

The County shall cause to be given to each rating agency rating the Bonds, and the Insurer, notice of any execution and delivery of Additional Bonds.

Proceedings for Authorization of Additional Bonds. Whenever the County and the Authority shall determine to authorize the execution and delivery of any Additional Bonds pursuant to the Indenture, the County, the Authority and the Trustee shall enter into a Supplemental Indenture without the consent of the Owners of any Bonds, providing for the execution and delivery of such Additional Bonds, specifying the maximum principal amount of such Additional Bonds and prescribing the terms and conditions of such Additional Bonds.

Such Supplemental Indenture shall prescribe the form or forms of such Additional Bonds and, subject to the provisions of the Indenture, shall provide for the distinctive designation, denominations, method of numbering, dates, Principal Payment Dates, interest rates, Interest Payment Dates, provisions for redemption (if desired) and places of payment of principal and interest.

Before such Additional Bonds shall be executed and delivered, the County and the Authority shall file or cause to be filed the following documents with the Trustee:

(a) An Opinion of Counsel (which may rely upon the Certificate of the County required by the Indenture and such other opinions and certificates as may be appropriate) to the effect that (1) that such Counsel has examined the Supplemental Indenture and the amendment, if any, to the Site Lease and the Facility Lease required by the Indenture; (2) that the execution and delivery of the Additional Bonds have been sufficiently and duly authorized by the County and the Authority; (3) that said amendments to the Site Lease and the Facility Lease and the Supplemental Indenture, when duly executed by the County and the Authority, will be valid and binding obligations of the County and the Authority; (4) that said amendments to the Site Lease and the Facility Lease have been duly authorized, executed and delivered; and (5) that the amendments to the Site Lease and the Facility Lease do not adversely affect the tax-exempt status of interest on by Outstanding Bonds;

(b) A Certificate of the County that the requirements of the Indenture have been met, including a Certificate of the County as to the annual fair rental value of the Leased Property; which Certificate may assume the timely construction and completion of any Additional Project to be financed with the proceeds of Additional Bonds so long as the proceeds of Additional Bonds or other funds of the County have been deposited with the Trustee (i) in the Construction Fund, in an amount reasonably expected to be sufficient to provide for the Construction Costs of such Additional Project, and (ii) in the Capitalized Interest Account, in an amount sufficient to pay interest on the Additional Bonds for the period of time from their date of issuance until 6 months following the expected delivery date of the Certificate of Completion with respect to such Additional Project;

(c) Certified copies of the resolutions of the County and the Authority, authorizing the execution of the amendments to the Site Lease and Facility Lease required by the Indenture;

(d) An executed counterpart or duly authenticated copy of the amendments to the Site Lease and Facility Lease required by the Indenture;

(e) Certified copies of the policies of insurance required by the Facility Lease or certificates thereof, which shall evidence that the amounts of the insurance required under the Facility Lease have been increased, if necessary, to cover the amount of such Additional Bonds; and

(f) A CLTA title insurance policy or other appropriate form of policy in the amount of the Additional Bonds of the type and with the endorsements described in the Facility Lease.

Upon the delivery to the Trustee of the foregoing instruments so as to permit the execution and delivery of the Additional Bonds in accordance with the Supplemental Indenture then delivered to the Trustee, the Trustee shall authenticate and deliver said Additional Bonds, in the aggregate principal amount specified in such Supplemental Indenture, to, or upon the request of, the County.

Proceeds of Bonds

Construction Fund.

(a) The Trustee shall hold the moneys in the Construction Fund and shall disburse such moneys therefrom to pay Construction Costs. Such disbursements shall be made from time to time upon receipt of a Written Request of the County on behalf of the Authority which:

(i) states with respect to each disbursement to be made: (A) the requisition number, (B) the name and address of the person, firm or authority to whom payment is due, (C) the amount to be disbursed, and (D) that each obligation therein has been properly incurred, is a Construction Cost and is a proper charge against the Construction Fund and has not been the basis of any previous disbursement;

(ii) specifies in reasonable detail the nature of the obligation; and

(iii) is accompanied by a bill or statement of account for each obligation.

(b) If at any time there are insufficient moneys in the Costs of Issuance Fund to disburse moneys in accordance with the Indenture, the Trustee shall disburse from the Construction Fund, subject to this section, such additional amounts as are necessary to pay such Costs of Issuance.

(c) Upon the delivery to the Trustee of a Certificate of Completion, the Trustee shall transfer any remaining balance of money in the Construction Fund, first, to the Rebate Fund to the extent the amount on deposit therein is less than the Rebate Requirement, second, to the Reserve Fund to the extent necessary to make the amount on deposit therein equal to the Reserve Fund Requirement, and third, the remainder to a separate subaccount within the Principal Fund, which the Trustee shall establish and hold in trust, and which shall be entitled the "Surplus Subaccount." The moneys in the Surplus Subaccount shall be applied (unless some other application of such moneys would not, in the opinion of Bond Counsel, adversely affect the tax-exempt status of interest on the Bonds) as directed in writing by the County to pay principal on the Series of Bonds from which such moneys were derived as such principal becomes due and payable, in annual amounts which bear the same ratio to the principal amount of such Series of Bonds maturing in such year that the amount deposited in the Surplus Subaccount bears to the original principal amount of such Series of Bonds. Notwithstanding the Indenture, the moneys in the Surplus Subaccount shall be invested at a yield no higher than the yield on such Outstanding Series of Bonds (unless, in the opinion of Bond Counsel, investment at a higher yield would not adversely affect the tax-exempt status of interest on the Bonds), and all such investment income shall be deposited in the Surplus Subaccount and expended or reinvested as provided above.

Reserve Fund.

(a) There is established in trust under the Indenture a special fund designated as the "Reserve Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. Moneys in the Reserve Fund shall be in the amount of the Reserve Fund Requirement and shall be used and withdrawn by the Trustee solely for the purposes set forth in the Indenture.

(i) If, on any Interest Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Reserve Fund investment), the amount on deposit in the Interest Fund is insufficient to pay the interest due with respect to the Bonds on such Interest Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Interest Fund an amount sufficient to make up such deficiency.

(ii) If, on any Principal Payment Date or any Mandatory Sinking Account Payment Date (or on any earlier date as specified in a Reserve Fund Credit Facility or Reserve Fund investment), the amount on deposit in the Principal Fund is insufficient to pay the principal due with respect to the Bonds on such Principal Payment Date or Mandatory Sinking Account Payment Date, the Trustee shall transfer from the Reserve Fund and deposit in the Principal Fund an amount sufficient to make up such deficiency.

(iii) Monies on deposit in the Reserve Fund shall be withdrawn and transferred by the Trustee to be applied for the final payment on the Bonds.

In the event of any withdrawal or transfer from the Reserve Fund, the Trustee shall, within five days thereafter, provide written notice to the County of the amount and the date of such transfer. If at any time the balance in the Reserve Fund shall be reduced below the Reserve Fund Requirement, the first of Base Rental Payments thereafter payable by the County under the Facility Lease and not needed to pay the interest and principal components of Base Rental Payments payable by the County under the Facility Lease to the Owners on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date shall be used to increase the balance in the Reserve Fund to the Reserve Fund Requirement. If after the payment of principal and interest on any Interest Payment Date the balance in the Reserve Fund shall be in excess of the Reserve Fund Requirement the Trustee shall transfer such excess to the Revenue Fund. At the termination of the Facility Lease in accordance with its respective terms, any balance remaining in the Reserve Fund shall be released and may be transferred to such other fund or account of the County, or otherwise used by the County for any other lawful purposes, as the County may direct in writing. For purposes of determining the amount on deposit in the Reserve Fund, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment.

(b) At the option of the County, one or more Reserve Fund Credit Facilities may be substituted for the funds held by the Trustee in the Reserve Fund such that the amount available to be drawn under such Reserve Fund Credit Facilities together with funds remaining in the Reserve Fund satisfies the Reserve Fund Requirement.

If the County exercises its option to substitute a Reserve Fund Credit Facility for all or a portion of the moneys held by the Trustee in the Reserve Fund, then such moneys, on or after the date that the Reserve Fund Credit Facility becomes effective, at the option of the County, shall be transferred (A) to the Revenue Fund and on each applicable Principal Payment Date a *pro rata* portion thereof shall be transferred to the Principal Fund and used to pay a portion of the principal of the Bonds due on such Principal Payment Date, or (B) to a construction fund to be held by the County and used for capital projects of the County in accordance with the Tax Certificate. Neither the County nor the Trustee may invest such amounts transferred so as to produce a yield greater than the yield permitted under the Tax Certificate. In the event any Reserve Fund Credit Facility is scheduled to terminate prior to the final maturity date of the Bonds and such Reserve Fund Credit Facility is not extended, renewed or replaced with another Reserve Fund Credit Facility or with cash or Permitted Investments in the amount of such Reserve Fund Credit Facility, the Trustee shall draw on or make a claim under such Reserve Fund Credit

Facility ten days prior to the date of such expiration in an amount equal to the lesser of (i) the maximum amount available thereunder or (ii) the Reserve Fund Requirement, in either case for deposit into the Reserve Fund.

In the event a Reserve Fund Credit Facility is substituted for all or a portion of the moneys held by the Trustee in the Reserve Fund pursuant to the terms of the Indenture, then, notwithstanding any other provision of the Indenture, (1) the Trustee shall draw upon the Reserve Fund Credit Facility for amounts which the terms of the Indenture require to be transferred from the Reserve Fund; *provided* that the Trustee shall first draw upon any cash or Permitted Investments on deposit in the Reserve Fund before drawing upon any Reserve Fund Credit Facility, and thereafter shall draw upon all such Reserve Fund Credit Facilities on a *pro rata* basis, and (2) amounts required by the terms of the Indenture to be deposited or transferred to the Reserve Fund (a) in the event the Reserve Fund Credit Facility has been drawn upon, shall be first paid to the provider of such Reserve Fund Credit Facility if the County has an outstanding reimbursement obligation to such provider resulting from such draw, which payment shall result in an increase in the amount then available under the Reserve Fund Credit Facility equal to such payment and (b) to the extent all such draws on Reserve Fund Credit Facilities have been paid, then, second, shall be transferred or deposited to the Reserve Fund in amount such that after giving effect to the deposit the amount on deposit in the Reserve Fund is equal to the Reserve Fund Requirement.

The County shall be permitted to make use of a Reserve Fund Credit Facility pursuant to the Indenture at any time.

For purposes of this subsection (b), the term "substitution" shall include such initial funding of the Reserve Fund Requirement by means of a Reserve Fund Credit Facility instead of by deposit of moneys, and shall not be read to mean that the County must first make an initial cash deposit in the Reserve Fund before invoking this subsection (b) and satisfying the Reserve Fund Requirement by securing and implementing a Reserve Fund Credit Facility.

Cost of Issuance Fund. There is established in trust under the Indenture a special fund designated as the "Cost of Issuance Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds held by the Trustee. The moneys in the Costs of Issuance Fund shall be applied to the payment of Costs of Issuance of the Bonds, upon a Written Request of the County on behalf of the Authority. All payments from the Costs of Issuance Fund shall be reflected in the Trustee's regular accounting statements. On or before 6 months after the issuance of any Series of Bonds, the Trustee shall transfer any amounts then remaining in the Cost of Issuance Fund to the Reserve Fund to the extent the amount on deposit therein is less than the Reserve Fund Requirement, then to the Construction Fund.

Revenues

Pledge of Revenues; Revenue Fund.

(a) There is established a special fund designated as the "Revenue Fund" which shall be held by the Trustee and which shall be kept separate and apart from all other funds and moneys held by the Trustee. The County, pursuant to the Indenture, irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of its right, title and interest in and to all amounts on deposit from time to time in the funds and accounts established under the Indenture (other than the Rebate Fund), subject to the provisions of the Indenture permitting the disbursement thereof for or to the purposes and on the conditions and terms set forth in the Indenture, and in and to the Revenues, which shall be used for the punctual payment of the interest and principal of the Bonds and the Revenues shall not be used for any other purpose while any of the Bonds remain Outstanding. It is the intent of the parties to the Indenture

that the Authority shall not have any right, title, in or to the Revenues. In the event, however, that it should be determined that the Authority has any right, title or interest in or to the Revenues, then the Authority, pursuant to the Indenture, irrevocably pledges and transfers to the Trustee, for the benefit of the Owners, all of such right, title and interest, which shall be used for the punctual payment of the interest and principal of the Bonds. These pledges shall constitute a first and exclusive lien on the funds established under the Indenture and the Revenues in accordance with the terms of the Indenture subject in all events to the power of the County and the Authority to cause the execution and delivery of Additional Bonds pursuant to the Indenture which shall be on a parity with the Bonds Outstanding.

(b) All Revenues shall be paid directly by the County to the Trustee, and if received by the Authority at any time shall be deposited by the Authority, as the case may be, with the Trustee within one Business Day after the receipt thereof. All Revenues and the proceeds of rental interruption insurance, if any, shall be deposited by the Trustee in the Revenue Fund and all amounts on deposit therein shall be held in trust by the Trustee, which fund the Trustee, pursuant to the Indenture, agrees to establish and maintain for the benefit of the Owners until all required Revenues are paid in full pursuant to the Facility Lease or until such date as the Bonds are no longer Outstanding; *provided, however,* and notwithstanding the foregoing, if the Trustee receives Revenues in an amount in excess of the amount necessary to pay the amount due and owing on the next Interest Payment Date, Principal Payment Date or Mandatory Sinking Account Payment Date, as the case may be, after giving effect to the funds then on deposit in the Revenue Fund not needed for any other purpose under the Indenture, and if the amount then in the Reserve Fund is at least equal to the Reserve Fund Requirement and there exists no Event of Default under the Indenture, then amounts in the Revenue Fund not needed to make such payments may be utilized by the Trustee, as directed in writing by the County, to make any regular periodic payment due to provider of a Reserve Fund Credit Facility or a Reserve Fund investment which provides for such payments, if any, or for any other purpose.

Deposit of Revenues. Except as otherwise provided in this section, the Trustee shall deposit the amounts in the Revenue Fund at the time and in the priority and manner provided in the Indenture in the following respective funds, each of which the Trustee, pursuant to the Indenture, agrees to establish and maintain until all required Revenues are paid in full pursuant to the Facility Lease or until such date as the Bonds are no longer Outstanding, and the moneys in each of such funds shall be disbursed only for the purposes and uses authorized in the Indenture. The Trustee shall establish and maintain the Capitalized Interest Account within the Interest Fund until the date all amounts are transferred therefrom in accordance with subsection (a) of this section.

(a) **Interest Fund and Capitalized Interest Account.** The Trustee, on each Interest Payment Date, shall deposit in the Interest Fund a sufficient amount of money such that the aggregate of amounts therein equal the interest coming due on such Interest Payment Date; *provided, however,* that on each Interest Payment Date occurring on or before the delivery to the Trustee of a Certificate of Completion in connection with an Additional Project, before making said deposit, if and to the extent available in the Capitalized Interest Account within the Interest Fund, an amount equal to the aggregate amount of interest coming due on such Interest Payment Date, shall be transferred from the Capitalized Interest Account within the Interest Fund to the Interest Fund. Moneys in the Interest Fund shall be used by the Trustee for the purpose of paying the interest on the Bonds when due and payable.

(b) **Principal Fund.** The Trustee, on each Principal Payment Date and Mandatory Sinking Account Payment Date, shall deposit in the Principal Fund a sufficient amount of money such that the aggregate of amounts therein equal the principal coming due on such Principal Payment Date or Mandatory Sinking Account Payment Date. Monies in the Principal Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal of the Bonds when due and payable at maturity or upon earlier redemption from Mandatory Sinking Account Payments.

(c) **Redemption Fund.** The Trustee, on the redemption date specified in the Written Request of the County filed with the Trustee at the time that any prepaid Base Rental Payment is paid to the Trustee pursuant to the Facility Lease, shall deposit in the Redemption Fund that amount of moneys representing the portion of the Base Rental Payments designated as prepaid Base Rental Payments. Monies in the Redemption Fund shall be used and withdrawn by the Trustee for the purpose of paying the principal, premium, if any, and interest of the Bonds to be prepaid.

Application of Insurance Proceeds and Condemnation Awards. The Trustee shall not be responsible for the sufficiency of any insurance required by the Facility Lease and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County. Delivery to the Trustee of the schedule of insurance policies under the Facility Lease shall not confer responsibility upon the Trustee as to the sufficiency of coverage or amounts of such policies.

Except as provided in the Indenture, in the event of any damage to or destruction of any part of the Leased Property, caused by the perils covered by the policies of insurance required to be maintained by the County pursuant to the Facility Lease, the County and the Authority shall cause the proceeds of such insurance (other than rental interruption insurance which is to be placed in the Revenue Fund) to be used in accordance with the Facility Lease. The Trustee shall hold said proceeds in a separate fund to be established and maintained by the Trustee and designated the "Insurance Proceeds and Condemnation Awards Fund." The Trustee shall only make disbursements from the Insurance Proceeds and Condemnation Awards Fund upon receipt of a Written Request of the County on behalf of the Authority, which (i) states with respect to each disbursement to be made: (A) the requisition number, (B) the name and address of the person, firm or authority to whom payment is due, (C) the amount to be disbursed, and (D) that each obligation therein has been properly incurred for the purpose of repair, reconstruction or replacement of the Leased Property to at least the same good order, repair and condition as it was in prior to the damage or destruction, insofar as the same may be accomplished by the use of said proceeds and is a proper charge against the Insurance Proceeds and Condemnation Awards Fund and has not been the basis of any previous disbursement; (ii) specifies in reasonable detail the nature of the obligation; and (iii) is accompanied by a bill or statement of account for each obligation. Any balance of said proceeds not required for such repair, reconstruction or replacement as evidenced by a Certificate of the County to the effect that such repair, reconstruction or replacement has been completed and all amounts owing therefor have been paid or provision for the payment therefor has been made shall be transferred by the Trustee to Redemption Fund and applied in the manner provided by the Indenture. Alternatively, the County, at its option, and if the proceeds of such insurance together with any other moneys then available for the purpose are at least sufficient to prepay all Outstanding Bonds, may elect not to repair, reconstruct or replace the damaged or destroyed portion of the Leased Property and thereupon shall cause said proceeds to be transferred to the Redemption Fund and used for the redemption of Outstanding Bonds pursuant to the Indenture; *provided*, that if the County elects to so prepay the Outstanding Bonds, then the County shall make said election within 45 days after the damage to or destruction of the Leased Property. Notwithstanding any other provision in the Indenture, the County shall only prepay less than all of the Outstanding Bonds if the annual fair rental value of the Leased Property after such damage, destruction or condemnation is at least equal to the aggregate annual amount of principal and interest of the Outstanding Bonds not being prepaid.

The proceeds of any award in eminent domain shall be transferred by the County to the Trustee for deposit in the Redemption Fund and applied to the redemption of Outstanding Bonds pursuant to the Indenture.

Title Insurance. Proceeds of any policy of title insurance received by the County, the Authority or the Trustee in respect of the Leased Property shall be applied and disbursed by the County, the Authority or the Trustee as follows:

(a) If the County determines that the title defect giving rise to such proceeds has not materially affected the operation of the Leased Property and will not result in an abatement of Rental Payments payable by the County under the Facility Lease, such proceeds shall be deposited first in the Rebate Fund to the extent the amount on deposit therein is less than the Rebate Requirement, then in the Reserve Fund to the extent that the amount therein is less than the Reserve Fund Requirement, and thereafter amounts not required to be so deposited shall be remitted to the County and used for any lawful purpose thereof; or

(b) If any portion of the Leased Property has been affected by such title defect, and if the County determines that such title defect will result in an abatement of Rental Payments payable by the County under the Facility Lease, then the County, the Authority or the Trustee shall immediately deposit such proceeds in the Redemption Fund and such proceeds shall be applied to the redemption of Bonds in the manner provided in the Indenture.

Particular Covenants

Compliance with Indenture. The Trustee will not execute or deliver any Bonds in any manner other than in accordance with the provisions of the Indenture, and neither of the County or the Authority will suffer or permit any default by them to occur under the Indenture, but will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms of the Indenture required to be complied with, kept, observed and performed by them.

Compliance with Facility Lease and Site Lease. Subject to the Indenture as summarized herein under the heading "THE INDENTURE – Default and Limitations of Liability – No Liability by the Authority to the Owners," the County and the Authority will faithfully comply with, keep, observe and perform all the agreements, conditions, covenants and terms contained in the Facility Lease and Site Lease required to be complied with, kept, observed and performed by them and, together with the Trustee, will enforce the Facility Lease and Site Lease against the other party thereto in accordance with their respective terms.

Observance of Laws and Regulations. The Trustee, the County and the Authority will faithfully comply with, keep, observe and perform all valid and lawful obligations or regulations now or hereafter imposed on them by contract, or prescribed by any law of the United States of America or of the State of California, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of each and every franchise, right or privilege now owned or hereafter acquired by them, including their right to exist and carry on their respective businesses, to the end that such franchises, rights and privileges shall be maintained and preserved and shall not become abandoned, forfeited or in any manner impaired.

Other Liens. The County will keep the Leased Property and all parts thereof free from judgments and materialmen's and mechanics' liens and free from all claims, demands, encumbrances and other liens of whatever nature or character, other than Permitted Encumbrances (with respect to the Leased Property, as such term is defined in the Facility Lease, and free from any claim or liability which materially impairs the County in conducting its business or utilizing the Leased Property, and the Trustee at its option (after first giving the County ten days' written notice to comply therewith and failure of the County to take any necessary steps to defend against or to so comply within such ten-day period) may defend against any and all actions or proceedings in which the validity of the Indenture is or might be

questioned, or may pay or compromise any claim or demand asserted in any such actions or proceedings; *provided, however,* that, in defending against any such actions or proceedings or in paying or compromising any such claims or demands, the Trustee shall not in any event be deemed to have waived or released the County from liability for or on account of any of its agreements and covenants contained in the Indenture, or from its liability under the Indenture to defend the validity of the Indenture and to perform such agreements and covenants. The Trustee shall have no liability with respect to any determination made in good faith to proceed or decline to defend, pay or compromise any such claim or demand.

So long as any Bonds are Outstanding, neither the County nor the Authority will create or suffer to be created any pledge of or lien on the Revenues other than as provided or permitted under the Indenture.

Prosecution and Defense of Suits. The County will promptly take such action from time to time as may be necessary or proper, in its reasonable discretion, to remedy or cure any known cloud upon or defect in the title to the Leased Property or any portion thereof, whether now existing or hereafter developing, and will prosecute all actions, suits or other proceedings as may be appropriate for such purpose.

Accounting Records and Statements. The Trustee will keep proper accounting records in which complete and correct entries shall be made of all transactions made by it relating to the receipt, deposit and disbursement of the Revenues, and such accounting records shall be available for inspection by the County or the Authority at reasonable hours, under reasonable conditions and with reasonable notice. The Trustee shall deliver a monthly accounting to the County; *provided* that the Trustee shall not be obligated to report as to any fund or account that (a) has a balance of zero and (b) has not had any activity since the last reporting date.

Recordation and Filing. The Authority will file, record, register, renew, refile and rerecord all such documents, including financing statements (or continuation statements in connection therewith), as may be required by law in order to maintain the Facility Lease, Site Lease, Assignment Agreement and the Indenture at all times as a security interest in the Revenues, all in such manner, at such times and in such places as may be required and to the extent permitted by law in order to perfect, preserve and protect fully the security of the Owners and the rights and security interests of the Trustee, and the Authority will do whatever else may be necessary or be reasonably required in order to perfect and continue the liens of the Facility Lease, Site Lease, Assignment Agreement and the Indenture.

Further Assurances. Whenever and so often as requested to do so by the Trustee or any Owner, the County and the Authority will promptly execute and deliver or cause to be executed and delivered all such other and further assurances, documents or instruments and promptly do or cause to be done all such other and further things as may be necessary or reasonably required in order to further and more fully vest in the Trustee and the Owners all advantages, benefits, interests, powers, privileges and rights conferred or intended to be conferred upon them by the Indenture, the Assignment Agreement, Facility Lease or Site Lease.

Rebate Fund; Tax Covenants.

(a) In addition to the other funds and accounts created pursuant to the Indenture, the Trustee shall establish and maintain a fund separate from any other fund or account established and maintained under the Indenture designated the "Rebate Fund" (the "Rebate Fund"). Within the Rebate Fund, the Trustee shall maintain such accounts or subaccounts requested by the County to comply with the Tax Certificate. The Trustee shall deposit moneys in the Rebate Fund pursuant to a Written Request of the

County. Except as provided below, all money at any time deposited in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as such term is defined in the Tax Certificate), for payment to the federal government of the United States of America, and neither the County, the Authority, the Trustee nor the Owner of any Bond shall have any right in or claim to such money. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this section and by the Tax Certificate. The County shall provide written directions to the Trustee, including supplying all necessary information that is available to it in the manner provided in the Tax Certificate, and except as otherwise expressly provided in the Indenture, the Trustee shall not be required to take any actions under the Indenture in the absence of written directions by the County, and shall have no liability or responsibility to enforce compliance by the County with the terms of the Tax Certificate or this section. The Trustee agrees to comply with all Written Requests of the County given in accordance with the Tax Certificate. The County shall provide the Trustee with written evidence that the computation of the Rebate Requirement has been made. Any funds remaining in the Rebate Fund after payment or prepayment of all of the Bonds and payment and satisfaction of any Rebate Requirement, shall, after payment of all fees and expenses of the Trustee, be withdrawn and remitted to the County.

(b) Notwithstanding any other provision of the Indenture, including, in particular, as summarized herein under the heading "THE INDENTURE – Defeasance", the obligation to remit the Rebate Requirement to the United States and to comply with all other requirements of this section and the Tax Certificate shall survive the defeasance or payment in full of the Bonds. The Authority specifically covenants to comply with the provisions and procedures of the Tax Certificate.

(c) Notwithstanding any provisions of this section, if the Authority shall provide to the Trustee an Opinion of Counsel to the effect that any specified action required under this section is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest with respect to the Bonds, the Trustee, the Authority and the County may conclusively rely on such opinion in complying with the requirements of this Section, and, notwithstanding the Indenture as summarized herein under the heading "THE INDENTURE – Default and Limitations of Liability", the covenants under the Indenture shall be deemed to be modified to that extent.

(d) The provisions of this section shall not apply to any Series of Bonds which the Authority shall certify to the Trustee is not intended to comply with the requirements of the Code necessary to make interest on such Series of Bonds excludable from gross income for federal income tax purposes.

Continuing Disclosure. The County, pursuant to the Indenture, covenants and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Indenture, failure of the County to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Trustee may (and, at the request of the Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall) or any Owner or Beneficial Owner of Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County to comply with its obligations under this section; *provided*, that the Trustee shall only be required to take an action under this section to the extent funds have been provided to it or it has been otherwise indemnified to its reasonable satisfaction from any cost, liability, expense or additional charges of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys.

Default and Limitations of Liability

Events of Default. The following events shall be Events of Default:

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

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

(c) default by the County in the observance of any of the covenants, agreements or conditions on its part in the Indenture contained, if such default shall have continued for a period of 30 days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the County and the Authority by the Trustee, or to the County, the Authority and the Trustee by the Owners of not less than 25% in aggregate principal amount of the Bonds at the time Outstanding; *provided, however,* that if such default can be remedied but not within such 30-day period and if the County has taken all action reasonably possible to remedy such default within such 30-day period, such default shall not become an Event of Default for so long as the County shall diligently proceed to remedy the same in accordance with and subject to any directions or limitations of time reasonably established by the Trustee; or

(d) an event of default shall have occurred and be continuing under the Facility Lease.

