Sidley Austin LLP
Draft of 6/11/13

PRELIMINARY OFFICIAL STATEMENT DATED JUNE __, 2013

NEW ISSUE – FULL BOOK ENTRY

Ratings: Moody's: "[Aa2]"
Standard & Poor's: "[AA+]"
(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 2013 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 2013 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 accrual or receipt of interest on, the 2013 Bonds. See "TAX MATTERS."

$________*

San Mateo County Joint Powers Financing Authority
Lease Revenue Bonds
(Refunding and Capital Projects)
2013 Series A

Dated: Date of Delivery **Due:** July 15, as shown on the 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 are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The San Mateo County Joint Powers Financing Authority (the "Authority") is offering $________* of its Lease Revenue Bonds (Refunding and Capital Projects), 2013 Series A (the "2013 Bonds"). The 2013 Bonds are being issued by the Authority pursuant to a Trust Agreement, dated as of April 15, 1994, as supplemented from time to time, including as supplemented by the Seventh Supplemental Trust Agreement, dated as of July 1, 2013 (collectively, the "Trust Agreement"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), pursuant to which the Authority has previously issued its $63,205,000 aggregate principal amount of Lease Revenue Bonds (Capital Projects), 1997 Series A (the "1997 Bonds"), its $113,140,000 Lease Revenue Bonds (Capital Projects), 1999 Refunding Series A (the "1999 Bonds"), its $24,370,000 Lease Revenue Bonds (Capital Projects), 2001 Series A and its $8,520,000 Lease Revenue Bonds (Capital Projects), 2001 Series B (collectively, the "2001 Bonds") and its $115,505,000 Lease Revenue Bonds (Capital Projects) 2009 Refunding Series A (the "2009 Bonds"). The 2013 Bonds are being issued for the purpose of providing funds, together with other available moneys, to refund the outstanding 1997 Bonds, the outstanding 1999 Bonds and the outstanding 2001 Bonds (collectively, the "Prior Bonds"), to finance certain capital improvements for the benefit of the County (the "Project"), and to pay costs of issuance of the 2013 Bonds. See "PLAN OF REFUNDING," "THE PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The 2013 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 2013 Bonds, and individual purchases of the 2013 Bonds will be made in book-entry form only. Ownership interests in the 2013 Bonds will be in denominations of $5,000 and integral multiples thereof. Beneficial owners of the 2013 Bonds will not receive physical certificates representing the 2013 Bonds purchased, but will receive a credit balance on the books of the nominees of such purchasers. Interest on the 2013 Bonds is payable on January 15 and July 15 of each year, commencing January 15, 2014. Principal, premium, if any, and interest on the 2013 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 2013 Bonds, as described herein. See APPENDIX B – "BOOK-ENTRY SYSTEM" attached hereto.

The 2013 Bonds are subject to optional and extraordinary redemption prior to maturity, all as described herein. See "THE 2013 BONDS—Redemption of the 2013 Bonds" herein.

The 2013 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 of San Mateo (the "County") under a Master Facility Lease, dated as of April 15, 1994, as amended from time to time, including as amended by the Fifth Amendment to the Master Facility Lease, dated as of July 1, 2013 (collectively, the "Master Facility Lease"), by and between the Authority and the County, for the right to use and possess certain real property and facilities (the "Leased Property"), as more fully described herein. The County has agreed in the Master Facility 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 Leased Property or a taking of the Leased Property in whole or in part. Pursuant to the Trust Agreement, the 2013 Bonds are secured by a pledge of and charge and lien upon the Revenues equal to the pledge, charge and lien securing the 2009 Bonds and any additional bonds issued under the Trust Agreement.

The 2013 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 2013 Bonds nor for the payment of Base Rental Payments. Neither the payment of the principal of or interest on the 2013 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.

Beneficial owners of the 2013 Bonds should note that the purchase of 2013 Bonds issued pursuant to the Trust Agreement after the effective date of the Seventh Supplemental Trust Agreement will constitute the consent of the purchasers, as Bondholders, to certain amendments to the Trust Agreement set forth in the Seventh Supplemental Trust Agreement and certain amendments to the Master Facility Lease set forth in the Fifth Amendment to Master Facility Lease. Pursuant to the Seventh Supplemental Trust Agreement, the Authority has proposed an amendment to the Trust Agreement relating to the Reserve Fund and Reserve Fund sureties (the "Proposed Trust Agreement Amendment"). Pursuant to the Fifth Amendment to Master Facility Lease, the Authority has proposed an amendment to the Master Facility Lease relating to the deliverables required of the Authority in connection with the substitution of Leased Property (the "Proposed Master Facility Lease Amendment," and, together with the Proposed Trust Agreement Amendment, the "Proposed Amendments"). The Proposed Amendments will become effective when the aggregate principal amount of Bonds issued under the Trust Agreement as amended by the Seventh Supplemental Trust Agreement exceeds the aggregate principal amount of Bonds issued under the Trust Agreement prior to the effective date of the Seventh Supplemental Trust Agreement. See "SECURITY FOR THE 2013 BONDS – Proposed Amendments" and APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—TRUST AGREEMENT—[Proposed Amendment]" and "—MASTER FACILITY LEASE—[Proposed Amendment] herein.

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

The 2013 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 Curls Bartling P.C., Oakland, 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 2013 Bonds will be available for delivery through the facilities of DTC in New York, New York, on or about July __, 2013.

Barclays **Raymond James**

July __, 2013

* Preliminary, subject to change

MATURITY SCHEDULE
$________* Serial Bonds

Maturity (July 15)	Principal Amount	Interest Rate	Yield	CUSIP† Number	Maturity (July 15)	Principal Amount	Interest Rate	Yield	CUSIP† Number

* Preliminary, subject to change.

† A registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. CUSIP data herein is provided for convenience of reference only. None of the County, the Authority or the Underwriters assumes responsibility for the accuracy of such numbers.

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

Robert Sans, President
Thomas F. Casey, Vice President
Paul T. Scannell, Secretary
Steve Alms, Member
James P. Fox, 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 2013 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 2013 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 2013 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2013 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.

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OFFICIAL STATEMENT

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(Refunding and Capital Projects)
2013 Series A

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the 2013 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 $________* Lease Revenue Bonds (Refunding and Capital Projects), 2013 Series A (the "2013 Bonds").

The 2013 Bonds are being issued by the Authority for the purpose of providing funds, together with other available moneys, to refund the Authority's Outstanding Lease Revenue Bonds (Capital Projects), 1997 Series A (the "1997 Bonds," as further described below), the Authority's Outstanding Lease Revenue Bonds (Capital Projects), 1999 Refunding Series A (the "1999 Bonds," as further described below), and the Authority's Outstanding Lease Revenue Bonds (Capital Projects), 2001 Series A and 2001 Series B (the "2001 Bonds," as further described below, and, together with the 1997 Bonds and the 1999 Bonds, the "Prior Bonds"), to finance certain capital improvements for the benefit of the County (the "Project) and to pay costs of issuance of the 2013 Bonds. See "PLAN OF REFUNDING," "THE PROJECT" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Authority for Issuance of the 2013 Bonds

The 2013 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 (the "Bond Act"), and a Seventh Supplemental Trust Agreement, dated as of July 1, 2013, supplementing the Trust Agreement, dated as of April 15, 1994, as further supplemented by the First Supplemental Trust Agreement, dated as of April 1, 1995; the Second Supplemental Trust Agreement, dated as of December 1, 1997; the Third Supplemental Trust Agreement, dated as of January 1, 1999; the Fourth Supplemental Trust Agreement, dated as of February 15, 1999; the Fifth Supplemental Trust Agreement, dated as of September 1, 2001; and the Sixth Supplemental Trust Agreement, dated as of December 1, 2009 (collectively, the "Trust Agreement"), by and between the Authority and U.S. Bank National Association, as successor trustee (the "Trustee"), pursuant to which the Authority has previously issued its $124,355,000 aggregate principal amount of Lease Revenue Bonds (San Mateo County Health Center), 1994 Series A (the "1994 Bonds"); its $19,225,000 aggregate principal amount of Lease Revenue Bonds (Capital Projects), 1995 Series A (the "1995 Bonds"); its $63,205,000 aggregate principal amount of Lease Revenue Bonds (Capital Projects), 1997 Series A (the "1997 Bonds"); its $113,140,000 aggregate principal amount of Lease Revenue Bonds (Capital Projects), 1999 Refunding Series A (the "1999 Bonds"); its $24,370,000 Lease Revenue Bonds (Capital Projects), 2001 Series A and its $8,520,000 Lease Revenue Bonds (Capital Projects), 2001 Series B (together, the "2001 Bonds"); and its $115,505,000 Lease Revenue Bonds (Capital Projects), 2009 Refunding Series

[*] Preliminary, subject to change.

A (the "2009 Bonds"). Following delivery of the 2013 Bonds, only the 2009 Bonds and the 2013 Bonds will be outstanding. Together with any additional bonds issued under the Trust Agreement, they are collectively referred to herein as the "Bonds."

Security for the 2013 Bonds

The 2013 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 Master Facility Lease, dated as of April 15, 1994; as amended by the First Amendment to Master Facility Lease, dated as of April 1, 1995; the Second Amendment to Master Facility Lease, dated as of December 1, 1997; the Third Amendment to Master Facility Lease, dated as of January 1, 1999; the Fourth Amendment to Master Facility Lease, dated as of September 1, 2001; and the Fifth Amendment to Master Facility Lease, dated as of July 1, 2013 (collectively, the "Master Facility Lease"), by and between the Authority and the County. The Base Rental Payments to be made by the County pursuant to the Master Facility Lease are payable by the County from its General Fund to the Authority for the right of the County to use and occupy: (i) the real property and facilities comprising the San Mateo County Health Centers; (ii) the real property known as the County's Flood Park; (iii) the real property and the facilities comprising the County's Office Building Project; (iv) subject to the prior lease of such property in connection with the Authority's Lease Revenue Bonds Series of 1993 (North County Satellite Clinic Project) (the "1993 Bonds"), the real property and facilities comprising the County's North County Satellite Clinic; (v) the real property and facilities comprising the County Crime Lab; and (vi) the real property and facilities comprising the Skylonda Fire Station (collectively, the "Leased Property"). The County has agreed in the Master Facility 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 Leased Property or a taking of the Leased Property in whole or in part.

Pursuant to a Master Site Lease, dated as of April 15, 1994, as amended by the First Amendment to Master Site Lease, dated September 1, 1995; the Second Amendment to Master Site Lease, dated as of December 1, 1997; the Third Amendment to Master Site Lease, dated as of January 1, 1999; the Fourth Amendment to Master Site Lease, dated as of September 1, 2001; and the Fifth Amendment to Master Site Lease, dated as of July 1, 2013 (collectively, the "Master Site Lease"), between the County and the Authority, the County has leased to the Authority the real property upon which the Leased Property is located.

The 2013 Bonds Constitute Limited Obligations

The 2013 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 nor any member of the Authority is pledged for the payment of the interest on or principal of the 2013 Bonds nor for the payment of Base Rental Payments. Neither the payment of the principal of or interest on the 2013 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 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 2013 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 the 2012-13 Fiscal Year (ending June 30, 2013) (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events (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 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. These covenants will be made in order to assist the Underwriters in complying with Rule 15c2-12 of the SEC (the "Rule"). 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 significant events as required by the Rule. See "CONTINUING DISCLOSURE" and APPENDIX F – "PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

Summaries Not Definitive

Brief descriptions of the 2013 Bonds, the Authority, the County and the Leased Property are included in this Official Statement, together with summaries of the Master Site Lease, the Master Facility Lease and the Trust Agreement. Such descriptions and summaries do not purport to be comprehensive or definitive. All references herein to the 2013 Bonds, the Master Site Lease, the Master Facility Lease and the Trust Agreement are qualified in their entirety by reference to the actual documents, or with respect to the 2013 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 2013 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

THE PROJECT

Skylonda Fire Station Project: The 2013 Bonds will be used to finance certain capital improvements of the County, specifically the Skylonda Fire Station Project. This project replaces the existing barracks and offices at Station #58 and adds a community room in a new 6,000 square foot facility. The estimated project cost of $4 million assumes the use of a pre-fabricated steel structure and modifying the interior with tenant improvements to suit the needs of the operations.

This fire station will house two paid engine companies. One of them being a paramedic engine, the other will be a wildland engine. The daily occupancy will range from 3-11 firefighting personnel, including a chief officer. This station serves the communities of Skylonda, Kings Mountain, La Honda, Upper Woodside, Alpine Road, Middleton Tract, and Skyline Boulevard.

The facility will also be used for multi-company training involving the La Honda, Loma Mar, and Kings Mountain Volunteers.

PLAN OF REFUNDING

A portion of the net proceeds of the 2013 Bonds, together with other available moneys, will be used to redeem the outstanding Prior Bonds, simultaneously with the issuance of the 2013 Bonds, at a redemption price equal to 100% of the principal amount thereof, plus any accrued interest thereon, as described in the tables below.

1997 Bonds

Maturity Date (July 15)	Principal Amount	Redemption Price	Redemption Date	CUSIP Number†
	$	100%		
		100		
		100		
		100		
		100		
		100		
		100		
		100		

1999 Bonds

Maturity Date (July 15)	Principal Amount	Redemption Price	Redemption Date	CUSIP Number†
	$	100%		
		100		
		100		
		100		
		100		
		100		
		100		
		100		

2001 Bonds

Maturity Date (July 15)	Principal Amount	Redemption Price	Redemption Date	CUSIP Number†
	$	100%		
		100		
		100		
		100		
		100		
		100		
		100		
		100		

† A registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. CUSIP data herein is provided for convenience of reference only. None of the County, the Authority or the Underwriters assumes responsibility for the accuracy of such numbers.

The table below shows the annual debt service on all Bonds, including the 2013 Bonds, that will remain Outstanding under the Trust Agreement subsequent to the redemption of the 1997 Bonds, the 1999 Bonds and the 2001 Bonds. Certain other long-term obligations payable from the General Fund of the County have been issued and are currently outstanding under trust agreements other than the Trust Agreement. See "COUNTY FINANCIAL INFORMATION—Indebtedness—Long-Term Obligations" herein.

Debt Service for Outstanding Bonds

Period Ending (June 30)	Outstanding 2009 Bonds	2013 Bonds Principal	2013 Bonds Interest	Total Debt Service All Bonds Outstanding
2014	$ 10,569,025			$
2015	10,630,225			
2016	10,643,550			
2017	10,684,675			
2018	9,844,175			
2019	9,863,200			
2020	9,883,700			
2021	9,902,425			
2022	9,920,113			
2023	9,937,581			
2024	9,577,319			
2025	9,418,394			
2026	9,649,400			
2027	8,276,706			
2028	-			
2029	-			
2030	-			
2031	-			
2032	-			
2033	-			
Total:*	$			$

* Totals may not add due to rounding.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of the proceeds of the 2013 Bonds and other available amounts are as follows:

Sources of Funds	
Principal Amount of 2013 Bonds	$
[Plus/Less] Original Issue [Premium/Discount]	
Amounts currently on deposit with the Prior Bonds Trustee	
Total Sources	$
Uses of Funds	
Project Fund	$
Refunding of the Prior Bonds	
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, printing costs, rating agency fees and other miscellaneous expenses.

THE 2013 BONDS

General

The 2013 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 2013 Bonds. Payments of principal, premium, if any, and interest on the 2013 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 2013 Bonds to its DTC Participants for subsequent disbursement to the Beneficial Owners (as defined below) of the 2013 Bonds. See "DTC and the Book-Entry System" below.

The 2013 Bonds will be dated the date of their initial delivery and will bear interest from such date payable on January 15, 2014, and semi-annually thereafter on January 15 and July 15 of each year. Interest on the 2013 Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. Ownership interests in the 2013 Bonds will be in denominations of $5,000 principal amount or any integral multiple thereof ("Authorized Denominations").

Redemption of the 2013 Bonds

Optional Redemption.* The 2013 Bonds maturing on or before July 15, 2023 are not subject to optional redemption prior to their respective stated maturities. The 2013 Bonds maturing on or after July 15, 2024 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 July 15, 2023, at a redemption price equal to the sum of the principal amount of the 2013 Bonds called for redemption plus accrued interest thereon to the redemption date, without premium.

* Preliminary, subject to change.

Extraordinary Redemption. The 2013 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 2013 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 Leased Property 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 Leased Property or portions thereof or from the net proceeds of title insurance, under the circumstances described in the Trust Agreement and the Master Facility Lease, at a redemption price equal to the principal amount thereof, without premium, plus accrued interest thereon to the date of redemption. Whenever less than all of the Outstanding 2013 Bonds are to be redeemed on any one date, the Trustee shall select the amount of and interest on the 2013 Bonds to be redeemed so that the aggregate annual principal amount of and interest on the 2013 Bonds which will be payable after such date of redemption will be as nearly proportional as practicable to the aggregate annual principal amount of and interest on the 2013 Bonds outstanding prior to such date of redemption.

Selection of 2013 Bonds for Redemption

If less than all of the Outstanding 2013 Bonds maturing by their terms on any one date are to be redeemed at any one time, the Trustee shall select the 2013 Bonds of such maturity to be redeemed in any manner that the Trustee deems appropriate and fair and shall promptly notify the Authority in writing of the numbers of the 2013 Bonds so selected for redemption. For purposes of such selection, the 2013 Bonds shall be deemed to be composed of $5,000 multiples and any such multiple may be separately redeemed. In the event term 2013 Bonds are designated for redemption, the Authority may designate which sinking account payments are allocated to such redemption.

Notice of Redemption

Notice of redemption of any 2013 Bond will be mailed by the Trustee, not less than 30 nor more than 60 days prior to the redemption date, to the respective owners of the 2013 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 2013 Bonds, notice of redemption will be mailed to DTC, not to the Beneficial Owners of the 2013 Bonds. In the event of redemption of 2013 Bonds (other than sinking fund redemptions), the Trustee shall mail a notice of optional or extraordinary redemption, other than any notice that refers to 2013 Bonds that are to be redeemed from proceeds of a refunding bond issue, only if sufficient funds have been deposited with the Trustee to pay the applicable redemption price of the 2013 Bonds to be redeemed.

The Authority may, at its option, on or prior to the date fixed for redemption in any notice of 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. The Authority may provide for a conditional notice of redemption.

