year.

The Airport handled 370,195 metric tons of cargo in fiscal year ended June 30, 2013, a 3.9% decrease over the previous fiscal year.

Although the Airport is owned and operated by the City and County of San Francisco, it plays a very significant part in the economy of the County. Air transportation is the County's largest single industry. According to the 2013 Economic Impact Study of the Airport prepared by the Economic Development Research Group, Inc., approximately 20,500 people are employed directly or indirectly by the airlines, cargo carriers, restaurants, aviation suppliers and other Airport-related businesses.

The following table presents certain data regarding the Airport for its five most recent fiscal years.

SAN FRANCISCO INTERNATIONAL AIRPORT
PASSENGER, CARGO AND MAIL DATA
Fiscal Years Ended June 30, 2009 through 2013

Fiscal Year Ending June 30	Passengers Enplanements and Deplanements	Freight and Express Air Cargo and U.S. and Foreign Mail (Metric Tons)
2009	36,475,612	420,739
2010	38,203,961	431,990
2011	39,726,471	398,383
2012	42,863,656	385,113
2013	44,607,577	370,195

Source: Airport Commission of the City and County of San Francisco, Continuing Disclosure Annual Report, dated January 24, 2014.

Port of Redwood City. The Port of Redwood City (the "Port") is also located in the County. The Port has a deep-water channel and handles bulk cargo including lumber and scrap metal. In its fiscal year ended June 30, 2013, the Port handled 1,493,190 metric tons of cargo according to the Port Commission's most recent annual tonnage report.

San Francisco Bay Area Rapid Transit ("BART"). The County is connected to downtown San Francisco and the East Bay by the BART District. In its fiscal year ended June 30, 2013, there were 32,889 station exits on an average weekday at the County's six stations (Daly City, Colma, South San Francisco, San Bruno, Millbrae and the Airport). This represents a 6.8% increase from the prior fiscal year.

Caltrain. Caltrain, the three-county commuter railway system that runs between San Francisco and Gilroy, added its lines of express service from San Francisco to San Jose in 2004. Caltrain, known as the "Baby Bullet," reported an average weekday ridership count of 47,060 passengers in its 2013 annual passenger count, an 11.1% increase from the prior year count. Average weekday ridership has increased by more than 96% since 2004.

APPENDIX B

BOOK-ENTRY SYSTEM

The information in this Appendix concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the Authority takes no responsibility for the completeness or accuracy thereof. The Authority cannot and does not give any assurances 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 2014 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2014 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2014 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The DTC will act as securities depository for the 2014 Bonds. The 2014 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the 2014 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instrument 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 been rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information set forth on such website is not incorporated by reference herein.

Purchases of the 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2014 Bonds, except in the event that use of the book-entry system for the 2014 Bonds is discontinued.

To facilitate subsequent transfers, all 2014 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the 2014 Bonds with DTC and their registration in the name of Cede & Co.

or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2014 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2014 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the 2014 Bonds may wish to ascertain that the nominee holding the 2014 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

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.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 the 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, redemption proceeds and interest payments on the 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the 2014 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2014 Bonds at any time by giving reasonable notice to Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, 2014 Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2014 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

APPENDIX C

AUDITED COMBINED FINANCIAL STATEMENTS OF THE COUNTY FOR FISCAL YEAR 2012-2013