Action on Default. In each and every case during the continuance of an Event of Default, the Trustee or the Owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding (subject to the provisions of the Indenture) shall be entitled, upon notice in writing to the County and the Authority to exercise any of the remedies granted to the County under the Facility Lease and to the Authority under the Facility Lease, and in addition, to take whatever action at law or in equity may appear necessary or desirable to enforce its rights as assignee pursuant to the Assignment Agreement or to protect and enforce any of the rights vested in the Trustee or the Owners by the Indenture or by the Bonds, either at law or in equity or in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement or for the enforcement of any other legal or equitable right, including any one or more of the remedies set forth in the Indenture.

Notwithstanding anything to the contrary in the Indenture, the Authority shall have no obligation to and instead the Trustee may, without further direction from the Authority, take any and all steps, actions and proceedings, to enforce any or all rights of the Authority (other than those specifically retained by the Authority pursuant to the Indenture and the Assignment Agreement) under the Indenture or the Facility Lease, including, without limitation, the rights to enforce the remedies upon the occurrence and continuation of an Event of Default and the obligations of the County under the Facility Lease.

Other Remedies of the Trustee. The Trustee shall have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the County, the Authority or any director, officer or employee thereof, and to compel the County or the Authority or any such director, officer or employee to perform or carry out its or his or her duties under law and the agreements and covenants required to be performed by it or him or her contained in the Indenture;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the rights of the Trustee; or

(c) by suit in equity upon the happening of any default under the Indenture to require the County and the Authority to account as the trustee of an express trust.

Non-Waiver. A waiver of any default or breach of duty or contract by the Trustee shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Trustee to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Trustee by law or by the Indenture may be enforced and exercised from time to time and as often as the Trustee shall deem expedient.

If any action, proceeding or suit to enforce any right or to exercise any remedy is abandoned or determined adversely to the Trustee or any Owner or Owners, then subject to any adverse determination, the Trustee or such Owner or Owners and the County and the Authority shall be restored to their former positions, rights and remedies as if such action, proceeding or suit had not been brought or taken.

Remedies Not Exclusive. No remedy conferred in the Indenture upon or reserved to the Trustee is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or now or hereafter existing at law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by any law. The assertion or employment of any right or remedy under the Indenture, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No Liability by the Authority to the Owners. The Authority shall not be obligated to pay the principal (or redemption price) of or interest on the Bonds, except from Revenues and other moneys and assets received by the Trustee pursuant to the Facility Lease. Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof (including the County), nor the faith and credit of the Authority is pledged to the payment of the principal (or redemption price) of or interest on the Bonds. The Authority shall not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Site Lease, the Facility Lease, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the County under the Facility Lease.

The Trustee acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the County to the Trustee pursuant to the Facility Lease, together with investment income on certain funds and accounts held by the Trustee under the Indenture, and agrees that if the payments to be made under the Facility Lease shall ever prove insufficient to pay all principal (or redemption price) and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then the Trustee shall give notice to the County in accordance with the Indenture to pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal (or redemption price) or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the County, the Authority or any third party, subject to any right of reimbursement from the Trustee, the Authority or any such third party, as the case may be, therefor.

Except as expressly provided in the Indenture, the Authority shall have no obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with

respect to the performance by the County of the other agreements and covenants required to be performed by it contained in the Facility Lease or the Indenture, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

No Liability by the County to the Owners. Except for the payment when due of the Base Rental Payments and the performance of the other agreements and covenants required to be performed by it contained in the Facility Lease or in the Indenture, the County shall not have any obligation or liability to the Owners with respect to the Indenture or the preparation, execution, delivery or transfer of the Bonds or the disbursement of the Revenues by the Trustee to the Owners, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Indenture.

No Liability by the Trustee to the Owners. Except as expressly provided in the Indenture, the Trustee shall not have any obligation or liability to the Owners with respect to the payment when due of the Base Rental Payments by the County, or with respect to the performance by the County or the Authority of the other agreements and covenants required to be performed by them, respectively contained in the Facility Lease or Site Lease or in the Indenture.

Application of Amounts After Default. Notwithstanding anything to the contrary contained in the Indenture, after a default by the County, all funds and accounts held by the Trustee and all payments received by the Trustee with respect to the rental of the Leased Property after a default by the County pursuant to the Facility Lease, and all damages or other payments received by the Trustee for the enforcement of any rights and powers of the Trustee under the Facility Lease, shall be deposited into the Revenue Fund and as soon as practicable thereafter applied:

(a) to the payment of all amounts due the Trustee under the Indenture as summarized herein under the heading "THE INDENTURE - The Trustee - Compensation and Indemnification of the Trustee"; and

(b) to the payment of all amounts then due as interest with respect to the Bonds, and thereafter to the payment of all amounts due as principal with respect to the Bonds, in respect of which or for the benefit of which, money has been collected (other than Bonds which have matured or otherwise become payable prior to such Event of Default and money for the payment of which is held by the Trustee), ratably without preference or priority of any kind, according to the amounts due and payable with respect to such Bonds.

Trustee May Enforce Claims Without Possession of Bonds. All rights of action and claims under the Indenture or the Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Owners of the Bonds in respect of which such judgment has been recovered.

Limitation on Suits. No Owner of any Bond shall have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture, unless such Owner has previously given written notice to the Trustee of a continuing Event of Default; the Owners of not less than 25% in principal amount of the Outstanding Bonds shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee under the Indenture; such Owner or Owners have afforded to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and

liabilities to be incurred in compliance with such request; the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceedings; and no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Owners of a majority in principal amount of the Outstanding Bonds; it being understood and intended that no one or more Owners of Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other Owner of Bonds, or to obtain or seek to obtain priority or preference over any other Owner or to enforce any right under the Indenture, except in the manner provided in the Indenture and for the equal and ratable benefit of all the Owners of Bonds. Nothing in the Indenture contained shall, however, affect or impair the right of any Owner to enforce the payment of the principal of or the redemption price of and the interest of any Bond at and after the maturity or earlier redemption.

The Trustee

Employment of the Trustee. The County and the Authority appoint and employ the Trustee to receive, deposit and disburse the Rental Payments, to authenticate, deliver and transfer the Bonds and to perform the other functions contained in the Indenture; all in the manner provided in the Indenture and subject to the conditions and terms of the Indenture. By executing and delivering the Indenture, the Trustee accepts the appointment and employment referred to in the Indenture and accepts the rights and obligations of the Trustee provided in the Indenture, subject to the conditions and terms of the Indenture. The Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenants or obligations shall be read into the Indenture against the Trustee. In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

Duties, Removal and Resignation of the Trustee. The County and the Authority may, by an instrument in writing and upon 30 days written notice remove the Trustee initially a party to the Indenture and any successor thereto unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee initially a party to the Indenture and any successor thereto if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Owners of a majority in aggregate principal amount of the Bonds at the time Outstanding (or their attorneys duly authorized in writing), but any such successor Trustee shall be a bank with trust powers or trust company doing business and having a designated corporate trust office in California or New York, having (or if such bank or trust company is a member of a bank holding company system, its bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least seventy-five million dollars (\$75,000,000) and subject to supervision or examination by federal or state authorities. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Trustee may at any time resign by giving written notice of such resignation to the County, the Authority and the Insurer and by mailing notice, first class, postage prepaid, of such resignation to the Owners at their addresses appearing on the books required to be kept by the Trustee pursuant to the provisions of the Indenture. Upon receiving such notice of resignation, the County and the Authority shall promptly appoint a successor Trustee by an instrument in writing; *provided, however*, that in the event the County and the Authority do not appoint a successor Trustee within 30 days following receipt of such notice of resignation, the resigning Trustee may, at the expense of the County, petition the appropriate court having jurisdiction to appoint a successor Trustee. Any resignation or removal of a

Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee.

Compensation and Indemnification of the Trustee. The County shall from time to time, subject to any written agreement then in effect with the Trustee, pay the Trustee reasonable compensation for all its services rendered under the Indenture and reimburse the Trustee for all its advances and expenditures under the Indenture, including but not limited to payments due any provider of a Reserve Fund Credit Facility or Reserve Fund investment which provides for such payments, advances to and fees and expenses of accountants, agents, appraisers, consultants or other experts, and counsel not directly employed by the Trustee but an attorney or firm of attorneys retained by the Trustee, employed by it in the exercise and performance of its rights and obligations under the Indenture; *provided, however*, that the Trustee shall not have any lien for such compensation or reimbursement against any moneys held by it in any of the funds or accounts established under the Indenture or under the Facility Lease (except that such compensation or reimbursement may be made from the Cost of Issuance Fund held by the Trustee to the extent provided in the Indenture). The Trustee may take whatever legal actions are lawfully available to it directly against the County or the Authority. The rights of the Trustee under the Indenture are in addition to the rights granted to the Trustee pursuant to the Facility Lease.

Except as otherwise expressly provided in the Indenture, no provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture or in the exercise of any of its rights or powers under the Indenture.

The County, pursuant to the Indenture, covenants and agrees to indemnify and save the Trustee and its officers, directors, agents and employees, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise and performance of its powers and duties under the Indenture, including the costs of expenses of defending against any claim of liability including, without limitation, any claim arising out of the use, presence, storage, disposal or lease of any Hazardous Substances on or about the Leased Property, but excluding any and all losses, expenses and liabilities which are due to the negligence or intentional misconduct of the Trustee, its officers, directors, agents or employees. Such indemnity shall survive the discharge of the Indenture or the resignation or removal of the Trustee.

Protection of the Trustee. The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any affidavit, bond, certificate, consent, opinion, notice, request, requisition, resolution, direction, instruction, statement, telegram, voucher, waiver or other paper or document which it shall in good faith believe to be genuine and to have been adopted, executed or delivered by the proper party or pursuant to any of the provisions of the Indenture, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of any Bond or to take any action at the request of any such person unless such Bond shall be deposited with the Trustee or satisfactory evidence of the ownership of such Bond shall be furnished to the Trustee. The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Owners of the Bonds pursuant to the Indenture, unless such Owners shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee, against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. The Trustee may consult with counsel, who may be counsel to the County or the Authority, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect to any action taken or suffered by it under the Indenture in good faith in accordance therewith. If

requested by the County, counsel to the Trustee shall be of recognized national standing in the field of law relating to municipal bonds.

The Trustee shall not be responsible for the sufficiency or adequacy of the Bonds, the Facility Lease, the Site Lease, or of the assignment made to it by the Assignment Agreement, or for statements made in the preliminary or final official statement relating to the Bonds or of the title to or value of the Leased Property.

The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Indenture or an Event of Default under the Indenture, except failure of any of the payments to be made to the Trustee required to be made under the Indenture unless the Trustee shall be specifically notified in writing of such default or Event of Default by the County, the Authority or by the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding.

Whenever in the administration of its rights and obligations under the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be specifically prescribed in the Indenture) may be deemed to be conclusively proved and established by a Certificate of the County, and such certificate shall be full warrant to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee may buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owner may be entitled to take with like effect as if the Trustee were not a party to the Indenture. The Trustee, either as principal or agent, may also engage in or be interested in any financial or other transaction with the County or the Authority, and may act as agent, depository or trustee for any committee or body of Owners or of owners of obligations of the Authority or the County as freely as if it were not the Trustee under the Indenture.

The Trustee may, to the extent reasonably necessary, execute any of the trusts or powers of the Indenture and perform any rights and obligations required of it under the Indenture by or through agents, attorneys or receivers, and shall be entitled to advice of counsel concerning all matters of trust and its rights and obligations under the Indenture, and the Trustee shall not be answerable for the default or misconduct of any such agent, attorney or receiver selected by it with reasonable care. The Trustee shall not be liable for any error of judgment made by it in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts.

The Trustee shall not be answerable for the exercise of any trusts or powers under the Indenture or for anything whatsoever in connection with the funds established under the Indenture, except only for its own willful misconduct or negligence.

The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in accordance with the direction of the Owners of not less than a majority (or other percentage provided for in the Indenture) in aggregate principal amount of the Bonds at the time Outstanding relating to the exercise of any right or remedy available to the Trustee under the Indenture.

The Trustee makes no representation or warranty, express or implied as to the title, value, design, compliance with specifications or legal requirements, quality, durability, operation, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the County of the Leased Property. In no event shall the Trustee be liable for incidental, indirect, special or

consequential damages in connection with or arising from the Facility Lease, the Site Lease or the Indenture for the existence, furnishing or use of the Property.

Every provision of the Indenture, the Facility Lease, the Site Lease and the Assignment Agreement relating to the conduct or liability of the Trustee shall be subject to the provisions of the Indenture, including without limitation, this section.

In acting as Trustee under the Indenture, the Trustee acts solely in its capacity as Trustee for the Owners and not in its individual or personal capacity, and all persons, including without limitation, the Owners, the County and the Authority, having any claim against the Trustee shall look only to the funds and accounts held by the Trustee under the Indenture for payment, except as otherwise specifically provided in the Indenture. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds.

The recitals of facts, covenants and agreements in the Indenture and in the Bonds shall be taken as statements, covenants and agreements of the County or the Authority, as the case may be, and the Trustee assumes no responsibility for the correctness of the same.

Amendment or Supplement to the Indenture

Amendment or Supplement. The Indenture and the rights and obligations of the County, the Authority, the Owners and the Trustee under the Indenture may be amended or supplemented at any time by an amendment of the Indenture or supplement to the Indenture which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such amendment or supplement shall (1) extend the Principal Payment Date of any Bond or reduce the rate of interest represented thereby or extend the time of payment of such interest or reduce the amount of principal represented thereby or reduce the amount of any Mandatory Sinking Account Payment without the prior written consent of the Owner of each Bond so affected, or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Indenture or supplement to the Indenture without the prior written consent of the Owners of all Bonds then Outstanding, or (3) modify any of the rights or obligations of the Trustee without its prior written consent thereto, or (4) modify any provision of the Indenture expressly recognizing or granting rights in or to the Insurer in any manner which affects the rights of the Insurer under the Indenture without its prior written assent thereto, or (5) amend this section without the prior written consent of the Insurer and the Owners of all Bonds then Outstanding.

The Indenture and the rights and obligations of the County, the Authority, the Owners and the Trustee under the Indenture may also be amended or supplemented at any time by an amendment of the Indenture or supplement to the Indenture which shall become binding upon execution, but without the written consents of any Owners, but only to the extent permitted by law and after receipt of an unqualified approving Opinion of Counsel and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required to be observed or performed in the Indenture by the County or the Authority, or to surrender any right or power reserved in the Indenture to or conferred in the Indenture on the County or the Authority, and which in either case shall not materially adversely affect the interests of the Owners; or

(b) to provide for additional or substitute Leased Property as may be requested from time to time by the County in accordance with the Facility Lease; or

(c) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Indenture or in regard to questions arising under the Indenture which the County or the Authority may deem desirable or necessary and not inconsistent with the Indenture, and which shall not materially adversely affect the interests of the Owners; or

(d) to provide for the execution and delivery of Additional Bonds in accordance with the Indenture; or

(e) for any other reason, *provided* such amendment or supplement does not materially adversely affect the interests of the Owners or the Insurer, *provided further* that the County, the Authority and the Trustee may rely in entering into any such amendment or supplement upon an Opinion of Counsel stating that the requirements of this subsection (e) have been met with respect to such amendment or supplement.

Any provision of the Indenture expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer under the Indenture without the prior written consent of the Insurer.

Disqualified Bonds. Bonds actually known by the Trustee to be owned or held by or for the account of the County (but excluding Bonds held in any pension or retirement fund of the County) shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided in the Indenture, and shall not be entitled to consent to or take any other action provided in the Indenture, and the Trustee may adopt appropriate regulations to require each Owner, before his consent provided for in the Indenture shall be deemed effective, to reveal if the Bonds as to which such consent is given are disqualified as provided in this section.

Endorsement or Replacement of Bonds After Amendment or Supplement. After the effective date of any action taken as provided in the Indenture as summarized herein under the heading "THE INDENTURE - Amendment or Supplement to the Indenture," the Trustee may determine that the Bonds may bear a notation by endorsement in form approved by the Trustee as to such action, and in that case upon demand of the Owner of any Outstanding Bond and presentation of such Bond for such purpose at the Designated Corporate Trust Office of the Trustee a suitable notation as to such action shall be made on such Bond. If the Trustee shall receive an Opinion of Counsel advising that new Bonds modified to conform to such action are necessary, modified Bonds shall be prepared, and in that case upon demand of the Owner of any Outstanding Bonds such new Bonds shall be exchanged at the Designated Corporate Trust Office of the Trustee, without cost to each Owner for Bonds then Outstanding upon surrender of such Outstanding Bonds.

Amendment by Mutual Consent. The provisions of the Indenture shall not prevent any Owner from accepting any amendment as to the particular Bonds owned by such person, *provided* that due notation thereof is made on such Bonds.

Opinion of Counsel. In executing any amendment or supplement to the Indenture, the Trustee may conclusively rely upon an Opinion of Counsel to the effect that all conditions precedent for the execution of an amendment or supplement to the Indenture have been satisfied.

Defeasance

Discharge of Bonds and Indenture. (a) If the Trustee shall pay or cause to be paid or there shall otherwise be paid to the Owners of all Outstanding Bonds the interest and principal represented

thereby at the times and in the manner stipulated in the Indenture and therein, then such Owners shall cease to be entitled to the pledge of and lien on the Revenues as provided in the Indenture, and all agreements and covenants of the County, the Authority and the Trustee to such Owners under the Indenture shall thereupon cease, terminate and become void and shall be discharged and satisfied.

(b) Any Outstanding Bonds shall, prior to the maturity or redemption date thereof, be deemed to have been paid within the meaning and with the effect expressed in this subsection (b) if (i) in case said Bonds are to be prepaid on any date prior to their maturity, the County shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, in accordance with the provisions of the Indenture, notice of redemption of such Bonds on said redemption date, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities which are not callable or subject to redemption prior to their respective maturity dates, the principal of and the interest on which when due, and without any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee at the same time, shall be sufficient (as verified by a report of an independent certified public accountant or other independent financial consultant), to pay when due the principal or redemption price (if applicable) of, and interest due and to become due on, said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event any of said Bonds are not to be prepaid within the next succeeding 60 days, the County shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable in the same manner as a notice of redemption is mailed pursuant to the Indenture, a notice to the Owners of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this subsection (b) and stating such maturity or redemption dates upon which moneys are to be available for the payment of the principal or redemption price (if applicable) of said Bonds. Neither the securities nor moneys deposited with the Trustee pursuant to this subsection (b) nor principal or interest payments on any such securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or redemption price (if applicable) of, and interest on said Bonds; *provided* that Defeasance Securities deposited with the Trustee pursuant to this subsection (b) may be sold upon the written request of the County and the proceeds concurrently reinvested in other Defeasance Securities which satisfy the conditions of (ii) above provided that the Trustee receives an Opinion of Counsel to the effect that such sale and reinvestment does not adversely affect the exclusion of interest on the Bonds from federal income taxes, and *provided further* that any cash received from such principal or interest payments on such obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and at the direction of the County, be reinvested in Defeasance Securities maturing at times and in amounts, together with the other moneys and payments with respect to securities then held by the Trustee pursuant to this subsection (b), sufficient to pay when due the principal or redemption price (if applicable) of, and interest to become due with respect to said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall, upon receipt by the Trustee of a Written Request of the County, be paid over to the County, as received by the Trustee, free and clear of any trust, lien or pledge. Nothing in this subsection (b) shall preclude redemptions pursuant to the Indenture.

Any release under this subsection (b) shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under the Indenture and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts by the Indenture created and the performance of its powers and duties under the Indenture; *provided however*, that the Trustee shall have no right, title or interest in, or lien on, any moneys or securities deposited pursuant to the Indenture as summarized herein under the heading "THE INDENTURE - Defeasance."

(c) After the payment or deemed payment of all the interest and principal of all Outstanding Bonds as provided in this section, the Trustee shall execute and deliver to the Authority and the County all such instruments as may be necessary or desirable to evidence the discharge and satisfaction of the Indenture, and the Trustee shall pay over or deliver to the County all moneys or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest on, such Bonds. Notwithstanding the discharge and satisfaction of the Indenture, Owners of Bonds shall thereafter be entitled to payments due under the Bonds pursuant to the Facility Lease, but only from amounts deposited pursuant to subsection (a) above and from no other source.

(d) Notwithstanding anything in this section to the contrary, in the event that the principal, interest, or both due on the Bonds shall be paid by the Insurer pursuant to the Bond Insurance Policy, the Bonds shall not be considered paid by the County or the Authority under the Indenture, and all covenants, agreements and other obligations of the Authority and the County to the benefit of the Owners shall continue to exist and shall run to the benefit of the Insurer and the Insurer shall be subrogated to the rights of the Owners.

Unclaimed Moneys. Anything contained in the Indenture to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the principal of, premium, if any, and interest on, any of the Bonds which remain unclaimed for two years after the date when the payments on such Bonds have become payable, if such moneys were held by the Trustee at such date, or for two years after the date of deposit of such moneys if deposited with the Trustee after the date when the principal of, premium, if any, and interest on, such Bonds have become payable, shall be repaid by the Trustee to the County as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the County for the payment of the principal of, premium, if any, and interest on, such Bonds; *provided, however*, that before being required to make any such payment to the County, the Trustee shall mail a notice to the Owner that such unclaimed funds shall be returned to the County within 30 days.

Miscellaneous

Benefits of Indenture Limited to Parties. Nothing contained in the Indenture, expressed or implied, is intended or shall be construed to confer upon, or to give or grant to, any person or entity other than the County, the Authority, the Trustee, the Insurer and the Owners, any right, remedy or claim under or by reason of the Indenture or any covenant, condition or stipulation of the Indenture, and all covenants, stipulations, promises and agreements in the Indenture contained by and on behalf of the County or the Authority shall be for the sole and exclusive benefit of the County, the Authority, the Trustee, the Insurer and the Owners.

Successor Deemed Included in all References to Predecessor. Whenever any of the County, the Authority, or the Trustee or any officer thereof is named or referred to in the Indenture, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the County, the Authority, or the Trustee or such officer, and all agreements, conditions, covenants and terms required by the Indenture to be observed or performed by or on behalf of the County, the Authority, or the Trustee or any officer thereof shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Execution of Documents by Owners. Any declaration, request or other instrument which is permitted or required in the Indenture to be executed by Owners may be in one or more instruments of similar tenor and may be executed by Owners in person or by their attorneys appointed in writing. The fact and date of the execution by any Owner or his attorney of any declaration, request or other instrument or of any writing appointing such attorney may be proved by the certificate of any notary public or other

officer authorized to take acknowledgments of deeds to be recorded in the state or territory in which he purports to act that the person signing such declaration, request or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer, or by such other proof as the Trustee may accept which it may deem sufficient.

The ownership of any Bond and the amount, payment date, number and date of owning the same may be proved by the books required to be kept by the Trustee pursuant to the provisions of the Indenture.

Any declaration, consent, request or other instrument in writing of the Owner of any Bond shall bind all future Owners of such Bond with respect to anything done or suffered to be done by the County, the Authority or the Trustee in good faith and in accordance therewith.

Waiver of Personal Liability. Notwithstanding anything contained in the Indenture to the contrary, no member, officer, employee or agent of the County, the Authority or the Trustee shall be individually or personally liable for the payment of any moneys, including without limitation, the principal of, premium, if any, and interest on, the Bonds, but nothing contained in the Indenture shall relieve any member, officer, employee or agent of the County from the performance of any official duty provided by any applicable provisions of law or by the Facility Lease, the Site Lease or the Indenture.

Acquisition of Bonds by County. All Bonds acquired by the County, whether by purchase or gift or otherwise, shall be surrendered to the Trustee for cancellation.

Content of Certificates. Every Certificate of the County or Authority with respect to compliance with any agreement, condition, covenant or term contained in the Indenture shall include (a) a statement that the person or persons making or giving such certificate have read such agreement, condition, covenant or term and the definitions in the Indenture relating thereto; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statements contained in such certificate are based; (c) a statement that, in the opinion of the signers, they have made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether or not such agreement, condition, covenant or term has been complied with; and (d) a statement as to whether, in the opinion of the signers, such agreement, condition, covenant or term has been complied with.

Any Certificate of the County or the Authority may be based, insofar as it relates to legal matters, upon an Opinion of Counsel unless the person making or giving such certificate knows that the Opinion of Counsel with respect to the matters upon which his certificate may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous. Any Opinion of Counsel may be based, insofar as it relates to factual matters, upon information with respect to which is in the possession of the County upon a representation by an officer or officers of the County, unless the counsel executing such Opinion of Counsel knows that the representation with respect to the matters upon which his opinion may be based, as aforesaid, is erroneous, or in the exercise of reasonable care should have known that the same was erroneous.

Publication for Successive Weeks. Any publication required to be made under the Indenture for two successive weeks in a Financial Newspaper may be made in each instance upon any Business Day of the first week and need not be made on the same Business Day of any succeeding week or in the same Financial Newspaper for any subsequent publication, but may be made on different Business Days or in different Financial Newspapers, as the case may be.

Funds. Any fund required to be established and maintained under the Indenture by the County or the Trustee may be established and maintained in the accounting records of the County or the Trustee either as an account or a fund, and may, for the purposes of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to all such funds shall at all times be maintained in accordance with sound accounting practice and with due regard for the protection of the security of the Bonds and the rights of the Owners. The Trustee may establish such funds and accounts as it deems necessary to perform its obligations under the Indenture.

The County and the Trustee may commingle any of the moneys held by it under the Indenture for investment purposes only; *provided, however*, that the County and the Trustee shall account separately for the moneys in each fund or account established pursuant to the Indenture.

Investments. Any moneys held by the County in the funds and accounts established under the Indenture shall be invested only in Permitted Investments. Any moneys held by the Trustee in the funds and accounts established under the Indenture shall be invested by the Trustee upon the written request of the County Treasurer only in Permitted Investments. In the absence of such direction, moneys shall be invested in the _____ Fund, or any successor fund offered by the Trustee. The Trustee shall not be liable or responsible for any loss suffered in connection with any such investment made by it under the terms of and in accordance with this section. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment of the funds so invested, and the Trustee shall not be liable or responsible for any losses resulting from any such investment sold or presented for redemption. Any interest or profits on such investments in any funds and accounts (other than the Reserve Fund and the Rebate Fund) shall be retained therein. For purposes of determining the amount on deposit in any fund or account under the Indenture, all investments shall be valued annually at the amortized cost thereof (exclusive of accrued but unpaid interest, but inclusive of commissions). Investments in the Reserve Fund shall mature, or be subject to tender, redemption or withdrawal at the option of the holder thereof, not later than five years from the date of investment. Any Permitted Investments that are registrable securities shall be registered in the name of the Trustee, as trustee under the Indenture.

Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms required in the Indenture to be observed or performed by or on the part of the County, the Authority or the Trustee shall be contrary to law, then such agreement or agreements, such condition or conditions, such covenant or covenants or such term or terms shall be null and void to the extent contrary to law and shall be deemed separable from the remaining agreements, conditions, covenants and terms of the Indenture and shall in no way affect the validity of the Indenture or of the Bonds, and the Owners shall retain all the benefit, protection and security afforded to them under any applicable provisions of law.

California Law. The Indenture shall be construed and governed in accordance with the laws of the State of California.

Effective Date. The Indenture shall become effective upon its execution and delivery.