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 2013 Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice the 2013 Bonds so called for redemption shall become due and payable, and from and after the date so designated for redemption, the interest on such 2013 Bonds will cease to accrue. Such 2013 Bonds will cease to be entitled to any benefit or security under the Trust Agreement and the bondholders of such 2013 Bonds will have no rights in respect thereof except to receive payment of the redemption price thereof.

DTC and the Book-Entry System

DTC will act as securities depository for the 2013 Bonds. The 2013 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 2013 Bond certificate will be issued for each maturity of the 2013 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 2013 Bonds, as nominee of DTC, references herein to the owners of the 2013 Bonds shall mean Cede & Co. and shall not mean the actual purchasers of the 2013 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.

THE LEASED PROPERTY

The Leased Property includes (i) the real property and facilities comprising the San Mateo County Health Center (the "Health Center"), (ii) the real property known as the County's Flood Park, (iii) the real property and the facilities known as the County's Office Building Project, (iv) subject to the prior lease of such property in connection with the 1993 Bonds, the real property and facilities comprising the County's North County Satellite Clinic, (v) the real property and facilities comprising the County Crime Lab, and (vi) the real property and facilities comprising the Skylonda Fire Station.

County Health Center

The Health Center is located on a 21-acre parcel of land and consists of a hospital, an outpatient clinic building, a central plant and the remodeled portion of the 1954 hospital building, now used for hospital administration. The hospital is a four-story building of approximately 350,000 square feet housing 227 acute and long-term beds. The hospital provides a full array of emergency, in-patient, psychiatric, imaging, laboratory, specialty health, skilled nursing, and surgical services. The medical/surgical, psychiatric, and intensive care units have an annual total of approximately 25,000 inpatient days. The surgery service and operating room also accommodates almost 2,500 surgeries annually. Additionally, the hospital operates both an acute Emergency Room (the "ER") and Psychiatric Emergency Services ("PES"). The acute ER has over 33,000 visits each year, while PES has almost 3,000 visits each year. The 39th Avenue Clinics, which include clinics relating to adult care, senior care, pediatrics, OB/GYN, medical specialty, surgical specialty, dental, and sexually transmitted diseases, had 118,000 ambulatory clinic visits in fiscal year 2011-12, representing half of the total clinic visits in the entire Health Center ambulatory clinic system. The Health Center is part of the San Mateo Medical Center.

Construction commenced in May 1994 and was completed in November 1998. The total cost of the construction of the Health Center was approximately $134.7 million and the insured value is approximately $174.8 million.

See "THE COUNTY OF SAN MATEO—County Services—Health-Related Services" herein.

The Office Building Project

The Office Building Project, which is part of the County Government Center, is located at the corner of Middlefield Road and County Center Street, adjacent to the County's 900-car parking structure, which was completed in December 1994. The parcel is approximately 36,000 square feet. The Office Building Project is a 5-story building of approximately 120,000 square feet with a basement level of 30,000 square feet. The Office Building Project provides offices for the County Public Works Department, the Department of Child Support Services, the County Assessor-Clerk-Recorder, the County Treasurer-Tax Collector and the County Controller.

Construction commenced in April 1998 and was completed in July 1999. The total cost of the Office Building Project was approximately $23.3 million and the insured value is approximately $39.1 million.

North County Satellite Clinic

The construction of the North County Satellite Clinic in Daly City enabled the County to consolidate several functions of the County's Department of Health Services, which were located in various leased spaces throughout the northern portion of the County. The site of the North County Satellite Clinic is approximately 50,000 square feet. The North County Satellite Clinic is a three-story building of approximately 31,000 square feet, which houses services provided by the County's Department of Health, including Mental Health, Primary Care, Women with Infants and Children (WIC) and Public Health programs. The facilities entail a common building and medical support space, including a small satellite laboratory, pharmacy and imaging spaces. A parking structure containing approximately 53 spaces is adjacent to the clinic building.

Construction of the North County Satellite Clinic was completed in 1995, and the total project cost was approximately $7.5 million. The insured value of the North County Satellite Clinic is approximately $8.9 million.

County Crime Lab

The County Crime Lab consists of a one-story building of approximately 30,000 square feet, and its construction was designed to provide optimal energy conservation. The exterior consists of split-face concrete block, and high solar-efficient glass was used for daylighting through exterior walls and skylights. Variable-volume fume hoods draw energy only when active and all mechanical and electrical systems have been interfaced with sensitive sensor controls to reduce energy consumption. In addition, the building's sloping roofs were designed for photovoltaic arrays capable of generating 180 kW, one-third of the building's projected electrical demand. The facility houses 29 Crime Lab staff that consist of 23 criminalists and forensic specialists, two property officers, and four administrative staff that serve all criminal justice agencies in the County by providing specialized investigative and scientific analytical services and expert testimony to support the investigation and adjudication of alleged criminal activity. In FY 2011-12, the Crime Lab processed over 3,200 major case items, including firearms, latent prints and forensic biology items for DNA analysis. The Crime Lab also houses the Administration and Investigation Units of the County Coroner's Office, including seven criminal investigators and five administrative staff. The Coroner's Office receives over 3,000 death reports each year and investigates approximately 530 cases annually. Autopsies are performed at the Health Center.

Construction commenced in October 2001 and was completed in 2003. The total cost of the construction of the County Crime Lab was approximately $12.9 million and the insured value is approximately $15.3 million.

[**Flood Park**

Flood Park, which occupies a 21-acre site, is located along the northerly side of Bay Road between Marsh Road and Ringwood Avenue in the City of Menlo Park. Flood Park is a portion of the Old Flood Estate and is famous for its large native Oak and Bay trees.

Flood Park is two parcels, diagonally divided by the 80-foot wide Hetch Hetchy right-of-way, which is owned in fee by the City and County of San Francisco. The portion of Flood Park being leased pursuant to the Master Site Lease and the Master Facility Lease consists of one such parcel containing approximately 16.66 acres.

The southerly boundary of Flood Park adjoins Bay Road, which is the boundary between the Town of Atherton (southerly side) and the City of Menlo Park (northerly side). The property is zoned as an open space and conservation district.

The adjoining property in the City of Menlo Park is zoned single family, urban residential, with a minimum lot area of 7,000 square feet.

Flood Park facilities consist of large group and family picnic areas, a children's playground, restrooms, horse shoe pits, volleyball courts, softball and baseball fields and tennis courts, together with large parking areas.

Flood Park structures are not included in determining the rental value of the Leased Property.]

Skylonda Fire Station

Upon completion, the Skylonda Fire Station (Station #58), located on Skyline Boulevard in the Town of Woodside, California, will be a two story, 6,000 square foot facility with living quarters for up to a dozen firefighting personnel and a community room that will be used for multi-company training involving the La Honda, Loma Mar, and Kings Mountain volunteers as well as community meetings. The project cost estimate of $4 million assumes using a pre-fabricated steel structure and modifying the interior with tenant improvements to suit the needs of the operations. This fire station will house two paid engine companies, one of them being a paramedic engine, and the other being a wildland engine. There is a separate Apparatus Building built in the 1980s, which is not part of the Project that houses fire engines and equipments. There is a chief officer assigned there as well. This station, which responds to approximately 500 medical, fire, hazmat and vehicle accident calls on an annual basis, serves the communities of Skylonda, Kings Mountain, La Honda, Upper Woodside, Alpine Road, Middleton Tract, and Skyline Boulevard.

SECURITY FOR THE 2013 BONDS

Pledge Under the Trust Agreement

The Trust Agreement provides that the 2013 Bonds are payable solely from, and are secured by a lien on, (a) all Base Rental Payments and other payments paid by the County and received by the Authority under the Master Facility Lease as further described below, (b) all interest and other income derived from certain funds held under the Trust Agreement, and (c) any moneys payable to the Authority pursuant to an interest rate swap, cap, floor, collar or other hedging transaction (a "Swap") entered into by the Authority for the purpose of managing interest rate risk with respect to Bonds or any Additional Bonds (collectively, the "Revenues") and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established under the Trust Agreement (other than the Rebate Fund), all under the terms and conditions set forth in the Trust Agreement. Pursuant to the Trust Agreement, the 2013 Bonds are secured by a pledge of and charge and lien upon the Revenues equal to the pledge, charge and lien securing the outstanding 2009 Bonds. As and to the extent set forth in the Trust Agreement, all the Revenues are irrevocably pledged for the security and payment of the Bonds and the sum payable by the Authority in connection with any Swaps; but nevertheless out of the Revenues certain amounts may be applied for other purposes as provided in the Trust Agreement.

The Authority has not entered into any Swap in connection with the Bonds, and, as of the date hereof, the County does not anticipate that any Bonds will have associated Swaps.

The 2013 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 or any Member of the Authority is pledged for the payment of the interest on or principal of the 2013 Bonds nor for the payment of Base Rental Payments under the Master Facility Lease. Neither the payment of the principal of or interest on the 2013 Bonds nor the obligation to make Base Rental Payments under the Master Facility Lease 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.

Outstanding Parity Bonds

As of __________, 2013, the Authority had outstanding $______ aggregate principal amount of Bonds comprised of $______ principal amount of 1997 Bonds, $______ principal amount of 1999 Bonds, $______ principal amount of 2001 Bonds, and $______ principal amount of 2009 Bonds, secured by a pledge, charge and lien upon the Revenues equal to the pledge, charge and lien securing the 2013 Bonds. A portion of the net proceeds of the 2013 Bonds will be used to redeem the outstanding 1997 Bonds, the outstanding 1999 Bonds and the outstanding 2001 Bonds. Following delivery of the 2013 Bonds, only the 2009 Bonds and the 2013 Bonds will be outstanding.

Base Rental Payments

Revenues of the Authority pledged under the Trust Agreement to the payment of the 2013 Bonds consist primarily of the Base Rental Payments to be made by the County to the Authority under the Master Facility 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 in the Reserve Fund or proceeds of rental interruption insurance are available to pay principal of and interest on the Bonds.

Reserve Fund

Upon issuance of the 2013 Bonds, there will remain in the Reserve Fund, established pursuant to the Trust Agreement, an amount equal to the Reserve Fund Requirement of approximately $______, calculated at 125% of average annual debt service on the outstanding Bonds. Of this amount, approximately $____ consists of cash and investments, with the balance funded with a municipal bond debt service reserve insurance policy (the "FSA Reserve Fund Policy") issued by Financial Security Assurance Inc., presently known as Assured Guaranty Municipal Corp. ("FSA"). This insurance policy, issued in the initial amount of $5,300,000, expires on July 15, 2032. The amount of the reserve insurance policy reduces proportionately with a reduction in the Reserve Requirement so that following the reduction, the amount of the policy is the same ratio of the policy amount to the Reserve Requirement as existed on the effective date of such policy. See also "—Investment of Bond Funds" below. All money in the Reserve Fund must be used and withdrawn by the Trustee solely for the purpose of paying the interest on or principal of the Bonds or for the retirement of all the Bonds (including the 2013 Bonds and the 2009 Bonds, all of which are secured by the Reserve Fund) then outstanding, except that so long as the Authority is not in default under the Trust Agreement, any cash amounts in the Reserve Fund in excess of the Reserve Fund Requirement may be withdrawn from the Reserve Fund and deposited in the Revenue Fund, on or before each interest payment date. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE TRUST AGREEMENT—Revenue Fund" herein.

Pursuant to the terms of the Trust Agreement, the Authority may satisfy the Reserve Fund Requirement with respect to the Bonds at any time by depositing with the Trustee for the credit of the Reserve Fund a surety bond, an insurance policy or a letter of credit, or any combination thereof (a "Reserve Fund Surety") which, (i) with respect to a surety bond or insurance policy, is issued by a company licensed to issue an insurance policy guaranteeing the timely payment of the principal of and interest on the Bonds (a "municipal bond insurer") if such municipal bond insurer is rated Aaa by Moody's Investors Service and AAA by Standard & Poor's Corporation, or (ii) with respect to a letter of credit, is issued or confirmed by a state or national bank, or a foreign bank with an agency or branch located in the continental United States, which has outstanding an issue of unsecured long term debt securities rated at least equal to the second highest rating category (disregarding rating subcategories by Moody's Investors Service and Standard & Poor's Corporation), but in no event less than the rating on the Bonds given by any rating agency which has a then currently effective rating on the Bonds. If, at any time during the period the Reserve Fund Requirement is funded with a Reserve Fund Surety, the rating of the provider of such Reserve Fund Surety is reduced or withdrawn so that it no longer meets the above-described ongoing rating test, the Authority is obligated under the terms of the Trust Agreement to use its best efforts to obtain a substitute or replacement Reserve Fund Surety within 30 days from the date of such reduction or withdrawal from a provider meeting such requirements to the extent that, in the judgment of the Authority, such a substitute or replacement is available upon reasonable terms and at a reasonable cost, or will use its best efforts to deposit into the Reserve Fund a replacement Reserve Fund Surety meeting the requirements of the Trust Agreement in order to provide that there will be on deposit in the Reserve Fund an amount equal to the Reserve Fund Requirement.

In _____, FSA's rating was reduced so that it no longer met the Trust Agreement requirements. The Authority responded by seeking to replace the FSA Reserve Fund Policy with a Reserve Fund Surety that would meet the Trust Agreement requirements. To date, the Authority has been unable to identify a qualifying Reserve

Fund Surety. As a result, the Authority is proposing the Proposed Trust Agreement Amendment (defined below) to replace the ongoing rating requirement with a requirement that the Reserve Fund Surety have a rating at least equal to the rating on the Bonds only at the time the Reserve Fund Surety is deposited in the Reserve Fund. See "—Proposed Amendments—Proposed Trust Agreement Amendment" and APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—TRUST AGREEMENT—[Proposed Amendment]" herein.

Substitution of Leased Property

Pursuant to the Master Facility Lease, the County and the Authority may, with the prior written consent of the insurer of any Bonds, substitute real property as part of the Leased Property being leased for purposes of the Master Site Lease and the Master Facility Lease, but only after the County shall have filed with the Authority and the Trustee, with copies to each rating agency then providing a rating for the Bonds, all of the following:

(a) Executed copies of the Master Site Lease and the Master Facility Lease or amendments thereto containing the amended description of the Leased Property and the real property being leased, including the legal description of the real property being leased as modified if necessary;

(b) A Certificate of the County with copies of the Master Site Lease and the Master Facility Lease, if needed, or amendments thereto containing the amended description of the Leased Property and the real property being leased stating that such documents have been duly recorded in the official records of the County Recorder of the County;

(c) A Certificate of the County, accompanied by a written appraisal, from a qualified appraiser, who may but need not be an employee of the County, evidencing that the annual fair rental value of the Leased Property and the real property which will constitute the Leased Property after such substitution (which may be based on the construction or acquisition cost or replacement cost of such facility to the County) will at least equal 100% of the maximum amount of Base Rental Payments becoming due in the then current year ending July 15 or in any subsequent year ending July 15;

(d) (i) A California Land Title Association leasehold owner's policy or policies or a commitment for such policy or policies or an amendment or endorsement to an existing policy or policies resulting in title insurance with respect to the real property being leased after such substitution in an amount at least equal to the amount of such insurance provided with respect to the real property being leased prior to such substitution; each such insurance instrument, when issued, shall name the Trustee as the insured, and shall insure the leasehold estate of the Authority in such substituted property subject only to such exceptions as do not substantially interfere with the County's right to use and occupy such substituted property and as will not result in an abatement of Base Rental Payments payable by the County under the Master Facility Lease; or

(ii) An Opinion of Counsel or Certificate of the County stating that, based upon review of such instruments, certificates or any other matters described in such Opinion of Counsel or Certificate of the County, the County has good merchantable title to the Leased Property and the real property being leased which will constitute the Leased Property and the real property being leased after such substitution. The term "Good Merchantable Title" shall mean such title, as in the Opinion of Counsel or Certificate of the County is satisfactory and sufficient for the needs and operations of the County, subject only to certain permitted encumbrances;

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

(f) An Opinion of Counsel stating that such amendment or modification (i) is authorized or permitted by the Constitution and laws of the State and the Master Facility Lease; (ii) complies with the terms of the Constitution and laws of the State and of the Master Facility Lease; (iii) will, upon the execution and delivery thereof, be valid and binding upon the Authority and the County in accordance with its terms; and (iv) will not cause the interest on the Bonds and any Additional Bonds to be included in gross income for federal income tax purposes.

Pursuant to the Fifth Amendment to Master Facility Lease, the Authority is proposing the Proposed Master Facility Lease Amendment (defined below) relating to the deliverables required of the Agency as described in item (c) above in connection with the substitution of Leased Property. See "Proposed Amendments" below.

Proposed Amendments

Pursuant to the Seventh Supplemental Trust Agreement, the Authority has proposed an amendment to the Trust Agreement relating to the Reserve Fund and Reserve Fund sureties (the "Proposed Trust Agreement Amendment"). Pursuant to the Fifth Amendment to Master Facility Lease, the Authority has proposed an amendment to the Master Facility Lease relating to the deliverables required of the Agency in connection with the substitution of Leased Property (the "Proposed Master Facility Lease Amendment," and, together with the Proposed Trust Agreement Amendment, the "Proposed Amendments"). The Proposed Amendments will become effective when the aggregate principal amount of Bonds issued under the Trust Agreement as amended by the Seventh Supplemental Trust Agreement exceeds the aggregate principal amount of Bonds issued under the Trust Agreement prior to the effective date of the Seventh Supplemental Trust Agreement. The purchase of 2013 Bonds issued pursuant to the Trust Agreement after the effective date of the Seventh Supplemental Trust Agreement will constitute the consent of the purchasers, as Bondholders, to the amendment in the Seventh Supplemental Trust Agreement and to the amendment in the Fifth Amendment to Master Facilities Lease.

Proposed Trust Agreement Amendment. Pursuant to the Proposed Trust Agreement Amendment, the Trust Agreement would be amended to permit the Authority to satisfy the Reserve Fund Requirement at any time by the depositing with the Trustee for the credit of the Reserve Fund a Reserve Fund Surety which, with respect to a surety bond or insurance policy, is issued by a company rated, or, with respect to a letter of credit, is issued or confirmed by a state or national bank, or a foreign bank with an agency or branch located in the continental United States, which has outstanding an issue of unsecured long term debt securities rated, at the time of such deposit, at least equal to the rating on the Bonds given by any rating agency which has a then currently effective rating on the Bonds. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE TRUST AGREEMENT—[Proposed Amendment]" herein.

