

**PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2012****NEW ISSUE - BOOK ENTRY ONLY****RATING: S&P--“\_\_\_\_\_”  
(See “RATING” herein)**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the County, 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 Notes 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. The amount treated as interest on the Notes and excluded from gross income may depend on the taxpayer's election under Internal Revenue Service Notice 94-84. In the further opinion of Bond Counsel, interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it 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 Notes. See “TAX MATTERS” herein.*

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**COUNTY OF SANTA BARBARA, CALIFORNIA  
2012-2013 TAX AND REVENUE ANTICIPATION NOTES  
SERIES A**

Dated: Date of Delivery

Due: As set forth on inside cover

The 2012-2013 Tax and Revenue Anticipation Notes, Series A (the “Notes”) of the County of Santa Barbara (the “County”) are being issued to finance the seasonal cash flow requirements of the County during the fiscal year ending June 30, 2013. The Notes will be issued as fixed-rate notes in fully registered form. The Notes, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company (“DTC”), New York, New York, which will act as securities depository for the Notes. Purchases of the Notes will be made only through DTC Participants under the book-entry system maintained by DTC in the denominations of \$5,000 or any integral multiple thereof. Purchasers will not receive certificates representing their ownership interest in the Notes purchased.

The Notes will be dated the date of delivery thereof and will not be subject to redemption prior to maturity. The Notes will bear interest at a fixed rate per annum from their dated date, and principal of and interest on the Notes will be paid at maturity as set forth in the Maturity Schedule on the inside cover hereof. See “THE NOTES - General.”

The Notes are obligations of the County payable out of the taxes, income, revenues, cash receipts and other moneys of the County attributable to Fiscal Year 2012-13 and which are lawfully available for the payment of current expenses and other obligations of the County (the “Unrestricted Revenues”). The Notes are equally and ratably secured by a pledge of certain unrestricted taxes, income, revenues, cash receipts and other moneys. See “THE NOTES - General.” Neither the payment of the interest on or principal of the Notes constitutes a debt,

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\* Preliminary, subject to change.

liability or obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. Under certain circumstances described herein the County may issue an additional series of tax and revenue anticipation notes in Fiscal Year 2012-13 (the "Series B Notes" and, with the Notes, the "2012-2013 Notes").

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

The Notes are offered when, as and if issued by the County and received by the Underwriter, subject to the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the County. Certain other legal matters will be passed upon for the County by the Office of the County Counsel. Certain legal matters will be passed upon for the Underwriter by Nossaman LLP. It is expected that the Notes will be available through the facilities of DTC in New York, New York for delivery on or about \_\_\_\_\_, 2012.

**[DE LA ROSA LOGO]**

Dated:

**MATURITY SCHEDULE**

<b><u>Maturity Date</u></b>	<b><u>Principal Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Price or Yield</u></b>	<b><u>CUSIP®</u></b>
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No dealer, broker, salesperson or other person has been authorized by the County of Santa Barbara or the Underwriter 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 the County or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes 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 Notes. 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 set forth herein has been obtained from the County and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness.

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

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 changes in the affairs of the County since the date hereof. All summaries of the Resolution or other documents are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions. This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE NOTES, THE UNDERWRITER MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE NOTES TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE INSIDE COVER PAGE HEREOF. THE PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

**The County maintains a website at [www.countyofsb.org](http://www.countyofsb.org). However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Notes.**

**COUNTY OF SANTA BARBARA, CALIFORNIA**

**BOARD OF SUPERVISORS**

Doreen Farr, Chair, *3rd District*  
Salud Carbajal, Vice-Chair, *1st District*  
Janet Wolf, *2nd District*  
Joni Gray, *4th District*  
Steve Lavagnino, *5th District*

**COUNTY OFFICIALS**

Chandra L. Wallar, *County Executive Officer*  
Tom Alvarez, *Budget Director*  
Harry Hagen, *Treasurer-Tax Collector*  
Kimberly Tesoro, *Investment and Debt Officer*  
Robert W. Geis, *Auditor-Controller*  
Theo Fallati, *Assistant Auditor-Controller*  
Julie Hagen, *Chief Deputy Controller*  
Dennis A. Marshall, Esq., *County Counsel*  
Anne Rierson, *Deputy County Counsel*

**SPECIAL SERVICES**

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

Treasurer-Tax Collector of the County of Santa Barbara  
Santa Barbara, California  
*Paying Agent*

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**COUNTY OF SANTA BARBARA, CALIFORNIA**  
**2012-2013 TAX AND REVENUE ANTICIPATION NOTES**  
**SERIES A**

**INTRODUCTION**

The purpose of this Official Statement, which includes the front cover through the attached Appendices, is to provide certain information concerning the sale and delivery of \$ \_\_\_\_\_\* in the aggregate principal amount of 2012-2013 Tax and Revenue Anticipation Notes, Series A (the "Notes") of the County of Santa Barbara, California (the "County"). Issuance of the Notes will provide moneys to help meet current (Fiscal Year 2012-13) County general fund expenditures, including current expenses, capital expenditures and the discharge of other obligations or indebtedness of the County.

The Notes are authorized by and are being issued in accordance with Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the Government Code of the State of California (the "Act"), and a resolution adopted by the Board of Supervisors of the County (the "Board of Supervisors") on May 15, 2012 (the "Resolution"). The Resolution authorizes the County to issue an additional series of tax and revenue anticipation notes (the "Series B Notes" and, with the Notes, the "2012-2013 Notes") (see "THE NOTES – General" below).

The Notes are issued subject to the terms and conditions of the Resolution. The Notes and the interest thereon are payable from certain unrestricted taxes, income, revenues, cash receipts and other moneys of the County attributable to Fiscal Year 2012-13 and which are lawfully available for the payment of current expenses and other obligations of the County as specified in the Resolution (the "Unrestricted Revenues"). See "THE NOTES - Security For The Notes."

The Notes are being issued to finance, in part, the County's general fund cash flow requirements during Fiscal Year 2012-13. The proceeds received from the sale of the Notes will allow the County to cover periods of deficits resulting from an uneven flow of revenues. County general fund expenditures tend to occur in relatively level amounts throughout the year, while receipts follow an uneven pattern. Cash receipts secured from property tax installment payments primarily occur in December and April, while payments from other government agencies occur at irregular intervals. As a result, the general fund's cash balance shows a deficit during parts of the fiscal year. The Notes are intended to finance such cashflow deficits.

Brief descriptions of the Notes, the security and sources of payment for the Notes, the County and its financial status follow. Such descriptions do not purport to be comprehensive or definitive. All references herein to various documents, including the Resolution, are qualified in their entirety by reference to the forms thereof, all of which are available for inspection at the offices of the County.

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\* Preliminary, subject to change.