THE FACILITY LEASE

The Leased Property

Lease of the Leased Property. The Authority leases to the County, and the County rents and hires from the Authority, the Leased Property on the conditions and terms set forth in the Facility Lease. The County, pursuant to the Facility Lease, agrees and covenants that during the term of the Facility

Lease, except as provided in the Facility Lease, it will use the Leased Property for public purposes so as to afford the public the benefits contemplated by the Facility Lease and so as to permit the Authority to carry out its agreements and covenants contained in the Facility Lease and in the Indenture, and the County further agrees and covenants that during the term of the Facility Lease that it will not abandon or vacate the Leased Property.

Quiet Enjoyment. The parties to the Facility Lease mutually covenant that the County, so long as it observes and performs the agreements, conditions, covenants and terms required to be observed or performed by it contained in the Facility Lease and is not in default under the Facility Lease, shall at all times during the term of the Facility Lease peaceably and quietly have, hold and enjoy the Leased Property without suit, trouble or hindrance from the Authority.

Right of Entry and Inspection. The Authority shall have the right to enter the Leased Property and inspect the Leased Property during reasonable business hours (and in emergencies at all times) for any purpose connected with the Authority's rights or obligations under the Facility Lease and for all other lawful purposes.

Prohibition Against Encumbrance or Sale. The County and the Authority will not create or suffer to be created any mortgage, pledge, lien, charge or encumbrance upon the Leased Property, except Permitted Encumbrances, and except incident to the execution and delivery of Additional Bonds as contemplated by the Facility Lease. The County and the Authority will not sell or otherwise dispose of the Leased Property or any property essential to the proper operation of the Leased Property, except as otherwise provided in the Facility Lease. Notwithstanding anything to the contrary contained in the Facility Lease, the County may assign, transfer or sublease any and all of the Leased Property or its other rights under the Facility Lease, *provided* that (a) the rights of any assignee, transferee or sublessee shall be subordinate to all rights of the Authority under the Facility Lease, (b) no such assignment, transfer or sublease shall relieve the County of any of its obligations under the Facility Lease, (c) the assignment, transfer or sublease shall not result in a breach of any covenant of the County contained in any other section of the Facility Lease, (d) any such assignment, transfer or sublease shall by its terms expressly provide that the fair rental value of the Leased Property for all purposes shall be first allocated to the Facility Lease, as the same may be amended from time to time before or after any such assignment, transfer or sublease and (e) no such assignment, transfer or sublease shall confer upon the parties thereto any remedy which allows reentry upon the Leased Property unless concurrently with granting such remedy the same shall be also granted under the Facility Lease by an amendment to the Facility Lease which shall in all instances be prior to and superior to any such assignment, transfer or sublease.

Liens. In the event the County shall at any time during the term of the Facility Lease cause any improvements to the Leased Property to be constructed or materials to be supplied in or upon or attached to the Leased Property, the County shall pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the County in, upon, about or relating to the Leased Property and shall keep the Leased Property free of any and all liens against the Leased Property or the Authority's interest therein. In the event any such lien attaches to or is filed against the Leased Property or the Authority's interest therein, and the enforcement thereof is not stayed or if so stayed such stay thereafter expires, the County shall cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the County shall forthwith pay and discharge or cause to be paid and discharged such judgment. The County shall, to the maximum extent permitted by law, indemnify and hold the Authority and its assignee and its directors, officers and employees harmless from, and defend each of them against, any claim, demand, loss, damage, liability or

expense (including attorneys' fees) as a result of any such lien or claim of lien against the Leased Property or the Authority's interest therein.

Substitution or Removal of Leased Property.

(a) The County may amend the Facility Lease and the Site Lease to substitute other real property and/or improvements (the "Substituted Property") for existing Leased Property and/or to remove real property (including undivided interests therein) and/or improvements from the definition of Leased Property, and upon compliance with all of the conditions set forth in subsection (b) below. After a Substitution or Removal, the part of the Leased Property for which the Substitution or Removal has been effected shall be released from the leasehold under the Facility Lease and under the Site Lease.

(b) No Substitution or Removal shall take place under the Facility Lease until the County delivers to the Authority and the Trustee the following:

(i) A Certificate of the County containing a description of all or part of the Leased Property to be released and, in the event of a Substitution, a description of the Substituted Property to be substituted in its place;

(ii) A Certificate of the County (A) stating that the annual fair rental value of the Leased Property after a Substitution or Removal, in each year during the remaining term of the Facility Lease, is at least equal to the maximum annual Base Rental Payments payable under the Facility Lease attributable to the Leased Property prior to said Substitution or Removal, as determined by the County on the basis of commercially reasonable evidence of the annual fair rental value of the Leased Property after said Substitution or Removal; and (B) demonstrating that the useful life of the Leased Property after Substitution or Removal equals or exceeds the remaining term of the Facility Lease;

(iii) An Opinion of Counsel to the effect that the amendments to the Facility Lease and to the Site Lease contemplating Substitution or Removal have been duly authorized, executed and delivered and constitute the valid and binding obligations of the County and the Authority enforceable in accordance with their terms;

(iv) (A) In the event of a Substitution, a policy of title insurance in an amount equal to the same proportion of the principal amount as the principal portion of the Base Rental Payments for the Substituted Property bears to the total principal portion of the Base Rental Payments payable under the Facility Lease, insuring the County's leasehold interest in the Substituted Property (except any portion thereof which is not real property) subject only to Permitted Encumbrances, together with an endorsement thereto making said policy payable to the Trustee for the benefit of the Owners of the Series 2014 Bonds and any Additional Bonds, and (B) in the event of a partial Removal, evidence that the title insurance in effect immediately prior thereto is not affected;

(v) In the event of a Substitution, an opinion of the County Counsel of the County to the effect that the exceptions, if any, contained in the title insurance policy referred to in (4) above do not interfere with the beneficial use and occupancy of the Substituted Property described in such policy by the County for the purposes of leasing or using the Substituted Property;

(vi) An Opinion of Counsel that the Substitution or Removal does not cause the interest with respect to the Bonds to be includable in gross income of the Owners thereof for federal income tax purposes; and

(vii) Evidence that the County has complied with the covenants contained in clauses (a), (b) and (c) of the section entitled "Insurance" of the Facility Lease with respect to the Substituted Property.

Term of the Facility Lease

Commencement of the Facility Lease. The effective date of the Facility Lease is the Closing Date, and the term of the Facility Lease shall end on the Expiry Date, unless such term is extended or sooner terminated as provided in the Facility Lease. If on the Expiry Date, the rental payable under the Facility Lease shall not be fully paid and all Bonds shall not be fully paid and retired, or if the rental payable under the Facility Lease shall have been abated at any time and for any reason, then the term of the Facility Lease shall be extended until ten days after the rental payable under the Facility Lease shall be fully paid and all Bonds shall be fully paid, except that the term of the Facility Lease shall in no event be extended beyond _____ 1, 20___. If prior to the Expiry Date, the rental payable under the Facility Lease shall be fully paid and all Bonds shall have been fully paid, or deemed fully paid, in accordance with the Indenture, the term of the Facility Lease shall end ten days thereafter or ten days after written notice by the County to the Authority to the effect that the rental payable under the Facility Lease shall be fully paid and all Bonds have been fully paid, whichever is earlier, and the Facility Lease shall thereupon terminate.

Use of Proceeds; Tax Covenants

Use of Proceeds. The parties to the Facility Lease agree that the proceeds of the Bonds will be used by the Authority to pay Construction Costs with respect to the Project, to fund the Reserve Fund and to pay Costs of Issuance and incidental and related expenses.

Tax Covenants.

(a) The County will not take any action, or fail to take any action, if such action or failure to take such action would adversely affect the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, and specifically the County will not directly or indirectly use or make any use of the proceeds of the Bonds or any other funds of the County or take or omit to take any action that would cause the Bonds to be "arbitrage bonds" subject to federal income taxation by reason of Section 148 of the Code or "private activity bonds" subject to federal income taxation by reason of Section 141(a) of the Code or obligations subject to federal income taxation because they are "federally guaranteed" as provided in Section 149(b) of the Code; and to that end the County, with respect to the proceeds of the Bonds and such other funds, will comply with all requirements of such sections of the Code to the extent that such requirements are, at the time, applicable and in effect; *provided*, that if the County shall obtain an Opinion of Counsel to the effect that any action required under this section is no longer required, or to the effect that some further action is required, to maintain the exclusion from gross income of the interest on the Bonds pursuant to Section 103 of the Code, the County may rely conclusively on such opinion in complying with the provisions of the Facility Lease. In the event that at any time the County is of the opinion that for purposes of this section it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture or otherwise the County shall so instruct the Trustee in writing, and the Trustee shall take such action in accordance with such instructions.

(b) To the ends covenanted in this section, the County specifically, pursuant to the Facility Lease, agrees to ensure that the following requirements are met:

(i) The County will not invest or allow to be invested proceeds of the Bonds at a yield in excess of the yield on the Bonds, except to the extent allowed under the Tax Certificate.

(ii) The County will rebate or cause to be rebated any amounts due to the federal government, as provided in the Tax Certificate.

(c) The provisions of this section shall not apply to any Series of Bonds which the County shall certify to the Trustee is not intended to comply with the requirements of the Code necessary to make interest on such Series of Bonds excludable from gross income for federal income tax purposes.

Rental Payments

Rental Payments. The County, pursuant to the Facility Lease, agrees to pay to the Authority, its successors or assigns, without deduction or offset of any kind, as rental for the use and occupancy of the Leased Property, the following amounts at the following times:

(a) **Base Rental.** Subject to the immediately following sentence, the County shall pay to the Authority rental under the Facility Lease as Base Rental Payments for the use and occupancy of the Leased Property for each Lease Year or portion thereof, at the times and in the amounts set forth in the Base Rental Payment Schedule attached to the Facility Lease, and made a part of the Facility Lease. The interest components of the Base Rental Payments shall be paid by the County as and constitute interest paid on the principal components of the Base Rental Payments to be paid by the County under the Facility Lease.

If the term of the Facility Lease shall have been extended pursuant to the Facility Lease, Base Rental Payment installments shall continue to be payable on the Base Rental Payment Dates, continuing to and including the date of termination of the Facility Lease. Upon such extension of the Facility Lease, the County shall deliver to the Trustee a Certificate setting forth the extended rental payment schedule, which schedule shall establish the Base Rental Payments at an amount sufficient to pay all unpaid principal and interest on the Bonds.

(b) **Additional Payments.** The County shall also pay in addition to the Base Rental Payments, to the Authority or the Trustee, as provided in the Facility Lease, such amounts (“Additional Payments”) in each year as follows:

(i) All taxes and assessments of any type or character charged to the Authority or to the Trustee affecting the amount available to the Authority or the Trustee from payments to be received under the Facility Lease or in any way arising due to the transactions contemplated by the Facility Lease but excluding franchise taxes based upon the capital and/or income of the Trustee and taxes based upon or measured by the net income of the Trustee; provided, however, that the County shall have the right to protest any such taxes or assessments and to require the Authority or the Trustee, at the County’s expense, to protest and contest any such taxes or assessments levied upon them and that the County shall have the right to withhold payment of any such taxes or assessments pending disposition of any such protest or contest unless such withholding, protest or contest would adversely affect the rights or interests of the Authority or the Trustee;

(ii) All reasonable fees, charges and expenses of the Trustee for services rendered under the Indenture as provided in the Indenture, as and when the same become due and payable;

(iii) The reasonable fees and expenses of such accountants, consultants, attorneys and other experts as may be engaged by the Authority or the Trustee to prepare audits, financial statements, reports, opinions or provide such other services required under the Facility Lease, the Site Lease or the Indenture; and

(iv) The reasonable fees and expenses of the Authority or any agent or attorney selected by the Authority to act on its behalf in connection with the Facility Lease, the Site Lease, the Bonds or the Indenture, including, without limitation, any and all reasonable expenses incurred in connection with the authorization, issuance, sale and delivery of any such Bonds or in connection with any litigation, investigation or other proceeding which may at any time be instituted involving the Facility Lease, the Site Lease, the Bonds or the Indenture or any of the other documents contemplated thereby, or in connection with the reasonable supervision or inspection of the County, the Leased Property, its properties, assets or operations or otherwise in connection with the administration of the Facility Lease, the Site Lease, the Bonds or the Indenture.

Such Additional Payments shall be billed to the County by the Authority or the Trustee from time to time, together with a statement certifying that the amount billed has been incurred or paid by the Authority or the Trustee for one or more of the above items. After such a demand, amounts so billed shall be paid by the County within thirty (30) days after receipt of the bill by the County.

(c) Consideration.

(i) Such payments of Base Rental Payments for each Lease Year or portion thereof during the term of the Facility Lease shall constitute, together with the Additional Payments, the total amount due for such Lease Year or portion thereof and shall be paid or payable by the County for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property. On the Closing Date, the County shall deliver a certificate to the Authority and the Trustee, which shall set forth the annual fair rental value of the Leased Property. The parties to the Facility Lease have agreed and determined that the annual fair rental value of the Leased Property is not less than the maximum Base Rental Payments payable under the Facility Lease in any year. In making such determinations of annual fair rental value, consideration has been given to a variety of factors including the replacement costs of the existing improvements on the Leased Property, other obligations of the parties under the Facility Lease, the uses and purposes which may be served by the improvements on the Leased Property and the benefits therefrom which will accrue to the County and the general public.

(ii) The parties to the Facility Lease acknowledge that they may amend the Facility Lease from time to time to increase the Base Rental Payments payable under the Facility Lease so that Additional Bonds may be executed, authenticated and issued pursuant to the Facility Lease and the Indenture. The proceeds of such Additional Bonds shall be used for any lawful purpose. Notwithstanding anything to the contrary contained in the Facility Lease, the Facility Lease may not be amended in a manner such that the sum of Base Rental Payments, including Base Rental Payments payable pursuant to such amendment, in any year is in excess of the annual fair rental value of the Leased Property and other land and improvements leased to the County under the Facility Lease.

(d) Payment; Credit. Each installment of Base Rental Payments payable under the Facility Lease shall be paid in lawful money of the United States of America to or upon the order of the Authority at the designated corporate trust office of the Trustee in Los Angeles, California, or such other place as the Authority shall designate. Any such installment of rental accruing under the Facility Lease which

shall not be paid when due shall remain due and payable until received by the Trustee, except as provided in the Facility Lease as summarized herein under the caption "Rental Abatement" below, and to the extent permitted by law shall bear interest at the rate of ten percent per annum from the date when the same is due under the Facility Lease until the same shall be paid. Notwithstanding any dispute between the County and the Authority, the County shall make all rental payments when due, without deduction or offset of any kind, and shall not withhold any rental payments pending the final resolution of any such dispute. In the event of a determination that the County was not liable for said rental payments or any portion thereof, said payments or excess of payments, as the case may be, shall, at the option of the County, be credited against subsequent rental payments due under the Facility Lease or be refunded at the time of such determination. Amounts required to be deposited by the County with the Trustee pursuant to this section on any date shall be reduced to the extent of available amounts on deposit on such date in the Revenue Fund, the Interest Fund or the Principal Fund. Any payment scheduled to be made on a date which is not a Business Day shall be made on the next succeeding Business Day.

Annual Budgets; Reporting Requirements. The County covenants to take such action as may be necessary to include all Base Rental Payments and Additional Payments due under the Facility Lease in its operating budget for each Fiscal Year commencing after the date of the Facility Lease (an "Operating Budget") and to make all necessary appropriations for such Base Rental Payments and Additional Payments.

Application of Rental Payments. All Base Rental Payments received shall be applied first to the interest components of the Base Rental Payments due under the Facility Lease, then to the principal components (including any prepayment premium components) of the Base Rental Payments due under the Facility Lease and thereafter to all Additional Payments due under the Facility Lease, but no such application of any payments which are less than the total rental due and owing shall be deemed a waiver of any default under the Facility Lease.

Rental Abatement. Except to the extent of (a) amounts held by the Trustee in the Revenue Fund or in the Reserve Fund, (b) amounts received in respect of rental interruption insurance, and (c) amounts, if any, otherwise legally available to the Trustee for payments in respect of the Bonds, during any period in which, by reason of material damage, destruction, title defect, condemnation, there is substantial interference with the use and possession by the County of any portion of the Leased Property, rental payments due under the Facility Lease with respect to the Leased Property shall be abated to the extent that the annual fair rental value of the portion of the Leased Property in respect of which there is no substantial interference is less than the annual Base Rental Payments, in which case rental payments shall be abated only by an amount equal to the difference. In the event the County shall assign, transfer or sublease any or all of the Leased Property or other rights under the Facility Lease, as permitted by the Facility Lease, for purposes of determining the annual fair rental value available to pay Base Rental Payments, annual fair rental value of the Leased Property shall first be allocated to the Facility Lease as provided therein and summarized herein under the caption "THE FACILITY LEASE - The Leased Property - Prohibition Against Encumbrance or Sale." Any abatement of rental payments pursuant to this section shall not be considered an Event of Default as defined in the Facility Lease. The County waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Facility Lease by virtue of any such interference and the Facility Lease shall continue in full force and effect. Such abatement shall continue for the period commencing with the date of such damage, destruction, title defect or condemnation and ending with the substantial completion of the work of repair or replacement of the portions of the Leased Property so damaged, destroyed, defective or condemned.

In the event that rental is abated, in whole or in part, pursuant to this section due to damage, destruction, title defect or condemnation of any part of the Leased Property and the County is unable to repair, replace or rebuild the Leased Property from the proceeds of insurance, if any, the County, pursuant

to the Facility Lease, agrees to apply for and to use its best efforts to obtain any appropriate state and/or federal disaster relief in order to obtain funds to repair, replace or rebuild the Leased Property.

Prepayment of Rental Payments. The County may prepay, from eminent domain proceeds or net insurance proceeds received by it pursuant to the Facility Lease, all or any portion of the components of Base Rental Payments payable under the Facility Lease relating to any portion of the Leased Property then unpaid, in whole on any date, or in part on any date in integral multiples of an Authorized Denomination so that the aggregate annual amounts of principal components of Base Rental Payments payable under the Facility Lease represented by the Series 2014 Bonds and any Additional Bonds which shall be payable after such prepayment date shall each be in an integral multiple of an Authorized Denomination and shall be as nearly proportional as practicable to the aggregate annual amounts of principal components of Base Rental Payments payable under the Facility Lease represented by the Series 2014 Bonds and any Additional Bonds.

The County may prepay, from any source of available moneys pursuant to the Indenture, all or any part (in an integral multiple of an Authorized Denomination) of the principal components of Base Rental Payments payable under the Facility Lease then unpaid so that the aggregate annual amounts of principal components of Base Rental Payments under the Facility Lease which shall be payable after such prepayment date shall be as nearly proportional as practicable to the aggregate annual amounts of principal components represented by the Series 2014 Bonds and any Additional Bonds unpaid prior to the prepayment date, at a prepayment amount equal to the principal component prepaid plus accrued interest thereon to the date of prepayment plus any applicable premium.

Before making any prepayment pursuant to this section, at least 45 days before the prepayment date the County shall give written notice to the Authority and the Trustee describing such event, specifying the order of Principal Payment Dates and specifying the date on which the prepayment will be made, which date shall be not less than 30 nor more than 60 days from the date such written notice is given to the Authority and the Trustee.

Obligation to Make Rental Payments. The agreements and covenants on the part of the County contained in the Facility Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the agreements and covenants contained in the Facility Lease agreed to be carried out and performed by the County.

THE OBLIGATION OF THE COUNTY TO MAKE BASE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENT DOES NOT CONSTITUTE AN 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. NEITHER THE BONDS NOR THE OBLIGATION TO MAKE RENTAL PAYMENTS AND TO PAY ADDITIONAL RENT CONSTITUTES AN INDEBTEDNESS OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

Additional Bonds. In addition to the Series 2014 Bonds to be executed, authenticated and issued under the Indenture the County and the Authority may, from time to time, but only upon satisfaction of the conditions to the issuance of Additional Bonds set forth in the Indenture, enter into a Supplemental Indenture to issue Additional Bonds on a parity with the Series 2014 Bonds and any previously executed, authenticated and issued Additional Bonds (unless otherwise provided in the related Supplemental Indenture), the proceeds of which may be used for any lawful purpose by the County, as provided in the

Supplemental Indenture; *provided* that prior to or concurrently with the execution and delivery of the Additional Bonds, the County and the Authority shall have entered into an amendment to the Facility Lease, providing for an increase in the Base Rental Payments to be made under the Facility Lease subject to the limitations set forth in the Facility Lease.

Maintenance; Taxes; Insurance and Other Charges

Maintenance of the Leased Property by the County. The County, pursuant to the Facility Lease, agrees that, at all times during the term of the Facility Lease, it will, at its own cost and expense, maintain, preserve and keep, or cause to be maintained, preserved and kept, the Leased Property and every portion thereof in good repair, working order and condition and that it will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals. The Authority shall have no responsibility in any of these matters or for the making of additions or improvements to the Leased Property.

Taxes, Other Governmental Charges and Utility Charges. The parties to the Facility Lease contemplate that the Leased Property will be used for public purposes by the County and, therefore, that the Leased Property will be exempt from all taxes presently assessed and levied with respect to real and personal property, respectively. In the event that the use, possession or acquisition by the County or the Authority of the Leased Property is found to be subject to taxation in any form, the County will pay during the term of the Facility Lease, as the same respectively become due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Leased Property and any other property acquired by the County in substitution for, as a renewal or replacement of, or a modification, improvement or addition to, the Leased Property, as well as all gas, water, steam, electricity, heat, power, air conditioning, telephone, utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Leased Property; *provided*, that with respect to any governmental charges or taxes that may lawfully be paid in installments over a period of years, the County shall be obligated to pay only such installments as are accrued during such time as the Facility Lease is in effect.

Insurance. The County shall secure and maintain or cause to be secured and maintained at all time with insurers of recognized responsibility all coverage on the Leased Property required by this section. Such insurance shall consist of :

(a) A policy or policies of insurance against loss or damage to the Leased Property known as "all risk," including flood, but excluding earthquake, which shall be maintained at any time in an amount per occurrence at least equal to the lesser of (i) the cumulative replacement values of the Leased Property and, in the case of a policy covering more than the Leased Property, as permitted by the next succeeding sentence, any other property which is the subject of a lease, installment purchase agreement or other financing arrangement for which bonds, certificates of participation or other obligations shall have been issued ("Obligations") or (ii) the aggregate amount of the principal component of the then-remaining Base Rental Payments payable under the Facility Lease; *provided* that the amount of coverage required by this sentence may be reduced to a smaller amount if an Insurance Consultant retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of a major conflagration, windstorm, explosion, riot, flood or similar event, a specified smaller amount is believed to be reasonable given the nature of the risks insured and the proximity of the insured properties to each other. Such insurance may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County which may be limited in an amount per occurrence in the aggregate to the amount required by the preceding sentence. Such insurance may at any time include a deductible clause providing for a deductible not to exceed \$100,000 for any one loss (except for flood, in which case the deductible may not exceed \$250,000 for any one

loss). The County may obtain such coverage as a joint insured with one or more other public agencies located within or outside of the County which may be limited in an amount per occurrence in the aggregate for all insureds as described in the first sentence of this paragraph (a) and which may be limited in a cumulative amount of claims during a 12-month period in the aggregate for all insureds in an amount not less than \$500,000,000. Otherwise conforming policies satisfying the requirements of this paragraph (a) may provide that amounts payable as coverage under this paragraph (a) may be reduced by amounts payable under paragraph (c) for the same occurrence, and vice versa. The County is, however, under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake.

(b) In the event that such coverage is not included in paragraph (a) above, boiler and machinery coverage against loss or damage by explosion of steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Leased Property in an amount not less than \$75,000,000 per accident; *provided, however*, that the amount of coverage required by this sentence may be reduced to a smaller amount if an Insurance Consultant retained by the County provides written advice to the Trustee that, based upon its evaluation of the County's maximum foreseeable loss in the event of loss or damage by steam boilers, pressure vessels and similar apparatus now or hereafter installed on the Leased Property, a specified smaller amount is believed to be reasonable. Such insurance may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County which may be limited in amount to \$75,000,000 per accident. Such insurance may at any time include a deductible clause providing for a deductible not to exceed \$100,000 for any one loss. The County may obtain such coverage as a joint insured with one or more public agencies located within or without the County which may be limited in amount to \$75,000,000 per accident. Otherwise conforming policies satisfying the requirements of this paragraph (b) may provide that amounts payable as coverage under this paragraph (b) may be reduced by amounts payable under paragraph (c) for the same occurrence, and vice versa.

(c) So long as any Bonds are Outstanding, rental interruption insurance to cover loss, total or partial, of the use of any part of the Leased Property as a result of any of the hazards covered by the insurance required pursuant to paragraph (a) or (b) above, as the case may be, in an amount sufficient at all times to pay the total rent payable under the Facility Lease for a period of not less than two years' Base Rental Payments for the Leased Property; *provided* that such rental interruption insurance may be included in the policy or policies provided pursuant to paragraph (a) or (b) without increasing the aggregate limits for coverage with respect to any hazard covered thereby. Such insurance also may be in the form of a policy which covers the Leased Property and one or more additional parcels of real property leased or owned by the County. The County also may obtain an otherwise conforming policy required by this paragraph (c) as a joint insured with one or more other public agencies within or without the County which may, with respect to any hazard, be limited in aggregate amount for all insureds to the amount of the policy or policies required pursuant to paragraph (a) or (b) above, as the case may be, which insures against such hazard. Otherwise conforming policies satisfying the requirements of this paragraph (c) may provide that amounts payable as coverage under this paragraph (c) may be reduced by amounts payable under paragraph (a) or (b), as the case may be, for the same occurrence, and vice versa.

The County shall collect, adjust and receive all moneys which may become due and payable under any policies contemplated by paragraphs (a) and (b) above, and, may compromise any and all claims thereunder and shall transfer the net proceeds of such insurance as provided in the Facility Lease or in the Indenture. The Trustee shall not be responsible for the sufficiency of any insurance required in the Facility Lease. The Trustee shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the County.

Any insurance policy issued pursuant to paragraph (a) or (b) above shall be so written or endorsed as to make losses, if any, payable to the County, the Authority and the Trustee as their respective interests

may appear and the net proceeds of the insurance required by paragraphs (a) or (b) above shall be applied as provided in the Facility Lease. The net proceeds, if any, of the insurance policy described in paragraphs (a) and (b) above shall be payable to the County for deposit in the Insurance Proceeds and Condemnation Awards Fund. The net proceeds, if any, of the insurance policy described in paragraph (c) above shall be payable to the Trustee and deposited in the Revenue Fund. Each insurance policy provided for in this section shall contain a provision to the effect that the insurance company shall not cancel the policy or modify it materially and adversely to the interests of the Authority or the Trustee without first giving written notice thereof to the Authority and the Trustee at least 30 days in advance of such intended cancellation or modification.

The County shall file a Certificate of the County with the Trustee and the Insurer not later than January 31 of each year certifying that the insurance policies required by this section are in full force and effect and that the Authority and/or the Trustee is named as a loss payee on each insurance policy which the Facility Lease requires to be so endorsed. The County will provide the Insurer with copies of such insurance policies upon request. The Trustee shall have no responsibility whatsoever for determining the adequacy of any insurance required under the Facility Lease.

Advances. In the event the County shall fail to maintain the full insurance coverage required by the Facility Lease or shall fail to keep the Leased Property in good repair and operating condition, the Authority may (but shall be under no obligation to) purchase the required policies of insurance and pay the premiums on the same or may make such repairs or replacements as are necessary and provide for payment thereof; and all amounts so advanced therefor by the Authority shall become Additional Payments, which amounts the County, pursuant to the Facility Lease, agrees to pay within 30 days of a written request therefor, together with interest thereon at the maximum rate allowed by law.