Proposed Master Facility Lease Amendment. Pursuant to the Proposed Master Facility Lease Amendment, the Master Facility Lease would be amended to permit the County to certify as to the fair rental value of the Leased Property and the real property to constitute the Leased Property after any substitution or release thereof without requiring a written appraisal as currently required under the Master Facility Lease. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE MASTER FACILITY LEASE—[Proposed Amendment]" herein.

Additional Bonds

In addition to the 2013 Bonds and the 2009 Bonds, the Authority and the Trustee may, by a supplemental trust agreement, provide for the issuance of Additional Bonds, 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 "COUNTY FINANCIAL INFORMATION—County Debt Limit" herein. In addition, the Authority may, with the prior written consent of the insurer of any Bonds, enter into swap agreements, payments under which would be on a parity with the Bonds. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—THE TRUST AGREEMENT—Pledge of Revenues; Creation of Special Funds and Accounts" 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

As rent for the right to use and occupy the Leased Property, 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 Leased Property as described in the Master Facility Lease, including without limitation, the fees, costs and expenses and all administrative costs of the Authority related to the Leased Property and the fees of auditors, accountants, attorneys or architects.

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 Master Facility Lease is a "net-net-net lease" and the County agrees that the rents will be an absolute net return to the Authority free and clear of any expenses, charges or set-offs whatsoever.

Covenant to Budget and Appropriate

Pursuant to the Master Facility 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.

Insurance

The Leased Property will be insured to the extent set forth in the Master Facility Lease. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—FACILITY LEASE—Fire and Extended Coverage and Earthquake Insurance" and "—Rental Interruption or Use and Occupancy Insurance" herein. The Master Facility Lease requires the County to maintain or cause to be maintained insurance against risk of loss or damage by fire and lightning, with extended coverage insurance, vandalism and malicious mischief insurance and sprinkler system leakage insurance, and during construction, earthquake insurance. [The County has covenanted to maintain earthquake insurance on the Leased Property during the period of construction of the construction components of the Leased Property. As of the date of delivery of the 2013 Bonds, the Leased Property will include the Skylonda Fire Station, which will be a construction component.] The extended insurance coverage 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 replacement cost (without deduction for depreciation) of all structures constituting any part of the Leased Property, excluding the cost of excavations, of grading and filling, and of the land (except that such earthquake insurance may be subject to a deductible clause of not to exceed 10% of such replacement cost for any one loss and except that such other insurance may be subject to deductible clauses for any one loss of not to exceed \$250,000), or, in the alternative, shall be in an amount and in a form sufficient (together with moneys in the Reserve Fund), in the event of total or partial loss, to enable all Bonds then outstanding to be redeemed. Pursuant to the Master Facility Lease the County may self-insure for such risks. The proceeds of all property insurance must be used to repair, reconstruct or replace the Leased Property 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 its buildings against earthquake and flood damage through a \$25 million property insurance policy, 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 is required to maintain rental interruption or use and occupancy insurance to cover loss of rental income from or loss of the use of the Leased Property as a result of any of the hazards covered by its insurance coverage required by the Master Facility Lease in an amount equal to maximum annual Base Rental Payments due under the Master Facility Lease for any two-year period, except that such insurance may be subject to a deductible clause of not to exceed \$1,000 and except that such insurance need be maintained as to the peril of earthquake only during construction.

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 Leased Property during each such period for which said rental is to be paid.

The Base Rental Payments will be abated proportionately during any period in which by reason of any material damage or destruction (other than by condemnation which is otherwise provided for in the Master Facility Lease) there is substantial interference with the use and occupancy of any portion of the Leased Property by the County, in the proportion in which the cost of that portion of the Leased Property rendered unusable bears to the cost of the whole Leased Property. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Master Facility Lease continues in full force and effect and the County waives any right to terminate the Master Facility Lease by virtue of any such damage or destruction. In the event the Leased Property 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 Reserve Fund, or in the event that casualty insurance proceeds are insufficient to provide for complete repair of the Leased Property, there could be insufficient funds to cover payments to Bondowners in full. See APPENDIX D – "SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS—FACILITY LEASE—Fire and Extended Coverage and Earthquake Insurance" and "—Rental Interruption or Use and Occupancy Insurance" herein.

Default and Remedies

Upon an Event of Default described below, the County will be deemed to be in default under the Master Facility Lease and the Authority (or the Trustee as assignee of the Authority) may exercise any and all remedies available pursuant to law or granted pursuant to the Master Facility Lease. Upon any such default, including a failure to pay Base Rental Payments, the Trustee as assignee of the Authority may either (1) terminate the Master Facility Lease and recover certain damages or (2) continue to collect rent from the County on an annual basis by seeking a separate judgment each year for that year's defaulted Base Rental Payments and/or reenter the Leased Property and relet it. **In the event of default, there is no remedy of the acceleration of the total Base Rental Payments due over the term of the Master Facility Lease, and the Trustee is not empowered to sell a fee simple interest in the Leased Property and use the proceeds of such sale to prepay the Bonds or pay debt service thereon.**

Events of Default under the Master Facility Lease include (i) the failure of the County to pay any rental payable under the Master Facility 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 Master Facility Lease to be kept or performed by the County after notice and the elapse of a 30-day grace period and (iii) the bankruptcy or insolvency of the County.

FOR A FURTHER DESCRIPTION OF THE PROVISIONS OF THE MASTER FACILITY 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 MASTER FACILITY 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 14th largest county in the State, with 718,451 persons according to the 2010 U.S. Census and 735,678 persons according to the California Department of Finance population estimates as of January 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 that area of the County including: 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 to the incorporated cities of Woodside and Portola Valley, both of which are within the County's boundaries. The County also provides criminal 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 a five-member Board of Supervisors (the "Board") who serve four-year terms on a full time basis. Each Supervisor must reside in one of five geographical districts in the County. The Board members 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, Controller, Coroner, District Attorney, Sheriff and Treasurer-Tax Collector.

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

Carole Groom was elected to the Board of Supervisors in June 2010 and served one year as President of the Board in 2011 and is the 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 (SamTrans) Board. In 2009, she originated "Streets Alive! Parks Alive!" in San Mateo 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 currently serves as the President of the Board of Supervisors and is the Supervisor for District 3, which includes the cities of Pacifica, Half Moon Bay, San Carlos, Woodside, Atherton, Portola Valley, a portion of Belmont and the unincorporated area on the Coastside from Pacifica to the Santa Cruz County border as well as the Redwood Shores community. 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. As the official representative for San Mateo County, he also is a member of the Health Plan of San Mateo, the City/County Association of Governments, the San Mateo County Transportation Authority, 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 represents District 1 which includes Burlingame, Hillsborough, Millbrae, San Bruno, and portions of South San Francisco; the unincorporated communities of San Mateo Highlands, Baywood Park and Burlingame Hills; and the San Francisco Airport. 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 of Supervisors 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. Supervisor Slocum represents the 4th supervisorial district, which includes the cities of Menlo Park, Redwood City, and East Palo and the unincorporated communities of North Fair Oaks and Oak Knoll. As a member of the Board, Supervisor Slocum represents the County 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, the AIDS Program Community Advisory Board, and the North Fair Oaks Community Council. He is currently co-chairing two Ad Hoc Committees: the Measure A Funding Committee, which allocates the recently approved 10-year half-cent sales tax measure for the County of San Mateo; and the District Lines Committee, which will review and recommend potential supervisorial district boundary adjustments with the passage of Measure C in November of 2012 which changed the way supervisors are elected in San Mateo County from an at-large system to a district election system. 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 San Mateo County Board of Supervisors. 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 (MTC), 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 (SamTrans), 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 (LAFCo). 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 San Mateo 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, San Mateo County was the first county in the State to develop school-based children and family services, a MediCal 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 San Mateo 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 Treasurer Tax Collector in November 2010. She was initially employed by the office in 1989 and promoted to 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 FY 2013-14. She is also currently researching property tax systems anticipating replacement of the current system by FY 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 (PACE) program for the County. Ms. Arnott currently serves as Chair of the San Mateo County Employees Retirement Association (SamCERA) 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 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, 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 County's 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 $53.4 million in the adopted budget for fiscal year 2012-13. This represents an increase of approximately $2.6 million from FY 2011-12. The Board approved $254.1 million for fiscal year 2012-13 in total requirements (expenditures and department reserves) for all Health Department services and programs in the adopted budget, or approximately 20.1% of the County's General Fund budget. The cost of all Health Department programs is funded with approximately 34.7% from State funds (including Realignment revenues (described below)), approximately 7.5% from federal funds, approximately 36.8% from charges for services, and approximately 21% from County funds, with the remainder being funded primarily by aid from local agencies, miscellaneous revenues and existing fund balances.

The Medical Center consists of a 227-bed acute and long-term care hospital and 11 clinics. As described under "THE LEASED PROPERTY—County Health Center" herein, 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 250,000 ambulatory visits to County residents in fiscal year 2011-12. In fiscal year 2011-12, the Medical Center received a $59.0 million contribution from the General Fund. The contribution from the General Fund for fiscal year 2012-13 is budgeted at $77.6 million. The increase is primarily due to one-time funds 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, including early retirement and separation pay for displaced workers. *See* "COUNTY FINANCIAL INFORMATION—Indebtedness" herein for a description of the financing of the County Health Center and APPENDIX C – "AUDITED COMBINED FINANCIAL STATEMENTS OF THE COUNTY FOR FISCAL YEAR 2011-2012."

The adopted budget for the Medical Center, including capital purchases, is $257.2 million for fiscal year 2012-13, a decrease of $19.2 million or 7.0% from fiscal year 2011-12. The Medical Center budget depends largely upon net patient revenue, including the Medi-Cal program, of $83.8 million for fiscal year 2012-13. The cost of all Medical Center services and programs is being funded approximately 31.1% from State and federal funds (including Realignment revenues (described below), approximately 32.6% from net patient revenue, approximately 30.2% from County funds, with the remainder being funded by the sales of pharmaceuticals and medical supplies, aid from local agencies and miscellaneous revenues.

Health Care Reform. The County expects that the implementation of the Affordable Care Act ("ACA") will result in increased health insurance availability for thousands of San Mateo County residents. The County currently expects the law to have a financially neutral impact on the Health System. 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 FY 2013-14, the County anticipates returning $4 million subject to subsequent reconciliation within two years. The Health System will still 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 8,900 residents in a program that will allow them to transition to Medi-Cal when that program expands. The Health System will be working with the State and HSA to transition these residents to Medi-Cal coverage by January 1, 2014.

Earning federal incentive payments for quality and access improvements. The federal government has recognized the importance of the public healthcare systems like San Mateo Medical Center to provide care for the expanded Medi-Cal population. Accordingly, they are offering public hospitals financial incentives for meeting increasingly stringent quality and access goals. The Health System has earned the maximum incentive payments for 2010 and 2011 and is committed to doing so in the future.

Increasing quality while lowering costs. The Health System is implementing electronic health records in San Mateo Medical Center, Behavioral Health and Recovery Services and Family Health Services. The Lean process improvement approach will also 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 Human Services Agency to address enrollment barriers. HSA's redesign efforts to improve the accessibility of public benefits programs will be critical in enrolling an additional 13,000 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 County's MOE obligations in fiscal year 2012-13 total $16.2 million. Under the 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 Sheriff's Department provides County-wide 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 Sheriff is also responsible for the incarceration of pre-trial and post-adjudicated adults by running the County jails. The County's adopted 2012-13 Budget for the Sheriff's Office is $196.7 million or 15.6% of the County's General Fund budget, including a General Fund cost (net of State and federal reimbursements and other revenue) of $89.7 million.

The County currently operates four adult jails: the Maguire Correctional Facility, the Women's Correctional Center, the Minimum Security Transitional Facility and the Weekender Dorm. For FY 2011-12, the average daily inmate population was 977 inmates. Jail overcrowding has been an issue. The Women's Correctional Center in Redwood City, with 84 rated beds, was originally built in 1980. The County has determined that it needs to be replaced rather than remodeled or expanded. To address the women's inmate population, overflow from the Maguire Correctional Facility, and inmate growth projections that result from the passage of AB109 – Public Safety Realignment, which shifts the responsibility of housing low-level offenders from the State to counties, after study and discussion with the City of Redwood City, the decision was made to construct a mixed men and women's jail at a new site east of U.S. 101 in Redwood City. The Replacement Jail will house up to 488 inmates on two floors and will include 88 transitional housing beds. Inmates in transitional housing will either be in a work furlough program, participating in job training programs, attending school, or participating in vocational training. The transitional housing will offer programs to help the inmates prepare for a successful return to the community. Additionally, a third floor "warm shell" would be able to house 192 to 256 additional inmates depending on the final design.

The project cost estimate is $165 million, excluding financing and related costs. The project will be constructed as a high/medium security facility with special programs and specialty holding, medical and residential facilities. The County expects to finance the construction of the Replacement Jail later in 2013 with proceeds from the issuance by the Authority of lease revenue bonds.

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 a 180-bed juvenile hall, a 30-bed girls camp, a group home with 24 beds, 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 County General Fund cost of all human services programs (net of State and federal reimbursements and other revenue) is budgeted at $29.8 million in the adopted budget for fiscal year 2012-13. This represents a 1.8% increase from fiscal year 2011-12. The Board approved $184.5 million in total requirements for all human services programs in the adopted budget for fiscal year 2012-13 or approximately 14.6% of the County's General Fund budget. The cost of all human service programs is being funded approximately 50.4% with State funds (including Realignment revenues (described below), approximately 27.7% with federal funds and approximately 16.1% with County funds, with the remainder 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 San Mateo 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 360,000 registered voters and provides 468 voting precincts and 202 polling places throughout the County.

Parks and Recreation. The County operates a network of seventeen parks and recreational facilities which serve over 2.1 million park visitors annually. The County park system encompasses 15,680 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 2.2 million visitors annually.

County Employment

The number of permanent employment positions in the FY 2012-13 Adopted Budget was 5,127. Some of those positions are unfilled. The following table sets forth the total number of authorized County employment positions for each of the last ten Adopted Budgets:

Table 1
COUNTY OF SAN MATEO
EMPLOYMENT POSITIONS

2003	5,062
2004	5,330
2005	5,285
2006	5,547
2007	5,719
2008	5,871
2009	5,844
2010	5,530
2011	5,441
2012	5,305
2013	5,127

Source: County of San Mateo.

Employee Relations and Collective Bargaining

County employees are represented by 27 bargaining units of ten represented and three unrepresented labor organizations, the principal ones being the American Federation of State, County and Municipal Employees Local 829 ("AFSCME") and Service Employees International Union Local 521 ("SEIU") representing approximately 61% of all County employees in a variety of classifications. There has never been any major work stoppage by County employees. About 87.5% of all County employees are covered under negotiated agreements.

Labor contracts are in place for all bargaining units. Unionized County employees and their appropriate bargaining agents are shown in the following table.

Table 2
COUNTY OF SAN MATEO
EMPLOYEE BARGAINING REPRESENTATION
AND NUMBER OF EMPLOYEES
(As of May 14, 2013)

Bargaining Agents	Number of Employees[1]	Contract Expiration Date
AFSCME	1,592	October 15, 2014
California Nurses Association	343	July 5, 2014
Deputy Sheriffs Association	371	January 2, 2016
SEIU	1,498	October 15, 2014
Building Construction and Trades Council	77	November 2, 2013
Union of American Physicians and Dentists	118	May 9, 2015
San Mateo County Council of Engineers	13	February 28, 2015
Probation and Detention Association	270	May 21, 2016
Organization of Sheriff's Sergeants	58	April 10, 2016
Law Enforcement	37	June 7, 2014
Non-represented employees:		
Unrepresented Attorneys	88	
Confidential	80	
Management	479	

(1) Excludes Court employees.
Source: San Mateo County.

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 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 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 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.

The County's Budget for FY 2012-13 was adopted on September 25, 2012.

Fiscal Year 2012-13 Adopted Budget

The County's total budget for FY 2012-13 amounts to $1.89 billion. This is an increase of approximately 7.7% over the FY 2011-12 budget. However, if significant one-time expenditures are removed, there is a net increase of 0.4%. One-time expenditures total $64 million, as follows: $18 million for the transition of the Burlingame Long Term Care Center to a private provider, $37 million for jail planning, architecture and site preparation, and $9 million for one-time IT initiatives. These amounts are double counted in the County's All Funds budget due to intra-County transfers. The County's General Fund budget for FY 2012-13 amounts to $1.26 billion. General Fund spending increased approximately 6.6% over FY 2011-12. Again, if the one-time expenditures described above are removed, there is a net increase of 1.5%.

Based on current estimates, the General Fund is projected to end FY 2012-13 with a fund balance of $256 million, which is $24 million less than the prior fiscal year. This reduction is largely due to the projected one-time expenditures described above. The County plans to reimburse itself for the purchase of the jail site and related project costs with a bond financing planned for the Fall of 2013. Excluding these one-time costs, a General Fund surplus of no less than $40 million would be projected for FY 2012-13. The projected year-end Fund Balance of $256 million represents 23.6% of General Fund net appropriations.

The following table presents the County's adopted budget for FY 2012-13 and the four previous fiscal years.