## COUNTY INFORMATION

The County was established by an act of the Legislature on February 18, 1850 as one of the original 27 counties of the State of California (the "State"), with the City of Santa Barbara as the County seat. The County covers approximately 2,274 square miles, of which approximately one-third is located in the Los Padres National Forest, and is located on the California coast approximately 100 miles north of Los Angeles and approximately 300 miles south of San Francisco. The County is bordered by San Luis Obispo County to the north, Kern County on the east, Ventura County to the south and the Pacific Ocean on the west. The County contains eight incorporated cities, and has a total estimated population of 427,267 as of January 1, 2012. The County has a general law form of government, with a five-member Board of Supervisors. Other elected officials include the Assessor/County Clerk-Recorder, the Auditor-Controller, the District Attorney, the Superintendent of Schools and the Sheriff and Treasurer/Tax Collector/Public Administrator. The County Executive Officer manages the day-to-day business and activities of the County's departments pursuant to policies established by the Board of Supervisors, and the County Counsel provides legal counsel to the Board of Supervisors. The County provides a wide range of services to its residents, including police protection, medical and health services, library services, judicial institutions including support programs, road maintenance, airport service, parks and a variety of public assistance programs. Other services provided by special districts, which are governed by the Board of Supervisors, include fire protection, lighting, sanitation and flood control.

For a detailed discussion of the County and its demographic and financial performance, see "APPENDIX A – COUNTY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION" and "APPENDIX B – THE AUDITED FINANCIAL STATEMENTS OF THE COUNTY FOR THE FISCAL YEAR 2010-11."

The State of California (the "State") continues to experience significant financial and budgetary stress, and it is anticipated that the State's Fiscal Year 2012-13 budget will contain a number of measures which could adversely impact the County's finances. See "STATE OF CALIFORNIA FINANCES" below.

## THE NOTES

### General

The Notes will be registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"), New York, New York, which will act as securities depository for the Notes. Purchasers will not receive certificates representing their ownership interest in the Notes purchased. See "APPENDIX E – DTC AND THE BOOK-ENTRY ONLY SYSTEM." Beneficial ownership interests in the Notes may be transferred only in accordance with the rules and procedures of DTC.

The Notes will be dated the date of issuance thereof, and will mature on and will pay interest at maturity, as set forth on the inside cover page hereof. The Notes are not subject to redemption prior to maturity.

The Notes will be issued in denominations of \$5,000 each and any integral multiple thereof ("Authorized Denominations") and will bear interest at the rate per annum set forth on the cover page hereof. Interest on the Notes will be computed on the basis of twelve 30-day months and a 360-day year. Principal and interest payable at maturity will be payable in

immediately available funds, upon presentation and surrender of the Notes at the office of the Treasurer-Tax Collector of the County of Santa Barbara, as initial paying agent (the "Paying Agent") with respect to the Notes. The Resolution authorized the issuance of Notes, in one or two series, up to a maximum amount of \$75,000,000. The Series B Notes, if issued, shall mature (without option of prior redemption) on a date within thirteen months after the date of original issuance of the Series B Notes and will be secured ratably with the Notes. See "Security for the Notes" below.

### **Authority for Issuance**

The Notes are issued under the authority of the Act and pursuant to the Resolution and are subject to the terms and conditions of the Act and the Resolution.

### **Purpose of Issue**

The Notes are being issued to finance the County's general fund cash flow requirements during Fiscal Year 2012-13 (July 1, 2012 through June 30, 2013). County general fund expenditures tend to occur in level amounts throughout the fiscal year. Conversely, receipts have followed an uneven pattern primarily as a result of secured property tax collections being concentrated around installment dates in December and April. The proceeds received from the sale of the Notes will allow the County to cover periods of deficits resulting from such uneven flow of revenues. It is expected that the proceeds of the Notes will be invested in the County's investment portfolio (the "County Portfolio") until expended. See "APPENDIX A – COUNTY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION – COUNTY INVESTMENT POLICY."

### **Security for the Notes**

The principal amount of the Notes, together with the interest thereon, shall be payable from the Unrestricted Revenues.

As security for the payment of the principal of and interest on the Notes, the County pledges to deposit in trust in a restricted cash account within the general fund of the County designated as the "Tax and Revenue Anticipation Note Repayment Account" (the "Repayment Account"): (i) from the first Unrestricted Revenues received by the County during the period commencing on December 20, 2012, and ending on January 31, 2013 (a "Pledge Period") an amount sufficient to pay the principal of and the interest on any Notes maturing before June 1, 2013 or, if all of the Notes mature on or after June 1, 2013, an amount equal to fifty percent (50%) of the principal of and interest on the Notes Outstanding during the Pledge Period; provided further that, in the event any Note matures on or before January 2, 2013, this Pledge Period shall commence on January 3, 2013, and (ii) from the first Unrestricted Revenues received by the County during the period commencing on April 21, 2013, and ending on May 31, 2013 (also a "Pledge Period") an amount which, together with the amount on deposit in the Repayment Account (net of anticipated earnings on moneys therein), will be sufficient to pay the principal of and interest on the Notes maturing on or after June 1, 2013. The amounts pledged by the County for deposit into the Repayment Account from the Unrestricted Revenues received during each indicated Pledge Period are herein called the "Pledged Revenues."

In the event that there have been insufficient Unrestricted Revenues received by the County by the third business day prior to the end of any such Pledge Period to permit the deposit into the Repayment Account of the full amount of the Pledged Revenues required to be

deposited with respect to such Pledge Period, then the amount of any deficiency in the Repayment Account shall be satisfied and made up from any other moneys of the County lawfully available for the payment of the principal of the Notes and the interest thereon (all as provided in the Act) (the "Other Pledged Moneys") on such date or thereafter on a daily basis, when and as such Pledged Revenues and Other Pledged Moneys are received by the County.

The Pledged Revenues with respect to the Pledge Period in which received shall be deposited by the Treasurer-Tax Collector of the County in the Repayment Account commencing the third business day of each respective Pledge Period, and thereafter at intervals of no more than every five business days, and applied as directed in the Resolution; and the Other Pledged Moneys, if any, shall be deposited by the Treasurer in the Repayment Account on the third business day prior to the end of such Pledge Period, and on each business day thereafter, until the full amount of the moneys required for repayment has been so deposited in the Repayment Account. The principal of and interest on the Notes shall constitute a first lien and charge on, and shall be payable from, moneys in the Repayment Account.

The Treasurer shall use the moneys in the Repayment Account to pay the principal of and interest on the Notes when due. Any moneys remaining in the Repayment Account after such payment, or after the final maturity of the Notes, shall be transferred to the general fund of the County.

The United States Court of Appeals for the Ninth Circuit has not decided whether a County that has filed for bankruptcy would be required to set aside revenues pledged under the note resolution following bankruptcy. Because the Treasurer is in possession of the taxes and other revenues that will be set aside to pay the Notes and may invest these funds in the pooled investment fund, should the County go into bankruptcy, a court might hold that the owners of the Notes do not have a valid lien on the Pledged Revenues, the Other Pledged Money or amounts on deposit in the Repayment Account. In that case, unless the Note owners could "trace" the funds, the Note owners would be merely unsecured creditors of the County. There can be no assurance that the holders could successfully so "trace" the pledged taxes and other revenues.

The Resolution authorizes the Treasurer and Auditor-Controller to determine whether, when and in what amount to sell the Series B Notes. The sale of the Series B Notes shall be subject to the following conditions:

- (i) Receipt of confirmation from Standard & Poor's that the issuance of the Series B Notes will not cause a reduction in the rating on the Series A Notes;
- (ii) Receipt of an opinion of Bond Counsel to the effect that the interest on the Series B Notes is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes; and
- (iii) The Series B Notes shall mature after the latest maturity date of the Series A Notes.