Title Insurance. The County, pursuant to the Facility Lease, covenants and agrees to deliver or cause to be delivered to the Trustee on the Closing Date a CLTA leasehold owner's policy or policies, or a commitment for such policy or policies, with respect to the Leased Property with liability in the aggregate amount equal to the principal component of all Base Rental Payments payable under the Facility Lease. Such policy or policies, when issued, shall name the Trustee as the insured and shall insure the leasehold estate of the County in the Leased Property subject only to Permitted Encumbrances.

Damage, Destruction, Title Defect and Condemnation

Damage, Destruction, Title Defect and Condemnation; Use of Net Proceeds. If prior to the termination of the term of the Facility Lease (a) the Leased Property or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty; or (b) title to, or the temporary use of, the Leased Property or any portion thereof or the estate of the County or the Authority in the Leased Property or any portion thereof is defective or shall be taken under the exercise of the power of eminent domain by any governmental body or by any person or firm or Authority acting under governmental authority, then the County and the Authority will cause the net proceeds of any insurance claim or condemnation award to be applied to the prompt repair, restoration, modification, improvement or replacement of the damaged, destroyed, defective or condemned portion of the Leased Property, and any balance of the net proceeds remaining after such work has been completed shall be paid to the County; *provided*, that the County, at its option and provided the proceeds of such insurance or condemnation award together with any other moneys then available for the purpose are at least sufficient to prepay the aggregate annual amounts of principal and interest components of the Base Rental Payments due under the Facility Lease attributable to the portion of the Leased Property so destroyed, damaged, defective or condemned (determined by reference to the proportion which the annual fair rental value of the destroyed, damaged, defective or condemned portion thereof bears to the annual fair rental value of the Leased Property), may elect not to repair, reconstruct or replace the damaged, destroyed, defective or condemned portion of the Leased

Property and thereupon shall cause said proceeds to be used for the prepayment of Outstanding Bonds pursuant to the provisions of the Indenture as summarized in this Official Statement under the caption "The Series 2014 Bonds – Redemption - *Extraordinary Redemption*" for redemption from the net proceeds of any insurance or condemnation award with respect to the Leased Property or portions thereof. Notwithstanding any other provision in the Facility Lease, the County shall only prepay less than all of the principal component of the then-remaining Base Rental Payments if the annual fair rental value of the Leased Property after such damage, destruction, title defect or condemnation is at least equal to the aggregate annual amount of the principal and interest components of the Base Rental Payments not being prepaid.

In the event that the proceeds, if any, of said insurance or condemnation award are insufficient either to (i) repair, rebuild or replace the Leased Property so that the fair rental value of the Leased Property would be at least equal to the Base Rental Payments or (ii) to prepay all the Outstanding Bonds, both as provided in the preceding paragraph, then the County may, in its sole discretion, budget and appropriate an amount necessary to effect such repair, rebuilding or replacement or prepayment; *provided* that the failure of the County to so budget and/or appropriate shall not be a breach of or default under the Facility Lease.

Disclaimer of Warranties; Vendor's Warranties; Use of the Leased Property

Disclaimer of Warranties. NEITHER THE TRUSTEE NOR THE AUTHORITY MAKES ANY AGREEMENT, WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR PARTICULAR PURPOSE OR FITNESS FOR USE OF THE LEASED PROPERTY, OR WARRANTY WITH RESPECT THERETO. THE COUNTY ACKNOWLEDGES THAT NEITHER THE TRUSTEE NOR THE AUTHORITY IS A MANUFACTURER OF ANY PORTION OF THE LEASED PROPERTY OR A DEALER THEREIN, THAT THE COUNTY LEASES THE LEASED PROPERTY AS-IS, IT BEING AGREED THAT ALL OF THE AFOREMENTIONED RISKS ARE TO BE BORNE BY THE COUNTY. In no event shall the Authority or the Trustee be liable for any incidental, indirect, special or consequential damage in connection with or arising out of the Facility Lease or the existence, furnishing, functioning or the County's use of the Leased Property as provided by the Facility Lease.

Use of the Leased Property; Improvements. The County will not use, operate or maintain the Leased Property improperly, carelessly, in violation of any applicable law or in a manner contrary to that contemplated by the Facility Lease. The County shall provide all permits and licenses, if any, necessary for the use of the Leased Property. In addition, the County, pursuant to the Facility Lease, agrees to comply in all respects (including, without limitation, with respect to the use, maintenance and operation of each portion of the Leased Property) with all laws of the jurisdictions in which its operations involving any portion of the Leased Property may extend and any legislative, executive, administrative or judicial body exercising any power or jurisdiction over the Leased Property; *provided*, that the County may contest in good faith the validity or application of any such law or rule in any reasonable manner which does not, in the opinion of the County adversely affect the estate of the Authority in and to the Leased Property or its interest or rights under the Facility Lease.

Assignment; Indemnification; Non-Liability

Assignment by Authority. The parties understand that certain of the rights of the Authority under the Facility Lease and under the Site Lease will be assigned to the Trustee pursuant to the Assignment Agreement, and accordingly the County, pursuant to the Facility Lease, agrees to make all payments due under the Facility Lease to the Trustee, notwithstanding any claim, defense, setoff or counterclaim whatsoever (whether arising from a breach of the Facility Lease or otherwise) that the

County may from time to time have against the Authority. The County, pursuant to the Facility Lease, agrees to execute all documents, including notices of assignment and chattel mortgages or financing statements, which may be reasonably requested by the Authority or the Trustee to protect their interests in the Leased Property during the term of the Facility Lease.

Assignment by County. The Facility Lease and the interest of the County in the Leased Property may not be assigned or encumbered by the County except as permitted by the Facility Lease.

Indemnification. The County shall, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the Authority and the Trustee and their respective directors, officers and employees from and against any and all liability, obligations, losses, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses, penalties and interest arising out of or as the result of the issuance of the Bonds, the entering into of the Facility Lease, the use of the Leased Property and each portion thereof or any accident in connection with the operation, use, condition or possession of the Leased Property or any portion thereof resulting in damage to property or injury to or death to any person including, without limitation, any claim alleging latent and other defects, whether or not discoverable by the County or the Authority; any claim arising out of the use, presence, storage, disposal or release of any Hazardous Substances on or about the Leased Property; any claim for patent, trademark or copyright infringement; and any claim arising out of strict liability in tort. The indemnification arising under this section shall continue in full force and effect notwithstanding the full payment of all obligations under the Facility Lease or the termination of the Facility Lease for any reason. The County, the Trustee and the Authority mutually agree to promptly give notice to each other of any claim or liability indemnified against by the Facility Lease following the learning thereof by such party.

Non-Liability of the Authority. The Authority shall not be obligated to pay the principal (or redemption price) of or interest on the Bonds, except from Revenues and other moneys and assets received by the Trustee pursuant to the Facility Lease. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof, nor the faith and credit of the Authority or any member is pledged to the payment of the principal (or redemption price) or interest on the Bonds. The Authority shall not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Facility Lease, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the County under the Facility Lease.

The County acknowledges that the Authority's sole source of moneys to repay the Bonds will be provided by the payments made by the County to the Trustee pursuant to the Facility Lease, together with investment income on certain funds and accounts held by the Trustee under the Indenture, and agrees that if the payments to be made under the Facility Lease shall ever prove insufficient to pay all principal (or redemption price) and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), then upon notice from the Trustee, the County shall pay such amounts as are required from time to time to prevent any deficiency or default in the payment of such principal (or redemption price) or interest, including, but not limited to, any deficiency caused by acts, omissions, nonfeasance or malfeasance on the part of the Trustee, the County, the Authority or any third party, subject to any right of reimbursement from the Trustee, the Authority or any such third party, as the case may be, therefor.

Waiver of Personal Liability. No member, officer, agent or employee of the Authority or any director, officer, agent or employee of the County shall be individually or personally liable for the payment of any principal (or redemption price) or interest on the Bonds or any other sum under the Facility Lease or be subject to any personal liability or accountability by reason of the execution and

delivery of the Facility Lease; but nothing contained in the Facility Lease shall relieve any such member, director, officer, agent or employee from the performance of any official duty provided by law or by the Facility Lease.

Default

(a) The following events shall be "Events of Default" under the Facility Lease and the terms "Event of Default" and "Default" shall mean, whenever they are used in the Facility Lease, any one or more of the following events:

(i) The County shall fail to deposit with the Trustee any Base Rental Payment required to be so deposited by the close of business on the day such deposit is required pursuant to the Facility Lease, *provided*, that the failure to deposit any Base Rental Payments abated pursuant to the Facility Lease shall not constitute an Event of Default;

(ii) The County shall fail to pay any item of Additional Payments when the same shall become due and payable pursuant to the Facility Lease; or

(iii) The County shall breach any other terms, covenants or conditions contained in the Facility Lease or in the Indenture, and shall fail to remedy any such breach with all reasonable dispatch within a period of 30 days after written notice thereof from the Authority to the County; *provided, however*, that if the failure stated in the notice cannot be corrected within such period, then the Authority shall not unreasonably withhold its consent to an extension of such time if corrective action is instituted by the County within such period and is diligently pursued until the default is corrected.

(b) Upon the happening of any of the Events of Default specified in subsections (a) or (e) under this caption, it shall be lawful for the Authority or its assignee, subject to the terms of the Facility Lease, to exercise any and all remedies available or granted to it pursuant to law or under the Facility Lease.

(c) Upon the occurrence of an Event of Default, the Authority or its assignee must thereafter maintain the Facility Lease in full force and effect and may only recover rent and other monetary charges as they become due, all without terminating the County's right to possession of the Leased Property, regardless of whether or not the County has abandoned the Leased Property; **THIS SHALL BE THE SOLE AND EXCLUSIVE REMEDY AVAILABLE AGAINST THE COUNTY UNDER THE FACILITY LEASE OR OTHERWISE.** In such event, the County shall remain liable and, pursuant to the Facility Lease, agrees to keep or perform all covenants and conditions contained in the Facility Lease to be kept or performed by the County and, to pay the rent to the end of the term of the Facility Lease and further agrees to pay said rent and/or rent deficiency punctually at the same time and in the same manner as provided in the Facility Lease for the payment of rent under the Facility Lease (without acceleration).

(d) The Authority expressly waives the right to receive any amount from the County pursuant to Section 1951.2(a)(3) of the California Civil Code.

(e) In addition to any Event of Default resulting from breach by the County of any agreement, condition, covenant or term of the Facility Lease, if the County's interest in the Facility Lease or any part thereof assigned, sublet or transferred without the written consent of the Authority (except as otherwise permitted by the Facility Lease), either voluntarily or by operation of law; or the County or any assignee shall file any petition or institute any proceedings under any act or acts, state or federal, dealing with or relating to the subject of bankruptcy or insolvency or under any amendment of such act or acts,

either as a bankrupt or as an insolvent or as a debtor or in any similar capacity, wherein or whereby the County asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of its debts or obligations, or offers to its creditors to effect a composition or extension of time to pay its debts, or asks, seeks or prays for a reorganization or to effect a plan of reorganization or for a readjustment of its debts or for any other similar relief, or if the County shall make a general or any assignment for the benefit of its creditors; or the County shall abandon or vacate the Leased Property or any portion thereof (except as permitted by the Facility Lease); then in each and every such case the County shall be deemed to be in default under the Facility Lease.

(f) Neither the County nor the Authority shall be in default in the performance of any of its obligations under the Facility Lease (except for the obligation to make Base Rental Payments pursuant to the Facility Lease) unless and until it shall have failed to perform such obligation within 30 days after notice by the County of the Authority, as the case may be, to the other party properly specifying wherein it has failed to perform such obligation.

(g) The County and Authority and its successors and assigns shall honor the exclusive rights of the County to use the Leased Property.

Miscellaneous

Binding Effect. The Facility Lease shall inure to the benefit of and shall be binding upon the Authority and the County and their respective successors and assigns.

Trustee as Third Party Beneficiary. The Trustee is designated a third party beneficiary under the Facility Lease for the purpose of enforcing any of the rights under the Facility Lease assigned to the Trustee under the Assignment Agreement.

Net Lease. It is the purpose and intent of the Authority and the County that lease payments under the Facility Lease shall be absolutely net to the Authority so that the Facility Lease shall yield to the Authority the lease payments, free of any charges, assessments or impositions of any kind charged, assessed or imposed on or against the Leased Property, and without counterclaim, deduction, defense, deferment or set-off by the County except as specifically otherwise provided in the Facility Lease. The Authority shall not be expected or required to pay any such charge, assessment or imposition, or be under any obligation or liability under the Facility Lease except as expressly set forth in the Facility Lease, and all costs, expenses and obligations of any kind relating to the maintenance and operation of the Leased Property which may arise or become due during the term of the Facility Lease shall be paid by the County.

Amendments. The Facility Lease may be amended in writing as may be mutually agreed by the Authority and the County, subject to the written approval of the Trustee; *provided*, that no such amendment which materially adversely affects the rights of the Owners shall be effective unless it shall have been consented to by the Owners of more than 50% in principal amount of the Bonds Outstanding, and *provided further*, that no such amendment shall (a) extend the payment date of any Base Rental Payment, or reduce the interest, principal or prepayment premium component of any Base Rental Payment, without the prior written consent of the Owner of each Bond so affected, or (b) reduce the percentage of the principal amount of the Bonds Outstanding the consent of the Owners of which is required for the execution of any amendment of the Facility Lease.

The Facility Lease and the rights and obligations of the Authority and the County under the Facility Lease may also be amended or supplemented at any time by an amendment of the Facility Lease or supplement to the Facility Lease which shall become binding upon execution without the written

consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes:

(a) to add to the agreements, conditions, covenants and terms required by the Authority or the County to be observed or performed in the Facility Lease and other agreements, conditions, covenants and terms thereafter to be observed or performed by the Authority or the County, or to surrender any right or power reserved in the Facility Lease to or conferred in the Facility Lease on the Authority or the County, and which in either case shall not materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained in the Facility Lease or in regard to questions arising under the Facility Lease which the Authority or the County may deem desirable or necessary and not inconsistent with the Facility Lease, and which shall not materially adversely affect the interests of the Owners;

(c) to effect a Substitution or Removal in accordance with the Facility Lease;

(d) to facilitate the issuance of Additional Bonds as provided in the Facility Lease; or

(e) to make any other addition, amendment or deletion which does not materially adversely affect the interests of the Owners or the Insurer.

Discharge of County. Upon the payment of all Base Rental Payments and Additional Payments payable under the Facility Lease, all of the obligations of the County under the Facility Lease shall thereupon cease, terminate and become void and shall be discharged and satisfied; *provided, however,* if any Outstanding Bonds shall be deemed to have been paid by virtue of a deposit of Base Rental Payments under the Facility Lease pursuant to the Indenture, then the obligation of the County under the Facility Lease to make Base Rental Payments under the Facility Lease shall continue in full force and effect until the Outstanding Bonds so deemed paid have in fact been paid, but such payments shall be made solely and exclusively from moneys and securities deposited with the Trustee as contemplated by the Indenture, and that shall be the sole source of satisfaction of the County's obligation to make Base Rental Payments.

Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms of the Facility Lease shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining agreements, conditions, covenants or terms of the Facility Lease shall be affected thereby, and each provision of the Facility Lease shall be valid and enforceable to the fullest extent permitted by law.

California Law. The Facility Lease shall be governed by and construed and interpreted in accordance with the laws of the State of California.

SITE LEASE

Leased Property. The County leases to the Authority and the Authority rents and hires from the County, on the terms and conditions set forth in the Site Lease, the Leased Property.

Term.

(a) The term of the Site Lease will commence on the Closing Date and shall end on the Expiry Date, unless such term is sooner terminated or is extended as provided in the Site Lease. If prior

to the Expiry Date all Base Rental Payments under the Facility Lease shall have been paid, or provision therefor has been made in accordance with the Indenture, the term of the Site Lease shall end simultaneously therewith.

(b) If the Facility Lease is extended beyond the Expiry Date pursuant to the terms thereof, the Site Lease shall also be extended to the day following the date of termination of the Facility Lease.

Rent. The Authority shall pay to the County an advance rent of \$1, which, together with the execution and delivery of the Facility Lease, shall constitute full consideration for the Site Lease over its term. The Authority waives any right that it may have under the laws of the State of California to receive a rebate of such rent in full or in part in the event there is a substantial interference with the use and right of possession by the Authority of the Leased Property or portion thereof as a result of material damage, destruction or condemnation

Purpose. The Authority shall use the Leased Property solely for the purpose of subleasing the same to the County; *provided*, that in the event of default by the County under the Facility Lease, the Authority may exercise the remedies provided in the Facility Lease.

Owner in Fee. The County covenants that it is the owner of the Leased Property free and clear of all liens, claims or encumbrances which affect marketability.

Assignments and Leases. Unless the County shall be in default under the Facility Lease, the Authority may not, without the prior written consent of the County, assign its rights under the Site Lease or sublet the Leased Property except that the County expressly approves and consents to the assignment and transfer of the Authority's right, title and interest in the Site Lease to the Trustee pursuant to the Assignment Agreement.

Right of Entry. The County reserves the right for any of its duly authorized representatives to enter upon the Leased Property at any reasonable time to inspect the same or to make any repairs, improvements or changes necessary for the preservation thereof.

Termination. The Authority, pursuant to the Site Lease, agrees, upon the termination of the Site Lease, to quit and surrender the Leased Property in the same good order and condition as the same was in at the time of commencement of the terms under the Site Lease, reasonable wear and tear excepted, and agrees that any permanent improvements to the Leased Property at the time of the termination of the Site Lease shall remain thereon and title thereto shall vest in the County.

Default. In the event the Authority shall be in default in the performance of any obligation on its part to be performed under the terms of the Site Lease, which default continues for thirty (30) days following notice and demand for correction thereof to the Authority, the County may exercise any and all remedies granted by law, except that no merger of the Site Lease and of the Facility Lease shall be deemed to occur as a result thereof; *provided*, that so long as the Bonds executed and delivered pursuant to the Indenture are Outstanding, the County shall have no power to terminate the Site Lease by reason of any default on the part of the Authority, if such termination would affect or impair any assignment of the Facility Lease then in effect between the Authority and the Trustee that authenticates and delivers the Bonds.

Quiet Enjoyment. The Authority at all times during the term of the Site Lease shall peaceably and quietly have, hold and enjoy the Leased Property.

Waiver of Personal Liability. All liabilities under the Site Lease on the part of the Authority shall be solely corporate liabilities of the Authority, and the County releases each and every director, officer and employee of the Authority of and from any personal or individual liability under the Site Lease. No director, officer or employee of the Authority shall at any time or under any circumstances be individually or personally liable under the Site Lease for anything done or omitted to be done by the Authority under the Site Lease.

Eminent Domain. In the event the whole or any portion of the Leased Property is taken by eminent domain proceedings, the interest of the Authority shall be recognized and is determined to be the amount of the then unpaid Base Rental Payments payable under the Facility Lease, and the amount of the unpaid Additional Payments due under the Facility Lease, and the balance of the award, if any, shall be paid to the County.

Amendments. The Site Lease may be amended for the purpose of affecting a Substitution or Removal, as further described in the Facility Lease, and in the manner and under the circumstances described in connection with the amendment of the Facility Lease, as further described in the Facility Lease.

Partial Invalidity. If any one or more of the agreements, conditions, covenants or terms of the Site Lease shall to any extent be declared invalid, unenforceable, void or voidable for any reason whatsoever by a court of competent jurisdiction, the finding or order or decree of which becomes final, none of the remaining agreements, conditions, covenants or terms of the Site Lease shall be affected thereby, and each provision of the Site Lease shall be valid and enforceable to the fullest extent permitted by law.

Governing Law. The Site Lease is made in the State of California under the Constitution and laws of the State of California and is to be so construed.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the County of Riverside, California (the "County"), in connection with the issuance, execution and delivery of \$_____ aggregate principal amount of the Riverside County Public Financing Authority Lease Revenue Bonds (Capital Facilities Project) Series 2014 (the "Bonds"). The Bonds are being delivered pursuant to an Indenture, dated as of _____, 2014 by and among the Riverside County Public Financing Authority (the "Authority"), the County of Riverside (the "County") and U.S. Bank National Association, as trustee (the "Trustee") (the "Indenture"). The County is executing this Disclosure Certificate as the "Obligated Person" in connection with the Bonds, as further defined and described in Section 1 below. The County covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the County, as the "Obligated Person" under the Rule (as hereinafter defined) for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule (as hereinafter defined).

Section 2. Definitions. The definitions set forth in the Indenture apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section. The following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the County pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the County or, any successor Dissemination Agent designated in writing by the County, and which has filed with the County a written acceptance of such designation.

"Holder" shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in such depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934 or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Marketplace Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

"Official Statement" shall mean the official statement relating to the Bonds, dated _____, 2014.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offerings of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Provision of Annual Reports.

(a) The County shall, or shall cause the Dissemination Agent to, not later than 60 days after the County normally receives its audited financial statements from its auditors in each year but in no event later than February 15, commencing with the 2013-14 Fiscal Year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that if the audited financial statements of the County are not available by the date required above for the filing of the Annual Report, the County shall submit unaudited financial statements and submit the audited financial statements as soon as available. If the County’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event.

(b) If the County is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the County shall send a notice to the MSRB in substantially the form attached as Exhibit A with a copy to the Dissemination Agent. The Dissemination Agent shall not be required to file a Notice to Repository of Failure to File an Annual Report.

(c) The Dissemination Agent shall file a report with the Authority stating it has filed the Annual Report in accordance with its obligations hereunder, stating the date it was provided.

Section 4. Content of Annual Reports. The County’s Annual Report shall contain or incorporate by reference the following financial information or operating data presented in the final Official Statement relating to the Bonds, updated to incorporate information for the most recent Fiscal Year:

(a) The audited financial statements of the County for the preceding Fiscal Year, prepared in accordance with Generally Accepted Accounting Principles applicable to governmental entities. If the County’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in the format similar to the financial statement contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available;

(b) A description of any occurrence which would adversely impact the County’s beneficial use and possession of the Leased Property and other occurrence which may provide the County with the opportunity to abate in whole or in part any Base Rental Payment; and

(c) To the extent not included in the financial statements, the following type of information will be provided in one or more reports:

(i) assessed valuations, tax levies and delinquencies for real property located in the County for the Fiscal Year of the County most recently ended;

(ii) summary financial information on revenues, expenditures and fund balances for the County's total budget funds for the Fiscal Year of the County most recently ended;

(iii) summary financial information on the proposed and adopted budget of the County for the current Fiscal Year and any changes in the adopted budget;

(iv) summary of the aggregate annual debt obligations of the County as of the beginning of the current Fiscal Year;

(v) summary of the annual outstanding principal obligations of the County as of the beginning of the current Fiscal Year; and

(vi) the ratio of the County's outstanding debt to total assessed valuations as of the end of the Fiscal Year of the County most recently ended.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the County to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the County or to reflect changes in the business, structure, operations, legal form of the County or any mergers, consolidations, acquisitions or dispositions made by or affecting the County; provided that any such modifications shall comply with the requirements of the Rule.

The County has not undertaken in this Disclosure Certificate to update all information an investor may want to have in making decisions to hold, sell or buy the Bonds but only to provide the specific information listed above.

Any or all of the items listed above may be incorporated by reference to other documents, including official statements of debt issues of the County or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The County shall clearly identify each such other document so incorporated by reference.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the County shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds:

- (i) principal or interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) modifications to the rights of the Holders of the Bonds, if material;
- (iv) optional, contingent or unscheduled calls, if any of the preceding are material;
- (v) defeasances;
- (vi) rating changes;

(vii) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

(viii) unscheduled draws on debt service reserves reflecting financial difficulties;

(ix) unscheduled draws on credit enhancements reflecting financial difficulties;

(x) substitution of credit or liquidity providers or their failure to perform;

(xi) release, substitution or sale of property securing repayment of the Bonds, if material;

(xii) bankruptcy, insolvency, receivership or similar proceedings described below of the County;

(xiii) appointment of a successor or additional trustee or the change or name of a trustee, if material; or

(xiv) the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the Authority or the County other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(b) An event described in item (xii) above of Section 5(a) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the County or the Authority in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of said party, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of said party.

(c) The County shall provide notice of an occurrence of a Listed Event to the MSRB in a timely manner but not more than ten (10) business days after the occurrence of the event. Any notice of Listed Event(s) must be submitted to the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

Section 6. Termination of Reporting Obligation. The County's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. In addition, in the event that the Rule shall be amended, modified or repealed such that compliance by the County with its obligations under this Disclosure Certificate no longer shall be required in any or all respects, then the County's obligations under this Disclosure Certificate shall terminate to a like extent. If either such termination occurs prior to the final maturity of the Bonds, the County shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 7. Dissemination Agent. The County may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if other than the County) shall be entitled to reasonable compensation for its services hereunder and reimbursement of its out-of-pocket expenses (including, but not limited to, attorney's fees). The Dissemination Agent (if other than the County) shall not be responsible in any manner for the content of any notice or report prepared by the County pursuant to this Disclosure Certificate. The Dissemination Agent may resign by providing 30 days written notice to the County.

Section 8. Amendment. Notwithstanding any other provision of this Disclosure Certificate, the County may amend or waive any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted.

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) The amendment or waiver does not materially impair the interests of Beneficial Owners, as determined either by parties unaffiliated with the Authority (such as Bond Counsel), or by an approving vote of Beneficial Owners pursuant to the terms of the Indenture.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the County shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the County. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the County chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the County shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the County or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Participating Underwriter, Holder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the County or the Dissemination Agent to comply with

its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the County or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the County agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent is not acting in any fiduciary capacity for the Holders, Beneficial Owners or any other party. The obligations of the County under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the County, the Dissemination Agent, the Participating Underwriters, the Holders and Beneficial Owners from time to time of the Bonds, and any bond insurer maintaining a financial guaranty insurance policy on the Bonds that is not in default, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one in the same instrument.

Date: _____, 2014

COUNTY OF RIVERSIDE, CALIFORNIA

By: [Form only]
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: COUNTY OF RIVERSIDE, CALIFORNIA

Name of Bond Issue: Riverside County Public Financing Authority Lease Revenue Bonds (Capital Facilities Project), Series 2014 (the "Bonds")

Date of Delivery: _____, 2014

NOTICE IS HEREBY GIVEN that the County of Riverside, California (the "County") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate of the County relating to the Bonds. The County anticipates that the Annual Report will be filed by _____.