Table 3
COUNTY OF SAN MATEO
COUNTY BUDGET – GENERAL FUND

	Adopted 2008-09 Budget	Adopted 2009-10 Budget	Adopted 2010-11 Budget	Adopted 2011-12 Budget	Adopted 2012-13 Budget
SOURCES:					
Taxes:					
Property Taxes[(1)]	$274,772,690	$252,188,625	$262,424,135	$264,593,522	$275,148,732
Excess ERAF[(2)]	28,817,475	29,303,145	44,629,557	39,639,993	40,000,000
Sales Taxes[(3)]	19,173,874	18,146,323	17,339,414	18,831,727	23,505,899
All Other Taxes	9,377,448	6,226,131	7,216,085	6,652,644	13,502,276
Licenses, Permits and Franchises	6,012,689	5,463,360	5,245,583	5,559,151	5,815,816
Fines, Forfeitures and Penalties	9,047,163	8,472,218	8,333,072	8,562,142	8,735,972
Use of Money and Property	15,727,139	9,806,788	6,766,958	6,893,990	7,186,424
Intergovernmental Revenues[(4)]	400,377,447	396,429,922	400,562,921	379,813,945	414,809,236
Charges for Services	94,893,320	95,382,926	103,923,895	101,866,236	107,754,073
Interfund Revenue	68,463,020	73,251,223	66,651,625	70,195,107	65,431,741
Miscellaneous Revenue	37,077,197	28,177,648	28,027,716	28,162,432	21,823,507
Other Financing Sources	3,461,338	949,493	785,980	242,363	172,266
Total Revenue	967,200,800	923,797,802	951,906,941	931,013,252	983,885,942
Fund Balance	285,425,092	290,449,482	308,437,645	254,422,776	280,370,149
TOTAL SOURCES	1,252,625,892	$1,214,247,284	$1,260,344,586	$1,185,436,028	$1,264,256,091
REQUIREMENTS:					
Salaries and Benefits	535,077,232	$541,682,848	$564,846,448	$556,479,576	$573,910,876
Services and Supplies	317,899,182	355,020,125	350,699,298	342,929,539	326,618,492
Other Charges	237,243,853	225,960,817	225,852,165	222,952,388	221,478,565
Fixed Assets	7,614,054	3,858,337	8,976,218	7,396,753	9,587,350
Other Financing Uses	89,150,071	71,368,180	59,444,803	44,631,334	121,715,839
Gross Appropriations	1,186,984,392	1,197,890,307	1,209,818,932	1,174,389,590	1,253,311,122
Intrafund Transfers	(172,816,644)	(180,568,854)	(171,755,608)	(172,029,508)	(169,049,487)
Net Appropriations	1,014,167,748	1,017,321,453	1,038,063,324	1,002,360,082	1,084,261,635
Contingencies/Dept Reserves	238,458,144	196,925,831	222,281,262	183,075,946	179,994,456
TOTAL REQUIREMENTS	$1,252,625,892	$1,214,247,284	$1,260,344,586	$1,185,436,028	$1,264,256,091

Source: County of San Mateo Controller
(1) Property Taxes include Secured, Unsecured, Supplementals and Property Tax In-Lieu of VLF.
(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) Includes Realignment Revenues.

Fiscal Year 2013-14 and Future Year Budgets

The County is implementing a two-year budget process for upcoming Fiscal Years 2013-14 and 2014-15. The two-year budget will be presented to the Board in September 2013, with periodic check-ins through County Manager's Reports. In anticipation of this transition, on June 30, 2013, the County will adopt a FY 2013-14 budget, which largely mirrors that of FY 2012-13, for use until the new two year-budget is finalized. 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 Lean Process Improvement initiatives and 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 FY 2013-14 Budget, 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 discretionary "revenue growth projections" for the current year and the five out years.

Discretionary General Fund Revenues	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Secured Property Tax	3.2%	3.0%	3.0%	3.0%	3.0%	3.0%
Unsecured Property Tax	5.5%	1.0%	1.0%	1.0%	1.0%	1.0%
Excess ERAF (50% Ongoing)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Vehicle Rental Tax (Measure T)	100.0%	33.3%	2.0%	2.0%	2.0%	2.0%
Sales Tax	11.8%	0.6%	1.6%	3.4%	3.7%	3.0%
Public Safety Sales Tax	9.5%	3.2%	3.3%	3.8%	4.3%	4.6%
Property Transfer Tax	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%
Transient Occupancy Tax	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Property Tax In-Lieu of VLF	2.5%	3.0%	3.0%	3.0%	3.0%	3.0%
Interest & Investment Income	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Other Revenue	2.3%	0.4%	0.7%	0.7%	0.7%	0.7%
Overall Growth	5.7%	2.9%	2.5%	2.7%	2.8%	2.8%
Measure A Sales Tax	100.0%	1100.0%	3.3%	3.8%	4.3%	4.6%
Overall Growth w/Measure A	7.0%	15.9%	2.6%	2.8%	3.0%	3.0%

Discretionary General Fund Revenues ($ millions)	FY 2012-13	FY 2017-18	5-Year Growth
Secured Property Tax	174,093	201,734	27,641
Unsecured Property Tax	8,339	8,756	417
Excess ERAF (50% Ongoing)	40,000	40,000	0
Vehicle Rental Tax (Measure T)	7,000	10,103	3,103
Sales Tax	24,392	27,535	3,142
Property Transfer Tax	5,793	6,715	923
Transient Occupancy Tax	1,127	1,244	117
Property Tax In-Lieu of VLF	75,641	87,689	12,048
Interest & Investment Income	6,246	6,564	319
Public Safety Sales Tax	69,765	84,223	14,458
Other Revenue	27,566	28,469	903
General Purpose Rev Growth	439,960	503,031	63,071
Measure A Sales Tax*	5,304	74,461	69,157
Rev Growth w/Measure A	445,265	577,492	132,228

*Measure A Projection for FY 2013 represents one-month of collections. Annualized receipts projected in FY 2014 total $63,652,385. Adjusted 5-year growth totals $10,808,527.

These growth assumptions represent an increase in General Fund revenues of $63 million over the next five years. Secured Property Tax revenues are expected to increase 3% annually and grow $27.6 million over the five-year period. The new Vehicle Rental Tax ("Measure T"), which took effect July 1, 2012, is expected to generate approximately $7 million in the current fiscal year and grow $3.1 million over the five-year period. Sales Tax growth is projected at 3% in the out years and is also expected to grow $3.1 million. (The lower increases of 0.6% and 1.6% in the next two fiscal years are based on the tax consultant's best estimates for the removal of one-time allocations received in FY 2012-13 and fluctuating fuel costs, which have a significant impact on jet fuel sales tax proceeds.) In addition, Public Safety Sales Tax ("Prop. 172"), which is impacted by both local and statewide sales activity, is projected to grow $14.5 million over the five-year period.

A ballot measure to impose a countywide half-cent sales tax increase known as Measure A ("Measure A") was approved by County voters and took effect April 1, 2013. The County expects Measure A proceeds to grow to $74.5 million by FY 2017-18. Importantly, because Measure A is only in place for 10 years (sunsets March 31, 2023), the revenues from this source are not considered "ongoing" for purposes of the County's budget planning.

The County also receives certain property tax revenues known as "Excess" ERAF funds. Since FY 2003-04, the County's General Fund has received $661 million of these ERAF payments, including $98 million in FY 2012-13. 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 "Return of Local Property Taxes – Excess ERAF" and "County's General Fund Reserve and Reserve Policies," below.

Expenditure Growth Projections. Ongoing expenditures are expected to grow $76 million over the five-year period. The major contributors to the growth in expenditures include:

- Salaries and Benefits, which are expected to grow by $41.4 million largely due to the smoothing of retirement losses and annual increases in health benefits of 9%;

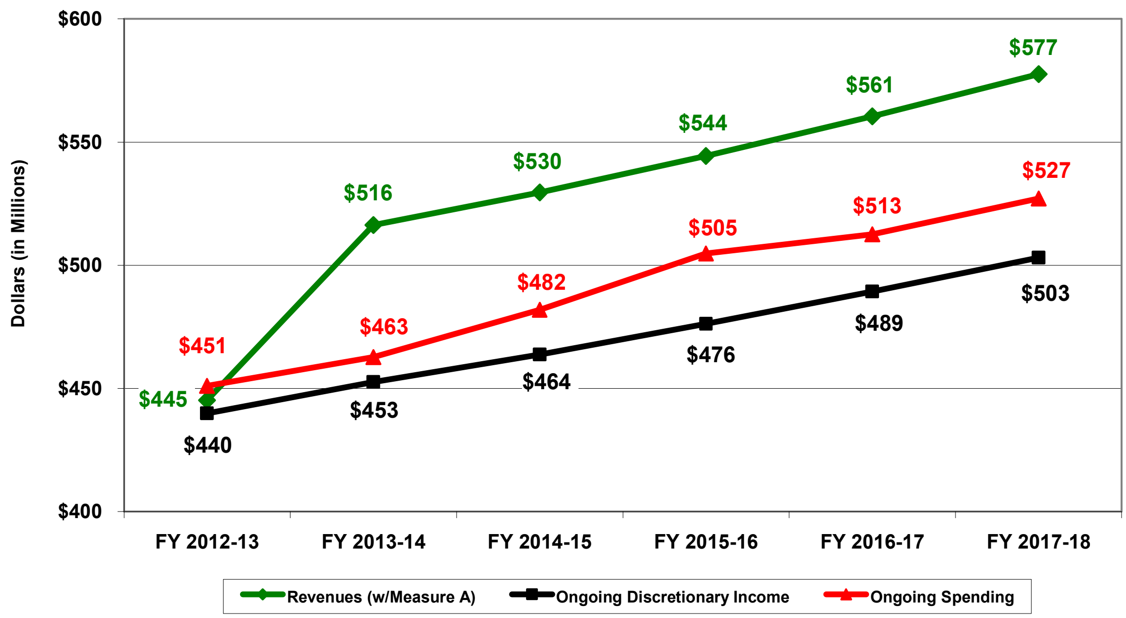
- the replacement jail/re-entry facility, which is expected to cost an additional $23.3 million, net of AB109 Public Safety Realignment funding ($5 million);

- contracts with outside providers for critical/mandated services, which are expected to increase by $3.6 million; and

- anticipated deficits in the IHSS and Healthy Kids programs, which are expected to reach $6.9 million by fiscal year 2017-18.

The chart below illustrates that over the next five years, expenditures are expected to outpace revenues by an estimated $[13] million per year on average (excluding the impact of Property Tax In-Lieu of VLF), with ongoing revenue growth totaling $63 million and expenditure growth totaling $76 million. However, it is important to note that these projections do not include Measure A sales tax or 50% of ERAF monies, as described above. When including only Measure A revenues in the projections (i.e. – ignoring the 50% of ERAF that is currently received by the County but is not included in "ongoing" revenues), general purpose revenues are expected to outpace ongoing expenditures by $40 to $50 million annually over the next five years. The Board is conducting public hearings through August 6, 2013 to determine the future use of Measure A proceeds; however the Board reserves the right to expend such money for one-time expenditures.

General Fund Discretionary Revenue and Expenditure Projections



Impact of Governor's January Budget Proposal

On January 10, 2013, the Governor released his proposed budget for fiscal year 2013-14. The spending plan includes $99.3 billion in State General Fund revenues and other resources, $97.7 billion in State General Fund expenditures and a $1 billion reserve. It also proposes to continue paying down the State's debt ($4.2 billion in the budget year) and incorporates a long-term plan to continue this process for the next several years. An improved economy, in addition to passage of tax increases (Propositions 30 and 39) in November 2012, has allowed the Governor to propose spending increases in K-12 and higher education and health care reform implementation. 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 healthcare costs, could return the State to fiscal deficits. See "STATE OF CALIFORNIA BUDGET AND RELATED INFORMATION" herein.

Overall, the proposed State Budget maintains 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 does not propose any changes to the current public safety realignment funding formulas and anticipates notable growth to the statewide community corrections subaccount. See "Realignment Revenues" below. However, the Governor's proposal to reform funding formulas for K-12 education by collapsing K-12 revenue limits and most categorical program funding into one formula could have a negative impact on the County's Excess ERAF revenues.

There are two key changes in the Governor's budget proposal that could potentially decrease Excess ERAF: first, the increase in school districts' revenue limits under the new school funding formula; and second, the impact of the new education budget on the way special education is funded. 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. 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 minor shortfall of $200,000 in FY 2011-12 but the Governor appropriated funding in his FY 2013-14 Proposed Budget to make the County whole. However, there are no guarantees that similar State budget appropriations will be made in future years. The estimated shortfall for FY

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2012-13 will be $5.8 million and the County's share of this shortfall will be $3.5 million. This shortfall is not currently factored into the five-year revenue projections because the local delegation of State Lawmakers is aware of the problem and is working on a permanent solution to address this inequity. See "Property Tax In-Lieu of VLF (Vehicle License Fee Swap)."

Finally, the State's proposed policy options for implementation of the Affordable Care Act, specifically the expansion of Medi-Cal eligibility to non-disabled, childless adults with up to 138% of the Federal Poverty Limit income proposed in the January Budget, raise important fiscal concerns for the County. See "THE COUNTY OF SAN MATEO—County Services—Health Care Reform."

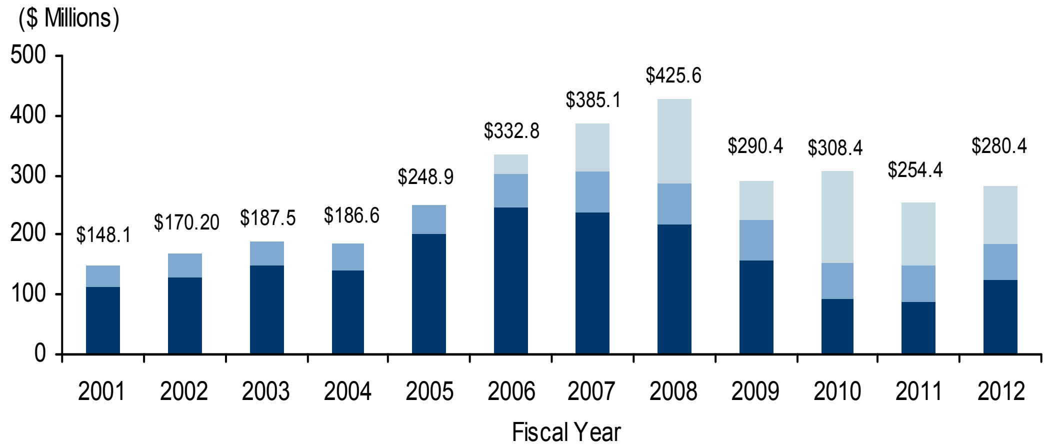
County's General Fund Reserves and Reserve Policies

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. The County used Excess ERAF proceeds to make a one-time contribution to CalPERS to prefund the County's Other Post Employment Benefits—OPEB ($141.2 million) in FY 2007-08, and to purchase the Circle Star Plaza ($40 million) and the new jail site ($16.7 million) in FY 2010-11 and appropriated $44 million for countywide capital projects in FY 2012-13, including $37 million for jail planning, architecture and site preparation relating to the Replacement Jail. The County plans to reimburse itself for the purchase of the jail site and project costs with a long-term financing planned for the Fall of 2013.

The Reserves Policy establishes a minimum General Fund reserves requirement of 10%, as follows: General Fund operating departments (2%), a General Reserve (5%), General Fund Appropriation for Contingencies (3%), 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 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. The County's FY 2012-13 appropriated General Fund Reserves and Contingencies of $180 million (or 16.6%) exceed the Reserves Policy's minimum reserves requirements of 10%.

The following tables present the Fund Balances for General Fund operating departments and Non-Departmental Services and General Fund Contingencies and Reserves (both tables include 100% of Excess ERAF).

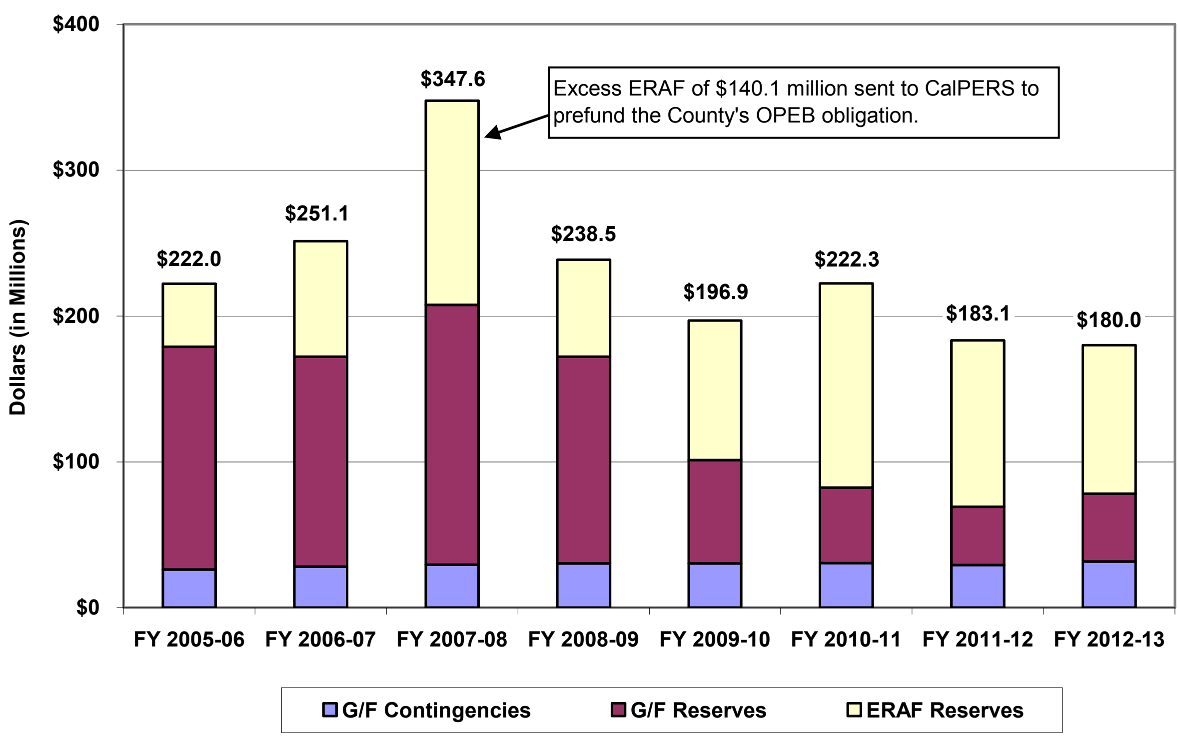
COUNTY OF SAN MATEO
GENERAL FUND BALANCES



Source: San Mateo County FY 2012-13 Adopted Budget

The chart below represents appropriated General Fund contingencies and reserves.

COUNTY OF SAN MATEO
GENERAL FUND CONTINGENCIES AND RESERVES INCLUDING EXCESS ERAF PAYMENTS
(Fiscal Years 2005-06 to 2012-13)



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* Projected, subject to change.