### **Investment of the Repayment Account**

Moneys in the Repayment Account will be invested in one or more instruments of the types included in Permitted Investments. See "SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION - Permitted Investments." The proceeds of any such investments shall be retained in the Repayment Account until payment of principal of and interest on all of the Notes

(or provision therefor) has been made, at which time any excess amount shall be transferred to the County for deposit in the general fund.

**Available Sources of Payment**

The Notes are obligations of the County payable out of the Unrestricted Revenues. See “THE NOTES - Security For The Notes.” The Unrestricted Revenues will be expended during the course of the fiscal year, and no assurance can be given that any moneys, other than the Pledged Revenues, will be available to pay the Notes and the interest thereon.

The estimated amount needed to repay the Notes and the interest thereon is approximately \$\_\_\_\_\_ million. Based on the proposed budget for Fiscal Year 2012-13, the County estimates moneys available for payment of the Notes during Fiscal Year 2012-13 to be in excess of \$377 million as indicated in the following table. See “CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS” herein for a discussion of certain limitations on the County’s ability to raise general revenue.

**TABLE 1  
COUNTY OF SANTA BARBARA  
ESTIMATED REVENUE AVAILABLE  
FOR PAYMENT OF NOTES  
(Fiscal Year 2012-13)**

<b>Estimated Unrestricted Available Revenues<sup>(1)</sup></b>	
Taxes	\$187,481,900
Licenses, permits and franchises	11,969,395
Fines, forfeitures and penalties	5,180,201
Use of money and property	2,019,376
Intergovernmental Revenues	61,616,665
Charge for current services	67,846,431
Miscellaneous	6,961,883
Other Financing Sources	<u>34,334,110</u>
Total	<u>\$377,409,961</u>

Source: County Auditor-Controller.

(1) See “APPENDIX A - Fiscal Year 2012-13 Adopted Budget” hereto for a discussion of the various estimated revenues, including the possibility that such receipts may be less than estimated.

**Alternative Liquidity**

Pursuant to a resolution adopted May 15, 2012 (the “Set-Aside Resolution”), the County has established six internal service set-aside reserve funds for certain insurance and operation purposes (the “Set-Aside Funds”). Amounts to be deposited in the Set-Aside Funds total approximately \$47.785 million, and may only be loaned, at the discretion of the County Auditor-Controller, to cover costs and claims previously incurred or expected to be incurred and to pay the costs of claim administration, excess insurance, risk management and other non-claim expenses related to each fund which have been determined by the Board of Supervisors, based on recommendations by the County Risk Manager and County Human Resources Director, to be reasonable, without further action by the Board of Supervisors. Amounts in the Set-Aside Funds may be borrowed by the County for deposit in the General Fund, although there can be

no guaranty that such Set-Aside Funds will continue to be maintained at the current levels, or will be available for lending to the General Fund. Any such amounts borrowed from the Set-Aside Funds are required to be repaid within three years.

## **ESTIMATED SOURCES AND USES OF FUNDS**

The proceeds received from the sale of the Notes are to be applied as follows:

### **Sources of Funds:**

Principal Amount of Notes  
Net Original Issue [Discount] [Premium]  
TOTAL SOURCES

### **Uses of Funds:**

Transfer to County Portfolio<sup>(1)</sup>  
Costs of Issuance<sup>(2)</sup>  
TOTAL USES

(1) See "THE NOTES – Purpose of Issue" above.

(2) Includes legal fees, printing expenses, Underwriter's discount and other costs of issuance.

## **STATE OF CALIFORNIA FINANCES**

The following information concerning the State of California's (the "State") budgets has been obtained from publicly available information which the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information. Information about the State budget is regularly available at various State-maintained websites. Text of the State budget may be found at the Department of Finance website, [www.dof.ca.gov](http://www.dof.ca.gov), under the heading "California Budget." An impartial analysis of the State budget is posted by the Office of the Legislative Analyst (the "LAO") at [www.lao.ca.gov](http://www.lao.ca.gov). In addition, various State of California official statements, many of which contain a summary of the current and past State budgets, may be found at the website of the State Treasurer, [www.treasurer.ca.gov](http://www.treasurer.ca.gov). The information referred to is prepared by the respective State agency maintaining each website and not by the County or the Underwriter, and the County and the Underwriter take no responsibility for the continued accuracy of the internet addresses or for the accuracy or timeliness of the information posted there, and such information is not incorporated herein by these references.

### **State Budget Information**

**General.** The State is facing significant financial stress, which could result in future reductions or deferrals in amounts payable to the County. In the proposed State budget for Fiscal Year 2012-13, released by Governor Brown on January 5, 2012 (the "Proposed 2012-13 State Budget"), the State projected a fiscal year budget shortfall for the current and next fiscal years of approximately over \$9 billion. In prior fiscal years the State deferred certain payments owed to vendors and local governments, including the County. Although the State ultimately made the required payments to the County, the State continues to face financial stress, and there can be no assurances that such financial stress will not result in further deferrals of amounts owed to the County, or reductions in amounts that the County receives from the State.

See “CONSTITUTION AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS – Proposition 1A” below for a discussion of actions the State took in Fiscal Year 2009-10 to shift certain property tax revenues from local governments (including the County).

The County derives a substantial portion of its annual revenues from the State. For Fiscal Year 2011-12, approximately 19% of the County’s total general fund revenues will be provided by the State (including funds provided by the State for specific state and federal programs). There can be no assurances that, as a result of the current State financial stress, it will not significantly reduce or delay revenues to local governments (including the County) or shift financial responsibility for programs to local governments as part of its efforts to address the State financial difficulties. In Fiscal Years 2008-09 and 2009-10 the State either deferred payments or issued IOU’s which could not immediately be cashed. No prediction can be made by the County as to what measures the State will adopt to respond to the current or potential future financial difficulties. The County cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on the County’s finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the County has no control. There can be no assurances that State actions to respond to State financial difficulties will not adversely affect the financial condition of the County.

**2011-12 State Budget.** On June 30, 2011, the State’s budget for Fiscal Year 2011-12 (the “2011-12 State Budget”) was enacted. The 2011-12 State Budget projected State General Fund revenues and transfers for Fiscal Year 2011-12 at \$88.5 billion, a reduction of \$6.3 billion compared with Fiscal Year 2010-11. General Fund expenditures for Fiscal Year 2011-12 were projected at \$85.9 billion, a reduction of \$5.5 billion compared to the prior fiscal year.

In approving the 2011-12 State Budget, Governor Brown exercised his line-item veto power to reduce General Fund expenditures, mostly in the Judicial Branch, which included a reduction of \$22.9 million related to parole revocation workload. The estimated General Fund revenue reflected a combination of factors, including expiration of temporary taxes and surcharges (which totaled approximately \$7.1 billion in Fiscal Year 2010-11) and the transfer of approximately one percent of the State sales tax rate to local governments to fund the realignment described below. Offsetting these reductions were improved revenue estimates for the remaining State tax sources. Expenditures reflected increases needed to offset the termination of federal stimulus funding which supported about \$4.2 billion of State General Fund programs in Fiscal Year 2010-11.