Dated: _____

COUNTY OF RIVERSIDE, CALIFORNIA

By: [To be signed only if filed]
Authorized Officer

APPENDIX F

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, proposes to render its final approving opinion with respect to the Series 2014 Bonds in substantially the following form:

[Date of Delivery]

Riverside County Public Financing Authority
Riverside, California

County of Riverside
Riverside, California

Riverside County Public Financing Authority
Lease Revenue Bonds (Capital Facilities Project), Series 2014
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Riverside County Public Financing Authority (the "Authority") in connection with issuance of \$_____ aggregate principal amount of Riverside County Public Financing Authority Lease Revenue Bonds (Capital Facilities Project), Series 2014 (the "Series 2014 Bonds"), issued pursuant to an Indenture, dated as of _____, 2014 (the "Indenture"), by and among the Authority, the County of Riverside (the "County") and U.S. Bank National Association, as trustee (the "Trustee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed a Facility Lease, dated as of _____, 2014 (the "Facility Lease") between the Authority and the County, a Site Lease, dated as of _____, 2014 (the "Site Lease"), between the County and the Authority, a Tax Certificate, dated the date hereof (the "Tax Certificate"), executed by the Authority, and an Assignment Agreement, dated as of _____, 2014 (the "Assignment Agreement"), between the Authority and the Trustee, opinions of counsel to the Authority, the County and the Trustee, certificates of the Authority, the County, the Trustee and others and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions, and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2014 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority and the County. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and

agreements contained in the Indenture, the Facility Lease, the Site Lease, the Assignment Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest on the Series 2014 Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series 2014 Bonds, the Facility Lease, the Site Lease, the Indenture, the Assignment Agreement, and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against joint powers authorities and counties in the State of California. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, judicial reference, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the liens of the Facility Lease, the Site Lease or the Indenture or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2014 Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2014 Bonds constitute the valid and binding limited obligations of the Authority.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Series 2014 Bonds, of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. Interest on the Series 2014 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Interest on the Series 2014 Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Series 2014 Bonds.

Faithfully yours,

APPENDIX A
INFORMATION REGARDING THE COUNTY OF RIVERSIDE

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APPENDIX A

INFORMATION REGARDING THE COUNTY OF RIVERSIDE

DEMOGRAPHIC AND ECONOMIC INFORMATION

Population

According to the State Department of Finance, Demographic Research Unit, the County's population was estimated at 2,279,967 as of January 1, 2014, representing an approximately 1.1% increase over the County's population as estimated for the prior year. For the ten year period of January 1, 2004 to January 1, 2014, the County's population grew by approximately 25.7%. During this period, the cities of Eastvale, Jurupa Valley, Menifee and Wildomar incorporated, which have a total population of 274,393 as of January 1, 2014. The population growth in the County has slowed in recent years, during which period the County's population has grown at a rate close to the statewide average.

The following table sets forth the annual population as of January 1 of each year for the cities within the County for the years 2010 through 2014.

**COUNTY OF RIVERSIDE
POPULATION OF CITIES WITHIN THE COUNTY
(As of January 1)**

<u>City</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Banning	29,492	29,723	30,051	30,177	30,325
Beaumont	36,468	38,034	38,967	39,787	40,876
Blythe	20,882	20,063	20,440	19,609	18,992
Calimesa	7,847	7,910	8,022	8,096	8,231
Canyon Lake	10,550	10,606	10,721	10,771	10,826
Cathedral City	51,093	51,400	52,108	52,350	52,595
Coachella	40,508	41,339	42,030	42,795	43,633
Corona	151,858	153,047	154,986	156,864	159,132
Desert Hot Springs	25,856	27,277	27,721	27,835	28,001
Eastvale	-	54,090	55,770	57,266	59,185
Hemet	78,295	79,309	80,330	80,899	81,537
Indian Wells	4,947	4,990	5,050	5,083	5,137
Indio	75,263	76,817	78,299	81,415	82,398
Jurupa Valley	-	-	96,746	97,272	97,774
Lake Elsinore	51,448	52,294	53,183	55,444	56,718
La Quinta	37,044	37,688	38,190	38,412	39,032
Menifee	77,902	79,139	80,832	82,314	83,716
Moreno Valley	192,599	194,451	197,088	198,183	199,258
Murrieta	103,066	104,051	105,301	105,860	106,425
Norco	27,069	26,968	27,123	26,632	26,582
Palm Desert	48,215	48,920	49,619	49,962	50,417
Palm Springs	44,480	44,829	45,415	45,724	46,135
Perris	67,607	69,506	70,392	70,983	72,103
Rancho Mirage	17,165	17,399	17,556	17,643	17,745
Riverside	302,597	306,069	309,409	312,035	314,034
San Jacinto	43,881	44,421	44,938	45,229	45,563
Temecula	99,757	101,255	103,404	104,907	106,289
Wildomar	32,393	32,414	32,818	33,182	33,718
TOTALS					
Incorporated	1,678,312	1,754,009	1,876,509	1,896,729	1,916,377
Unincorporated	501,380	451,722	357,700	358,924	363,590
County-Wide	<u>2,179,692</u>	<u>2,205,731</u>	<u>2,234,209</u>	<u>2,255,653</u>	<u>2,279,967</u>
California	37,223,900	37,510,766	37,668,804	37,984,138	38,340,074

Source: State Department of Finance, Demographic Research Unit.

Effective Buying Income

“Effective Buying Income” is defined as personal income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income. Personal income is the aggregate of wages and salaries, other than labor-related income (such as employer contributions to private pension funds), proprietor’s income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local, nontax payments fines, fees, penalties, etc.) and personal contributions to social security insurance and federal retirement payroll deductions. According to U.S. government definitions, the resultant figure is commonly known as “disposable personal income.”

The following table sets forth the total effective buying income, the median household effective buying income and the percent of households with income over \$50,000 for the population in the County and the State for the years 2010 through 2014.

**RIVERSIDE COUNTY AND CALIFORNIA
TOTAL EFFECTIVE BUYING INCOME,
MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME AND
PERCENT OF HOUSEHOLDS WITH INCOMES OVER \$50,000⁽¹⁾**

	Total Effective Buying Income⁽²⁾	Median Household Effective Buying Income	Percent of Households with Income over \$50,000
2010			
Riverside County	\$ 41,337,856	\$47,080	46.6%
California	844,822,042	49,736	49.7
2011			
Riverside County	\$ 38,492,225	\$44,253	43.07%
California	801,393,028	47,117	46.78
2012			
Riverside County	\$ 39,981,683	\$44,116	42.91%
California	814,578,458	47,062	46.65
2013			
Riverside County	\$ 40,157,310	\$43,860	42.39%
California	864,088,828	\$47,307	46.90
2014			
Riverside County	\$ 40,293,518	\$44,784	43.84%
California	858,676,636	48,340	48.17

⁽¹⁾ Estimated, as of January 1 of each year.

⁽²⁾ Dollars in thousands.

Source: Nielsen Solution Center.

Industry And Employment

The County is a part of the Riverside-San Bernardino-Ontario Primary Metropolitan Statistical Area (“PMSA”), which includes all of Riverside and San Bernardino Counties. In addition to varied manufacturing employment, the PMSA has large and growing commercial and service sector employment. The number of employed persons in the County by industry is set forth in the following table.

RIVERSIDE-SAN BERNARDINO-ONTARIO PMSA ANNUAL AVERAGE EMPLOYMENT BY INDUSTRY⁽¹⁾ (In Thousands)

INDUSTRY	2009	2010	2011	2012	2013
Agriculture	14.9	15.0	14.9	15.0	14.6
Construction	67.9	59.7	59.1	62.6	69.3
Finance Activities	42.5	41.0	39.9	40.8	42.0
Government	235.2	234.3	227.5	224.6	225.0
Manufacturing:	88.7	85.1	85.1	86.7	86.8
Nondurables	30.6	29.8	29.3	29.8	29.8
Durables	58.1	55.3	55.8	56.8	57.0
Natural Resources and Mining	1.1	1.0	1.0	1.2	1.2
Retail Trade	156.2	155.5	158.5	162.3	164.8
Professional, Educational and other Services	471.9	438.5	446.3	463.6	491.4
Transportation, Warehousing and Utilities	66.8	66.6	68.8	73.8	78.6
Wholesale Trade	48.9	48.6	49.0	52.1	56.0
Information, Publishing and Telecommunications	14.1	14.0	12.1	11.5	11.3
Total, All Industries	<u>1,177.6</u>	<u>1,159.3</u>	<u>1,162.2</u>	<u>1,194.2</u>	<u>1,241.0</u>

⁽¹⁾ The employment figures by industry which are shown above are not directly comparable to the “Total, All Industries” employment figures due to rounded data

Source: State Employment Development Department, Labor Market Information Division, as of March 2014

The following table sets forth the major employers in the County and their respective product or service and number of employees as of 2013.

**COUNTY OF RIVERSIDE
CERTAIN MAJOR EMPLOYERS⁽¹⁾
(2013)**

<u>Company Name</u>	<u>Product/Service</u>	<u>No. of Local Employees⁽²⁾</u>
County of Riverside	Government	18,728
March Air Reserve Base	Military Reserve Base	9,000
Stater Brothers Market	Supermarket	6,900
Walmart	Retail Store	5,681
University of California, Riverside	University	5,497
Riverside Unified School District	School District	5,000
Corona-Norco Unified School District	School District	4,633
Kaiser Permanente Riverside Medical Center	Hospital	4,500
Moreno Valley Unified School District	School District	3,355
Hemet Unified School District	School District	3,270

⁽¹⁾ Certain major employers in the County may have been excluded because of the data collection methodology used by Riverside County Economic Development Agency.

⁽²⁾ Includes employees within the County; excludes, under certain circumstances, temporary, seasonal and per diem employees.
Source: Riverside County Economic Development Agency.

Unemployment data for the County, the State and the United States for the years 2009 through 2013 and for April 2014 are set forth in the following table.

**COUNTY OF RIVERSIDE
COUNTY, STATE AND NATIONAL UNEMPLOYMENT DATA**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>April 2014</u>
County ⁽¹⁾	13.4%	14.5%	13.7%	12.1%	10.3%	8.4%
California ⁽¹⁾	11.3	12.4	11.8	10.4	8.9	7.3
United States ⁽²⁾	9.3	9.6	8.9	8.1	7.4	5.9

⁽¹⁾ Data is not seasonally adjusted. The unemployment data for the County and State is calculated using unrounded data.

⁽²⁾ Data is seasonally adjusted.

Source: State of California Employment Development Department Labor Market Information Division; U.S. Bureau of Labor Statistics.

Commercial Activity

Commercial activity is an important factor in the County's economy. Much of the County's commercial activity is concentrated in central business districts or small neighborhood commercial centers in cities. There are five regional shopping malls in the County: Galleria at Tyler (Riverside), Hemet Valley Mall, Westfield Palm Desert Shopping Center, Moreno Valley Mall and the Promenade at Temecula. There are also two factory outlet malls (Desert Hills Factory Stores and Lake Elsinore Outlet Center) and over 200 area centers in the County.

The following table sets forth taxable transactions in the County for the years 2008 through 2012, the last year being the most recent full year for which data is currently available.

**COUNTY OF RIVERSIDE
TAXABLE SALES TRANSACTIONS
(In Thousands)**

	2008 ⁽¹⁾	2009	2010	2011	2012
Motor Vehicles and Parts Dealers	\$ 3,115,036	\$ 2,449,747	\$ 2,620,568	\$ 3,010,487	\$ 3,493,098
Furniture and Home Furnishings	485,981	381,643	412,325	436,482	441,649
Electronics and Appliances Stores	330,398	476,455	470,784	478,406	488,419
Building Materials, Garden Equipment and Supplies	1,580,020	1,237,518	1,232,145	1,303,073	1,365,513
Food and Beverage Stores	1,352,704	1,251,220	1,267,758	1,304,731	1,356,148
Health and Personal Care Stores	307,947	389,620	400,207	454,268	490,238
Gasoline Stations	3,011,476	2,300,247	2,685,840	3,300,785	3,516,040
Clothing and Clothing Accessories Stores	1,218,127	1,293,271	1,391,174	1,505,821	1,672,482
Sporting Goods, Hobby, Book and Music Stores	210,121	411,301	428,121	454,971	467,536
General Merchandise Stores	3,081,989	2,855,733	2,947,905	3,051,709	3,174,022
Miscellaneous Store Retailers	1,654,895	641,954	652,273	700,338	742,118
Nonstore Retailers	1,045,704	101,925	92,916	101,876	142,081
Food Services and Drinking Places	2,340,554	2,266,853	2,317,486	2,473,339	2,668,324
Total Retail and Food Services		<u>\$16,057,488</u>	<u>\$16,919,500</u>	<u>\$18,576,285</u>	<u>\$20,016,668</u>
All Other Outlets	6,268,632	6,170,390	6,233,280	7,065,212	8,079,341
Total All Outlets	\$26,003,595	\$22,227,877	\$23,152,780	\$25,641,497	\$28,096,009

⁽¹⁾ Data for 2008 is not necessarily directly comparable to 2009-2012 due to changes in classifications and groupings in the "Taxable Sales In California" report beginning in 2009.

Source: California State Board of Equalization, Research and Statistics Division

Building and Real Estate Activity

The two tables below set forth a summary of building permit valuations and new dwelling units authorized in the County (in both incorporated and unincorporated areas) from 2009 through 2013.

**COUNTY OF RIVERSIDE
BUILDING PERMIT VALUATIONS⁽¹⁾
(In Thousands)**

	2009	2010	2011	2012	2013
RESIDENTIAL					
New Single-Family	\$ 891,825	\$ 914,058	\$ 651,747	\$ 854,814	\$1,134,158
New Multi-Family	76,717	71,152	115,064	99,578	136,501
Alterations and Adjustments	85,148	94,429	119,684	84,517	94,422
Total Residential	<u>\$1,053,690</u>	<u>\$1,079,639</u>	<u>\$886,495</u>	<u>\$1,038,963</u>	<u>\$1,365,081</u>
NON-RESIDENTIAL					
New Commercial	\$94,653	\$191,324	\$152,160	\$346,865	\$80,510
New Industry	12,278	6,686	10,000	3,767	140,972
New Other ⁽¹⁾	107,334	98,105	99,898	78,602	184,500
Alterations & Adjustments	162,557	243,265	297,357	154,325	364,616
Total Nonresidential	<u>\$ 376,822</u>	<u>\$ 539,380</u>	<u>\$ 559,415</u>	<u>\$ 583,559</u>	<u>\$ 770,598</u>
TOTAL ALL BUILDING	<u>\$1,430,512</u>	<u>\$1,619,019</u>	<u>\$1,445,910</u>	<u>\$1,602,522</u>	<u>\$2,135,679</u>

⁽¹⁾ Includes churches and religious buildings, hospitals and institutional buildings, schools and educational buildings, residential garages, public works and utilities buildings, photovoltaic systems and other non-residential buildings and structures.

Source: Construction Industry Research Board for 2009 through 2011, California Homebuilding Foundation for 2012 through 2013.

**COUNTY OF RIVERSIDE
NUMBER OF NEW DWELLING UNITS**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Single Family	3,424	4,031	2,676	3,455	4,671
Multi-Family	784	526	1,073	829	1,415
TOTAL	<u>4,208</u>	<u>4,557</u>	<u>3,749</u>	<u>4,284</u>	<u>7,886</u>

Source: Construction Industry Research Board for 2009 through 2011, California Homebuilding Foundation for 2012 through 2013.

The following table sets forth the annual median housing prices for Los Angeles County, Riverside County, San Bernardino County and Southern California for the years 2008 through 2013.

**COUNTIES OF LOS ANGELES, RIVERSIDE, AND SAN BERNARDINO
AND SOUTHERN CALIFORNIA
MEDIAN HOUSING PRICES**

<u>Year</u>	<u>Los Angeles</u>	<u>Riverside</u>	<u>San Bernardino</u>	<u>Southern California⁽¹⁾</u>
2008	\$400,000	\$260,000	\$225,000	\$340,000
2009	320,000	190,000	150,000	270,000
2010	335,000	200,000	155,000	290,000
2011	315,000	195,000	150,000	280,000
2012	330,000	210,000	163,000	300,000
2013	412,000	259,000	205,000	370,000

⁽¹⁾ Southern California is comprised of Los Angeles, Orange, San Diego, Riverside, San Bernardino and Ventura Counties.
Source: MDA DataQuick Information Systems.

The following table sets forth the home and condominium foreclosures recorded in Los Angeles County, Riverside County, San Bernardino County and Southern California for the years 2008 through 2013.

**COUNTIES OF LOS ANGELES, RIVERSIDE AND SAN BERNARDINO
AND SOUTHERN CALIFORNIA
HOME FORECLOSURES**

<u>Year</u>	<u>Los Angeles</u>	<u>Riverside</u>	<u>San Bernardino</u>	<u>Southern California⁽¹⁾</u>
2008	35,366	32,443	23,601	125,117
2009	29,943	25,309	19,560	100,106
2010	26,827	20,598	16,757	86,853
2011	25,597	17,383	14,181	77,105
2012	15,271	10,657	9,262	47,347
2013	6,469	4,191	4,088	19,470

⁽¹⁾ Southern California is comprised of Los Angeles, Orange, San Diego, Riverside, San Bernardino and Ventura Counties.
Source: MDA DataQuick Information Systems.

Agriculture

Agriculture is an important source of income in the County. Principal agricultural products are milk, eggs, table grapes, grapefruit, nursery, alfalfa, bell peppers, dates, lemons and avocados.

Four areas in the County account for the major portion of agricultural activity: the Riverside/Corona and San Jacinto/Temecula Valley Districts in the western portion of the County, the Coachella Valley in the central portion and the Palo Verde Valley near the County's eastern border.

The following table sets forth the value of agricultural production in the County for the years 2008 through 2012.

COUNTY OF RIVERSIDE VALUE OF AGRICULTURAL PRODUCTION

	2008	2009	2010	2011	2012
Citrus Fruits	\$135,759,800	\$101,652,000	\$140,501,000	\$119,942,513	\$125,684,390
Trees and Vines	173,678,000	191,682,600	164,994,000	232,649,262	217,073,170
Vegetables, Melons, Misc.	266,414,900	221,286,700	292,002,200	278,628,295	286,172,478
Field and Seed Crops	123,545,400	69,699,800	81,328,300	149,198,052	147,185,665
Nursery	230,416,200	206,499,900	169,341,300	200,154,964	190,878,100
Apiculture	5,637,000	5,017,600	4,631,700	4,844,400	4,983,400
Aquaculture Products	12,077,700	5,243,900	4,921,700	4,808,250	4,204,750
Total Crop Valuation	<u>\$947,529,000</u>	<u>\$801,082,500</u>	<u>\$857,720,200</u>	<u>\$990,225,736</u>	<u>\$976,181,953</u>
Livestock and Poultry Valuation	321,060,900	214,672,800	235,926,300	292,030,380	276,548,118
Grand Total	<u>\$1,268,589,900</u>	<u>\$1,015,755,300</u>	<u>\$1,093,646,500</u>	<u>\$1,282,256,116</u>	<u>\$1,252,730,071</u>

Source: Riverside County Agricultural Commissioner.

Transportation

Several major freeways and highways provide access between the County and all parts of Southern California. State Route 91 extends southwest through Corona and connects with the Orange County freeway network in Fullerton. Interstate 10 traverses most of the width of the County, the western-most portion of which links up with major cities and freeways in Los Angeles County and the southern part of San Bernardino County, with the eastern part linking to the County's desert cities and Arizona. Interstate 15 and 215 extend north and then east to Las Vegas, and south to San Diego. State Route 60 provides an alternate (to Interstate 10) east-west link to Los Angeles County.

Metrolink provides commuter rail service to Los Angeles, San Bernardino and Orange Counties from several stations in the County. Transcontinental passenger rail service is provided by Amtrak with stops in Riverside and Palm Springs. Freight service to major west coast and national markets is provided by two transcontinental railroads -- Union Pacific Railroad and the Burlington Northern and Santa Fe Railway Company. Truck service is provided by several common carriers, making available overnight delivery service to major California cities.

Transcontinental bus service is provided by Greyhound Lines. Intercounty, intercity and local bus service is provided by the Riverside Transit Agency to western County cities and communities. There are also four municipal transit operators in the western County providing services within the cities of Banning, Beaumont, Corona and Riverside. The SunLine Transit Agency provides local bus service

throughout the Coachella Valley, service the area from Desert Hot Springs to Oasis and from Palm Springs to Riverside. The Palo Verde Valley Transit Agency provides service in the far eastern portion of the County (City of Blythe and surrounding communities).

The County seat, located in the City of Riverside, is within 20 miles of the Ontario International Airport in neighboring San Bernardino County. This airport is operated by Los Angeles World Airports, a proprietary department of the City of Los Angeles. Four major airlines schedule commercial flight service at Palm Springs Regional Airport. County-operated general aviation airports include those in Thermal, Hemet, Blythe and French Valley. The cities of Riverside, Corona and Banning also operate general aviation airports. There is a military base at March Air Reserve Base, which converted from an active duty base to a reserve-only base on April 1, 1996. The March AFB Joint Powers Authority (the "JPA"), comprised of the County and the Cities of Riverside, Moreno Valley and Perris, is responsible for planning and developing joint military and civilian use. The JPA has constructed infrastructure improvements, entered into leases with private users and initialized a major business park project.

Education

There are four elementary school districts, one high school district, eighteen unified (K-12) school districts and four community college districts in the County. Approximately 92% of all K-12 students attend schools in the unified school districts. The three largest unified school districts are Corona-Norco Unified School District, Riverside Unified School District and Moreno Valley Unified School District.

There are seven two-year community college campuses located in the communities of Riverside, Moreno Valley, Norco, San Jacinto, Menifee, Coachella Valley and Palo Verde Valley. There are also three universities located in the City of Riverside -- the University of California, Riverside, La Sierra University and California Baptist University.

Environmental Control Services

Water Supply. The County obtains a large part of its water supply from groundwater sources, with certain areas of the County, such as the City of Riverside, relying almost entirely on groundwater. As in most areas of Southern California, this groundwater source is not sufficient to meet countywide demand and the County's water supply is supplemented by imported water. At the present time, imported water is provided by the Metropolitan Water District of Southern California from the Colorado River via the Colorado River Aqueduct and the State Water Project via the Edmund G. Brown California Aqueduct. In the Southwest area of the County, 80% of the water supply is imported.

At the regional and local level, there are several water districts that were formed for the primary purpose of supplying supplemental water to the cities and agencies within their areas. The Coachella Valley Water District, the Western Municipal Water District and the Eastern Municipal Water District are the largest of these water districts in terms of area served. The San Gorgonio Pass Water Agency, Desert Water Agency, Palo Verde Irrigation District and Rancho California Water District also provide supplemental water to cities and agencies within the County.

In January 2014, California's governor proclaimed a state of emergency due to the ongoing drought, and directed State officials to take all necessary actions to prepare for drought conditions. As of April 2014, no mandatory rationing has been initiated by the local water districts serving the County. The uncertainty associated with long-term water supply is a major concern of local and regional water agencies in California, especially southern California, which has been exacerbated due to the current drought. The governor and the State Legislature have been engaged in discussions to develop a

comprehensive, State-wide water supply, storage and conveyance solution. However, no assurance can be made that a sustainable solution will be achieved within a reasonable timeframe.

The Board of Supervisors adopted Ordinance 859.2 -Water Efficient Landscaping Ordinance (“Ordinance 859.2”), which conforms to State Assembly Bill 1881. State Assembly Bill 1881 requires the implementation of water efficient landscape practices for new developments. Additionally, the Board of Supervisors amended Policy H-25 requiring the retrofit of public buildings to conform to the requirements of Ordinance 859.2.

Flood Control. Primary responsibility for planning and construction of flood control and drainage systems within the County is provided by the Riverside County Flood Control and Water Conservation District and the Coachella Valley Water District, Storm Water Unit.

Sewage. There are 18 wastewater treatment agencies in the County’s Santa Ana River region and nine in the County’s Colorado River Basin region. Most residents in rural areas of the County which are unsewered rely upon septic tanks and leach fields for sewage disposal.

FINANCIAL INFORMATION

Budgetary Process and Budget

Under the California Government Code, the County must approve a recommended budget by June 30 of each year as the legal authorization to spend until the approval of the adopted budget. A final budget that reflects any revisions to the recommended budget must be adopted by the Board of Supervisors no later than October 2. The recommended and adopted budgets must be balanced.

Subsequent to the approval of the adopted budget, the County may make adjustments to reflect revenue, as realized, and to record changes in expenditure requirements. For example, in recent years, the County, like many other counties, has adopted a budget in advance of the adoption of the State budget and has been required to make adjustments in certain circumstances upon the passage of the State budget. The County conducts quarterly reviews, with major adjustments generally addressed at the end of the first, second and third quarters.

Fiscal Year 2013-14 Budget

In June 2013, the Board of Supervisors approved the Fiscal Year 2013-14 Recommended Budget. The Fiscal Year 2013-14 Recommended Budget includes total General Fund appropriations of approximately \$2.7 billion. For Fiscal Year 2013-14, the County projects that approximately 42.5% of its General Fund budget revenues will consist of payments from the State and 21.1% will consist of payments from the federal government. Discretionary revenue was budgeted to increase to approximately \$586.6 million for Fiscal Year 2013-14, an increase of approximately 3.0% from the Fiscal Year 2012-13 adjusted budget estimates. The Fiscal Year 2013-14 Budget includes an increase in discretionary spending of approximately \$16.7 million from the prior fiscal year. Property tax revenue is budgeted at approximately \$266.2 million for Fiscal Year 2013-14, and is approximately 45.4% of the County’s discretionary revenue. The County estimates an increase in assessed valuation in Fiscal Year 2013-14 of approximately 3.95% from Fiscal Year 2012-13.

The County expects revenue for Fiscal Year 2013-14 to be approximately \$33 million higher than budgeted. During the Fiscal Year 2013-14 third quarter budget meeting, the County reported that, although the local unemployment rate has decreased and the real estate market appears to be stabilizing, new permit activity has slowed and projected sales and use tax revenue remain flat. Consequently, the

County has reduced its revenue projections for the next four years. The County is also experiencing escalating labor costs, a growing deficit of the Riverside County Regional Medical Center, and expected additional costs related to the construction and operation of new jail facilities. See “-Realignment of Certain Services to Local Governments” below. The Fiscal Year 2013-14 second quarter budget recommendations included setting aside approximately \$29.5 million in one-time resources to build reserves and guard against unsustainable spending, and the third quarter budget recommendations included \$13.1 million in draws from contingency funds to be allocated to the sheriff’s and fire departments.

Fiscal Year 2014-15 Proposed Budget

The County has started its budget process for Fiscal Year 2014-15 and plans to hold its budget impact hearings in September, when preliminary year-end financial data for Fiscal Year 2013-14 becomes available. All General Fund departments have been directed to prepare budgets that are balanced and absorb any additional costs without additional General Fund support. Departments may request additional support, if needed, during the budget impact hearings in September.

Property tax revenue is expected to increase by 5% in Fiscal Year 2014-15 and sales tax receipts that are not related to solar projects within the County are expected to remain stable. Revenue growth and surplus revenue set aside in the budget stabilization fund created in Fiscal Year 2012-13 will be used to develop a balanced General Fund budget for Fiscal Year 2014-15. The County allocates one-time revenues above budgeted amounts to the budget stabilization fund, which has a balance of approximately \$53.9 million as of March 31, 2014. While the County utilized some of its reserves during the economic downturn between 2008 and 2012, no reserves have been utilized since Fiscal Year 2011-12 and no reserves are budgeted to be utilized in Fiscal Year 2014-15. Outside of the General Fund, the Riverside County Regional Medical Center (“RCRMC”), which is operated as an enterprise fund, is projecting an operating deficit in Fiscal Year 2014-15. It is the County’s intent that RCRMC costs of providing services be recovered primarily through fees charged for services with minimal or no General Fund support, and the County does not intend to provide General Fund support to fund RCRMC’s projected Fiscal Year 2014-15 operating deficit. See “-Medical Center” below.

Impacts of State Budget

Changes in payments to the County from the State, whether temporary or permanent, may require adjustments to the County’s Fiscal Years 2013-14 and 2014-15 budgets. Deferrals in State payments may jeopardize the County’s ability to maintain core 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 is continuously monitoring developments at the State and local level, and may be required to make adjustments to its budget from time to time. See “STATE OF CALIFORNIA FINANCIAL INFORMATION” in the front part of this Official Statement.