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. For fiscal years 2011-12 and 2012-13, the approximate percentages of the County's total Governmental Funds revenues were derived as follows:

Table 4
COUNTY OF SAN MATEO
BREAKDOWN OF BUDGETED REVENUE SOURCES
FOR FISCAL YEARS 2011-12 AND 2012-13

	Budgeted 2011-12	Budgeted 2012-13
SOURCES:		
Taxes:		
Property Taxes[1]	28.94%	28.51%
Excess ERAF[2]	4.26	4.07
Sales Taxes[3]	2.02	2.39
All Other Taxes	0.20	0.83
Intergovernmental Revenues:		
Aid from Federal Agencies	27.90	28.76
Aid from State[4]	11.16	10.82
Aid from Local Agencies	1.74	2.58
Charges for Services	10.94	10.95
Interfund Revenue	7.54	6.65
Licenses, Permits and Franchises	0.60	0.59
Fines, Forfeitures and Penalties	0.92	0.89
Use of Money and Property	0.74	0.73
Miscellaneous Revenue	3.02	2.22
Other Financing Sources	0.03	0.02
Total Revenue	100.00%	100.00%

Source: County of San Mateo Controller
(1) Property Taxes include Secured, Unsecured, Supplementals and Property Tax In-Lieu of VLF.
(2) See "Return of Local Property Taxes" below.
(3) Sales Tax includes Sales and Use Taxes and In-Lieu Sales & Use Tax Revenue.
(4) Includes Realignment Revenues.

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 four ways of collecting unsecured personal property taxes: (1) filing a civil action against the taxpayer; (2) 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; (3) 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 (4) 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.

Set forth below is certain information regarding County property tax collections. During fiscal year 2011-12, 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" below. These property tax collections do not include property tax allocations to redevelopment agencies within the County.

Table 5
COUNTY OF SAN MATEO
SUMMARY OF TAX LEVIES AND COLLECTIONS[1]
FISCAL YEARS 2002-03 THROUGH 2011-12

SECURED PROPERTY TAX ROLL

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]
2002-03	$114,174,462	$1,988,919	1.74%	$12,247,367
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	32,988,773

UNSECURED PROPERTY TAX ROLL

Fiscal Year	Unsecured Property Levy at June 30	Total Current and Non-Current Levy Collections[2]	Percentage of Total Collections to Original Levy
2002-03	$13,134,241	$13,547,311	103.0%
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

SUPPLEMENTAL ROLL

Fiscal Year	Supplemental Roll Tax Change (Net)	Total Collections at June 30 [(2)]	Percentage of Total Collections to Current Charge
2002-03	$4,467,425	$6,485,339	145.2%
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

(1) The levy and collection data reflect the 1% levy allowed under Article XIII A of the State Constitution.
(2) Includes current and prior years' redemptions, penalties and interest.
Source: County of San Mateo 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 2011-12 State budget, 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 redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and K-14 school districts. The 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). 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 (AB 1484) to the State budget for Fiscal Year 2012-13 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 of Supervisors has appointed members to provide oversight for the "winding down" of those agencies' financial affairs. The following table shows the tax allocations paid to redevelopment agencies (or their successor agencies) located in the County.

Table 6
REDEVELOPMENT AGENCY PROJECTS
OF CITIES IN SAN MATEO COUNTY - FROZEN BASE VALUE,
FULL CASH VALUE INCREMENTS AND TAX ALLOCATIONS
(Fiscal Years 2002-03 through 2011-12)

Fiscal Year	Frozen Base Value	Full Cash Value Increments[1]	Total Tax Allocations[2]
2002-03	$2,541,404,900	$8,302,122,796	$72,655,720
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

(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 FY 10-11 Foster City Project One reached its tax increment cap for the life of the project. Starting in FY 11-12, Foster City Project One no longer receives tax allocation.
Source: County of San Mateo Controller.

See "STATE OF CALIFORNIA BUDGET AND RELATED INFORMATION—2012-13 State Budget" herein for a description of the framework created to shift cash assets of local redevelopment agencies to their successor agencies.

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. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIII A of the State Constitution.

The following table sets forth information relating to the assessed valuation of property in the County subject to taxation since fiscal year 2006-07.

Table 7
COUNTY OF SAN MATEO
SECURED ROLL ASSESSED VALUATION
FISCAL YEARS 2007-08 THROUGH 2012-13
($ in Thousands)

Fiscal Year	Land	Improvements	Personal Property	Exemption	Net Total
2007-08	$53,073,721	$62,327,290	$1,980,545	$3,192,540	$114,189,015
2008-09	57,485,404	66,810,975	2,132,149	3,353,809	123,074,719
2009-10	62,543,183	71,059,914	2,274,930	3,504,105	132,373,922
2010-11	63,889,921	71,279,377	2,330,584	3,649,341	133,860,541
2011-12	64,133,596	70,834,406	2,151,169	3,956,686	133,162,485
2012-13	64,685,154	71,699,581	1,937,942	3,776,891	134,545,786

Source: County of San Mateo 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 raise or lower the property 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 XIII A 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 XIII A of the State Constitution, 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 XIII A," 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 Services shows that home sales in the County were up 19% in November 2012 as compared to November 2011, and the median price of a home in the County in November 2012 increased by 14% as compared to the median price in November 2011, from $542,500 to $618,000. 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 FY 2012-13 net Property Assessment Roll values ($147.26 billion as of January 1, 2012) for the County increased 3.33% or $4.75 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 $47.5 million that are shared by all local agencies: schools, cities, special districts and the County. The $47.5 million increase in property tax revenues does not take into account refunds, which are difficult to predict for any fiscal year. For example, in FY 2011-12 the County processed $36.2 million in 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 State Board of Equalization ("SBE") and taxed locally. Property valued by the SBE 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 .9565% of the County's total net assessed valuation constitutes unitary property subject to State assessment by the SBE, for which approximately $13.8 million of property taxes were collected in fiscal year 2011-12. The portion of these tax collections attributable to the County General Fund was $ 2.7 million.

Principal Taxpayers

The County's employer base is diverse and there is no concentration of employees in any one company or industry. 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 1.25% of the total assessed valuation in the County. Table 8 shows the ten principal taxpayers in the County, as shown on the 2011-12 tax rolls as of January 1, 2012, and the approximate amounts of their total assessed values. Table 9 shows the taxes paid by the ten largest taxpayers on the combined local rolls and Table 10 shows the taxes paid by the ten largest taxpayers on the secured roll. Approximately 22.4% of these tax revenues are paid to the County.

Table 8
COUNTY OF SAN MATEO
PRINCIPAL TAXPAYERS
2012-13 TAX ROLL
ENTIRE ROLL—SECURED AND UNSECURED
($ in Thousands)

Taxpayer	Nature of Business	Total Assessed Value
Genentech, Inc.	Biotechnology	$ 1,819,917
United Airlines Inc.	Air Carrier	1,224,857
Slough BTC LLC	Property Management	549,058
Slough SSF LLC DE	Property Management	467,741
Oracle Corporation	Computer Products	423,314
Gilead Sciences Inc.	Biotechnology	411,778
VII Pac Shores Investors LLC	Real Estate	360,923
Virgin America Inc.	Air Carrier	348,416
Wells REIT II – University Circle	Real Estate	312,632
Britannia Pointe Grande LP	Real Estate	274,970
	TOTAL	$ 6,193,606
	*COUNTY-WIDE TOTAL	$142,505,808

* Utilities Not Included.
Source: County of San Mateo Tax Collector.

Table 9
COUNTY OF SAN MATEO
TEN LARGEST TAXPAYERS
PRINCIPAL TAXES PAYABLE AND PAID
(Fiscal Year 2012-13)

Taxpayer	Amount
Genentech, Inc.	$18,955,844.48
United Airlines Inc.	13,150,417.39
Slough BTC LLC	5,721,193.62
Slough SSF LLC DE	4,873,870.44
Oracle Corporation	4,667,042.68
Gilead Sciences	4,500,321.72
VII Pac Shores Investors LLC	3,902,309.60
Virgin America Inc.	3,783,598.20
Wells REIT II University Circle	3,423,484.30
Britannia Pointe Grand LP	2,865,194.42
	$65,843,276.85

Source: County of San Mateo Tax Collector. Utilities Not Included.

Table 10
COUNTY OF SAN MATEO
TEN LARGEST TAXPAYERS
SECURED TAXES PAYABLE AND PAID
(Fiscal Year 2012-13)

Taxpayer	Amount
Genentech, Inc.	$16,375,367.54
Slough BTC LLC	5,721,193.62
Slough SSF LLC DE	4,873,870.44
Oracle Corporation	4,667,042.68
Gilead Sciences	4,500,321.72
VII Pac Shores Investors LLC	3,902,309.60
Wells REIT II University Circle	3,423,484.30
Britannia Pointe Grand L P	2,865,194.42
Slough Redwood City LLC	2,516,887.08
ASN Bay Meadows I LLC	2,506,862.82
TOTAL	$51,352,534.22

Source: County of San Mateo Tax Collector. Utilities Not Included.

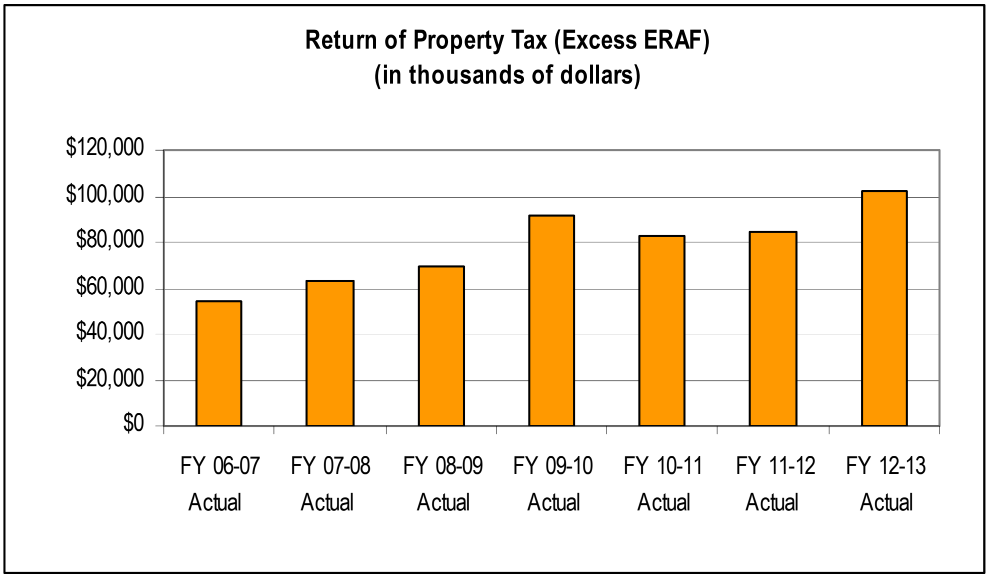
In April 2011, the County settled property tax claims brought by Genentech, Inc., the County's largest tax payer, that the company paid excess taxes for the tax years 1990 through 1999. The original dispute arose when Genentech challenged the methodology used to determine the taxable value of its land, 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 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 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 $26.5 million tax credits will be spread over six years—approximately $7 million for the 2011 and 2012 tax years and approximately $3 million per year over the next four years.

Return of Local Property Taxes – Excess ERAF

Pursuant to Revenue and Taxation Code 97.2 and 97.3, property tax contributions made by local governments to the ERAF in excess of State-mandated school funding levels are returned to the local governmental entity who made the contribution. The County is one of three "excess" ERAF counties in the State. This is due to the relatively high number of basic aid school districts in the County, the relatively high property tax levels and declining enrollment in some school districts. Excess ERAF distributions from the State could be impacted by property tax growth, increased school enrollment, or State legislation reallocating ERAF funds (as discussed below).

Since fiscal year 2003-04, the County's General Fund has received $661 million in returned ERAF contributions, including $98 million in fiscal year 2012-13. The following table presents the County's share of Excess ERAF payments received for fiscal year 2006-07 through fiscal year 2012-13.

COUNTY OF SAN MATEO
SHARE OF EXCESS ERAF PAYMENTS
(Fiscal Years 2006-07 to 2012-13)



The Governor's Proposed 2013-14 Budget includes new approaches for funding K-14 education, including increasing school district revenue limits to include categorical funding that historically has been separate from the baseline revenue limit calculations and funded from other sources. These changes will result in a windfall for the State as programs previously funded from State sources through categorical funding will be funded from ERAF. Additionally, the proposed 2013-14 Budget may expand certain payments for special education that are currently funded through Excess ERAF. Together, these changes will result in less Excess ERAF coming back to the County in future years. The County Manager's Office is working closely with the Controller's Office and County Counsel to determine the fiscal impact to the County's share of Excess ERAF under such an approach.

Due to the potential volatility of such payments, the County conservatively budgeted the receipt of only $40 million in Excess ERAF payments in the 2012-13 Budget (or one-half of the projected General Fund apportionment). In 2008, the County adopted a policy of using such Excess ERAF payments for one-time purposes, including reductions in unfunded liabilities, capital and technology payments, productivity enhancements, and cost avoidance projects. In 2012, the Board authorized the use of 50% of future Excess ERAF proceeds for ongoing purposes. For further information describing the County's budgeting and receipt of Excess ERAF payments, see "County's General Fund Reserve and Reserve Policies" above.

Property Tax In-Lieu of VLF (Vehicle License Fee Swap)

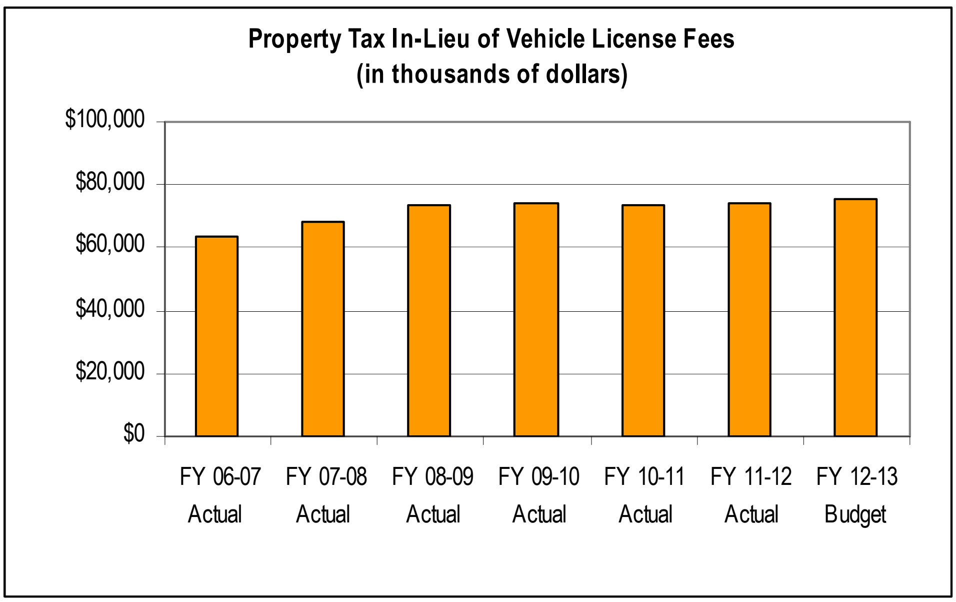
In 2004, SB1096 eliminated certain VLF payments to counties and cities and replaced them with "In-Lieu VLF amounts" (property tax revenues adjusted for the annual growth in the local property tax base). Following SB1096, In-Lieu VLF amounts have been paid from each county's ERAF, and if insufficient funds exist in a county's ERAF to fully pay the State's In-Lieu VLF payments to counties and cities, then additional funds are transferred directly from Revenue Limit Districts' local property tax revenues. All In-Lieu VLF amounts that are transferred from ERAF and the districts' ad valorem property taxes are then backfilled by the State.

As the number of Basic Aid Districts in a county increases, the pool of property tax revenues from which the In-Lieu VLF amounts can be paid (whether from ERAF or from the ad valorem property taxes received by

Revenue Limit Districts) correspondingly shrinks. As a result, counties that have all, or almost all, Basic Aid Districts lack sufficient ERAF monies and Revenue Limit District property taxes to pay the In-Lieu VLF amounts.

The County and cities within the County potentially face shortfalls in their In-Lieu VLF amounts as the number of Revenue Limit Districts shrinks. The County had a minor estimated shortfall of $200,000 in fiscal year 2011-12 but the Governor has appropriated funding in his fiscal year 2013-14 Proposed Budget to make the County whole; however, there are no guarantees that similar State budget appropriations will be made in future years. The County and cities could be at risk of losing upwards of $14 million ($8.3 million is the County's share) should both the San Carlos and Bayshore school districts turn basic aid. As noted earlier, this could change if categorical funding is included in the revenue limit calculations. Even if the two school districts do not turn basic aid, preliminary estimates computed in November 2012 indicate that the estimated VLF shortfall will be $5.8 million and the County's share of this shortfall will be $3.5 million. This shortfall is not currently factored into the County's current revenue forecast because the local delegation of State Lawmakers is aware of the problem and is working on a permanent solution to address this inequity.

Since fiscal years 2003-04, the County has received $539.1 million from In-Lieu VLF amounts, with an additional $75.8 million projected this fiscal year.



The Teeter Plan

The Board, in 1993, 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 account 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 two alternatives: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the

Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. The legally required set aside, at the end of fiscal year 2011-12, was approximately $16.8 million. As of June 30, 2012, the County had reserved $109.8 million 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 accounts.

Intergovernmental Revenues; Impact of State Financial Situation on County

Aid from other Governmental Agencies is one of the County's largest revenue sources, accounting for $538 million in the County's adopted budget for fiscal year 2012-13, or approximately 28.5% of the County's total revenues. The County derives approximately 27% of its revenues from State and federal sources. See "STATE OF CALIFORNIA BUDGET AND RELATED INFORMATION."

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

State Reimbursement Payments

Approximately 69.7% of the debt service payable in connection with the Master Facility Lease is attributable to the costs of building the Health Center. Approximately 38.56% of the Health Center-related debt service costs are currently payable from State reimbursements described below. There can be no assurance that the reimbursement rate will not decrease in future years. For fiscal year 2012-13, the amount of debt service paid for the Health Center is $8,178,675 and the amount paid for the North County Satellite Clinic is $618,175.

Section 14085.5 of the California Welfare and Institutions Code ("Section 14085.5") was adopted by the Legislature of the State of California 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 of such Section. 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. Such an account has been established for the Prior Bonds and will be maintained for the 2013 Bonds, and is and will be available to pay each such Series of Bonds. 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 for the full term of the 2013 Bonds.

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, 2012, 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.

The County anticipates that the Health Center will qualify for supplemental reimbursement payments calculated pursuant to Section 14085.5 with respect to a portion of the 2013 Bonds. The County cannot predict, however, the amount of such payments or whether the State will appropriate in its annual budgets the supplemental reimbursement payments payable to the County. If supplemental reimbursement payments are appropriated by the State and received by the County such payments would be available to pay a portion of the Base Rental Payments.