The 2011-12 State Budget closed a projected budget gap of \$26.6 billion over Fiscal Years 2010-11 and 2011-12, and projected a \$543 million reserve by June 30, 2012, for a total of \$27.2 billion in solutions (including a combination of expenditure reductions, additional revenues, and other solutions) and improved revenue results for the State's tax base. The 2011-12 State Budget included the following major expenditure reductions and other significant solutions targeted towards solving the State General Fund budget gap:

- Reduction in Medi-Cal health benefits and spending by \$2.0 billion;
- Reduction in the State's support of the University of California and California State University by \$1.4 billion; and
- Reduction in California Work Opportunity and Responsibility to Kids Program ("CalWORKs") grants by \$837 million.

Legislation enacted as part of the 2011-12 State Budget, and subsequently upheld by the California Supreme Court, eliminated redevelopment agencies in the State, with formal dissolution on February 1, 2012. The statute redirected the property taxes that would have been received by the dissolved redevelopment agencies, after payment of certain enforceable obligations of such redevelopment agencies, to be paid to local agencies, school and community college districts and special districts according to their base property tax allocations. In general, the County expects that the diversion of former tax increment from redevelopment agencies to the local taxing entities according to the 2011-12 State Budget will eventually benefit the County's general fund and its fire and flood districts.

As part of the 2011-12 State Budget, the Legislature enacted a major shift, or "realignment," of certain State program responsibilities and related revenues to local governments (the "Realignment"). In total, Realignment provides \$6.3 billion to local governments (primarily counties) to fund various criminal justice, mental health, and social services programs in Fiscal Year 2011-12. Realignment funding is derived from three sources: (i) the dedication of 1.0625 cents of the existing sales tax rate (\$5.1 billion); (ii) the redirection of \$763 million of the revenue generated by Proposition 63 (the "millionaire tax" which supports mental health programs statewide); and (iii) the redirection of a portion of vehicle license fee revenues (\$463.0 million).

With respect to Health and Human Services, the State has replaced the funding previously provided to counties as State reimbursement or direct payment with local appropriations equivalent to prior year funding levels. To date, the only significant programmatic change has resulted from the Health and Human Services component of Realignment related to the transfer of responsibility for funding education-related mental health services from counties to local school districts.

With respect to Public Safety, however, county governments are required to assume additional new responsibilities related to released inmates, newly convicted offenders, and parole violators. The County has received a \$16.2 million appropriation from the State to address the needs of the realigned criminal justice population. For Fiscal Year 2011-12, the County anticipates that this funding will be sufficient to support its increased obligations.

The 2011-12 State Budget recognized the potential risk to the State's fiscal condition if certain forecasted revenues did not materialize, and included a "trigger mechanism" to provide automatic expenditure reductions if the projections of Fiscal Year 2011-12 revenues, as updated

in November and December of 2011 by the LAO and the Department of Finance, respectively, were more than \$1 billion less than projected under the 2011-12 State Budget.

On December 13, 2011, the Department of Finance estimated that State revenues for Fiscal Year 2011-12 would be \$2.2 billion less than earlier revenue projections. If projected revenues fell short of expectations by more than \$1 billion, the Legislature had established the specific spending reductions (up to a maximum of approximately \$1.5 billion in reductions) that should occur determined by the amount of the projected revenue shortfall. As part of its December forecast, the Department of Finance decreased expenditures by \$980,831,000. These reductions, effective January 1, 2012, included:

- \$248 million from the Home-to-School Transportation program;
- \$102 million from California community college apportionments;
- \$100 million from the Department of Developmental Services;
- \$100 million from the University of California; and
- \$100 million from the California State University.

The County does not anticipate a material impact on its receipt of revenues from the State as a result of these “trigger” reductions.

In February 2012, State Controller John Chiang issued a warning to lawmakers that, absent aggressive action (including a combination of short-term borrowing and deferring payments), the State could run out of money in March 2012. That shortfall was avoided by a series of short-term cash solutions developed by the Controller's Office, the Department of Finance and the Treasurer's Office. Any subsequent Deferrals in State payments may jeopardize the County's ability to maintain core discretionary programs and could require suspension of such programs.

**Proposed State Budget for Fiscal Year 2012-13.** On January 5, 2012, the Governor released his proposed budget for Fiscal Year 2012-13 (the “Proposed 2012-13 Budget”). The Proposed 2012-13 Budget recognizes a budget gap of \$9.2 billion, comprised of a 2011-12 projected deficit of \$4.1 billion and a 2012-13 projected deficit, absent corrective actions, of \$5.1 billion. In addition, the Proposed 2012-13 Budget seeks to establish a \$1.1 billion reserve, bringing the total projected budget deficit to \$10.3 billion. The Proposed 2012-13 Budget includes a combination of new taxes and expenditure reductions to close the gap.

To address the deficit, the Proposed 2012-13 Budget seeks \$4.2 billion in expenditure reductions, \$4.6 billion in additional revenues and \$1.4 billion in other budget solutions. The Proposed 2012-13 Budget proposes that voters approve, at the November 2012 election, a temporary increase in personal income tax on the State's wealthiest individuals and a temporary increase in sales tax of one-half percent. The Proposed 2012-13 Budget includes a “backup plan” if the ballot measure is not approved by the voters, which entails \$5.4 billion in further cuts including further impacts on education and public safety.

Features of the Proposed 2012-13 Budget affecting counties in general include the following:

(a) A permanent funding structure for the general realignment adopted in the 2011-12 State Budget would be implemented, designed to provide local entities with a known and stable funding source for re-aligned programs. Counties would be responsible for drawing down the maximum amount of federal funding for the re-aligned programs and, where applicable, meeting associated federal requirements.

(b) Reductions in expenditures at the State level in areas such as health and human services will have a significant impact on counties, which already shoulder the burden of administering health-related state-funded services.

(c) Reductions of \$946.2 million in expenditures for CalWORKs. Counties are responsible under State law for providing cash assistance to families unable to support themselves and ineligible for other State and Federal programs, and a reduction in state funding may require counties to supplement their assistance.

In the event the State reduces funding for State-funded County programs, the County does not expect to backfill such reductions from other sources unless otherwise required by law, thereby resulting in corresponding reductions in County services.

**LAO's Overview of the Proposed 2012-13 Budget.** The LAO's Overview of the Governor's Budget was released on January 11, 2012 (the "Budget Overview"). The Budget Overview projected lower revenues than are estimated by the Proposed 2012-13 Budget, but acknowledged that the adoption of the budgetary actions included in the Proposed 2012-13 Budget would move the State closer to a balanced budget over the next few years.

The Budget Overview credited the Governor for the proposed restructuring of the K-12 finance system, the community college categorical funding model and the education mandate system. The LAO looked favorably on these proposals, stating that the restructuring would overcome the main longstanding fundamental shortcomings of education funding and would institute lasting improvements. Likewise, the Budget Overview agreed with the Proposed 2012-13 Budget that now is not the time to initiate major new programs or authorize program expansions, such as the transitional kindergarten program and Cal Grant expansions scheduled to commence in Fiscal Year 2012-13.

However, the Budget Overview highlighted several concerns with respect to the Proposed 2012-13 Budget, including the uncertainty caused by increased dependency on income tax payments by the State's wealthiest individuals and the uncertainty caused by the timing of the election. Also, the Budget Overview recommended that the Legislature should carefully consider the Governor's proposed reductions in CalWORKs and child care, as well as whether specific proposed trigger plans are workable.