Realignment of Certain Services to Local Governments

As part of the State’s 2011 Budget Act, the California Legislature enacted a major shift, or “realignment,” of certain State program responsibilities and related revenues to local governments (“Realignment”). Beginning in Fiscal Year 2011-12, the realignment provides funds to local governments (primarily counties) to fund various criminal justice, mental health, and social services programs. Realignment funding is derived from three sources: 1) the dedication of 1.0625 cents of the

existing sales tax rate; 2) the redirection of the revenue generated by Proposition 63 (the “millionaire tax” which supports mental health programs statewide); and 3) the redirection of a portion of vehicle license fee revenues.

Realignment is comprised of two distinct components: Health and Human Services and Public Safety. With respect to the former, 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 have taken on various additional responsibilities related to inmates released from State prison, newly convicted offenders whose offenses are legally defined under the State Penal Code as non-violent, non-serious and non-sexual, and parole violators. In Fiscal Year 2013-14, the County received a \$51.24 million appropriation from the State to address the needs of the realigned criminal justice population. Although this amount is not sufficient to meet all of the identified needs, the slow pace of hiring has led to under-spending and the affected County departments have been able to continue providing identified services. In Fiscal Year 2014-15, the County is likely to receive less funding for realignment as the Statewide allocation will be \$60 million less than the prior year and the County expects that it will be considerably more difficult to provide needed services. In addition, the County expects to receive a grant reimbursement of \$25 million in Fiscal Year 2014-15 to replace the Probation Youth Education and Treatment Center in the City of Riverside. Beginning in late Fiscal Year 2014-15 or early Fiscal Year 2015-16, the County will begin to draw down \$100 million in State bond funds to pay for a portion of the construction of a new jail facility in the City of Indio.

Recent County Budgets

The following table sets forth the General Fund budgets for the last five fiscal years as initially adopted by the Board of Supervisors. During the course of each fiscal year, a budget may be amended to reflect adjustments to receipts and expenditures that have been approved by the Board of Supervisors.

**COUNTY OF RIVERSIDE
ADOPTED GENERAL FUND BUDGETS⁽¹⁾
FISCAL YEARS 2009-10 THROUGH 2013-14
(IN MILLIONS)**

	2009-10 Budget	2010-11 Budget	2011-12 Budget	2012-13 Budget	2013-14 Budget
<u>REQUIREMENTS</u>					
General Government	\$239.2	\$175.3	\$174.4	\$180.4	\$179.5
Public Protection	1,055.2	1,062.4	1,060.0	1,072.1	1,132.4
Public Ways and Facilities	2.2	0.0	0.0	0.0	0.0
Health and Sanitation	395.2	396.0	411.9	430.1	485.9
Public Assistance	815.5	780.0	802.9	762.3	835.7
Education	0.4	0.6	0.6	0.6	0.6
Recreation and Cultural	0.3	0.3	0.4	0.0	0.4
Debt Retirement-Capital Leases	6.8	6.8	5.0	5.0	4.9
Contingencies	30.0	20.0	20.0	7.0	20.0
Increase to Reserves	(12.8)	17.5	2.4	2.3	2.3
Total Requirements⁽³⁾	<u>\$2,532.0</u>	<u>\$2,458.9</u>	<u>\$2,477.7</u>	<u>\$2,459.8</u>	<u>\$2,661.7</u>
<u>AVAILABLE FUNDS</u>					
Use of Fund Balance and Reserves	\$112.8	\$107.8	\$90.1	\$74.0	\$78.3
Estimated Revenues:					
Property Taxes	244.9	222.4	214.9	211.5	229.9
Other Taxes	46.1	46.0	35.5	35.0	31.0
Licenses, Permits and Franchises	20.7	19.8	18.1	17.7	17.6
Fines, Forfeitures and Penalties	55.7	58.0	56.2	51.7	49.3
Use of Money and Properties	13.5	11.2	10.0	7.4	6.3
Aid from Other Governmental Agencies:					
State	962.0	921.7	936.3	1,005.5	1,097.4
Federal	511.1	501.2	506.7	493.9	544.9
Charges for Current Services ⁽²⁾	452.7	461.0	462.8	442.6	469.1
Other Revenues ⁽²⁾	112.5	111.9	147.7	120.5	137.9
Total Available Funds⁽³⁾	<u>\$2,532.0</u>	<u>\$2,458.9</u>	<u>\$2,477.7</u>	<u>\$2,459.8</u>	<u>\$2,661.7</u>

⁽¹⁾ Prior to Fiscal Year 2010-11, State Controller identified an "Adopted" budget as a "Final" budget. Data source is the official budget documents submitted to the State Controller's Office. Figures do not reflect quarterly amendments or adjustments.

⁽²⁾ Due to reporting changes, certain accounts were reclassified from Other Revenues to Charges for Current Services after Fiscal Year 2008-09.

⁽³⁾ Column numbers may not add up to totals due to rounding.

Source: County Auditor-Controller

Riverside County Treasurer's Pooled Investment Fund

The County Treasurer maintains one Pooled Investment Fund (the "PIF") for all local jurisdictions having funds on deposit in the County Treasury. As of May 31, 2014, the portfolio assets comprising the PIF had a market value of \$5,023,163,902.85

State law requires that all operating moneys of the County, school districts, and certain special districts be held by the County Treasurer. On June 30, 2013, the Auditor-Controller performed an analysis on the County Treasury which resulted in the identification and classification of "mandatory" vs. "discretionary" depositors. Collectively, these mandatory deposits constituted approximately 77.18% of the funds on deposit in the County Treasury, while approximately 22.82% of the total funds on deposit in the County Treasury represented discretionary deposits.

While State law permits other governmental jurisdictions, with the prior consent of the Board of Supervisors and the County Treasurer, to participate in the County's PIF, none have been authorized entry, nor are any pending consideration. The desire of the County is to maintain a stable depositor base for those entities participating in the PIF.

All purchases of securities for the PIF are to be made in accordance with the County Treasurer's 2014 Statement of Investment Policy (the "Policy Statement"), which is more restrictive than the investments authorized pursuant to Sections 53601 and 53635 of the California Government Code. The Policy Statement requires that all investment transactions be governed by first giving consideration to the safety and preservation of principal and liquidity sufficient to meet daily cash flow needs prior to achieving a reasonable rate of return on the investment. Reverse-repurchase agreements are not authorized to be purchased for the PIF except for an unanticipated and immediate cash flow need that would otherwise cause the Treasurer to sell portfolio securities prior to maturity at a principal loss.

The allocation of the investments in the Pooled Investment Fund as of May 31, 2014, was as follows:

	<u>% of Pool</u>
U.S. Treasury Securities	5.68%
Federal Agency Securities	57.45
Cash/Deposit Accounts	3.98
Money Market Mutual Funds	9.35
Commercial Paper	18.19
Medium Term Notes	0.00
Municipal Bonds	1.18
Certificate and Time Deposits	3.09
Repurchase Agreements	0.00
CalTrust Short Term Fund	1.07
Local Agency Obligations	0.01
Reverse Repos	0.00
Local Agency Investment Fund	0.00
Total	<u>100.00%</u>
Book Yield:	0.40%
Years to Maturity:	1.31 years

Source: County Treasurer-Tax Collector.

As of May 31, 2014, the market value of the PIF was 99.98% of book value. The Treasurer estimates that sufficient liquidity exists within the portfolio to meet daily expenditure needs without requiring any sale of securities at a principal loss prior to their maturity.

In accordance with Sections 53684 and 53844 of the California Government Code, all interest, income, gains and losses on the portfolio are distributed quarterly to participants based upon their average daily balance except for specific investments made on behalf of a particular fund. In these instances, Sections 53844 requires that the investment income be credited to the specific fund in which the investment was made.

The Board of Supervisors established an "Investment Oversight Committee" in compliance with California Government Code Section 27131. Currently, the Investment Oversight Committee is composed of the County Finance Director, the County Treasurer-Tax Collector, the County Superintendent of Schools, a school district representative and a public member at large. The purpose of the Investment Oversight Committee is to review the prudence of the County's investment policy, portfolio holdings and investment procedures, and to make any findings and recommendations known to the Board of Supervisors. The Investment Oversight Committee was reorganized to conform to new State requirements requiring the County to have a local oversight committee. The Investment Oversight Committee it utilized by the County to manage, audit, and safeguard public funds and to perform other internal control measures.

The County has obtained a rating on the PIF of "Aaa-bf" from Moody's Investors Service and "AAA/V1" rating from Fitch Ratings. There is no assurance that such ratings will continue for any given period of time or that any such rating may not be lowered, suspended or withdrawn entirely by the respective rating agency if, in the judgment of such rating agency, circumstances so warrant.

Ad Valorem Property Taxes

General. Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate assessment rolls. The "secured roll" is that assessment roll containing locally assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

The County levies a 1% property tax on behalf of all taxing agencies in the County. The taxes collected are allocated on the basis of a formula established by State law enacted in 1979. Under this formula, the County and all other taxing entities receive a base year allocation plus an allocation on the basis of growth in situs assessed value (new construction, change of ownership, inflation) prorated among the jurisdictions which serve the tax rate areas within which the growth occurs. Tax rate areas are specifically defined geographic areas which were developed to permit the levying of taxes for less than county wide or less than city wide special and school districts. In addition, the County levies and collects additional voter approved debt service and fixed charge assessments on behalf of any taxing agency and special districts within the County.

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after 5:00 p.m. on December 10 and April 10, respectively, and a 10% attaches. A ten dollar cost also applies to all delinquent second installments. Property on the secured roll with unpaid delinquent taxes is declared tax-defaulted after 5:00 p.m. on June 30th. Such property may thereafter be redeemed by payment of the delinquent taxes, the 10% delinquency penalty, the twenty-eight dollar administrative cost, a fifteen dollar per parcel redemption fee (from which the State receives five dollars), and redemption penalty of one and one half percent per month starting July 1 and continuing until date of redemption (collectively, the "Redemption Amount"). If taxes remain unpaid after five years on the default roll, the property becomes subject to a tax sale by the County Treasurer.

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

The following tables set forth the secured property tax roll and the unsecured property tax roll of the County for Fiscal Year 2002-03 through Fiscal Year 2013-14.

**COUNTY OF RIVERSIDE
AD VALOREM PROPERTY TAXES - LEVIES AND COLLECTIONS
FISCAL YEARS 2002-03 THROUGH 2013-14
SECURED PROPERTY TAX ROLL⁽¹⁾**

<u>Fiscal Year</u>	<u>Secured Property Tax Levy</u>	<u>Current Levy Delinquent June 30</u>	<u>Percentage of Current Taxes Delinquent June 30⁽²⁾</u>	<u>Total Collections⁽³⁾</u>	<u>Percentage of Total Collections to Current Levy</u>
2002-03	\$1,348,190,139	\$44,478,022	3.30%	\$1,388,639,880	103.00%
2003-04	1,506,949,011	42,164,689	2.80	1,571,572,091	104.29
2004-05	1,747,034,222	55,557,116	3.18	1,797,065,686	102.86
2005-06	2,094,068,686	88,930,195	4.25	2,116,369,838	101.06
2006-07	2,559,448,076	180,175,146	7.04	2,532,293,674	98.94
2007-08	2,964,341,768	255,672,935	8.62	2,928,205,634	98.78
2008-09	3,029,936,136	222,218,035	7.33	3,146,419,870	103.84
2009-10	2,791,941,475	139,427,699	4.99	2,957,072,395	105.91
2010-11	2,698,915,858	95,454,538	3.54	2,826,336,496	104.72
2011-12	2,676,613,483	70,921,563	2.65	2,809,408,918	104.96
2012-13	2,677,034,057	58,215,544	2.17	2,800,820,511	104.62
2013-14	2,813,381,750	N/A	N/A	N/A	N/A

⁽¹⁾ The Levy and Collection data reflects the 1% levy allowed under Article XIII A of the California Constitution and additional taxes levied for voter-approved debt and special assessments. Taxes for the County, cities, schools districts, special districts and redevelopment agencies are included in the totals.

⁽²⁾ Under the Teeter Plan, participating agencies receive their full levy of current secured taxes regardless of delinquency rate, subject to roll corrections during the year. Prior year taxes are deposited to the Teeter Plan fund.

⁽³⁾ Includes current and prior years' redemptions, penalties and interest in current secured and unsecured taxes.

Source: County Auditor-Controller

UNSECURED PROPERTY TAX ROLL⁽¹⁾

<i>Fiscal Year</i>	<i>Unsecured Property Tax Levy</i>	<i>Total Collections⁽²⁾</i>	<i>Percentage of Total Collections to Original Levy⁽²⁾</i>
2002-03	51,805,548	48,211,472	93.06%
2003-04	56,479,231	54,911,981	97.23
2004-05	61,359,545	58,253,834	94.94
2005-06	67,010,790	65,220,783	97.88
2006-07	71,315,299	70,418,974	98.74
2007-08	79,265,231	75,566,558	95.33
2008-09	88,531,578	86,067,900	97.22
2009-10	88,118,784	88,409,527	100.33
2010-11	86,326,418	82,483,361	95.55
2011-12	83,904,478	84,157,603	100.30
2012-13	83,848,832	78,686,704	93.84
2013-14 ⁽³⁾	83,522,992	78,258,769	93.7 ⁽³⁾

⁽¹⁾ The Levy and Collection data reflects the 1% levy allowed under Article XIII A of the California Constitution and additional taxes levied for voter-approved debt and special assessments. Taxes for the County, cities, schools districts, special districts and redevelopment agencies are included in the totals.

⁽²⁾ Includes current and prior years' redemptions, penalties and interest in current secured and unsecured taxes.

⁽³⁾ Reflects partial year collections, through April 2014.

Source: County Auditor-Controller.

State legislation enacted in 1984 established the "supplemental roll," which directs the County Assessor to re-assess real property, at market value, on the date the property changes ownership or upon completion of new construction. Property on the supplemental roll is eligible for billing 30 days after the reassessment and notification to the new assessee. The resultant charge (or refund) is a one-time levy on the increase (or decrease) in value for the period between the date of the change in ownership or completion of new construction and the date of the next regular tax roll upon which the assessment is entered.

Supplemental roll billings are made on a monthly basis and are due on the date mailed. If mailed within the months of July through October, the first installment becomes delinquent on December 10 and the second on April 10. If mailed within the months of November through June, the first installment becomes delinquent on the last day of the month following the month of billing. The second installment becomes delinquent on the last day of the fourth month following the date the first installment is delinquent. These assessments are subject to the same penalties and default procedures as the secured and unsecured rolls.

The following table sets forth the supplemental tax roll of the County for Fiscal Year 2003-04 through Fiscal Year 2013-14.

**COUNTY OF RIVERSIDE
SUMMARY OF SUPPLEMENTAL ROLL
AD VALOREM PROPERTY TAXATION
FISCAL YEARS 2002-03 THROUGH 2013-14**

<i>Fiscal Year</i>	<i>Tax Levy for Increased Assessments^{(1),(2),(3)}</i>	<i>Refunds for Decreased Assessments^{(1),(3)}</i>	<i>Net Supplemental Tax Levy</i>	<i>Collections^{(1),(2)}</i>
2003-04	\$ 107,873,487	\$ 2,072,831	\$ 105,800,656	\$ 92,039,986
2004-05	201,364,003	2,048,421	199,315,582	151,778,352
2005-06	334,571,225	1,818,236	332,752,989	248,929,219
2006-07	344,014,168	2,948,680	341,065,488	301,767,959
2007-08	171,506,667	9,019,397	162,487,270	214,671,863
2008-09 ⁽⁴⁾	60,817,712	46,478,150	14,339,562	74,316,444
2009-10	27,019,730	35,212,651	(8,192,922) ⁽⁵⁾	19,632,809
2010-11	34,612,092	27,686,887	6,925,205	16,813,302
2011-12	26,497,836	18,807,091	7,690,745	17,105,095
2012-13	35,389,177	16,720,188	18,668,989	23,487,988
2013-14	49,806,425 ⁽⁶⁾	8,321,193 ⁽⁶⁾	31,494,233 ⁽⁶⁾	27,988,968 ⁽⁷⁾

(1) Includes tax levy, refunds and collections for all districts, including the County, cities, school districts, special districts and redevelopment agencies.

(2) Includes current and prior years' taxes, redemption penalties and interest collected.

(3) Tax levy amounts are shown net of minimum tax less than \$10 and refunds are shown net of refunds of negative supplemental taxes less than \$10.

(4) Changes from prior years due to decrease in housing values and lower transaction volume. See description below following the table of Assessed Valuation History by Category and Property Type.

(5) The negative tax levy is a result of refunds exceeding the billed amounts.

(6) From July 2013 through April 2014.

(7) From July 2013 through March 2014.

Source: County Auditor-Controller/County Treasurer and Tax Collector.

The Assessment Roll

The following table sets forth the assessed valuation by category and property type for Fiscal Year 2009-10 through Fiscal Year 2013-14.

**COUNTY OF RIVERSIDE
 ASSESSED VALUATION HISTORY BY CATEGORY AND PROPERTY TYPE⁽¹⁾
 FISCAL YEARS 2009-10 THROUGH 2013-14
 (IN MILLIONS)**

<i>Category</i>	<i>2009-10</i>	<i>2010-11</i>	<i>2011-12</i>	<i>2012-13</i>	<i>2013-14</i>
<u>SECURED PROPERTY:</u>					
Land	\$ 69,917	\$ 65,877	\$ 64,308	\$ 63,549	\$ 65,635
Structures	137,292	132,431	131,516	132,077	138,000
Personal Property	906	819	836	887	878
Utilities	<u>2,907</u>	<u>3,018</u>	<u>3,614</u>	<u>3,475</u>	<u>3,618</u>
Total Secured	\$ 211,022	\$ 202,145	\$ 200,274	\$ 199,988	\$ 208,131
<u>UNSECURED PROPERTY:</u>					
Land	\$ 2	\$ 14	\$ 29	\$ 17	\$ 13
Improvements	3,761	3,748	3,778	3,951	3,910
Personal Property	<u>4,154</u>	<u>4,049</u>	<u>3,975</u>	<u>3,895</u>	<u>3,691</u>
Total Unsecured ⁽²⁾	\$ 7,917	\$ 7,811	\$ 7,782	\$ 7,863	\$ 7,614
Grand Total	<u>\$ 218,939</u>	<u>\$ 209,956</u>	<u>\$ 208,059</u>	<u>\$ 207,851</u>	<u>\$ 215,745</u>

⁽¹⁾ Assessed valuation is reported as of July 1 of each year at 100% of full taxable value. Pursuant to Article XIII A of the State Constitution (Proposition 13), property is valued for tax purposes at the 1975 fair market value, adjusted annually for inflation (not to exceed 2%). Generally, property is reassessed at fair market value upon change of ownership and for new construction.

⁽²⁾ Represents total of categories set forth above; does not represent total tax roll values.

Source: County Auditor-Controller/County Assessor.

Housing prices in the County declined in 2007 and 2008 and, although showing moderate increases in recent years. Assessed valuations can be reduced as a result of an assessment appeal or an assessor-initialized reduction. Property owners can appeal their initial valuation at the time of acquisition to establish their Proposition 13 basis. Subsequently, they may appeal the valuation under Proposition 8 to achieve a temporary reduction below the Proposition 13 value, as adjusted. The County Assessor is required under Proposition 8 to make reductions, should declines in market values call for such reductions.

In response to the decline in the local housing market, for Fiscal Year 2008-09, the County Assessor proactively reviewed all residential properties and made applicable adjustments to bring the tax roll in line with the then current (depressed) values, without waiting for tax payers to file an appeal. The Fiscal Years 2008-09 and 2009-10 budgets incorporated these Proposition 8 reductions. The total Fiscal Year 2008-09 reductions of \$16.2 billion offset a majority of the value increases recorded during the prior year. For Fiscal Year 2009-10, the County Assessor reviewed the values of approximately 300,000 properties, including those reduced in the prior year, and reduced total valuation by approximately \$40 billion. This resulted in a net decline in assessed valuation from the prior year of approximately 10.5%. In Fiscal Year 2010-11, the Assessor proactively reviewed all residential properties purchased after January 1, 1999, which encompassed approximately 400,000 properties. This resulted in a net decline in assessed valuation from the prior fiscal year of approximately 4.25%. In fiscal year 2011-12, the Assessor proactively reviewed all residential properties purchased after January 1, 1999, which resulted in a 1.5% decline in assessed valuation from the prior fiscal year. In fiscal year 2012-13, the Assessor proactively reviewed all residential properties purchased after January 1, 1999, which resulted in a 0.15%

decline in assessed valuation from the prior fiscal year. Cumulatively, assessed valuation in the County has declined 16.36% since fiscal year 2007-08 through fiscal year 2012-13 due to the County Assessor's proactive reviews. No additional Proposition 8 reductions are expected for Fiscal Year 2013-14 or 2014-15, and assessed valuation in the County increased from Fiscal Year 2012-13 to Fiscal Year 2013-14 by approximately 3.95%.

Property Tax Appeals. The County has received assessment appeals applicable to Fiscal Year 2013-14 totaling approximately \$12.4 billion of assessed value. Successful appeals result in either a refund of taxes paid or a reduction to an unpaid tax bill. A total of \$2.2 billion of assessed value was reduced from the County tax roll in Fiscal Year 2012-13 and Fiscal Year 2013-14 due to appeals, representing \$22 million in general purpose taxes over the two-fiscal year period. 26% of the Fiscal Year 2012-13 assessment appeals have been completed. The majority of the remaining Fiscal Year 2012-13 assessment appeals are expected to be completed by November 30, 2014.

The County cannot predict with certainty the outcome of the assessment appeals that have been filed but not resolved. It is expected that the impact of the assessment appeals on the Fiscal Year 2014-15 budget will be determined primarily by two components: (i) the remainder of the Fiscal Year 2012-13 assessment appeals still to be completed; and (ii) a portion of the Fiscal Year 2013-14 and Fiscal Year 2014-15 assessment appeals being completed during Fiscal Year 2014-15.

Teeter Plan

In 1993, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing section 4701) of the Revenue and Taxation Code of the State (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year-end. Under this plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and, by such financing, its General Fund receives the full amount of secured property taxes levied each year and, therefore, no longer experiences delinquent taxes. In addition, the County's General Fund benefits from future collections of penalties and interest on all delinquent taxes collected on behalf of participants in this alternative method of apportionment. The penalties and interest, net of financing costs, are a substantial source of income for the County.

Upon adopting the Teeter Plan in 1993, the County was required to distribute to participating local agencies, 95% of the then-accumulated secured roll property tax delinquencies and place the remaining 5% in the tax losses reserve fund, as described below. Taxing entities that maintain funds in the County Treasury are all included in the Teeter Plan; other taxing entities may elect to be included in the Teeter Plan. Taxing entities that do not elect to participate in the Teeter Plan will be paid as taxes are collected. In Fiscal Year 2013-14, approximately 55.3% of all taxing entities within the County participated in the Teeter Plan.

Pursuant to the Teeter Plan, the County is also required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax defaulted property (i.e., if the sale price of the property is less than the amount owed). The amount required to be on deposit in the tax losses reserve fund is, at the election of the County, one of the following amounts: (1) an amount not less than 1% of the total amount of taxes and assessments levied on the secured roll for a particular year for entities participating in the Teeter Plan, or (2) an amount not less than 25% of the total delinquent secured taxes and assessments calculated as of the end of the fiscal year for entities participating in the Teeter Plan. The County's tax losses reserve fund will be fully funded, in accordance with the County's election to be governed by the first alternative, and this amount has consistently been

sufficient to provide for any tax losses. Accordingly, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are credited to the County's General Fund.

Funding for the County's on-going obligations under the Teeter Plan was completed through the issuance in October 2013 of County of Riverside Teeter Obligation Tax-Exempt Notes, Series D (the "D Notes") in the amount of approximately \$118.1 million and the County of Riverside Teeter Obligation Taxable Notes, Series E (the "Series E Notes" and together with the D Notes, the "Notes") in the amount of approximately \$1.6 million. The proceeds of the Notes refunded the outstanding County of Riverside 2012 Teeter Obligation Notes, Series D originally issued in the amount of \$142.8 million, funded an advance of unpaid property taxes for agencies participating in the Teeter Plan, and made payments to the Cities of Riverside and Eastvale to acquire such cities' prior year tax receivables as new participants in the Teeter Plan. The Notes funded approximately \$44.2 million representing Fiscal Year 2012-13 delinquent property taxes and approximately \$75.5 million representing prior years' delinquent property taxes. The Notes mature on October 15, 2014. The County's General Fund is pledged to the repayment of the Notes in addition to the pledge of the delinquent taxes in the event that delinquent taxes collected are not sufficient to repay the Notes.

Largest Taxpayers

The following table sets forth the 25 largest taxpayers by individual tax levied in the County for Fiscal Year 2013-14.

COUNTY OF RIVERSIDE TWENTY-FIVE LARGEST TAXPAYERS IN FISCAL YEAR 2013-14 COMBINED TAX ROLLS⁽¹⁾

<u>TAXPAYER</u>	<u>TOTAL TAXES LEVIED</u>	<u>PERCENTAGE OF TOTAL TAX CHARGE</u>
Southern California Edison Company	\$27,265,175.94	0.92%
CPV Sentinel LLC	8,528,247.00	0.29
Verizon California Inc.	7,444,694.48	0.25
Southern California Gas Company	6,643,752.25	0.22
Inland Empire Energy Center, LLC	4,724,552.80	0.16
Walgreen Co.	3,047,025.73	0.10
Tyler Mall Ltd. Partnership	2,985,659.56	0.10
Time Warner Cable Pacific West LLC	2,923,122.40	0.10
Lowes HIW Inc.	2,739,694.02	0.09
Target Corp.	2,655,141.13	0.09
Chelsea GCA Realty Partnership	2,600,909.58	0.09
Costco Wholesale Corp.	2,594,866.65	0.09
Wal Mart Real Estate Business Trust	2,581,516.60	0.09
KB Home Coastal Inc.	2,565,084.35	0.09
Federal National Mortgage Association	2,538,809.20	0.09
Roripaugh Valley Restoration	2,502,491.44	0.08
Standard Pacific Corp.	2,462,304.49	0.08
Abbott Vascular Inc.	2,418,560.79	0.08
Blythe Energy, LLC	2,416,881.60	0.08
Nestle Waters North America, Inc.	2,272,728.64	0.08
Ross Dress For Less, Inc.	2,227,547.50	0.08
Health Care REIT	2,137,448.36	0.07
Richmond American Homes of Maryland Inc.	2,096,973.02	0.07
Fresh & Easy Neighborhood Market, Inc.	2,067,061.87	0.07
Palm Desert Funding Co.	2,066,948.04	0.07
<u>Total</u>	<u>\$104,327,197.43</u>	<u>3.52%</u>
Total Tax Charge for 2013-14	\$2,966,469,758.95	

⁽¹⁾ Includes secured, unsecured and State-assessed property.
Source: County Treasurer and Tax Collector

The following table sets forth the ten largest property owners in the County by assessed value for all properties, for Fiscal Year 2014-15.