Land acquisition costs are not eligible for reimbursements and therefore the legislation does not allow reimbursements to the County for any portion of the Base Rental Payments allocable to land acquisition costs.

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 1/2 cent sales tax and the second is a change in the depreciation schedule for vehicles which resulted in a 24.33% increase in vehicle license fee revenues collected by the State. Pursuant to Senate Bill 1096, Chapter 21, Statutes of 2004, the vehicle license fee was reduced from 2.0% of the market value of a vehicle to 0.65% of the market value. Senate Bill 1096 also changed the percentage of the vehicle license fee revenue allocated to Realignment from 24.33% to 74.9%, although this change did not result in increased vehicle license fee 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 $211 million in the County's adopted budget for fiscal year 2012-13, or approximately 11% 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

Other significant sources of revenue are included in the Miscellaneous Other Revenue category, which accounted for approximately $34 million in the County's adopted budget for fiscal year 2012-13, or 1.8% of the County's total Governmental Funds requirements.

Tobacco Settlement Payments

On August 5, 1998, the State of California 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 $6.4 million in fiscal year 2011-12. It is projected that the County's share of settlement payments for fiscal year 2012-13 will be $9.6 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 "County Services," the County's major expenditures each year are public health and public protection, accounting for $612.3 million and $367.3 million, respectively, in the County's adopted budget for the 2012-13 fiscal year, or approximately 32.8% and 19.7%, 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"), 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 of Supervisors, 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, 2012, the total number of plan participants (active, retired and deferred) was 10,582.

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 137 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 new 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 the fiscal year ended June 30, 2012, the average employer contribution rate by the County was 34% of the covered payroll and the average member contribution rate was 10.32%. The County's contribution rate will increase to 35.49% of payroll in fiscal year 2013-14 while the member contribution rate will increase to 10.52%.

At the current 7.5% investment return assumption, employer rates are expected to reach approximately 38% of payroll in FY 2014-15 due to $120 million in deferred losses from prior years that have yet to be reflected in the rates. This impact has not been included in the County's budget deficit projections. Employer contribution rates are projected to remain at approximately that level through 2022. If returns at the expected level are realized, after 2022, employer costs would range between 10% and 16% of payroll.

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 below.

COUNTY OF SAN MATEO
PENSION PLAN MEMBERSHIP

COUNTY 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

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 minimum age and service credit requirements listed below.

- 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 minimum age and service credit requirements listed below.

- 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 the fiscal year ended June 30, 2012, the County's annual pension cost was equal to the County's required contributions of $151 million. The required contribution was determined by the actuarial valuation as of June 30, 2011, using the entry age normal actuarial cost method. The actuarial assumptions included 3.5% annual inflation rate, 7.75% annual investment rate of return, and 5.2% average annual projected salary increase attributed to inflation (4%) and adjustment for merit and longevity (1.2%). 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 table below presents information for the last three fiscal years, estimated information for 2013 and projected information for 2014 through 2016.

COUNTY OF SAN MATEO
ANNUAL PENSION COST
($ in thousands)

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed
6/30/2010	$106,265	100.0%
6/30/2011	150,475	100.0
6/30/2012	150,950	100.0
6/30/2013†	145,000	100.0
6/30/2014*	151,000	100.0
6/30/2015*	161,300	100.0
6/30/2016*	164,100	100.0

† Figures are estimated.
* Figures are projected; the 6/30/2016 projection assumes 50 new positions for the Replacement Jail.

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.

As of June 30, 2012, the most recent actuarial valuation date, the plan was 72% funded. The actuarial accrued liability (AAL) for benefits was $3.44 billion, and the actuarial value of assets was $2.48 billion, resulting in an unfunded actuarial accrued liability (UAAL) of $962.28 million. The annual covered payroll (annual payroll of active employees covered by the plan) was $419.78 million, and the ratio of the UAAL to the annual covered payroll was 229%.

Actuarial Valuation Date	Actuarial Value of Assets (a)†	Actuarial Accrued Liability (AAL)– Entry Age (b)†	Unfunded AAL (UAAL)* (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)†	UAAL as a % of Covered Payroll (b-a)/c
6/30/2008	$2,218,937	$2,806,222	$587,285	79.1%	$416,243	141.1%
6/30/2009	1,909,679	2,987,712	1,078,033	63.9	436,424	247.0
6/30/2010	2,179,076	3,098,453	919,377	70.3	428,559	214.5
6/30/2011	2,405,140	3,246,727	841,587	74.1	424,061	198.5
6/30/2012	2,480,271	3,442,553	962,282	72.0	419,779	229.2

* The County is responsible for approximately 99% of UAAL.
† Dollars in Thousands.
Source: Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2012, County of San Mateo, California and the San Mateo County Employees' Retirement Association (SamCERA) Actuarial Valuation as of June 30, 2012.

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.

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

Actuarial Valuation As of June 30	Market Value of Assets*	Actuarial Accrued Liability (AAL) *	Underfunded Or (Overfunded) Liability(2)	Funded Ratio (Market Value)(3)	Covered Payroll(4) *	Unfunded Liability as a Percentage Of Covered Payroll (Market Value)(5)
2008	$2,010,739	$2,806,222	$795,483	71.7%	$416,243	191.1%
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

* Dollars in Thousands.
(1) Table includes funding for retirement benefits only. Other Post-Employment Benefits (OPEB) are not included.
(2) Actuarial Accrued Liability minus Market Value of Assets. Positive numbers represent a funded ratio less than 100%.
(3) Market value of assets divided by actuarial accrued liability.
(4) Annual payroll for members of SamCERA.
(5) Unfunded liability divided by covered payroll.
Source: San Mateo County Employees' Retirement Association Actuarial Valuation as of June 30, 2012.

2012-13 Grand Jury Report

On April 15, 2013, the San Mateo County Civil Grand Jury (the "Grand Jury") a volunteer body, released a report regarding the SamCERA unfunded liability (the "Report"). The Report stated that although SamCERA's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012, shows 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 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 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 Report to SamCERA's Retirement Board and the County's Board of Supervisors 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 68 for fiscal year 2014; 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.

Grand Jury reports are not legally binding, but recipients are required to respond in writing within 90 days, which is July 15, 2013 in this instance.

Although neither SamCERA nor the County has formally responded to the Grand Jury findings, 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 FY 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. In addition, the County's retirement plan is 72% (as of June 30, 2012) funded without the assistance of pension obligation bonds.

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

The current asset target allocation, which was adopted on August 24, 2010, is 53% equities, 22% fixed income securities, 20% alternatives and 5% real estate. At June 30, 2012, actual asset allocation was 56.5% equities, 23.9% fixed income securities, 13.2% alternatives, 6.2% real estate and 0.2% cash.

Table 11
ASSET ALLOCATION AS A PERCENTAGE OF FAIR VALUE
(All numbers %)

Asset Class	Allocation	June 30, 2012 Actual
Equity	53.0	56.5
Fixed Income	22.0	23.9
Alternatives	20.0	13.2
Real Estate	5.0	6.2
Cash	0.0	0.2

Equity Management Style	Allocation	June 30 Actual
Domestic Large Capitalization	28.0	30.4
Indexed	6.5	6.5
Active	21.5	23.9
Domestic Small Capitalization	7.0	8.4
Active	7.0	8.4
International	18.0	17.7
Active	18.0	7.7
Total Equity	53.0	56.5

Fixed Income Management Style	Allocation	June 30 Actual
Domestic Bond Managers	17.5	19.4
Global Bond Managers	4.5	4.5
Total Fixed Income	22.0	23.9

Real Estate Management Style	Allocation	June 30 Actual
Active	5.0	6.2
Total Real Estate	5.0	6.2

Table 12
MARKET VALUE OF ASSET ALLOCATION
(As of June 30, 2012)

Asset Allocation		Market Value
Large Capitalized U.S. Equities	$	709,755,952
Small Capitalized U.S. Equities		192,666,449
International Equities		408,832,756
U.S. Bonds		453,960,203
Global Bonds		100,544,203
Alternative Investments		310,931,079
Real Estate		146,917,122
Cash & Deposits		36,695,890
Total	$	2,360,303,654

Returns

For the past five and ten years ending June 30, 2012, the total Plan return has averaged 2% and 7% per annum. For the fiscal year ended June 30, 2012, total Plan return was 0.03%, or 1.51% below the 1.54% return on its policy index, and far below the Association's 7.75% actuarial return expectation (the actuarial return expectation has been reduced to 7.50% for FY 2012-13). For the first nine months of FY 2012-13, the total Plan preliminary net return (as of March 31, 2013) was 13.8%.

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 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. For FY 2012-13, the County will contribute $15,011,000, or 100%, of the actuarially required contributions, to the Retiree Health Plan. The trust fund was created in FY 2007-08 and was funded in FY 2008-09, and has been funded in subsequent years based on the actuarial requirements. The following table sets forth the County's retiree health costs for the past five fiscal years.

COUNTY OF SAN MATEO
COUNTY RETIREE HEALTH COSTS

	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
General Fund	$7,308,137	$10,058,321	$9,483,733	$10,790,296	$11,713,084
Other Funds	9,839	2,818,679	2,779,267	3,281,704	3,297,916
Total ARC Payment	$7,317,976	$12,877,000	$12,263,000	$14,072,000	$15,011,000

Annual OPEB Cost and Net OPEB Obligation. The County's annual other post employment benefits ("OPEB") cost is equal to (a) the annual required contribution (the "ARC"), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board ("GASB") Statement 45, plus (b) one year's interest on the beginning balance of the net OPEB Obligation, and minus (c) 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 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 schedule of funding progress presented below provides a consolidated snapshot of the County's ability to meet current and future liabilities with plan assets.

The table below presents historical information about the funding status of the County's OPEB plan with the California Employers' Retiree Benefits Trust ("CERBT"). 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.

Actuarial Valuation Date	Actuarial Value of Assets (a)*	Actuarial Accrued Liability (AAL)– Entry Age (b)*	Unfunded AAL (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

* Dollars in Thousands.
(1) Based on the revised valuation on June 17, 2010, which covers Medicare Part B premium reimbursements for management employees.

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 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 $10,000 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, 2012 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 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 annual debt service limit for fiscal year 2011-12 was $71 million. For fiscal year 2011-12, debt service subject to the debt limit is approximately $29 million.

Indebtedness

Short-Term Financing. The County does not have any short-term tax and revenue anticipation notes outstanding.

Long-Term Obligations.

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

Authority Lease Revenue Bonds. Authority Lease Revenue Bonds include the following amounts, outstanding as of June 30, 2012.

	Outstanding Principal Amount
Authority Lease Revenue Bonds* (Capital Projects Program) 1993 Refunding Series A, 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	$41,105,000
Authority Lease Revenue Bonds* Series of 1993 (North County Satellite Clinic Project), 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	$6,033,000
Authority Lease Revenue Bonds** (Capital Projects), 1997 Series A, fixed rate, bearing or accruing interest at an average rate of 5.18%, payable semiannually (at maturity or earlier redemption) with annual principal requirements due through 2032	$10,850,000
Authority Lease Revenue Bonds** (Capital Projects), 1999 Refunding Series A, fixed rate, bearing or accruing interest at an average rate of 4.93%, payable semiannually (at maturity or earlier redemption) with annual principal requirements due through 2029	$12,815,000
Authority Lease Revenue Bonds** (Capital Projects), 2001 Series A and 2001 Series B, fixed rate, bearing or accruing interest at an average rate of 3.99%, payable semiannually (at maturity or earlier redemption) with annual principal requirements due through 2031	$19,195,000
Authority Refunding Lease Revenue Bonds (Youth Services Campus), 2008 Series A, 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	$133,065,000
Authority Lease Revenue Bonds (Capital Projects), 2009 Series A, fixed rate, bearing or accruing interest at an average rate of ____%, payable semiannually (at maturity or earlier redemption) with annual requirements due through 2026)	$105,865,000
Total	$328,928,000

* The 1993 Bonds were issued pursuant to a separate trust agreement and lease for the Capital Projects Program.
** The 1997 Bonds, the 1999 Bonds and the 2001 Bonds will be refunded by the 2013 Bonds.

With respect to the Authority's Lease Revenue Bonds described in the table above, the County paid approximately $29 million in debt service due in fiscal year 2011-12 and expects to pay approximately $29 million in debt service due in FY 2012-13.

Anticipated Financings. In addition to financing the Replacement Jail Project as described under "THE COUNTY OF SAN MATEO—County Services—Justice Services" above, the County also plans on financing the replacement of the Pescadero Fire Station (Station #59), which is located in a flood-impacted area at an estimated cost of $6 million. The County is currently evaluating alternatives for replacing the Pescadero Fire Station (including relocating the facility) and expects to complete the planning stage and finalize cost estimates for the Pescadero Fire Station by March 2014. 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 the plan – 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 June 1, 2013. The Debt Report is included for general information purposes only. Neither the County nor the Underwriters have reviewed the Debt Report for completeness or accuracy and neither the County nor 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.

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Table 13
COUNTY OF SAN MATEO
DIRECT AND OVERLAPPING DEBT
AS OF JUNE 1, 2013
($ in Thousands)

Assessed Valuation (including unitary utility valuation): $149,629,538
Redevelopment Incremental Assessed Valuation[1]: $ 12,666,524

DIRECT AND OVERLAPPING GENERAL FUND DEBT:	Debt Outstanding	Estimated Percentage Applicable[2]	Estimated Share of Overlapping Debt
Direct General Fund Obligation Debt:			
San Mateo County General Fund Obligations	$ 311,730	100.00%	$ 311,730
San Mateo County Flood Control District Certificates of Participation	22,265	100.00%	22,265
Total direct debt	$ 333,995		$ 333,995
OVERLAPPING GENERAL FUND OBLIGATION DEBT			
Cities			
City of Burlingame General Fund and Pension Obligations	$ 42,260	100.00%	$ 42,260
City of Daly City Pension Obligations	29,810	100.00%	29,810
City of Pacifica General Fund Obligations and Pension Obligations	34,885	100.00%	34,885
City of San Mateo General Fund Obligations	37,050	100.00%	37,050
Other City General Fund and Pension Obligations	78,034	100.00%	78,034
Special Districts			
Midpeninsula Regional Open Space Park General Fund Obligations	135,650	31.14%	42,247
Granada Sanitary District Certificates of Participation	350	100.00%	350
Menlo Park Fire Protection District Certificates of Participation	11,755	100.00%	11,755
School Districts			
San Mateo County Board of Education Certificates of Participation	11,455	100.00%	11,455
South San Francisco Unified School District Certificates of Participation	1,094	100.00%	1,094
Portola Valley School District Certificates of Participation	2,569	100.00%	2,569
Redwood City School District General Fund Obligations	2,356	100.00%	2,356
San Bruno School District General Fund Obligations	5,020	100.00%	5,020
TOTAL OVERLAPPING GENERAL FUND OBLIGATION DEBT	$ 392,288	100.00%	$ 298,885
OVERLAPPING TAX AND ASSESSMENT DEBT			
Cities			
Special Districts			
Montara Sanitary District	$ 13,255	100.00%	$ 13,255
Community Facilities Districts	86,480	100.00%	86,480
1915 Act Bonds	19,476	100.00%	19,476
School Districts			
San Mateo Community College District	580,660	100.00%	580,660
Cabrillo Unified School District	29,820	100.00%	29,820
La Honda-Pescadero Unified School District	5,417	100.00%	5,417
South San Francisco Unified School District	94,574	100.00%	94,574
Jefferson Union High School District	150,199	100.00%	150,199
San Mateo Union High School District	453,412	100.00%	453,412
Sequoia Union High School District	336,340	100.00%	336,340
Burlingame School District	87,067	100.00%	87,067
Hillsborough School District	56,921	100.00%	56,921
Jefferson School District	45,900	100.00%	45,900
Menlo Park City School District	95,983	100.00%	95,983
Millbrae School District	49,015	100.00%	49,015
Redwood City School District	43,696	100.00%	43,696
San Carlos School District	56,343	100.00%	56,343
San Mateo - Foster City School District	191,512	100.00%	191,512
Other School District	185,666	100.00%	185,666
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT	$2,646,986		$2,646,986
OVERLAPPING TAX INCREMENT DEBT	$ 321,767	100.00%	$ 321,767
TOTAL OVERLAPPING DEBT	**$3,361,041**		**$3,267,638**
TOTAL DIRECT AND OVERLAPPING DEBT	**$3,695,036**[3]		**$3,601,633**

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(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, 2012, 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, 2012 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, 2012 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 Governmental Accounting Standards Board ("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 tables present, with respect to the County's General Fund, (i) the County's statement of revenue and expenses for each of the past five fiscal years ended June 30, 2008 through June 30, 2012, and (ii) the County's general balance sheet as of June 30 for each of the past five fiscal years ended June 30, 2008 through June 30, 2012.