Further details concerning the Governor's budget are available at [www.dof.ca.gov](http://www.dof.ca.gov). The County cannot predict the exact impact any such budget reductions will have on its General Fund operating budget for the coming fiscal year.

The County continues to review the Proposed 2012-13 Budget, the May Revision and other State financial information and expects to develop its responses as additional information becomes available. As of the date hereof no legislation has been introduced to enact the

Governor's proposed budget revisions. The County cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years. Continued State budget shortfalls in future fiscal years may also have an adverse financial impact on the financial condition of the County. The State budget will be affected by national and State economic conditions and other factors over which the County will have no control. Disruptions in payments to the County from the State, whether temporary or permanent, will require further adjustments to the County's 2012-13 budget. Deferrals in State payments may jeopardize the County's ability to maintain discretionary programs that could require suspension of such programs. Permanent cuts in State funding will require the County to reduce programs reliant on State funds, unless the County chooses to make corresponding reductions to discretionary funding for core County services. The County's current policy is that it will not backfill funding for programs reduced or eliminated by the State from other County funds, although there may be certain continued costs associated with downsizing or eliminating such programs.

### **CASH FLOW PROJECTIONS**

The County has prepared the accompanying cash flow statements covering the past Fiscal Year 2011-12 and the projected Fiscal Year 2012-13. The estimates of amounts and timing of receipts and disbursements in the tables on the following pages are based on certain assumptions and should not be construed as statements of fact. The assumptions are based on the County's proposed budget for Fiscal Year 2012-13 and are believed to be reasonable. The assumptions may be affected by numerous factors and there can be no assurance that such estimates will be achieved. Neither the County's independent auditors nor any other independent accountants have compiled, examined or performed any procedures with respect to the projected Fiscal Year 2012-13 cash flows contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability.

The following tables show estimated general fund cash flows for Fiscal Year 2011-12, and projected general fund cash flows for Fiscal Year 2012-13.

**TABLE 2  
COUNTY OF SANTA BARBARA  
GENERAL FUND CASH FLOW  
FISCAL YEAR 2011-12**

**TABLE 3  
COUNTY OF SANTA BARBARA  
GENERAL FUND CASH FLOW  
FISCAL YEAR 2012-13**

## **INTRAFUND BORROWING AND CASH FLOW**

County general fund expenditures tend to occur in relatively level amounts throughout the fiscal year. Conversely, receipts have followed an uneven pattern primarily as a result of secured property tax installment payment dates in December and April and as a result of delays and uneven payments from other government agencies, the two largest sources of County revenues.

In addition to issuing short-term notes, the County has occasionally used, when necessary, legally permitted "intrafund" borrowing (borrowing against certain of the County's own funds) to cover temporary cash needs, including borrowing from the Set-Aside Funds. In Fiscal Year 2011-12, the County used such intrafund borrowing to fund the financing of an estimated \$13 million of net property tax advances made by the County to local agencies pursuant to the Teeter Plan.

In Fiscal Year 2012-13, the County expects it will again use intrafund borrowing and the Notes to comprise a funding cycle for the financing of an estimated \$11.7 million of net property tax advances made by the County to local agencies pursuant to the Teeter Plan. Initially, the County will use proceeds of the Notes and intrafund borrowing to finance the estimated \$25.8 million of net Teeter Plan advances relating to Fiscal Year 1997-98 through 2012-13 delinquencies, while subsequently the County will use intrafund borrowing to cover any temporary cash shortfalls subsequent to when repayment accounts for the Notes are set aside in April 2013. The County expects to repeat the use of intrafund borrowing cycle in subsequent Fiscal Years until sufficient tax delinquencies and fines have been collected to finance future Teeter Plan advances or until an alternative funding mechanism is implemented.

The Auditor-Controller has prepared the accompanying General Fund Cash Flow Analysis for the Fiscal Year 2011-12 and a projected cash flow for Fiscal Year 2012-13 set forth above. The projected cash flow for Fiscal Year 2012-13 was prepared based on the current information available. In the cash flows, in order to reflect the County's participation in the Teeter Plan, the Auditor-Controller has listed the proceeds and distributions pertaining to the Teeter Plan as line items under the Apportioned Tax Resources Fund (the "ATRF") subheading in the respective "Receipts" and "Disbursements" headings. In June of each Fiscal Year, the County advances funds to complete the 100% distribution of that Fiscal Year's tax levy. Subsequently, the County collects the delinquent taxes and their attributable penalties and interest over a period of several Fiscal Years. As the County collects these payments, it makes payments on the associated borrowed funds. Although ATRF proceeds are detailed in these cash flows, the pledged funds for the repayment of the Notes will come solely from unrestricted monies of the general fund.

Additionally, in the General Fund Cash Flow Analysis, in order to reflect the General Fund loans to the Alcohol, Drug and Mental Health Services Fund (ADMHS), the Auditor-Controller has listed the loans to the fund under "Disbursements" as "Loans ADMHS" and the loan repayments under "Receipts" as "Loan Collections ADMHS". Loan collections in the cash flows represent a six month lag from the month of service delivery while loan disbursements represent the current monthly cash deficit for services provided. The County has experienced these cash flow shortages due to delayed billings to and delayed reimbursements from the State and Federal Government.

## **COUNTY OF SANTA BARBARA INVESTMENT PORTFOLIO**

For a detailed discussion of the County's investment policy, see "APPENDIX A – COUNTY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION – County Investment Policy."

### **SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION**

The following is a summary of certain provisions of the Resolution. This summary is not to be considered a full statement of the terms of the Resolution and accordingly is qualified by reference thereto and is subject to the full text thereof. Except as otherwise defined herein, capitalized terms used in this Official Statement without definition have the respective meanings set forth in the Resolution.

#### **Resolution to Constitute Contract**

The provisions of the Notes and of the Resolution constitute a contract between the County and the registered owners of the Notes, and such provisions may be enforceable by mandamus or any other appropriate suit, action or proceeding at law or in equity in any court of competent jurisdiction.

#### **Representations and Covenants of the County**

The County determined pursuant to the Resolution that with respect to the 2012-13 Fiscal Year, the amount of \$75,000,000 (the maximum authorized principal amount of the Notes) when added to the interest estimated to be payable thereon, does not exceed 85% of the estimated amount of the uncollected taxes, income, revenues, cash receipts, and other moneys of the County for the general fund of the County attributable to Fiscal Year 2012-13 which will be available for the payment of the Notes and the interest thereon.

In order to maintain the exclusion from gross income for federal income tax purposes of interest on the Notes, the County covenants to comply with each applicable requirement of the Internal Revenue Code of 1986, as amended, necessary to maintain the exclusion of interest on the Notes from gross income for federal income tax purposes and the County agrees to comply with the requirements of the Tax Certificate of the County as such Tax Certificate may be amended from time to time. The County further covenants that it will make all calculations relating to any rebate of excess investment earnings on the Note proceeds due to the United States Department of the Treasury in a reasonable and prudent fashion and will segregate and set aside the amounts such calculations indicate may be required to be paid to the United States Department of the Treasury from revenues attributable to Fiscal Year 2012-13 or from any other lawfully available moneys. See "TAX MATTERS."