**COUNTY OF RIVERSIDE
TEN LARGEST PROPERTY OWNERS IN FISCAL YEAR 2014-15
BY ASSESSED VALUE**

<u>ASSESSEE</u>	<u>ASSESSED VALUE</u>
Eisenhower Memorial Hospital	\$ 362,181,082
Kaiser Foundation Hospital	314,501,977
Walgreen Co.	262,378,841
Time Warner Cable Pacific West LLC	252,013,048
Abbott Vascular Inc.	234,075,384
Target Corp.	226,121,225
Kaiser Foundation Health Plan Inc.	218,097,077
Lowe's HIW Inc.	215,047,054
Costco Wholesale Corp.	214,356,553
Ross Dress For Less Inc.	<u>202,322,179</u>
Subtotal	\$ 2,501,094,420
All Others	<u>210,474,446,454</u>
Total	\$212,975,540,874 ⁽¹⁾

⁽¹⁾ Excludes State assessed property. Does not reflect any applicable exemptions.
Source: County Assessor

Other Taxing Entities

The County does not retain all of the property taxes it collects for its own purposes. The majority of property taxes collected by the County are disbursed to other agencies. For Fiscal Year 2012-13, the County retained approximately 12.23% of the total amount collected (and is budgeted to retain 12.23% in Fiscal Year 2013-14). The remainder is distributed according to State law (AB 8), which established a tax-sharing formula, and State redevelopment law (See “-Redevelopment Agencies” below). Taxes levied for the purpose of repaying general obligation debt, special taxes and assessments are applied to pay such obligations, less any allowable collection charges.

Redevelopment Agencies

The California Community Redevelopment Law (California Health and Safety Code Section 33000 et seq.) authorized the redevelopment agency of any city or county to issue bonds payable from the allocation of tax revenues resulting from increases in assessed valuation of properties within the designated project areas. In effect, local taxing authorities other than the redevelopment agency realize tax revenues on a portion of the taxes generated in a project area including: 1) on the “frozen” tax base; 2) for project areas adopted prior to January 1, 1994, local taxing authorities may receive an additional amount based on any negotiated agreements with redevelopment agencies to receive a share of tax increment proceeds; and, 3) for project areas adopted after January 1, 1994, local taxing authorities receive a pass-through payment based on statutory rules pursuant to section 33607.5 of the California Health and Safety Code. The net effect of the formation of a redevelopment area is to redistribute tax revenues away from the AB 8 formula. Redevelopment agencies generally receive the majority of the taxes to be allocated. Other taxing entities may receive a portion of the tax revenue pursuant to agreements negotiated with the redevelopment agency.

The following table summarizes the community redevelopment agencies' frozen base value, full cash value increments, and total tax allocations for Fiscal Years 2002-03 through 2013-14.

**COUNTY OF RIVERSIDE
COMMUNITY REDEVELOPMENT AGENCIES'
FROZEN BASE VALUE, FULL CASH VALUE INCREMENTS
AND TOTAL TAX ALLOCATIONS
FISCAL YEARS 2002-03 THROUGH 2013-14**

<u>Fiscal Year</u>	<u>Frozen Base Value</u>	<u>Full Cash Value Increments⁽¹⁾</u>	<u>Total Tax Allocations^{(2) (3)}</u>
2002-03	\$11,061,415,310	\$26,977,389,195	\$271,878,884
2003-04	11,384,632,277	30,660,791,085	308,514,347
2004-05	12,271,092,108	34,974,969,456	352,904,769
2005-06	14,682,893,563	42,414,898,724	427,668,011
2006-07	14,555,513,591	52,411,876,802	529,173,451
2007-08	15,259,109,791	62,845,258,807	634,701,584
2008-09	15,257,041,079	66,803,157,176	673,622,251
2009-10	15,256,883,605	62,342,584,603	630,001,609
2010-11	15,980,487,099	58,188,212,570	586,318,387
2011-12	16,272,503,279	56,687,373,841	598,655,064
2012-13	16,352,697,201	56,178,718,338	594,476,134
2013-14 ⁽⁴⁾	16,352,697,201	58,677,226,297	688,683,052

⁽¹⁾ Full cash value for all redevelopment projects (including County projects) above the "frozen" base year valuations. This data represents growth in full cash values generating tax revenues for use by the community redevelopment agencies.

⁽²⁾ Actual cash revenues collected by the County and available to community redevelopment agencies, subject to debt limitation and certain negotiated agreements with taxing entities for a share of the property tax increment.

⁽³⁾ Includes general purpose and debt; excludes negative increment.

⁽⁴⁾ Based on County estimate of increment of assessed value for the community redevelopment agencies for Fiscal Year 2013-14.

Source: County Auditor-Controller

Legislation enacted as part of the State's 2011 Budget Act ("ABx1 26") eliminated redevelopment agencies, with formal dissolution having taken place on February 1, 2012. The County had previously formed a redevelopment agency with project areas in 45 unincorporated communities. In accordance with ABx1 26, the County redevelopment agency dissolved on February 1, 2012 and the County's Board of Supervisors is acting as the successor agency to the County's redevelopment agency. At the time of its dissolution, the County redevelopment agency had a total land area of 82,334 acres, a base year assessed value, including State-owned land, of \$3,971,824,734, and a 2011-12 assessed value of 8,266,787,927. In Fiscal Year 2011-12, the pass-through payment to the County's General Fund from the County's redevelopment agency totaled \$1,600,442.73, and was offset in its entirety pursuant to Health and Safety Code Section 33607.5. As a consequence of the dissolution of redevelopment agencies, the County no longer receives pass-through payments from the County redevelopment agency, but these amounts were relatively modest and are largely offset by the County's receipt of its tax allocation under the AB 8 formula. As the result of the dissolution, the County is receiving a share of residual, unencumbered low and moderate housing and other asset funding. As of March 2014, the County received approximately \$9 million in such funds in the current fiscal year.

In Fiscal Year 2013-14, the County estimates that it will receive approximately \$81 million in pass-through payments pursuant to agreements with various city redevelopment agencies, and is projecting that it will receive approximately \$85 million in pass-through payments in Fiscal Year 2014-15. Pursuant to ABx1 26 and its following clarifying legislation, the County's negotiated pass-through agreements with these redevelopment agencies remain in full force and effect as enforceable obligations of the successor entity to each such redevelopment agency.

Financial Statements and Related Issues

The County's accounting policies used in preparation of its audited financial statements conform to generally accepted accounting principles applicable to counties. The County's governmental funds and fiduciary funds use the modified accrual basis of accounting. This system recognizes revenues in the accounting period in which they become available and measurable. Expenditures, with the exception of unmatured interest on general long-term debt, are recognized in the accounting period in which the fund liability is incurred. Proprietary funds use the accrual basis of accounting, and revenues are recognized in the accounting period in which they are earned and become measurable, while expenses are recognized in the period during which they are incurred.

The State Government Code requires every county to prepare an annual financial report. The County Auditor-Controller prepares the "Annual Financial Report of the County of Riverside." Under the U.S. Single Audit Act of 1984 and State law, independent audits are required on all operating funds under the control of the Board of Supervisors and must be conducted annually. The County's financial statements for Fiscal Year 2012-13 were audited by Brown Armstrong Certified Public Accountants. See APPENDIX B—"COUNTY OF RIVERSIDE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013."

The County adopted the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* during Fiscal Year 2001-02. This statement affects the manner in which the County records transactions and presents financial information. GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the County's financial activities in the form of "management's discussion and analysis" (MD&A). In addition, the reporting model established by GASB Statement No. 34 includes financial statements prepared using full accrual accounting for all of the County's activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. The reporting model features a statement of net assets and a statement of activities. The statement of net assets is designed to display the financial position of the government. The County reports all capital assets, including infrastructure assets, in the government-wide statement of net assets and reports depreciation expense in the statement of activities. The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the County's functions. The expense of individual functions is compared to the revenue generated directly by the function. Accordingly, the County has recorded other long-term assets and liabilities in the statement of net assets, and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities. For further information on GASB Statement No. 34 and other changes in significant accounting policies, see Note 1 of the Notes to Basic Financial Statements, June 30, 2013, which are included in APPENDIX B—"COUNTY OF RIVERSIDE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013."

The following table sets forth the County's Statement of Revenues, Expenditures and Change in Unreserved Fund Balances – General Fund for Fiscal Years 2008-09 through 2012-13.

COUNTY OF RIVERSIDE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN UNRESERVED FUND BALANCES – GENERAL FUND
FISCAL YEARS 2008-09 THROUGH 2012-13
(In Thousands)

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
BEGINNING FUND BALANCE	\$481,776	\$372,121	\$386,486	\$343,562	\$336,598
REVENUES					
Taxes	274,480	229,631	221,807	216,746	246,144
Licenses, permits and franchises	19,840	16,724	18,187	17,648	16,442
Fines, forfeiture and penalties	107,147	112,813	93,528	88,979	85,241
Use of money and property–Interest	33,414	12,197	8,196	4,740	1,676
Use of money and property– Rents and concessions	3,157	3,936	3,669	3,798	3,670
Government Aid–State	908,334	820,432	856,327	931,652	1,000,545
Government Aid–Federal	472,210	504,605	490,088	475,221	478,791
Governmental Aid–Other	95,812	89,312	82,147	80,332	81,169
Charges for current services	364,649	367,249	369,780	354,451	374,750
Other revenues	<u>36,149</u>	<u>30,670</u>	<u>37,654</u>	<u>40,852</u>	<u>26,253</u>
TOTAL REVENUES	\$2,315,192	\$2,187,569	\$2,181,383	\$2,214,419	\$2,315,681
EXPENDITURES					
General government	\$146,816	\$130,516	\$109,146	\$127,195	\$103,895
Public protection	1,062,437	1,005,679	1,025,584	1,010,999	1,043,017
Public ways and facilities	4,378	-	-	-	-
Health and sanitation	382,588	333,068	345,649	369,165	388,325
Public assistance	719,328	712,353	731,017	719,670	735,057
Education	675	551	548	579	564
Recreation and cultural	230	312	364	324	346
Capital Outlay	22,746	31,018	8,321	2,671	1,721
Debt service	<u>22,501</u>	<u>21,876</u>	<u>24,829</u>	<u>21,426</u>	<u>19,576</u>
TOTAL EXPENDITURES	\$2,361,699	\$2,234,373	\$2,245,458	\$2,252,029	\$2,292,501
Excess (deficit) of revenues over (under) expenditures	(46,507)	(47,804)	(64,075)	(37,610)	23,180
OTHER FINANCING SOURCES (USES)					
Transfer from other reserves	\$99,825	\$168,833	\$106,047	\$123,587	\$92,297
Transfer to other funds	(185,719)	(132,682)	(93,217)	(98,045)	(96,547)
Capital Leases	<u>22,746</u>	<u>31,018</u>	<u>8,321</u>	<u>2,671</u>	<u>1,721</u>
Total other Financing Sources (Uses)	<u>\$(63,148)</u>	<u>\$62,169</u>	<u>\$21,151</u>	<u>\$28,213</u>	<u>\$(2,529)</u>
NET CHANGE IN FUND BALANCES	\$(109,655)	\$14,365	\$(42,924)	\$(9,397)	\$20,651
FUND BALANCE, END OF YEAR⁽¹⁾	\$372,121	\$386,486	\$343,562	\$336,598	\$357,249

⁽¹⁾ As of June 30, 2011, the County's financial statements reported fund balance in accordance with GASB Statement No. 54, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Source: County Auditor-Controller.

The following table sets forth the County's General Fund Balance Sheets for Fiscal Years 2008-09 through 2012-13.

**COUNTY OF RIVERSIDE
GENERAL FUND BALANCE SHEETS
AT JUNE 30, 2009 THROUGH JUNE 30, 2013
(In Thousands)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
ASSETS:					
Cash & Marketable Securities	\$150,728	\$122,902	\$160,887	\$151,845	\$128,655
Taxes Receivable	46,813	27,714	17,790	14,046	10,931
Accounts Receivable	31,150	8,468	12,771	9,196	9,167
Interest Receivable	3,315	2,091	1,119	643	687
Advances to Other Funds	0	0	3,692	3,342	3,342
Due from Other Funds	19,110	25,353	18,787	14,227	9,071
Due from Other Governments	250,144	263,240	276,656	328,817	308,532
Inventories	2,132	1,941	1,564	1,187	2,059
Prepaid items	3,720	888	277	298	818
Restricted Assets	<u>252,084</u>	<u>296,543</u>	<u>283,095</u>	<u>299,673</u>	<u>307,452</u>
Total Assets	<u>\$759,196</u>	<u>\$749,140</u>	<u>\$777,638</u>	<u>\$823,274</u>	<u>\$780,714</u>
LIABILITIES:					
Accounts Payable	\$ 68,560	\$ 57,236	\$ 84,116	\$75,996	\$24,234
Salaries & Benefits Payable	88,184	46,376	50,374	57,391	57,519
Due To Other Funds	0	2,155	2,639	1,466	9,190
Due to Other Governments	47,579	35,161	34,550	40,804	23,377
Deferred Revenue	180,777	218,676	260,343	311,003	66,855
Deposits Payable	1,975	3,050	2,054	16	19
Advances from grantors and third parties	-	-	-	-	<u>242,271</u>
Total Liabilities	<u>\$387,075</u>	<u>\$362,654</u>	<u>\$434,076</u>	<u>\$486,676</u>	<u>\$423,465</u>
FUND BALANCE:⁽¹⁾					
Nonspendable			\$ 2,214	\$ 1,834	\$ 3,247
Restricted			98,552	101,651	101,440
Committed			50,097	52,439	42,183
Assigned			3,463	8,674	10,460
Unassigned			189,236	171,910 ⁽²⁾	199,919 ⁽²⁾
Reserved	\$ 91,196	\$ 90,374			
Unreserved	<u>280,925</u>	<u>296,112</u>			
Fund Balance	<u>\$372,121</u>	<u>\$386,486</u>	<u>\$343,562</u>	<u>\$336,598</u>	<u>\$357,249</u>
Total Liabilities and Fund Balance	<u>\$759,196</u>	<u>\$749,140</u>	<u>\$777,638</u>	<u>\$823,274</u>	<u>\$780,714</u>

⁽¹⁾ As of June 30, 2011, the County's financial statements reported fund balance in accordance with GASB Statement No. 54, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

⁽²⁾ Annual fluctuations are due mainly to fluctuation in tax revenue, general government expenditures, interest earnings and State allocations.

Source: County Auditor-Controller

**COUNTY OF RIVERSIDE
GENERAL FUND BALANCES
AT JUNE 30, 2006 THROUGH JUNE 30, 2013
(In Thousands)**

	<u>Reserved</u>	<u>Unreserved</u>				<u>Total</u>
2006	\$100,436	\$346,482				\$446,918
2007	88,233	482,731				570,964
2008	84,466	394,302				478,768
2009	91,196	280,925				372,121
2010	90,374	296,112				386,486
	<u>Nonspendable</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total</u>
2011 ⁽¹⁾	\$2,214	\$98,552	\$50,097	\$3,463	\$189,236	\$343,562
2012	1,834	101,651	52,439	8,764	171,910	336,598
2013	3,247	101,440	42,183	10,460	199,919	357,249

⁽¹⁾ As of June 30, 2011, the County's financial statements reported fund balance in accordance with GASB Statement No. 54, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

Source: County Auditor-Controller

Short-Term Obligations of County

In June 2013, the County issued its 2013-14 Tax and Revenue Anticipation Note (the "2013-14 TRAN") in the principal amount of \$250,000,000 to provide funds to meet the County's Fiscal Year 2013-14 General Fund expenditures, including current expenses, capital expenditures and prepayment of pension plan contributions. \$125,000,000 of the 2013-14 TRAN remains outstanding and is due on June 30, 2014. The TRAN is payable from taxes, income, revenues, cash receipts and other moneys of the County attributable to the County's Fiscal Year 2013-14 which are legally available for the payment thereof. The County has issued tax and revenue anticipation notes annually for over twenty consecutive years with timely repayment. The County expects to issue a tax and revenue anticipation note in June 2014 in the principal amount of \$250,000,000 to provide funds to meet the County's Fiscal Year 2014-15 General Fund expenditures.

Long-Term Obligations of County

Since its formation in 1893, to the best knowledge of County officials, the County has never failed to pay the principal of or interest on any of its bonded indebtedness. As of April 1, 2014, the County had \$711,859,868 in direct General Fund obligations and \$334,515,000 in pension obligation bond indebtedness, as reflected in the following table, and has no authorized but unissued general obligation debt. Set forth below is an estimated direct and overlapping debt report as of April 1, 2014.

**COUNTY OF RIVERSIDE
ESTIMATED DIRECT AND OVERLAPPING OBLIGATIONS
(AS OF APRIL 1, 2014)**

2013-14 Assessed Valuation: \$213,210,306,282 (includes unitary utility valuation)

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/14</u>
Metropolitan Water District	6.146%	\$ 8,129,622
Community College Districts	1.173-99.999	547,985,598
Unified School Districts	1.300-100.	2,193,734,769
Perris Union High School District	100.	83,862,260
Elementary School Districts	100.	64,028,611
City of Riverside	100.	14,295,000
Eastern Municipal Water District Improvement Districts	100.	38,015,000
Riverside County Flood Control, Zone 3-B Benefit Assessment District	100.	1,705,000
San Geronio Memorial Hospital District	100.	107,980,000
Community Facilities Districts	50.225-100.	2,739,616,127
Riverside County 1915 Act Bonds	100.	2,660,000
City and Special District 1915 Act Bonds (Estimated)	100.	219,691,373
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$6,021,703,360

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	100.	\$ 711,859,868
Riverside County Pension Obligations	100.	334,515,000
Riverside County Board of Education Obligations	100.	2,700,000
School Districts General Fund and Lease Tax Obligations	1.300-100.	456,507,228
City of Corona General Fund Obligations	100.	55,118,208
City of Moreno Valley General Fund Obligations	100.	69,686,500
City of Indio General Fund Obligations	100.	40,165,000
City of Palm Springs Certificates of Participation and Pension Obligations	100.	157,890,828
City of Riverside Certificates of Participation	100.	198,764,392
City of Riverside Pension Obligations	100.	122,005,000
Other City General Fund Obligations	100.	80,281,600
Other Water District Certificates of Participation	100.	65,747
Other Special District Certificates of Participation	100.	2,640,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$2,232,199,371
Less: Riverside District Court Financing Corporation (100% supported from U.S. General Services Administration)		10,102,258
City of Corona Certificates of Participation supported by waste water revenues		1,515,000
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$2,220,582,113

<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u>	\$2,746,999,812
GROSS COMBINED TOTAL DEBT	\$11,000,902,543⁽¹⁾
NET COMBINED TOTAL DEBT	\$10,989,285,285

<u>Ratios to 2013-14 Assessed Valuation:</u>	
Overlapping Tax and Assessment Debt	2.82%
Combined Gross Direct Debt (\$1,046,374,868).....	0.49%
Combined Net Direct Debt (\$1,036,272,610).....	0.49%
Gross Combined Total Debt	5.16%
Net Combined Total Debt.....	5.15%

<u>Ratios to Successor Agency Redevelopment Incremental Valuation (\$58,479,843,303):</u>	
Total Overlapping Tax Increment Debt	4.70%

⁽¹⁾ Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations. Source: California Municipal Statistics, Inc. The County has not verified the accuracy of the information provided.

Lease Obligations

The County has used nonprofit corporations and joint powers authorities to finance certain public facilities through the issuance of lease obligations. Pursuant to these arrangements, a nonprofit corporation or joint powers authority constructs or acquires facilities with the proceeds of lease revenue obligations which are then leased to the County. Upon expiration of the lease, title to the facilities vests in the County.

As of April 1, 2014, the County's current outstanding lease obligations total \$708,448,467. The County's annual lease obligation is approximately \$83,313,894 and the maximum annual lease payment is \$93,896,364. The County plans to finance the construction of the East County Detention Center described in the front part of this Official Statement with the proceeds of the Bonds.

The table on the following page sets forth the County's outstanding lease obligations and the respective annual lease requirements as of April 1, 2014.

**COUNTY OF RIVERSIDE
SUMMARY OF LEASE RENTAL OBLIGATIONS
(PAYABLE FROM THE COUNTY'S GENERAL FUND)
(AS OF APRIL 1, 2014)**

	Final Maturity Year	Original Lease Amount	Obligations Outstanding	Annual Base Rental ⁽¹⁾
Riverside County Public Facilities Project 1985 Certificates of Participation – Type I	2015	\$148,500,000	\$28,000,000	\$13,417,318 ⁽²⁾
Riverside County Hospital Project, Leasehold Revenue Bonds:				
1993 Series A and B	2014	149,060,000	7,475,000	
1997 Series A	2026	41,170,073	38,136,209	
1997 Series C	2019	3,265,000	3,265,000	
2012 Series A and B ⁽³⁾	2019	90,530,000	90,530,000	19,880,794 ⁽³⁾
County of Riverside 1990 Taxable Variable Rate Certificates of Participation (Monterey Avenue)	2020	8,800,000	4,400,000	814,000 ⁽⁴⁾
Riverside County Palm Desert Financing Authority Lease Revenue Bonds				
2008 Series A	2022	72,445,000	56,655,000	8,263,100
County of Riverside Certificates of Participation (Historic Courthouse Project):				
2003 Series A ⁽¹⁴⁾	2033	13,190,000	10,900,000	868,495
2005 Series B ⁽⁵⁾	2027	22,610,000	18,025,000	1,575,575
County of Riverside Court Financing Corporation Certificates of Participation (Bankruptcy Courthouse Acquisition Property) ⁽¹⁴⁾	2027	18,000,000	7,290,000	1,448,247
County of Riverside Certificates of Participation (2009 Larson Justice Center Refunding) ⁽⁶⁾	2021	36,100,000	18,800,000	2,562,425
Riverside District Court Financing Corporation (United States District Court Project):				
Series 1999	2020	24,835,000	9,647,258	
Series 2002	2020	925,000	455,000	1,821,748 ⁽⁷⁾
County of Riverside Leasehold Revenue Bonds (Southwest Justice Center Project)				
2008 Series A ⁽⁸⁾	2032	78,895,000	78,895,000	4,067,037
County of Riverside Refunding Certificates of Participation (Capital Facilities Project) 2003 Series B ⁽⁹⁾ ⁽¹⁴⁾	2018	8,685,000	1,830,000	404,703
County of Riverside Certificates of Participation (2005 Series A Capital Improv and Family Law Court Refunding Project) ⁽¹⁰⁾	2036	51,655,000	43,335,000	3,392,425
County of Riverside Certificates of Participation (2006 Series A Capital Improvement Projects)	2037	34,675,000	30,780,000	2,163,069
County of Riverside Certificates of Participation (2007A Public Safety Commission Project)	2022	111,125,000	40,395,000	11,108,125
County of Riverside Southwest Communities Financing Authority Lease Revenue Bonds, Series 2008 A	2038	15,105,000	14,340,000	1,153,555
County of Riverside Certificates of Participation (2009 Public Safety Communication and Woodcrest Library Refunding Projects) ⁽¹¹⁾	2040	45,685,000	43,345,000	1,910,700
County of Riverside Monroe Park Building 2011 Lease Financing	2020	5,535,000	4,160,000	681,866
County of Riverside Certificates of Participation (2012 County Administrative Center Refunding Project) ⁽¹²⁾	2031	33,360,000	31,680,000	2,513,438
County of Riverside Public Financing Authority (2012 Lease Revenue Refunding Bonds) ⁽¹³⁾	2033	17,640,000	16,995,000	1,387,475
County of Riverside Leasehold Revenue Bonds (2013 Series A Public Defender/Probation Bldg and Riverside County Technology Solution Center Projects)	2043	66,015,000	66,015,000	2,579,026
Riverside Community Properties Development, Inc. Lease Revenue Bonds (2013 Riverside County Law Building Project)	2044	<u>44,380,000</u>	<u>44,380,000</u>	<u>1,300,773</u>
TOTAL		<u>\$1,142,185,073</u>	<u>\$708,448,467</u>	<u>\$83,313,894</u>

⁽¹⁾ Annual base rental for Fiscal Year 2013-2014 unless otherwise noted.

⁽²⁾ Annual base rental estimated at assumed interest rate of 5% per annum. The average interest rate for the twelve-month period ending April, 22, 2013 was approximately 0.14%.

⁽³⁾ Total annual base rental for Riverside County Hospital Project, Leasehold Revenue Bonds. The 2012 Series A and B Bonds refunded the 1997 B Bonds. A portion of the proceeds of the 2012 Bonds was used to redeem the 1997 B Bonds and the remaining proceeds will be used to pay for improvements of the Medical Center Campus.

⁽⁴⁾ Annual base rental estimated at assumed interest rate of 9%. The average interest rate for the twelve-month period ending April 20, 2013 was approximately 0.21%.

⁽⁵⁾ The 2005 Series B Historic Courthouse Refunding Project refunded the 1997 Historic Courthouse Project.

⁽⁶⁾ The 2009 Larson Justice Center Refunding Project Refunded the 1998 Larson Center Refunding Project.

⁽⁷⁾ Total annual base rental for Riverside District Court Financing Corporation (United States District Court Project).

⁽⁸⁾ The 2008 Series A refunded the 2000 Series B SWJC Project.

⁽⁹⁾ The 2003 Series B refunded the 1993 Master Refunding Project.

⁽¹⁰⁾ A portion of the proceeds of the 2005 Series A Certificates was used to prepay all of the County of Riverside Certificates of Participation (Family Law Court Project).

⁽¹¹⁾ The 2009 Public Safety Communication and Woodcrest Library Refunding Project refunded the 2007B Public Safety Communication Refunding Project and the 2006 Capital Appreciation Notes.

⁽¹²⁾ The 2012 County Administrative Refunding Project refunded the 2001 County Administrative Annex Project.

⁽¹³⁾ The 2012 Public Financing Authority Lease Revenue Refunding Bonds refunded the 2003A Palm Desert Financing Authority Lease Revenue Bonds.

⁽¹⁴⁾ The County will refund the County of Riverside Court Financing Corporation (Bankruptcy Courthouse Acquisition Property), County of Riverside Certificates of Participation (Historic Courthouse Project) 2003 Series A and the County of Riverside Court Financing Corporation Certificates of Participation (Bankruptcy Courthouse Acquisition Property) on June 5, 2014 with proceeds of the Series 2014 Bonds.

Source: County Executive Office

Interest Rate Swap Agreements

The County adopted a written interest rate swap policy (the "Swap Policy") establishing the guidelines for the use of management of interest rate swaps as a method of lowering financing costs and reducing the risks associated with fluctuations in interest rates. The Swap Policy is reviewed annually to provide the appropriate internal framework to ensure that consistent objectives, practices, controls and authorizations are maintained to minimize the County's risk related to its debt portfolio.

Simultaneously with the issuance of the County's Leasehold Obligation Bonds (Southwest Justice Center Refunding) 2008 Series A, the County entered into an amended and restated interest rate swap agreement with a notional amount of \$76,300,000. The interest rate swap agreement was novated in January 2012 to substitute Wells Fargo Bank, N.A. as the new counterparty (the "Counterparty"). Under the swap agreement, the County has an obligation to pay the Counterparty a fixed rate of 5.155 percent and the County receives 64 percent of one month LIBOR from the Counterparty. The bonds and the related swap agreement mature on November 1, 2032. The Counterparty was rated "Aa3" by Moody's, "AA-" by Standard & Poor's and "AA-" by Fitch as of March 2014. Downgrade provisions specify that if the long-term senior unsecured debt rating of the Counterparty is withdrawn, suspended or falls below "BBB" (in the case of S&P) or "Baa2" (in the case of Moody's), the County or the party so downgraded is required to post collateral in the amount of its exposure. If the swap agreement is terminated and, at the time of such termination, the fair market value of the swap agreement was negative, the County would be liable to the Counterparty for a termination payment equal to the swap's fair market value. As of April 30, 2014, the swap agreement had a negative fair market value of approximately \$25.2 million (based on the quoted market price from the Counterparty at such date).