Table 14
COUNTY OF SAN MATEO
COMBINED STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FISCAL YEARS ENDED JUNE 30, 2008, 2009, 2010, 2011 and 2012
($ in Thousands)

	2007-08	2008-09	2009-10	2010-11[4]	2011-12
REVENUES					
Taxes	$334,266	$376,626	$386,649	$375,088	$367,234
Licenses and Permits	6,085	5,372	5,251	5,415	5,891
Aid From Governmental Agencies	357,118	358,477	359,024	376,708	433,201
Charges for Services	91,240	95,711	90,395	91,380	98,155
Fines, Forfeitures and Penalties	8,404	9,011	10,712	12,232	10,532
Rents and Concessions	1,117	1,264	1,090	1,859	1,510
Investment Income	21,601	1,324[3]	7,657	6,602	8,157
Securities Lending Activities:					
Securities Lending Income	1,794	237	31	21	–
Securities Lending Expenditures	(1,540)	(183)	(24)	(17)	–
Other	33,194	25,603	26,530	24,690	23,489
TOTAL REVENUES	$853,279	$873,442	$887,315	$893,978	$948,169
EXPENDITURES					
Current:					
General Government	$68,723	$ 70,749	$69,368	$59,005	$59,660
Public Protection	275,259	281,796	283,939	314,501	326,717
Health and Sanitation	202,418	207,640	209,946	197,778	203,066
Public Assistance	193,902	206,098	190,352	195,904	187,570
Education	–	–	–	–	–
Recreation	8,084	8,638	8,727	9,110	8,222
Capital Outlay	4,058	2,214	1,643	7,503	7,336
Debt Service:					
Principal Retirement	30	15	–	–	–
Interest	2	–	–	–	3
TOTAL EXPENDITURES	$752,476	$777,150	$763,975	$783,801	$792,574
EXCESS OF REVENUES OVER EXPENDITURES	$100,803	$96,292	$123,340	$110,177	$155,595
OTHER FINANCING SOURCES (USES)					
Operating Transfers In	$83,910	$1,207	$292	$288	$268
Operating Transfers Out[1]	(128,371)	(113,884)	(95,503)	(150,121)	(92,671)
Proceeds From Sale of Capital Assets	2	2	2	5	2
Capital Leases	750	–	–	–	–
Total Other Financing Sources (Uses)	$(43,709)	$(112,675)	$(95,209)	$(149,828)	$(92,401)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	$57,094	$(16,383)	$28,131	$(39,651)	$63,194
Special item[2]	(116,462)	–	–	–	–
Fund Balance, Beginning of Year	$333,226	$273,858	$257,475	$285,606	$245,955
Fund Balance, End of Year	$273,858	$257,475	$285,606	$245,955	$309,149

(1) Transfers from the General Fund consist primarily of the subsidy to the County's Medical Center 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 May 2008, the County remitted $141.2 million to CalPERS to settle its net OPEB obligation at the beginning of the fiscal year and prefund its OPEB liabilities with the excess funding. The contribution deposited into CERBT was shared proportionally among participating funds. The General Fund's share was $116 million and was reported as a special item in governmental fund financial statements.
(3) In FY 2008-09 the County's investment earnings declined $[16.8] million primarily due to the onset of the Great Recession and the Lehman Bankruptcy.
(4) In FY 2010-11 the County made one-time capital purchases totaling $56.7 million for the Circle Star Plaza and the Replacement Jail site.
Source: County of San Mateo General Purpose Financial Statements.

Table 15
COUNTY OF SAN MATEO
GENERAL FUND
COMBINED BALANCE SHEET
AT JUNE 30, 2008, 2009, 2010, 2011 AND 2012
($ in Thousands)

	June 30,				
	2008	**2009**	**2010**	**2011**	**2012**
ASSETS:					
Cash and Investments	$308,754	$275,982	$326,193	$295,692	$362,404
Securities Lending Collateral	30,889	19,446	49,986	–	–
Receivables					
Taxes, net of allowances for uncollectible amounts	18,150	16,195	13,403	13,423	14,488
Accounts, net of allowances for uncollectible amounts	8,571	16,098	17,961	7,474	7,716
Mortgage	48,206	60,188	61,547	63,657	67,555
Interest	9,527	12,345	8,407	12,306	12,405
Other	25,943	28,424	22,307	21,442	23,113
Due from Other Governmental Agencies	159,727	177,937	168,883	178,369	163,725
Due from Other Funds	8,336	13,867	372	717	2,640
Advances to Other Funds	5,851	7,029	7,324	7,731	5,345
Inventory	78	125	103	89	61
Other Assets	6	6,114	13	186	357
TOTAL ASSETS	$624,038	$633,750	$676,499	$601,086	$659,809
LIABILITIES:					
Accounts Payable	$ 31,354	$ 26,880	$26,742	$24,016	$28,405
Accrued Salaries and Benefits	20,168	22,593	24,433	27,437	10,132
Accrued Liabilities	4,099	2,219	2,045	–	14,492
Securities Lending Collateral – Due to Borrowers	30,889	19,446	49,986	–	–
Due to Other Funds	170	6,375	657	385	551
Due to Other Governmental Agencies	24,145	19,616	17,961	21,214	23,990
Advances from Other Funds	-	-	–	–	–
Deposits	-	-	–	–	–
Deferred Revenues	239,355	279,146	269,069	282,079	273,090
Total Liabilities	$350,180	$376,275	$390,893	$355,131	$350,660
Reserved for:					
Encumbrances	$ 2,385	$ 7,154	$10,666	$12,099	$27,124
Advances to other funds and inventories	5,929	31,668	33,466	35,653	46,149
Committed	–	789	1,834	1,572	–
Unreserved:					
Designated	–	38,583	92,881	1,763	4,590
Undesignated	265,544	179,281	146,759	194,868	231,286
TOTAL LIABILITIES	$624,038	$633,750	$676,499	$601,086	$659,809

Source: County of San Mateo Controller.

See APPENDIX C – "AUDITED COMBINED FINANCIAL STATEMENTS OF THE COUNTY FOR FISCAL YEAR 2011-2012."

County Treasurer's Investment Pool

General. 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. There are currently 1,133 participant accounts in the County pool, the largest single agencies being the school districts and community college districts (representing 38.5% of the County pool) and San Mateo

County (representing 32.4% 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. As of March 31, 2013, investments in the County pool were held for local agencies in the following amounts:

Participant Category	Invested Funds	% of Total
School Districts and Community College Districts	$ 1,114,300,884	38.5%
Cities	283,387,390	9.8
Special Districts	118,931,952	4.1
Bay Area Air Quality Management District	149,954,839	5.2
San Mateo County Transportation Authority/JPB	287,624,009	10.0
All Other San Mateo County Funds	935,322,634	32.4
Total	$ 2,889,521,708	100.0%

As of April 30, 2013 the composition, carrying amount, and market value of the County's cash and investment pool were as follows:

Table 16
SAN MATEO COUNTY INVESTMENT POOL
SUMMARY OF ASSETS HELD

Security	Carrying Value(1)	Market Value(2)	
Repurchase Agreements	$ 490,000,000.00	$ 490,000,000.00	15.3%
Floating Rate Securities	294,452,400.00	295,324,908.74	9.2
Corporate Bonds	452,180,651.25	460,152,613.12	14.4
Commercial Paper	169,939,219.73	169,968,852.40	5.3
LAIF(3)	38,000,000.00	38,004,275.00	1.2
Federal Agency-Floating Rate Securities	25,000,000.00	25,009,876.74	.8
Federal Agency Securities	1,485,626,760.45	1,489,263,988.08	46.6
United States Treasuries	225,169,572.91	228,168,759.34	7.1
Total	$ 3,180,368,604.34	$ 3,195,893,273.42	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.
(3) Local Agency Investment Fund.

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 April 30, 2013, the carrying value and market value of investments credited to the County pool were both approximately $3.2 billion. The pool currently includes approximately $1.13 billion in cash or cash equivalents, which represents the County pool's liquidity. As of April 30, 2013, the dollar weighted average maturity of the County pool was 1.64 years with a duration of 1.60 years. Approximately 29.1% of the assets of the investment pool come from public agencies which can make discretionary withdrawals for the purposes of making alternative investments. The Treasurer, sometimes referred to as 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 Treasurer may deem warranted by prudent fiscal management.

County Investment Policy. The current investment policy was adopted by the Board on May 7, 2013 (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 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 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 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 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 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 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 investment pool of approximately $2.6 billion, the investment 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 against Lehman executives and its independent accounting firm Ernst & Young, 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 May 2013 there have been 3 separate distributions whereby the County has received approximately 14.8 % of its $155 million claim. Pool participants' accounts are credited as distributions are received based on the average daily balance of the accounts for the quarter July 1, 2008 to September 30, 2008.

Thirteen school districts sued the County and the County Treasurer claiming over $50 million dollars in damages due to the investment 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. For the quarter ending December 31, 2012, the gross earnings were .95% and, for the quarter ending March 31, 2013, the gross earnings were .78%.

For further information regarding the County's existing investment pool, see note 4 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 2013 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 MASTER FACILITY 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 Master Facility 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 Leased Property, rental payments due under the Master Facility Lease with respect to the Leased Property will be abated proportionately, and the County waives any and all rights to terminate the Master Facility Lease by virtue of any such interference and the Master Facility Lease shall continue in full force and effect. See "SECURITY FOR THE 2013 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 Master Facility Lease and the Trustee is not empowered to sell a fee simple interest in the Leased Property and use the proceeds of such sale to prepay the 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 Master Facility Lease and the Trust Agreement could prove both expensive and time consuming. Although the Master Facility Lease provides that if the County defaults the Authority may reenter the Leased Property and re-let it, portions of the Leased Property may not be easily recoverable, and even if recovered, could be of little value to others because of the Leased Property's specialized nature. Additionally, the Authority may have limited ability to re-let the Leased Property 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 Bonds. Furthermore, due to the governmental nature of the Leased Property, 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 Master Facility Lease and proceed against the County to recover damages pursuant to the Master Facility 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 Master Facility Lease to maintain certain insurance policies on the Leased Property. These insurance policies do not cover all types of risk. For example, the Master Facility Lease requires earthquake insurance to be obtained and maintained only during construction of the construction components of the Leased Property. Thus, the Leased Property could be damaged or destroyed due to earthquake or other casualty for which the Leased Property lacks insurance. See "RISK FACTORS — Risk of Earthquake" herein. Additionally, the Leased Property 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 Leased Property will be sufficient to repair or replace the Leased Property or to redeem the 2013 Bonds.

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 Master Facility 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 Master Facility 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 2013 Bonds; and (iv) the possibility of the adoption of a plan (a "Plan") for the adjustment of the County's debt without the consent of the Trustee or all of the Owners of the 2013 Bonds, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the Plan is "fair and equitable" and in the best interests of creditors.

In addition, the County could either reject the Master Site Lease or the Master Facility Lease or assume the Master Site Lease or the Master Facility Lease despite any provision of the Master Site Lease or the Master Facility Lease that makes the bankruptcy or insolvency of the County an event of default thereunder. If the County rejects the Master Facility Lease, the Trustee, on behalf of the Owners of the 2013 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 a Plan over the objections of the Trustee or Owners of the 2013 Bonds. Moreover, such rejection would terminate the Master Facility Lease and the County's obligations to make payments thereunder. The County may also be permitted to assign the Master Facility Lease (or the Master Site Lease) to a third party, regardless of the terms of the transaction documents. If the County rejects the Master Site Lease, the Trustee, on behalf of the Owners of the 2013 Bonds, would have a pre-petition unsecured claim and this claim would be treated in a manner under a Plan over the objections of the Trustee or Owners of the 2013 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 2013 Bonds; and (iv) the possibility of the adoption of a Plan for the adjustment of the Authority's debt without the consent of the Trustee or all of the Owners of the 2013 Bonds, which Plan may restructure, delay, compromise or reduce the amount of any claim of the Owners if the Bankruptcy Court finds that the 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 Master Site Lease and the Master Facility Lease could be characterized as a pledge rather than an absolute assignment. Under such circumstances, the Authority may be able to either reject the Master Site Lease or the Lease or assume the Site Lease or the Lease despite any provision of the Master Site Lease or the Master Facility Lease that makes the bankruptcy or insolvency of the Authority an event of default thereunder. If the Authority rejects the Master Site Lease, the Trustee, on behalf of the Owners of the 2013 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 a Plan over the objections of the Trustee or Owners of the Bonds. Moreover, such rejection would terminate both the Master Site Lease and the Master Facility Lease and the obligations of the County to make payments thereunder. If the Authority rejects the Master Facility Lease, the Trustee, on behalf of the Owners of the 2013 Bonds, would have a pre-petition unsecured claim and this claim would be treated in a manner under a Plan over the objections of the Trustee or Owners of the 2013 Bonds. Moreover, such rejection may terminate the Master Facility Lease and the County's obligations to make payments thereunder. The Authority may also be permitted to assign the Master Site Lease or the Master Facility 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 Master Facility Lease could result in the interest evidenced by the 2013 Bonds being includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the 2013 Bonds. Should such an event of taxability occur, the 2013 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 Master Facility Lease does not require the County to maintain insurance on the Leased Property against certain risks such as earthquakes except during the period of construction of the construction components of the Leased Property. The County currently insures all of its buildings against certain risks, including earthquake damage through a $25 million 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 with respect to buildings that have completed construction.

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 knows of no existing hazardous substances which require remedial action on or near the Leased Property. 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 XIII A of the State Constitution, which was enacted in 1978. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING COUNTY REVENUES AND EXPENDITURES."

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.

State Budgets Concerns

The State, upon which the County relies for a material portion of its revenues, has been experiencing severe budget shortfalls in recent years. 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; Impact of State Financial Situation on County" 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 Fiscal Year 2012-13 State Budget further described below may be found at the website of the Department of Finance, www.dofca.gov, under the heading "California Budget." Additionally, an impartial analysis of the State's Budgets is posted by the Office of the Legislative Analyst at www.lao.ca.gov. The information referred to is prepared by the respective State agency maintaining each website and not by the County, and the County takes no responsibility for the continued accuracy of the internet addresses or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by these references.

2012-13 State Budget

The State budget for Fiscal Year 2012-13 (the "2012-13 Budget") was signed by Governor Brown on June 27, 2012, and assumed voters would approve the Governor's tax initiative on the November 2012 ballot (the "November Tax Initiative"). The 2012-13 Budget included a $92 billion State spending plan and significant welfare and social service cuts, restructuring the State's welfare program, streamlining health insurance for low-income children, and reducing childcare coverage and aid to California community colleges. The 2012-13 Budget reformed CalWORKs by establishing a 2-year time limit for parents who are not meeting federal work requirements and merges the delivery of services for those who are eligible for both Medi-Cal and Medicare to reduce costs and improve the coordination of services.

In addition, the 2012-13 Budget included the following changes: (i) eliminating the Healthy Families Program and transitions children to Medi-Cal; (ii) restructuring funding for trial courts; (iii) prohibiting community colleges and universities that are unable to meet minimum performance standards from participating in the Cal Grant Program; (iv) reforming the State process for K-14 education mandates by providing a block grant as an alternative to the existing claiming process; (v) reducing the cost of State employee compensation by 5%; (vi) implementing various reductions to hospital and nursing home funding to lower Medi-Cal costs; (vii) reducing funding for child care programs and eliminates 14,000 child care slots; (viii) creating a framework to transfer cash assets previously held by redevelopment agencies to cities, counties, and special districts to fund core public services as described in more detail below; and (ix) using a Fiscal Year 2011-12 over appropriation of the minimum guarantee to prepay Proposition 98 funding required by a court settlement. The 2012-13 State Budget provided for K-14 education funding to increase by approximately $17.2 billion, or 37%, and per pupil funding by over $2,500 in the next four years.

Had the Governor's November Tax Initiative not been approved by voters, trigger cuts totaling $6 billion would have gone into effect, including funding for schools, community colleges and other public agencies.

Other features of the 2012-13 State Budget affecting counties in general include, but are not limited to, the following:

1. Continuing the Governor's plan to modify the correctional system and realign responsibilities between the State and counties and implementing a new fee structure pursuant to which the State will charge counties $24,000 per year for each offender committed by a juvenile court to the Division of Juvenile Justice.

2. Suspension of the county share of child support collections in Fiscal Year 2012-13. The 2012-13 State Budget projects the suspension will reduce State General Fund expenditures by approximately $31.9 million.

3. $500 million of additional lease revenue bond financing authority for the acquisition, design and construction of local facilities to assist counties in the management of their respective offender populations. The additional bond financing authority will be in addition to the $1.2 billion of lease revenue bond financing authority provided by Assembly Bill 900 (2007) for two phases of the Local Jail Construction Financing Program.

4. Creating a process pursuant to which the State will determine how the liquid assets of redevelopment agencies that were dissolved pursuant to ABx1 26 should have been shifted to their successor agencies when they were dissolved. Pursuant to this process, loans from cities and counties to their redevelopment agencies currently ineligible for repayment would be deemed eligible for repayment beginning in Fiscal Year 2013-14. In addition, land and other physical assets that are not needed for enforceable obligations of the former redevelopment agencies may be transferred by the successor agency to the city or county that created the redevelopment agency and used for economic development. Upon the transfer, the receiving city or county will not be required to compensate the affected taxing entities.

5. Continuation of the Governor's plan to modify or suspend mandates upon local agencies from the State. The 2012-13 State Budget suspends various mandates for Fiscal Year 2012-13, with the exception of certain mandates relating to law enforcement and property taxes. The Governor estimates that this suspension will reduce State General Fund expenditures by approximately $728.8 million. The 2012-13 Budget Act proposed suspension of these mandates in Fiscal Years 2013-14 and 2014-15. In addition, the 2012-13 Budget deferred approximately $99.5 million due to local agencies for payment for mandate costs incurred prior to Fiscal Year 2004-05.

Proposition 30

The passage of the Governor's November Tax Initiative ("Proposition 30") on the November 2012 ballot resulted in a four-year increase in the State sales tax by a quarter-cent and a seven-year increase in the State income tax on individuals after their first $250,000 in income and on couples after their first $500,000 in earnings. These increased tax rates will affect approximately 1% of California personal income tax filers and will be in effect starting in the 2012 tax year, ending at the conclusion of the 2018 tax year. The LAO estimates that, as a result of Proposition 30, additional state tax revenues of about $6 billion annually from fiscal years 2012-13 through 2016-17 will be received by the State with lesser amounts of additional revenue available in fiscal years 2011-12, 2017-18 and 2018¬19. These additional monies will be available to fund programs in the 2012-13 State Budget as described above and prevent the "trigger cuts" included in the 2012-13 State Budget from going into effect, avoiding spending reductions of about $6 billion in fiscal year 2012-13, mainly to education programs. 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.

California Public Employees' Pension Reform Act

On September 12, 2012, Governor Brown signed Assembly Bill 340, creating the Public Employees' Pension Reform Act ("PEPRA") and amending certain sections of the County Employees Retirement Law of 1937 (the "1937 Act"). Among other things, PEPRA creates a new benefit tier for new employees/members entering public agency employment and public retirement system membership for the first time on or after January 1, 2013. The new tier has a single general member benefit formula and three safety member benefit formulas that must be implemented by all public agency employers unless the formula in existence on December 31, 2012 has both a lower normal cost and a lower benefit factor at normal retirement age. PEPRA requires that all new employees/members, hired on or after January 1, 2013, pay at least 50% of the normal cost contribution. The normal cost contribution is the contribution set by the retirement system's actuary to cover the cost of a current year of service. The County believes that the provisions of PEPRA will help to control its pension benefit liabilities in the future.