Notwithstanding any other provision of the Resolution to the contrary, upon the County's failure to observe, or refusal to comply with, the foregoing tax covenants, no one other than the owners or former owners of the Notes will be entitled to exercise any right or remedy with respect to such covenants under the Resolution.

#### **Paying Agent and Note Registrar**

The Treasurer-Tax Collector of the County of Santa Barbara will initially act as Paying Agent and as registrar for the Notes (the "Note Registrar"). Any successor Paying Agent will be

or have co-paying agent relationships with one or more banks or trust companies in New York, New York.

### **Exchange and Transfer of the Notes**

The registered owners of the Notes which are evidenced by registered certificates may transfer such Notes upon the books maintained by the Note Registrar, in accordance with the Resolution.

The County and any Paying Agent may deem and treat the registered owner of any Note as the absolute owner of such Note, regardless of whether such Note is overdue, for the purpose of receiving payment thereof and for all other purposes, and all such payments so made to any such registered owner upon his or her order will satisfy and discharge the liability upon such Note to the extent of the sum or sums so paid, and neither the County nor any Paying Agent will be affected by any notice to the contrary. Cede & Co., as nominee of DTC, or such other nominee of DTC or any successor securities depository or the nominee thereof, will be the registered owner of the Notes as long as the beneficial ownership of the Notes is held in book-entry form in the records of such securities depository. See "APPENDIX E – DTC AND THE BOOK-ENTRY ONLY SYSTEM."

### **Permitted Investments**

Moneys in the Repayment Account will be invested in Permitted Investments as defined below, except that no such investments will have a maturity date later than the maturity date of the Notes expected to be paid with proceeds of such investments. The proceeds of any such investments will be retained in the Repayment Account until payment of principal of and interest on the Notes (or provision therefore) has been made, at which time any excess amount shall be transferred to the County for deposit in the general fund.

Permitted Investments include, without limitation, (i) any investment permitted by applicable California law, provided that no such moneys shall be invested in "reverse repurchase agreements" permitted by subsection (i) of Section 53601 of the California Government Code, and no such investments shall have a maturity later than the term of the Notes, or (ii) investment agreements with or the obligations of which are guaranteed by (a) a domestic bank, financial institution or insurance company the financial capacity to honor its senior obligations of which is rated at least "AA" by Standard & Poor's; or (b) a foreign bank the long-term debt of which is rated at least "AA" by Standard & Poor's (a "Qualified Provider"); provided, that the investment agreement shall provide that if during its term the provider's (or, if guaranteed, the guarantor's) rating by Standard & Poor's falls below "AA-", the provider must within 10 days assign the investment agreement to a Qualified Provider reasonably acceptable to the County or collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the County or a third party acting solely as agent therefor, United States Treasury Obligations which are free and clear of any third-party liens or claims, at sufficient collateral levels to maintain the highest short-term rating on the Notes. No such investments shall have a maturity date later than the maturity date of the Notes. The investment earnings on any such investment shall be retained by the County or the Paying Agent in such fund or account until all of the Notes have been fully paid, at which time any excess amount shall be paid to the general fund of the County.

The County shall deposit the proceeds of the sale of the Notes in the County treasury. Such amounts shall be invested as permitted by applicable California law.

## **CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS**

### **Article XIII A of the State Constitution**

Section 1(a) of Article XIII A of the State Constitution limits the maximum *ad valorem* tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by counties and apportioned according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes to pay interest or redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, or (2) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition, or (3) any bonded indebtedness incurred by a school district, community college district or county office of education for the construction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities approved after November 8, 2000 by 55% of the voters of the district or county, as appropriate, voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment" ("Full Cash Value"). 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 may be reduced in the event of declining property value caused by substantial damage, destruction or other factors. Taxpayers in the County may appeal the determination of the County Assessor of the Full Cash Value of their property. The County is currently estimating a tax increase in the range of approximately 1.0%-1.5% for Fiscal Year 2012-13.

Legislation enacted by the State Legislature to implement Article XIII A provides that, notwithstanding any other law, local agencies may not levy any *ad valorem* property tax except to pay debt service on indebtedness approved by the voters as described above. The voters of the State subsequently approved various measures that further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first \$1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reappraisal under Article XIII A. Other amendments permitted the State Legislature to allow persons over the age of 55 who meet certain criteria or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Other amendments permit the State Legislature to allow persons who are either 55 years of age or older, or who are "severely disabled," to transfer the old residence's assessed value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence.

In the November 1990 election, the voters approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition of "new construction" certain additions and improvements, including seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended 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.

Section 4 of Article XIII A provides that cities, counties and special districts cannot, without a two-thirds vote of the qualified electors, impose special taxes, which has been interpreted to include special fees in excess of the cost of providing the services or facility for which the fee is charged, or fees levied for general revenue purposes.

### **Article XIII B of the State Constitution**

State and local government agencies in the State are each subject to annual “appropriations limits” imposed by Article XIII B of the State Constitution (“Article XIII B”). Article XIII B prohibits government agencies and the State from spending “appropriations subject to limitation” in excess of the appropriations limit imposed. “Appropriations subject to limitation” are generally authorizations to spend “proceeds of taxes,” which include all, but are not limited to, tax revenues, and the proceeds from (i) regulatory licenses, user charges or other user fees to the extent that such proceeds exceed “the cost reasonably borne by that entity in providing the regulation, product, or service” (ii) the investment of tax revenues, and (iii) certain subventions received from the State. No limit is imposed on appropriations of funds which are not “proceeds of taxes,” appropriated for debt service on indebtedness existing prior to the passage of Article XIII B or authorized by the voters or appropriations required to comply with certain mandates of courts or the federal government.

As amended at the June 5, 1990 election by Proposition 111, Article XIII B provides that, in general terms, a county’s appropriations limit is based on the limit for the prior year adjusted annually to reflect changes in cost of living, population and, when appropriate, transfer of financial responsibility of providing services from one governmental unit to another. Proposition 111 liberalized the aforementioned adjustment factors as compared to the original provisions of Article XIII B. If county revenues during any two consecutive fiscal years exceed the combined appropriations limits for those two years, the excess must be returned by a revision of tax rates or fee schedules within the two subsequent fiscal years.

For Fiscal Year 2010-11 the County’s appropriations limit was approximately \$1.092 billion, and its actual appropriations in Fiscal Year 2010-11 subject to this limit were approximately \$186 million. For Fiscal Year 2011-12 the County’s appropriations limit is approximately \$1.407 billion, and its estimated appropriations subject to this limit are approximately \$187 million. The County is subject to and is operating in conformity with Article XIII B.

### **Articles XIII C and XIII D of the State Constitution**

On November 5, 1996, California voters approved Proposition 218, which added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. The voter approval requirements of Proposition 218 reduce the County Board of Supervisors’ flexibility to deal with fiscal problems by raising revenue, and no assurances can be given that the County will be able to raise taxes in the future to meet increased expenditure requirements. County management is not aware of any challenge or claim that any current fee, tax or assessment is not in compliance with Proposition 218.