Governor's Proposed 2013-14 State Budget

On January 10, 2013, Governor Brown released his Proposed State Budget for Fiscal Year 2013-14 (the "Proposed 2013-14 State Budget") including an estimated $98.5 billion in revenues and transfers and planned spending of $97.7 billion. The Proposed 2013-14 State Budget includes an expected spending increase of 5% from the 2012-13 State Budget and includes an additional $2.7 billion of funding for K-12 education, accounting for approximately 57% of General Fund spending. For K-12 schools, the Proposed 2013-14 State Budget increases funding levels by almost $2,700 per student through fiscal year 2016-17, including an increase of more than $1,100 per student in Fiscal Year 2013-14 over 2011-12 levels. The Proposed 2013-14 State Budget also contains a surplus of approximately $850 million.

Significant features of the Proposed 2013-14 State Budget pertaining to counties include the following:

- *Impact of Health Care Reform* — The Proposed 2013-14 State Budget outlines two alternatives to the optional expansion of health care — a state-based approach or a county-based approach, either of which will have a significant effect on both the State and California counties. 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 facilities including hospitals and clinics and/or by contracting with private providers. A county-based expansion of Medicaid would build upon the existing Low Income Health Program. Counties would maintain their current responsibilities for indigent health care services. Under this option, counties would meet Statewide eligibility requirements, and a Statewide minimum in health benefits consistent with benefits offered through a program known as Covered California. Counties could offer additional benefits, except for long-term care. Under a county-operated Medicaid expansion, the counties would act as the fiscal and operational entity responsible for the expansion. Counties would build upon their existing Low Income Health Program and/or county indigent health care services programs as the basis for operating the Medicaid expansion.

- *Redevelopment Agency Funds* — In those areas that contained redevelopment agencies, the Proposed 2013-14 State Budget estimates that over Fiscal Year 2012-13 and Fiscal Year 2013-14, approximately $1.6 billion in redevelopment agency funds will be distributed back to counties.

- *CalWORKs Employment Services* — The Proposed 2013-14 State Budget includes an increase of $142.8 million in fiscal year 2013-14 to support the CaIWORKs refocusing measures enacted by SB

1041. 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.

- *In-Home Supportive Services ("IHSS")* — The Proposed 2013-14 State Budget includes $1.8 billion General Fund for the IHSS program in fiscal year 2013-14, a 4.9% increase over the revised fiscal year 2012-13 budget and 6.5% increase from the 2012 Budget Act. An increase of $47.1 million is related to the recently enacted county maintenance-of-effort requirement ("MOE"). 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.

- *Property Tax Revenues*. Statewide property tax revenues are estimated to increase 1% in Fiscal Year 2012-13 and 2.5% in fiscal year 2013-14. The base 1% rate is expected to generate roughly $48.2 billion in revenue in fiscal year 2013-14, of which roughly half ($24.7 billion) will go to K-14 schools. Of this amount, approximately $1.5 billion is shifted from schools to cities and counties to replace sales and use tax revenues redirected from those entities to repay the State's Economic Recovery Bonds, and approximately $6.1 billion is shifted from schools to cities and counties to replace Vehicle License Fee ("VLF") revenue losses stemming from the reduced VLF rate. Local governments now receive property tax revenue to compensate them for the loss of VLF revenue. In fiscal year 2013-14 the estimated value of the VLF backfill to cities and counties is $6 billion. The value of the reduction from 2% to 0.65% is $4.1 billion.

Legislative Analyst's Office Response to Governor's Proposed 2013-14 State Budget

The Legislative Analyst's Office (the "LAO") released its Overview of the Proposed 2013-14 State Budget (the LAO Overview") on January 14, 2013 noting that the Proposed 2013-14 State Budget reflects a significant improvement in the State's finances due to a continuing modest economic recovery, prior budgetary actions, and voter approval of certain revenue-raising measures at the November 6, 2012 general election. According to the LAO, the State has now reached a point where its underlying expenditures and revenues are roughly in balance so that State-supported program and service levels established in fiscal year 2012-13 will generally continue "as is" in fiscal years 2013-14 and 2014-15. The LAO believes that because there are still considerable risks to revenue estimates, given uncertainty surrounding federal fiscal policy and the volatility inherent in the State's revenue system, the Governor's focus on fiscal restraint and paying off debts is appropriate. The LAO also notes that the State is currently expected to end fiscal year 2012-13 with a surplus of $167 million and to end fiscal year 2013¬14 with a $1 billion surplus, and that the Proposed 2013-14 State Budget projects a multi-year forecast that revenues will continue to exceed expenditures annually, accumulating to a projected $2.5 billion general fund surplus by fiscal year 2016-17. In addition, the LAO notes that while the Proposed 2013-14 State Budget projections regarding the dissolution of redevelopment agencies are reasonable, the process has yet to be fully implemented, subjecting associated State general fund savings projections to considerable uncertainty.

2013-14 May Revision

On May 14, 2013, the Governor released his May Revision to the Proposed 2013-14 State Budget (the "2013 May Revision") which states that, with the spending cuts enacted over the past two years and new temporary revenues provided by the passage of Proposition 30, the State's budget is projected to remain balanced for the foreseeable future, but notes that substantial risks, uncertainties and liabilities remain. The 2013 May Revision maintains the fundamentals of the Governor's 2013-14 budget and reflects that the State's economic and budgetary recovery is continuing. However, the 2013 May Revision states that the national economic outlook and recent federal actions have slowed the pace of the State's economic growth. The 2013 May Revision says that in the past four months, the State has experienced a multibillion dollar increase in current-year cash receipts, yet the influx is expected to be short-lived. Also, because the federal government did not extend the payroll tax reduction that was in place in 2011 and 2012, forecasted personal income growth in 2013 has been cut nearly in half. In addition, the federal government allowed the sequestration of billions of dollars in spending. Although the 2013 May Revision proposes a multiyear plan that is meant to be balanced, to maintain a $1.1 billion reserve and to pay down budgetary debt, the budget remains balanced only by a narrow margin. Further, the 2013 May Revision says, the State must begin to plan now to ensure that the budget will remain balanced after the temporary Proposition 30 tax revenues expire. A number of risks, including the pace of the economic and revenue recovery, rising health care costs and implementation of health care reform, litigation over and other interference with successful implementation of approved budget actions, and actions by the federal government to address its own fiscal challenges could quickly return the State to fiscal deficits.

LAO Report on the 2013-14 May Revision

In a report dated May 17, 2013 (the "Report"), the LAO states that in the 2013 May Revision, the administration forecasts that weaker tax collections in the coming months will erode the vast majority of the $4.5 billion of unexpected tax revenues collected since January. The Report notes further that it does not agree with the administration's view of the State's revenue situation, and, as a result, its forecast now is $3.2 billion higher than the administration's 2013 May Revision total for 2011-12, 2012-13, and 2013-14 combined. Further, it says that, while the State's fiscal condition has improved, there are many good reasons for the Legislature to adopt a cautious budgetary posture: "After years of 'boom and bust' budgeting, California's leaders now have the opportunity to build a budget for future years that gives the state more choices about how to build reserves in times of healthy revenue growth, prioritize future State spending, and pay off past debts." The Report goes on to say that, given the improved fiscal forecast, it believes "this is an ideal time for the Legislature to begin addressing its huge budgetary and retirement liabilities. In addition, given various risks to the economic outlook and the State's budgetary volatility, building larger State budget reserves in the coming years is an important priority, as doing so means there will be less necessity during future downturns to cut public spending, as occurred in recent years."

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.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING COUNTY REVENUES AND EXPENDITURES

Property Tax Rate Limitations — Article XIIIA

Article XIIIA of the California 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"). 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 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 (1) the percentage change in State per capita personal income, or (2) 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 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 2012-13 is $1,138,356,959. For Fiscal Year 2012-13 the estimated appropriations subject to the limit amount to $274,321,631.

Articles XIIIC and XIIID of California Constitution — Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the California 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 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 (1) whether the decision is retroactively applicable to general taxes adopted prior to the decision; (2) whether taxpayers have any remedies for refund of taxes paid under a tax ordinance that was not voter approved; (3) what statute of limitations applies to taxes adopted without voter approval prior to *Guardino*; (4) 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 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. 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 Vehicle License Fee 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 of the State Constitution, 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 76 Proposition 26 amends Article XIIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a 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.

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 (the "Joint Powers Agreement") 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 Leased Property, 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

[TO BE UPDATED BY BOND COUNSEL]

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 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 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 Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 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 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 Bonds is the first price at which a substantial amount of such maturity of the 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 Bonds accrues daily over the term to maturity of such 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 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

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 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 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 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 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 Bonds may adversely affect the value of, or the tax status of interest on, the 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 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 interest on, the 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.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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 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 Bonds ends with the issuance of the 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 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 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 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, 2012 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, 2012, 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.

CONTINUING DISCLOSURE

The County will covenant pursuant to a 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 the 2012-13 fiscal year (ending June 30, 2013) to be filed on or before March 30, 2014 (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events (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 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. These covenants will be made in order to assist the Underwriters in complying with Rule 15c2-12 of the SEC (the "Rule"). [As of the date hereof, the County has never failed to comply with any previous undertakings with regard to the provision of annual reports or notices of significant events as required by the Rule.] See APPENDIX F – "PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT" herein.

LEGAL MATTERS

The validity of the 2013 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 Curls Bartling P.C., Oakland, 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.

LITIGATION

The County is not currently aware of any litigation that is pending or threatened concerning the validity of the 2013 Bonds, the Master Site Lease, the Master Facility 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 purchaser at the time of the original delivery of the 2013 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. 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 2013 Bonds.

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 "[Aa2]" and "[AA+]," respectively, to the 2013 Bonds. Such ratings express only the views of the rating agencies and are not a recommendation to buy, sell or hold the 2013 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 2013 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 2013 Bonds.

UNDERWRITING

The 2013 Bonds are being purchased for reoffering by Barclays Capital Inc. and Raymond James & Associates, Inc. (the "Underwriters"). The Underwriters have agreed to purchase the 2013 Bonds at a purchase price of $________________ (representing the $________ aggregate principal amount of the 2013 Bonds, less an Underwriters' discount of $___________, [plus/less] an original issue [premium/discount] of $_____________). The Underwriters will purchase all of the 2013 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 2013 Bonds.

The Underwriters may also offer and sell the 2013 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.

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: ____
Authorized Officer

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 2008 to 2013. The County's population decreased by approximately 1,273, or approximately .2% over the five-year period.

POPULATION
SAN MATEO COUNTY AND INCORPORATED CITIES
2008-2013[1]

	2008	2009	2010	2011	2012	2013
Six Largest Cities:						
Daly City	105,935	107,099	101,072	101,442	102,308	103,347
San Mateo	95,492	96,557	37,234	97,557	98,076	99,061
Redwood City	77,040	77,819	76,815	77,299	78,068	79,074
South San Francisco	63,554	65,020	41,114	63,827	64,161	65,127
San Bruno	43,315	43,811	97,207	41,663	42,355	42,828
Pacifica	39,497	39,995	63,632	37,367	37,572	37,948
Total County	736,951	745,858	718,451	722,372	727,795	735,678
State of California	37,883,992	38,292,687	37,253,956	37,427,946	37,688,804	37,966,471

(1) As of January 1 for the year shown.
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 unemployment rate in the County has consistently been among the lowest in the State and nation as illustrated in the following table. In 2012, the County's labor force was 394,300, an increase of 2.7% over the County's labor force in 2011. The unemployment rate in 2012 decreased to 6.7% from 7.9% in 2011. 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 January 2012.

COUNTY OF SAN MATEO
ANNUAL AVERAGE LABOR FORCE AND INDUSTRY EMPLOYMENT
2008 THROUGH 2012[(1)]

Year	Area	Labor Force	Civilian Employment	Unemployment	Unemployment Rate
2008	San Mateo County	373,100	355,000	18,100	4.9%
	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	San Mateo County	374,200	342,800	31,400	8.4
	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	San Mateo County	375,200	342,400	32,900	8.8
	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	San Mateo County	383,800	353,400	30,300	7.9
	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	San Mateo County	394,300	367,800	26,500	6.7
	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

(1) Data not seasonally adjusted.
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 in as of April 2012 are as follows:

COUNTY OF SAN MATEO
TOP TEN LARGEST EMPLOYERS
(As of April 13, 2012)

Employer	Type of Business	Number of San Mateo County Employees
Genentech, Inc.	Biotechnology	8,600
Oracle Corporation	Enterprise Software	7,000
County of San Mateo	County Government	5,879
Kaiser Permanente	Health Care	3,855
Mills-Peninsula Health Services	Health Care	2,500
San Mateo County Community College District	Education	2,115
Safeway Incorporated	Retail Grocer	2,075
Electronic Arts Incorporated	Video Games	2,000
Facebook Inc.	Social Network	2,000
Gilead Sciences Inc.	Biopharm	1,846

Source: San Francisco Business Times, 2013 Book of Lists.

Industry and Employment

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

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

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

(1) All information updated per March 2012 Benchmark.
Source: State of California Employment Development Department, Labor Market Information Division.

The following table shows employment by industry group in the County of San Mateo from 2008 to 2011:

COUNTY OF SAN MATEO
ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY GROUP
For Calendar Years 2008 through 2011*
(In Thousands)

Industry Group(1)	2008	2009	2010	2011
Total All Industries**	339.4	320.9	315.0	322.5
Total Farm	1.9	1.7	1.7	1.6
Total Nonfarm	337.6	319.2	313.3	320.9
Manufacturing	29.6	26.7	26.3	26.4
Durable Goods	15.7	13.1	12.7	12.9
Nondurable Goods	13.9	13.6	13.6	13.6
Trade, Transportation & Public Utilities	74.6	69.9	68.4	68.2
Wholesale Trade	11.9	11.3	11.2	11.1
Retail Trade	35.6	33.3	32.8	33.1
Information	18.8	18.1	17.5	17.4
Financial Activities	20.5	19.1	18.6	19.3
Services				
Professional and Business	65.4	60.9	60.0	63.2
Educational and Health	32.6	34.6	33.3	34.7
Leisure and Hospitality	34.3	33.5	33.8	35.3
Other	12.0	11.5	11.2	12.4
Government(2)	31.8	31.3	31.3	30.5
Federal	3.5	3.5	4.0	3.8
State & Local	28.3	27.9	27.3	26.7

* Data for 2012 is not yet available.
** Totals may not add due to rounding.
(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) Includes all civilian government employees regardless of activity in which engaged.
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 year 2009 to year 2011:

COUNTY OF SAN MATEO
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
FOR CALENDAR YEARS 2009 THROUGH 2011*
($ 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

* Data for 2012 is not yet available.
Source: Taxable Sales In California, California State Board of Equalization.

Construction Activity

The total valuation of building permits issued in the County amounted to approximately $830.6 million in 2012 for both residential and commercial construction. The following table provides a building permit valuation summary for the County for 2008 through 2012:

COUNTY OF SAN MATEO
NEW BUILDING PERMIT VALUATION
FOR CALENDAR YEARS 2008 THROUGH 2012
($ in Thousands)

Type of Permit	2008	2009	2010	2011	2012
Residential:					
New Single-Dwelling	$245,434	$147,515	$189,297	$194,950	$248,414
New Multi-Dwelling	122,424	74,330	21,309	107,040	162,233
Additions/Alterations	272,177	204,482	262,592	250,364	188,187
Total Residential	$640,035	$426,327	$473,198	$552,354	$598,834
Non Residential:					
New Commercial	$88,368	$17,942	$61,315	$6,734	$29,783
New Industrial	2,200	5,000	0	3,359	2,022
Other	64,447	41,283	41,272	55,495	40,316
Additions/Alterations	348,185	240,481	289,031	249,545	159,618
Total Non Residential	$503,199	$304,705	$391,618	$315,133	$231,739
Total Valuation	$1,143,234	$731,032	$864,816	$867,487	$830,573

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

Transportation

San Francisco International Airport (the "Airport") is located in an unincorporated area of the County. According to the Airports Council International, it is the seventh busiest airport in the nation in terms of passenger volume and the seventeenth busiest in cargo volume. The San Francisco Airport Commission reports that air traffic at the Airport in fiscal year 2011-12 included approximately 43 million passengers, an increase of 3.2 million passengers or 7.8% from the previous period. Fifty major passenger and commuter airlines fly from the Airport, and twenty-nine of them serve international destinations.

In fiscal year 2011-12, the Airport handled 385,113 metric tons of cargo, a decrease of approximately 13,270 metric tons or 3.3% over the previous period.

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. Approximately 20,000 people are employed directly or indirectly by the airlines, cargo carriers, restaurants, aviation suppliers and other Airport-related businesses.

SAN FRANCISCO INTERNATIONAL AIRPORT
Passenger, Cargo and Mail Data
June 30, 2007-08 through June 30, 2011-12

June 30	Passengers Enplanements and Deplanements	Freight and Express Air Cargo and U.S. and Foreign Mail (Metric Tons)
2007-08	36,707,637	550,526
2008-09	36,475,612	420,739
2009-10	38,203,961	431,990
2010-11	39,726,471	398,383
2011-12	43,061,106	385,113

Source: San Francisco Airport Commission.

The Port of Redwood City is also located in the County. The Port has a deep-water channel and handles bulk cargo including lumber and scrap metal. In fiscal year 2011-12, the Port handled 1,319,198 metric tons of cargo.

The County is connected to downtown San Francisco and the East Bay by the San Francisco Bay Area Rapid Transit ("BART") District. In fiscal year 2011-12 there were 30,651 station exits on an average weekday at San Mateo County's six stations (Daly City, Colma, South San Francisco, San Bruno, Millbrae and San Francisco International Airport). This represents a 8.8% increase from FY 2010-11 and a 13.6% increase from FY 2007-08.

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, known as the "Baby Bullet." In February 2013, average weekday ridership averaged 47,060 passengers, a 10.3% increase from February 2012. Average weekday ridership has increased by more than 73% since 2003.

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 2013 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2013 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2013 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 2013 Bonds. The 2013 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 2013 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 and www.dtc.org.

Purchases of the 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2013 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 2013 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 2013 Bonds, except in the event that use of the book-entry system for the 2013 Bonds is discontinued.

To facilitate subsequent transfers, all 2013 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 2013 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 2013 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 2013 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2013 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of the 2013 Bonds may wish to ascertain that the nominee holding the 2013 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.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2013 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 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the 2013 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 2013 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 2013 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, 2013 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, 2013 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been provided by DTC, and none of the Authority, the County or the Trustee takes any responsibility for the accuracy thereof.

APPENDIX C

AUDITED COMBINED FINANCIAL STATEMENTS OF THE COUNTY FOR FISCAL YEAR 2011-2012