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

The assessments subject to the provisions of Proposition 218 include maintenance assessments imposed in County service areas and special districts. The annual amount of revenues that are received by the County and deposited into the County's General Fund which may be considered to be property related fees and charges under Article XIII D is not material to the ability to repay the Notes.

The County is unable to predict whether and to what extent Proposition 218 may be further interpreted and applied by the courts. Proposition 218 could substantially restrict the County's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the County's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. Further, Proposition 218 provides for broad initiative powers to reduce or repeal assessments, fees and charges. No assurance can be given that the voters of the County will not, in the future, approve initiatives that repeal, reduce or prohibit the future imposition or increase of local taxes, assessments, fees or charges.

## **Proposition 62**

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a countywide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, required a two-thirds voter approval. Because the tax received an affirmative vote of only 54.1%, this special tax was found to be invalid. The decision did not address the question of whether or not it should be applied retroactively.

Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62, which was passed in November 1986. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("La Habra"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

## **Proposition 1A**

In connection with the shift of \$2.6 billion of local agency revenues to school funding, the Legislature and the Governor agreed to place Proposition 1A, entitled "Protection of Local Government Revenues," on the ballot ("Proposition 1A"). The initiative was approved by the voters on November 2, 2004. Proposition 1A amended the California Constitution to (i) prohibit the shift of property tax revenues from cities, counties and special districts, except to address a "severe state financial hardship" (approved by a two-thirds vote of both houses of the Legislature), and only then if (a) such amounts were agreed to be repaid with interest within

three years, (b) the State had repaid any other borrowed amounts, including the current amount owed to repay the vehicle license fee shift, and (c) such borrowing could not occur more often than twice in ten years; (ii) protect the property tax backfill of sales tax revenues diverted to pay the economic recovery bonds, and the reinstatement of the sales tax revenues once such bonds are repaid; and (iii) protect local agency vehicle license fee revenue (or a comparable amount of backfill payments from the State).

Through the adoption of the Fiscal Year 2010-11 State budget, the State Legislature determined to exercise its rights under Proposition 1A and the County had approximately 8% of its real property tax revenues received in 2009-10, shifted to schools and other services. The County elected to receive the monies being borrowed by the State upfront through a securitization financing. Until the State repays the bonds issued through this financing (currently scheduled to occur in Fiscal Year 2012-13) it will not be able borrow additional property tax revenues from the County.

### **Proposition 22**

Proposition 22, an initiative approved by the voters on November 2, 2010, amended the California Constitution to prohibit the State, even during a period of severe fiscal hardship, from delaying the distribution of tax revenues for transportation, redevelopment, or local government projects and services. Proposition 22 also prevented the State from redirecting redevelopment agency property taxes, prior to the dissolution of the redevelopment agencies as described below, to other local governments.

On December 29, 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 former net tax increment revenues, after payment of enforceable obligations of redevelopment agencies, pass-through payments and certain other payments authorized by ABX1 26 will be distributed to cities, counties, special districts and school districts. The Court also found that ABX1 27, a companion bill to ABX1 26, violated the California Constitution, as amended by Proposition 22. ABX1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling \$1.7 billion statewide. The County currently is unable to predict how Proposition 22 will continue to be interpreted, or to what extent this Proposition, or the implementation of ABX1 26, will affect the revenues in the County's General Fund, although it could eventually provide greater stability in County revenues.

### **Proposition 26**

Proposition 26, an initiative approved by the voters on November 2, 2010, amended the California Constitution to expand the definition of a tax so that certain fees and charges imposed by government, generally associated with regulatory and environmental matters, will be subject to approval by two thirds of each house of the State Legislature or approval by local voters. This proposition will most likely be subject to numerous court challenges, and the County is currently unable to predict how Proposition 26 will be interpreted, or to what extent this measure will affect the revenues in the County's General Fund.

## **Future Initiatives and Change in Laws**

Article XIII A, Article XIII B and Propositions 62, 218, 1A, 22 and 26 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, 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. In addition, the State legislature could amend or enact laws resulting in a reduction of moneys available to the County, or enact legislation with the approval of the electorate amending the State Constitution, which could result in a reduction of moneys available to the County.

## **TAX MATTERS**

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the County, based on 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 Notes 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 Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that it 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 C.

Notice 94-84, 1994-2 C.B. 559, states that the Internal Revenue Service (the "Service") is studying whether the amount of the payment at maturity on short-term debt obligations (i.e., debt obligations with a stated fixed rate of interest which mature not more than one year from the date of issue) that is excluded from gross income for federal tax purposes is (i) the stated interest payable at maturity or (ii) the difference between the issue price of the short-term debt obligations and the aggregate amount to be paid at maturity of the short-term debt obligations (the "original issue discount"). The Notes may be executed as short-term debt obligations. For this purpose, the issue price of the short-term debt obligations is the first price at which a substantial amount of the short-term debt obligations is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Until the Service provides further guidance with respect to tax-exempt short-term debt obligations, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes.

However, taxpayers must treat the amount to be paid at maturity on all tax-exempt short-term debt obligations in a consistent manner. Taxpayers should consult their own tax advisors with respect to the tax consequences of ownership of the Notes if the Notes are executed as short-term debt obligations and if the taxpayer elects original issue discount treatment.

Notes purchased, whether at original issuance or otherwise, for an amount greater than the principal amount on the Notes payable at maturity ("Premium Notes") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Notes, 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 Note, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of

Premium Notes 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 Notes. The County has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Notes 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 Notes being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Notes. 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 Notes may adversely affect the value of the Notes, or the tax status of interest on the Notes. 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.

One of the covenants of the County is to reasonably and prudently calculate the amount, if any, of excess investment earnings on the proceeds of the Notes which must be rebated to the United States, to set aside from lawfully available sources sufficient moneys to pay such amounts and to otherwise do all things necessary and within its power and authority to assure that interest on the Notes is excluded from gross income for federal income tax purposes. Under the Code, if the County spends 100% of the proceeds of the Notes within six months after initial delivery, there is no requirement that there be a rebate of investment profits in order for interest on the Notes to be excluded from gross income for federal income tax purposes. The Code also provides that such proceeds are not deemed spent until all other available moneys (less a reasonable working capital reserve) are spent. The County expects to satisfy this expenditure test or, if they fail to do so, to make any required rebate payment from moneys received or accrued during the 2012-13 fiscal year. To the extent that any rebate cannot be paid from such moneys, the law of California is unclear as to whether such covenant would require the County to pay any such rebate. This would be an issue only if it were determined that the County's calculations of expenditures of Notes proceeds or of rebatable arbitrage profits, if any, were incorrect.

Although Bond Counsel is of the opinion that interest on the Notes 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 Notes may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences will depend 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 Notes to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals or clarification of the Code or court decisions may also affect the market price for, or marketability of, the Notes. Prospective purchasers of the Notes should consult their own tax advisors regarding any pending or

proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

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 Notes for federal income tax purposes. It is not binding on the Internal Revenue Service or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the County, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Service. The County has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Notes ends with the issuance of the Notes, and, unless separately engaged, Bond Counsel is not obligated to defend the County or the Beneficial Owners regarding the tax-exempt status of the Notes in the event of an audit examination by the Service. Under current procedures, parties other than the County and its 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 Service's positions with which the County legitimately disagrees may not be practicable. Any action of the Service, including but not limited to selection of the Notes for audit, or the course of result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Notes, and may cause the County or the Beneficial Owners to incur significant expense.

## **LEGAL MATTERS**

Certain legal matters incident to the issuance of the Notes are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. See "APPENDIX C – PROPOSED FORM OF OPINION OF BOND COUNSEL." Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the County by the Office of the County Counsel ("County Counsel") and for the Underwriter by Nossaman LLP.

## **LEGALITY FOR INVESTMENT IN CALIFORNIA**

Under provisions of the California Financial Code, the Notes are legal investments for commercial banks in the State to the extent that the Notes, in the informed opinion of the investor bank, are prudent for the investment of funds of its depositors and, under provisions of the California Government Code, are eligible to secure deposits of public moneys in the State.

## **RATING**

The County has obtained a rating of "\_\_\_\_\_" on the Notes from Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"). Certain information was supplied by the County to S&P to be considered in evaluating the Notes. The rating issued reflects only the views of such rating agency, and any explanation of the significance of such rating should be obtained from S&P. There is no assurance that any rating will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by such rating agency if in its judgment, circumstances so warrant. Other than as provided in the Continuing Disclosure Certificate, the County undertakes no

responsibility either to bring to the attention of the owners of any Notes any downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the rating obtained may have an adverse effect on the market price of and the ability to trade the Notes.

### **LITIGATION**

No litigation is pending or threatened against the County concerning the validity of the Notes, and a certificate of the County Counsel to that effect will be furnished to the purchaser at the time of the original delivery of the Notes. The County is not aware of any litigation pending or threatened against the County questioning the political existence of the County or contesting the County's ability to levy and collect *ad valorem* taxes or contesting the County's ability to issue and repay the Notes. Other than as otherwise addressed in this Official Statement, the aggregate amount of the uninsured liabilities of the County and the timing of any anticipated payments of judgments which may result from suits and claims will not, in the opinion of the County Executive Officer, impair the County's ability to repay the Notes.

### **UNDERWRITING**

The Notes are being purchased for public offering by E. J. De La Rosa & Co., Inc. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Notes from the County at a price of \$\_\_\_\_\_, being the principal amount of the Notes, [less net original discount] [plus net original issue premium] of \$\_\_\_\_\_, and less an Underwriter's discount of \$\_\_\_\_\_ (which discount includes costs of issuance in the amount of \$\_\_\_\_\_ to be paid by the Underwriter at the direction of the County). The Underwriter will be obligated to purchase all of the Notes if any are purchased, the obligation to make such purchase being subject to certain terms and conditions to be satisfied by the County. The Underwriter may offer and sell the Notes to certain dealers and others at prices lower than the offering prices stated on the cover page hereof. The offering prices may be changed from time to time by the Underwriter.

### **CONTINUING DISCLOSURE**

The County will agree to provide notices, during the time the Notes are outstanding, of the occurrence of certain enumerated events, if material, in compliance with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the "Rule"). The specific nature of the notices of material events and certain other terms of the continuing disclosure obligation are described in APPENDIX D – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." As of the date hereof, the County has been in compliance with its continuing disclosure undertakings for the past 5 years.

The County has agreed to post on its website, not later than 40 days after the end of the fiscal quarters ending September 30, 2012, December 31, 2012 and March 31, 2013, a report which shall contain or include by reference information regarding the County's cash flow in the fiscal quarter most recently ended, including comparative information to the projected cash flow included in the Official Statement. The County's website is located at [www.countyofsb.org](http://www.countyofsb.org). However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Notes.

## **ADDITIONAL INFORMATION**

The purpose of this Official Statement is to supply information to prospective purchasers of the Notes. Summaries and explanations of the Notes, the Resolution, and statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for a full and complete statement of their provisions. This Official Statement is not to be construed as a contract between the County and any purchasers or owners of the Notes.

The County regularly prepares a variety of reports, including audits, budgets and related documents, as well as certain monthly activity reports. Any owner of a Note may obtain a copy of any such report, as available, from the County by writing to County of Santa Barbara, Auditor/Controller, 105 East Anapamu Street, Room 303, Santa Barbara, California 93101. The County maintains a website at [www.countyofsb.org](http://www.countyofsb.org). However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Notes.

All data contained herein have been taken or constructed from County records and other sources. Appropriate County officials, acting in their official capacity, have reviewed this Official Statement and have determined that as of the date hereof the information contained herein is, to the best of their knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made herein, in the light of the circumstances under which they are made, not misleading. An appropriate County official will execute a certificate to this effect upon delivery of the Notes. This Official Statement and its distribution have been duly authorized and approved by the Board of Supervisors of the County.

## **COUNTY OF SANTA BARBARA**

By: \_\_\_\_\_  
Treasurer-Tax Collector

**APPENDIX A**  
**COUNTY FINANCIAL, ECONOMIC AND DEMOGRAPHIC INFORMATION**

**APPENDIX B**

**THE AUDITED FINANCIAL STATEMENTS OF THE COUNTY  
FOR FISCAL YEAR 2010-11**

**APPENDIX C**  
**PROPOSED FORM OF OPINION OF BOND COUNSEL**

**APPENDIX D**  
**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

## APPENDIX E

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the procedures and record keeping with respect to beneficial ownership interests in the Notes, payment of principal, redemption premium, if any, and interest with respect to the Notes to DTC, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Notes and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the County of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The County understands that the current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and that the current "Procedures" of DTC to be followed in dealing with Participants are on file with DTC.*

DTC will act as securities depository for the Notes. The Notes will be executed and delivered as fully registered bonds 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 Note certificate will be executed and delivered for each maturity date of the Notes, each in the aggregate principal amount due on such maturity date, and will be deposited with DTC.

DTC, the world's largest 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 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 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, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC", "GSCC", "MBSCC", and "EMCC", also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating from Standard & Poor's of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Notes 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 Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes 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 Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Notes called for redemption or of any other action premised on such notice. Redemption of portions of the Notes by the County will reduce the outstanding principal amount of Notes held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Notes held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Notes for the Beneficial Owners. Any such selection of Notes to be redeemed will not be governed by the Resolution and will not be conducted by the County.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes 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 Notes 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 Notes 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 County, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the County, 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 Notes to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County, 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.

### **Disclaimers**

AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE NOTES, THE PAYING AGENT WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO HOLDERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE NOTES CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

THE COUNTY HAS NO RESPONSIBILITY OR LIABILITY FOR ANY ASPECT OF THE RECORDS RELATING TO OR PAYMENTS MADE ON ACCOUNT OF BENEFICIAL OWNERSHIP, OR FOR MAINTAINING, SUPERVISING OR REVIEWING ANY RECORDS RELATING TO BENEFICIAL OWNERSHIP OF INTERESTS IN THE NOTES.

THE COUNTY CANNOT GIVE AND DOES NOT GIVE ANY ASSURANCES THAT DTC WILL DISTRIBUTE PAYMENTS TO DTC PARTICIPANTS OR THAT PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS WITH RESPECT TO THE NOTES RECEIVED BY DTC OR ITS NOMINEES AS THE HOLDER THEREOF OR ANY REDEMPTION NOTICES OR OTHER NOTICES TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL SERVICE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.