The County's regularly scheduled swap payments are insured by Assured Guaranty Corp. The swap agreement provides that if an "Insurer Event" occurs, whereby the insurer fails at any time to have one out of two of the following ratings: (i) a claims-paying ability rating of "A-" or higher from S&P, or (ii) a financial strength rating of "A3" or higher from Moody's, and only in the event that the County's ratings have also been downgraded to below the threshold level of "Baa2" from Moody's and "BBB" from S&P, the County would be required, within one business day of receiving a notice from the Counterparty, to either (A) provide an alternate credit support document acceptable to the Counterparty from a credit support provider with a claims paying ability rating of at least "AA-" from S&P and a financial strength rating of at least "Aa3" from Moody's or an unenhanced rating on its unsecured unsubordinated long-term debt of at least "AA-" from S&P and at least "Aa3" from Moody's, or (B) give notice to the Counterparty that it will thereafter be subject to the ISDA Credit Support Annex as both a Secured Party and a pledgor in accordance with the terms of such ISDA Credit Support Annex. As of March 2014, Assured Guaranty Corp. had a rating of "AA-" by S&P and "A3" from Moody's. An explanation of the significance of the above ratings may be obtained from the applicable rating agency.

Employees

The following table sets forth the number of County employees for years 2004 through 2014.

COUNTY OF RIVERSIDE REGULAR EMPLOYEES 2004 THROUGH 2014

<i>Year</i>	<i>Regular Employees⁽¹⁾</i>
2004	14,862
2005	14,852
2006	15,832
2007	17,584
2008	18,912
2009	18,013
2010	17,671
2011	17,764
2012	17,815
2013	18,728
2014 ⁽²⁾	18,600

⁽¹⁾ As of December 31st of each year. Excludes temporary and per diem employees.

⁽²⁾ As of March 31, 2014.

Source: County Human Resources Department

County employees comprise 12 bargaining units, plus another 7 unrepresented employee groups. The bargaining units are represented by six labor organizations. The two largest of these organizations are Service Employees International Union, Local 721 (“SEIU”) and the Laborers International Union of North America (“LIUNA”), which represent approximately 72% of all County employees in a variety of job classifications. Salary, benefits and personnel items for management, confidential and other unrepresented employees which are exempt from collective bargaining, are governed by a County Resolution and Ordinance for personnel matters.

The County’s non-management law enforcement employees (non-management), are represented by the Riverside Sheriffs’ Association (“RSA”). Management employees of the law enforcement group are represented by the Riverside County Law Enforcement Management Unit (“LEMU”). The public defenders, County Counsel and prosecuting attorneys of the District Attorney’s Office are represented by the Riverside County Deputy District Attorneys Association (“RCDDAA”).

The County is currently subject to long-term agreements with all of its represented bargaining units. Most of the agreements cover a four to five year period, with the longest agreement ending in June 2017.

**COUNTY OF RIVERSIDE
LABOR ORGANIZATIONS**

<u>Union</u>	<u>Number of Employees</u>	<u>Expiration Date of Contract</u>
Unrepresented	1,375	N/A
Law Enforcement Management Unit (LEMU)	462	June 30, 2017
Riverside County Attorneys' Association (RCAA)	115	June 30, 2015
Deputy District Attorney's Association (DDAA)	269	June 30, 2015
Riverside Sheriffs' Association (RSA)	3,118	June 30, 2016
Service Employees International Union (SEIU)	6,375	November 30, 2016
Laborers' International Union of North America (LIUNA)	7,217	June 30, 2016
Total	18,931	

Source: County Human Resources Department

Retirement Program

General. The County provides retirement benefits to all regular County employees through its contract with California Public Employees' Retirement System ("PERS"), a multiple-employer public sector employee defined benefit pension plan. The retirement plan, as amended, provides coverage for eligible employees in the Miscellaneous Plan (herein defined) with PERS and Social Security, and coverage in lieu of Social Security for Safety members. PERS provides service and disability retirement benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries. The retirement benefits are based on years of service, age and the average monthly qualifying wages during the highest single year of employment. The benefit for members is the product of the benefit factor (based on age), years of service, and final compensation. Due to recent pension reform, the County's retirement plans currently includes three tiers of benefits.

**COUNTY OF RIVERSIDE
EMPLOYEES PER RETIREMENT TIER⁽¹⁾
(AS OF JUNE 30, 2014)**

	<u>Number of Employees In Each Retirement Tier</u>
TIER 1	15,876
TIER 2	569
TIER 3	2,147
Total	18,592

⁽¹⁾ Excludes Temporary, Per Diem, and Seasonal Employees.
Source: County Human Resources Department

For Miscellaneous members who qualify based on their date of hire for Tier I benefits, the benefit factor ranges from 2% at age 50 to 3% at age 60 and beyond. For Safety members who qualify based on their date of hire for Tier I benefits, the benefit factor is 3% at age 50 and beyond. The Tier 1 plan also provides for cost-of-living adjustments of up to 2% per year after retirement. For further information on the County's pension obligations, see Note 18 of the Notes to Basic Financial Statements, June 30, 2013, which are included in APPENDIX B—"COUNTY OF RIVERSIDE COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2013."

In 2003, the County established the Pension Advisory Review Committee ("PARC"). The purpose of PARC is to develop a better institutional understanding of the County's pension plans, currently managed by PERS and to advise the Board of Supervisors on important matters concerning the plans. PARC reports annually to the Board of Supervisors on the performance of the plans and evaluates strategies to address appropriate funding of the plans.

In April 2011, the Board of Supervisors approved a second tier ("Tier II) level of benefits for new Miscellaneous and Safety employees. The County implemented Tier II on August 23, 2012 for employees first employed by the County after that date. The retirement benefit calculation is based on years of service, age, and the average monthly qualifying wages during the highest three consecutive years of employment. The Tier II benefits for Miscellaneous Plan members ranges from 1.092% at age 50 to 2.418% at age 63 and beyond. For Safety Plan members, the Tier II benefits range from 2% at age 50 to 2.7% at 55 and beyond. The plans also provide for cost-of-living adjustments of up to 2% per year after retirement.

On September 12, 2012, Governor Brown signed Assembly Bill 340, creating the Public Employees' Pension Reform Act ("PEPRA") and amending certain sections of the County Employees Retirement Act of 1937 (the "1937 Act"). The majority of the PEPRA changes will first impact the rates and benefit provisions on the June 30, 2013 valuation for the Fiscal Year 2015-16 rates. Among other things, PEPRA creates a new benefit tier for new employees/members entering public agency employment and public retirement system membership for the first time on or after January 1, 2013. The new tier ("Tier III") has a single general member benefit formula and three safety member benefit formulas that must be implemented by all public agency employers unless the formula in existence on December 31, 2012 has both a lower normal cost and lower benefit factor at normal retirement age. PEPRA requires that all new employees hired on or after January 1, 2013, pay at least 50% of the normal cost contribution. Tier III benefits are set 2% at 62 for Miscellaneous members and at 2.7% at 57 for Safety members. PEPRA caps benefits at the highest average annual compensation earned during a period of at least 36 consecutive months. The normal cost contribution is the contribution set by the retirement system's actuary to cover the cost of current year of service. The County believes that the provisions of PEPRA will help to control its pension benefit liabilities in the future.

In May 2013, the RSA filed a complaint in the Superior Court of the County of Riverside against the State and the County asking the Court to declare that the provisions of PEPRA are unconstitutional in regard to its members. RSA has taken the position that the lower pension benefit levels provided by PEPRA conflict with the higher benefit levels provided to RSA's members by its collective bargaining agreement with the County. RSA alleges that the unilateral implementation of PEPRA by the State and the County violates the Contracts Clause of the California and United States Constitutions by impairing RSA members' rights to pension benefits under the collective bargaining agreement. The State and the County deny the allegations and are defending the lawsuit. The County does not believe an adverse decision in the case would materially adversely affect the County's payment Base Rental Payments.

The County's PERS Contract. The following information concerning PERS is excerpted from publicly available sources that the County believes to be reliable; however, the County takes no responsibility as to the accuracy of such information and has not independently verified such information. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments. PERS maintains two pension plans for the County, a Safety Plan (the "Safety Plan") and a Miscellaneous Plan (the "Miscellaneous Plan" and, together with the Safety Plan, the "PERS Plans"). The County contributes to PERS amounts based on the annual actuarial valuation rates recommended by PERS.

The staff actuaries at PERS prepare an annual actuarial valuation which covers a fiscal year ending approximately 15 months before the actuarial valuation is prepared (thus, the actuarial valuation delivered to the County in October 2013 covered PERS' Fiscal Year 2011-12). The actuarial valuation expresses the County's required contribution rates in percentages of payroll, which is the percentage the County must contribute in the fiscal year immediately following the fiscal year in which the actuarial valuation is prepared (e.g., the County's contribution rates derived from the actuarial valuation as of June 30, 2012, which was prepared in October 2013, is effective for the County's Fiscal Year 2014-15). PERS rules require the County to implement the actuary's recommended rates.

In calculating the annual actuarially required contribution rates, the PERS actuary calculates on the basis of certain assumptions regarding the actuarial present value of benefits that PERS will pay under the PERS Plans, which includes two components, the Normal Cost and the Unfunded Accrued Actuarial Liability (the "UAAL"). The normal cost represents the actuarial present value of benefits that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at PERS and the present value of the benefits that PERS will pay under the PERS Plans to retirees and active employees upon their retirement. The UAAL is based on several assumptions such as, among others, the rate of investment return, average life expectancy, average age at retirement, inflation, salary increases and occurrences of disabilities. In addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL is an estimate of the unfunded actuarial present value of the benefits that PERS will distribute under the PERS Plans to retirees and active employees upon their retirement. It is not a fixed or hard expression of the liability the County owes to PERS under the PERS Plans. The County's actual liability under the PERS Plans could be materially higher or lower.

In April 2005, the PERS Board approved an employer rate stabilization policy with the following features: (i) in the calculation of the actuarial value of assets, market value asset gains and losses will be spread over 15 years instead of 3 years; (ii) the corridor limits for the actuarial value of assets will be changed from 90%-110% of market value to 80%-120% of market value; (iii) gains and losses will be amortized over a rolling 30-year period (amortization payment on gains and losses had been 10% of the base); and (iv) the minimum employer contribution rate will be a percentage equal to the employer normal cost minus a 30-year amortization of surplus (but not less than 0%). There have been changes to some of these features over time as described below.

In calculating the UAAL in an actuarial valuation, the PERS actuary spreads gains and losses over a number of years (the exact number of which is adjusted as expected values fluctuate) using a "smoothing technique." This technique has changed over time as described below. Under the rate stabilization policy effective as of April 2005, one-fifteenth (1/15) of the market value change will be recognized in a given fiscal year. In each actuarial valuation, the PERS actuary calculates what was the expected actuarial value of the assets (the "Expected Value") of the PERS Plans at the end of the fiscal year, which assumes, among other things, that the actuarial rate of return during that fiscal year equaled the assumed rate of investment return. However, PERS did not allow the Expected Value to be less than 80% or more than 120% of the market value.

In response to the significant asset value declines of Fiscal Year 2008-09, the PERS Board approved an enhancement to its smoothing methodology in June 2009. The enhanced smoothing methodology incorporates a 3-year phase-in of the Fiscal Year 2008-09 investment loss by temporarily relaxing the constraints on the smoothed value of assets around the market value. The corridor will be allowed to expand between 60-140% for Fiscal Year 2011-12 contribution rate determination, 70-130% for the Fiscal Year 2012-13 contribution rate determination, and then return to the 80-120% for the Fiscal

Year 2013-14 and beyond contribution rate determination. Asset losses outside the 80-120% corridor are isolated and paid for with a fixed 30-year amortization schedule.

In March 2012, the PERS Board approved a change in the inflation assumption used in the actuarial valuations that set employer contribution rates. The inflation assumption was changed from 3% to 2.75%. The change impacted the inflation component of the annual investment return assumption, the long term payroll growth assumption and the individual salary increase assumptions as follows: (i) the annual assumed investment return has decreased from 7.75% to 7.50%; and (ii) reducing payroll growth from 3.25% to 3%. The change to the inflation assumption also impacted the cost of living adjustments and purchasing power protection allowances assumed in the actuarial valuations. The PERS Board also approved the amortization of gains and losses from Fiscal Years 2008-09 through 2010-11 over a fixed and declining 30-year period (rather than a rolling 30-year amortization).

On April 17, 2013, the PERS Board approved a recommendation to change the PERS amortization and rate smoothing practices. Beginning with the June 30, 2013 valuation, PERS will no longer use an actuarial value of assets and will employ an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period. On February 18, 2014, the CalPERS Board approved contribution increases for its contracting local agency employers, including the County, that are scheduled to take effect on July 1, 2015, be phased in over five years and be spread over 20 years.

As a result of these changes, according to the County's actuary, Bartel & Associates ("Bartel"), the County's Miscellaneous Plan will incur an increase in the employer contribution rate of 1.0% of payroll for Fiscal Year 2014-15 and an increase of 0.3% of payroll for Fiscal Year 2015-16. The Safety Plan is estimated to incur an increase in the employer contribution rate of 1.23% of payroll for Fiscal Year 2014-15 and an increase of 0.50% of payroll for Fiscal Year 2015-16. For complete updated inflation and actuarial assumptions, please contact PERS at CalPERS, Lincoln Plaza, 400 P Street, Sacramento, CA 95814, Telephone: (888) 225-7377.

In addition to required County contributions, members are also obligated to make certain payments. The Tier I members' contribution rates are fixed at 9% of salaries for the Safety Plan and 8% of salaries for the Miscellaneous Plan. Tier II and Tier III contribution rates vary based on the terms of the collective bargaining agreements in effect. In addition to making annual contributions to PERS in accordance with the applicable actuarial valuation, the County has historically been obligated pursuant to collective bargaining arrangements to pay a portion of the employees' required contribution to PERS (these payments by the County are referred to herein as the "County Offsets of Employee Contributions").

In Fiscal Year 2011-12, the County entered into collective bargaining agreements with all of its bargaining units. Most of the agreements cover a four to five year period, with the longest agreement ending in June 2017. As part of these agreements, the parties agreed on a phase out of the County's obligation to pay the employee's required member contributions. The elimination of the County's obligation to pay employee's required member contributions is anticipated to produce significant annual savings. Member contributions, including County Offsets of Employee Contributions, are not included in the required employer contribution rates prepared by PERS.

Funding Status. The actuarial value of assets, the actuarial accrued liability and the funding status with respect to the Safety Plan and the Miscellaneous Plan are set forth under "– Historical Funding Status." In the actuarial valuation for the Miscellaneous Plan as of June 30, 2012, the most recent PERS actuarial valuation report, the PERS actuary recommended an employer contribution rate of 14.527% be implemented as the required rate for Fiscal Year 2014-15, which the County anticipates will result in a contribution to PERS of approximately \$128 million for that fiscal year. In addition, the County will pay

to PERS for the Miscellaneous Plan approximately \$3.8 million in County Offsets of Employee Contributions for Fiscal Year 2014-15, which will result in a total contribution by the County to PERS for the Miscellaneous Plan for Fiscal Year 2014-15 of approximately \$131.8 million. In the actuarial valuation for the Safety Plan as of June 30, 2012, the most recent PERS actuarial valuation report, the PERS actuary recommended an employer contribution rate of 21.899% be implemented as the required rate for Fiscal Year 2014-15, which the County anticipates will result in a contribution to PERS of approximately \$73.7 million for that fiscal year. Beginning in Fiscal Year 2014-15, the County will no longer pay County Offsets of Employee Contributions to PERS for the Safety Plan.

Absent reforms, some of which have already been initiated by the County, contribution rates under the PERS Plans are expected to increase substantially over the next three years due to the significant investment losses during Fiscal Year 2008-09. While investment gains experienced in Fiscal Years 2009-10 through 2012-13 will offset some of the previous losses, an actuarial loss remains, requiring the County to pay the entire normal cost payment plus a portion of the UAAL that has resulted. It is also anticipated that employer contribution rates will increase as a result of the PERS Board approval of a lower discount rate of 7.5% down from 7.75%.

On February 17, 2005, the County issued its Taxable Pension Obligation Bonds, Series 2005A (the "2005 Pension Obligation Bonds"), the proceeds of which were used to fund approximately 90% of the County's estimated actuarial accrued liability as of February 17, 2005. The payment to PERS resulted in a net pension asset of \$396.9 million, \$311.2 million of which was applied to the County's UAAL for the Miscellaneous Plan and \$85.7 million of which was applied to the County's UAAL for the Safety Plan. According to Bartel, the 2005 Pension Obligation Bonds have resulted in a net gain to the County of \$31.3 million as of February 15, 2014. A liability management fund was established in connection with the 2005 Pension Obligation Bonds. By Board policy, each year PARC, in its annual report, recommends to the Board whether the funds in the liability management fund should be applied to purchase 2005 Pension Obligations Bonds or to transfer the funds to PERS to reduce the County's PERS liability. In 2014, PARC recommended a transfer of the liability management fund balance of \$2 million to PERS. The effect of such prepayments on the County's UAAL, if any, will depend on a variety of factors, including but not limited to future investment performance.

Historical Funding Status. The following two tables, for the Safety Plan and the Miscellaneous Plan, respectively, set forth the UAAL and funded status as of the valuation dates from June 30, 2008 through June 30, 2012 and the total employer contributions made by the County for Fiscal Year 2010-11 through Fiscal Year 2014-15. The two tables are based on PERS Actuarial Reports for those years.

**HISTORICAL FUNDING STATUS
(Safety Plan)**

<u>Valuation Date</u> <u>June 30,</u>	<u>Unfunded</u> <u>Accrued</u> <u>Actuarial</u> <u>Liability</u>	<u>Funded Status</u> <u>(Actuarial</u> <u>Value)</u>	<u>Affects County</u> <u>Contribution for</u> <u>Fiscal Year</u>	<u>County</u> <u>Contribution</u> <u>Amount</u> ⁽¹⁾	<u>County Offsets of</u> <u>Employee</u> <u>Contributions</u>
2008	\$ 55,295,801	96.2%	2010-11	\$53,117,897	\$21,222,703
2009	131,506,806	92.0	2011-12	60,667,388	13,460,331 ⁽³⁾
2010	184,737,814	89.8	2012-13	63,652,359	11,594,226 ⁽³⁾
2011	286,064,497	85.9	2013-14	71,529,739 ⁽²⁾	2,964,063 ⁽²⁾⁽³⁾
2012	225,792,281	89.2	2014-15	72,675,631 ⁽²⁾	0 ⁽²⁾⁽³⁾

⁽¹⁾ Figures listed are amounts paid by the County to PERS in the specific years and do not reflect all amounts paid by the County under the Safety Plan or otherwise.

⁽²⁾ Estimated amount; reflects Safety Plan membership, cost of living adjustment and contribution rates as of Fiscal Years 2013-14 and 2014-15.

⁽³⁾ Reductions from prior years due to staggered implementation of employee-paid retirement contributions beginning in Fiscal Year 2011-12.

Source: PERS Actuarial Reports for June 30, 2008 through June 30, 2012 (UAAL and Funded Status) and the County (County Contribution Amount and County Offsets of Employee Contributions).

**HISTORICAL FUNDING STATUS
(Miscellaneous Plan)**

<u>Valuation Date</u> <u>June 30</u>	<u>Unfunded</u> <u>Accrued</u> <u>Actuarial</u> <u>Liability</u>	<u>Funded Status</u> <u>(Actuarial</u> <u>Value)</u>	<u>Affects County</u> <u>Contribution for</u> <u>Fiscal Year</u>	<u>County</u> <u>Contribution</u> <u>Amount</u> ⁽¹⁾	<u>County Offsets of</u> <u>Employee</u> <u>Contributions</u>
2008	\$175,248,079	94.8%	2010-11	\$90,944,229	\$40,041,548
2009	389,195,847	89.7	2011-12	103,892,326	36,974,032 ⁽³⁾
2010	444,330,905	89.2	2012-13	106,685,618	17,525,337 ⁽³⁾
2011	538,055,042	87.9	2013-14	124,463,807 ⁽²⁾	7,415,562 ⁽²⁾⁽³⁾
2012	436,480,531	88.6	2014-15	128,197,721 ⁽²⁾	3,843,205 ⁽²⁾⁽³⁾

⁽¹⁾ Figures listed are amounts paid by the County to PERS in the specific years and do not reflect all amounts paid by the County under the Miscellaneous Plan or otherwise.

⁽²⁾ Estimated amount; reflects Miscellaneous Plan membership, cost of living adjustment and contribution rates as of Fiscal Years 2013-14 and 2014-15.

⁽³⁾ Reductions from prior years due to staggered implementation of employee-paid retirement contributions beginning in Fiscal Year 2011-12.

Source: PERS Actuarial Reports for June 30, 2008 through June 30, 2012 (UAAL and Funded Status) and the County (County Contribution Amount and County Offsets of Employee Contributions).

A five-year schedule of the funding progress of the Safety Plan and the Miscellaneous Plan are presented in the following two tables.

**SCHEDULE OF FUNDING PROGRESS
(Safety Plan)**

Valuation Date June 30	Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (a-b)	Funded Status (Actuarial Value) (b/a)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((a-b)/c)	Market Value of Assets (MVA)	Funded Ratio MVA
2008	\$1,469,415,642	\$1,414,119,841	\$55,295,861	96.2%	\$240,746,309	23.0%	\$1,432,026,173	97.5%
2009	1,642,544,731	1,511,047,925	131,506,806	92.0	265,237,512	49.6	1,100,356,865	67.0
2010	1,809,467,588	1,624,729,774	184,737,814	89.8	265,165,399	69.7	1,279,783,747	70.7
2011	2,032,001,280	1,745,936,783	286,064,497	85.9	273,169,605	104.7	1,565,799,198	77.1
2012	2,086,406,405	1,860,614,124	225,792,281	89.2	261,703,717	86.3	1,567,404,726	75.1

Source: PERS Actuarial Reports for June 30, 2008 through June 30, 2012

**SCHEDULE OF FUNDING PROGRESS
(Miscellaneous Plan)**

Valuation Date June 30	Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (a-b)	Funded Status (Actuarial Value) (b/a)	Annual Covered Payroll (c)	UAAL as a Percentage of Payroll ((a-b)/c)	Market Value of Assets (MVA)	Funded Ratio MVA
2008	\$3,350,222,866	\$3,174,974,787	\$175,248,079	94.8%	\$841,612,805	20.8%	\$3,222,895,476	96.2%
2009	3,790,232,824	3,401,036,977	389,195,847	89.7	841,103,683	46.3	2,482,332,809	65.6
2010	4,097,191,707	3,652,860,802	444,330,905	89.2	854,932,117	52.0	2,882,444,152	70.4
2011	4,461,553,672	3,923,498,630	538,055,042	87.9	812,362,628	66.2	3,525,640,733	79.0
2012	4,708,881,750	4,172,401,219	536,480,531	88.6	836,418,298	64.1	3,520,189,846	74.8

Source: PERS Actuarial Reports for June 30, 2008 through June 30, 2012

The following table shows the percentage of salary which the County was responsible for contributing to PERS from Fiscal Year 2010-11 through Fiscal Year 2014-15 to satisfy its retirement funding obligations.

**SCHEDULE OF EMPLOYER CONTRIBUTION RATES
Valuation Date**

Valuation Date June 30,	Affects Contribution Rate for Fiscal Year:	Safety Plan	Miscellaneous Plan
2008	2010-11	19.335%	12.165%
2009	2011-12	21.286	13.112
2010	2012-13	22.459	13.494
2011	2013-14	23.368	15.001
2012	2014-15	21.899	14.527

Source: PERS Actuarial Reports for June 30, 2008 through June 30, 2012

According to the PERS actuary, as of June 30, 2012, the funded status of the Miscellaneous Plan based on its market value of \$3.5 billion was 74.8% and the funded status of the Safety Plan based on its market value of \$1.5 billion was 75.1%. The PERS Board has announced that, beginning with the valuation for Fiscal Year 2012-13, it will utilize the market value of plan assets rather than the actuarial value.

Projected County Contributions. The County's projections with respect to the County contributions below reflect certain significant assumptions concerning future events and circumstances. The information and the related assumptions are forward-looking in nature and are not to be construed as representations of fact or representation that in fact the information shown will be the correct amounts for the years indicated. Rather, these amounts reflect good faith estimates by the County taking into account a variety of assumptions. Variations in the assumptions may produce substantially different results. Actual results during the projection period may vary from those presented in the forecast, and such variations may be material. Accordingly, prospective investors are cautioned to view these estimates as general indications of trends and orders of magnitude and not as precise amounts.

During Fiscal Year 2013-14, based on PERS' experience in recent years, PERS adopted several changes to the PERS Plans, including the elimination of asset smoothing methodologies, a 25-year amortization period for future gains and losses, elimination of annual caps on increases, and other changes based on a new experience study, including mortality improvements and other demographic assumptions. The changes will impact the County's contribution rates beginning in Fiscal Year 2015-16 and will be fully implemented by Fiscal Year 2019-20. Based on its current analysis of the data, the County projects that its contribution rates will increase significantly during such period, to a contribution rate of approximately 24% for the Miscellaneous Plan and approximately 33% for the Safety Plan. A description of these projections and their underlying assumptions are included in the PARC report which is available to Bondholders on the County's website or upon request.

The County's projected contribution rates are affected by the market rate of return in the PERS Plans. There currently exists a difference between the actuarial value and the market value of the assets in the PERS Plans. An actuarial valuation of assets differs from a market valuation of assets in that an actuarial valuation reflects so-called smoothing adjustments, which spread the impact of gains and losses over multiple years. When the market asset return in the PERS Plans differs from the actuarial assumed rate of 7.50% in any fiscal year, the actuarial practice of smoothing losses over several years impacts the contribution rate until such differences are fully realized by the actuarial valuation. For example, when the market rate of return is below the assumed rate, the PERS Plans will realize a loss for actuarial purposes. Any such actuarial loss will be smoothed in a manner that the PERS Plans will only be impacted by a pre-determined portion of that loss in one fiscal year, which will act to gradually increase contribution rates in succeeding fiscal years. For further details on the smoothing policy of PERS, see "– The County's PERS Contract" above.

Other Retirement Plans. The County also provides a Defined Benefit Pension Plan (the "Plan") to employees who are not eligible for Social Security or CalPERS retirement benefits through the County. This plan is subject to Internal Revenue Code Section 401(a), and is self-funded and self-administered. Participants in the Plan are required to contribute 3.75% of their compensation to the Plan. Based on the actuarial valuation of June 30, 2013, the County's current required contribution level is 0.78%. The County elected to contribute 1% to maintain a funded ratio of over 90% in Fiscal Year 2013-14. The County's contribution to the Plan was \$334,728 for Fiscal Year 2012-13 and is estimated to be approximately \$252,273 for Fiscal Year 2013-14. The Plan's unfunded liabilities as of June 30, 2013 are approximately \$1,765,941.

Other Post-Employment Benefits. The County provides certain post-retirement health insurance benefits to qualifying retired employees and their eligible dependents or survivors. Regular employees with a minimum service of five years and who are at least age 50 at retirement qualify to receive the post-retirement benefits.

The County of Riverside obtained an actuarial valuation of its Post-Employment Health Benefits obligations, calculated in accordance with GASB 45 standards as of July 1, 2013 (the "Health Benefits Valuation"), prepared by Aon Hewitt. Based on the combination of plans and contribution levels that the County offers, assuming an interest rate of 7.36%, the present value of benefits was estimated to be \$52.8 million, the accrued actuarial liability was estimated to be \$43.8 million and the annual normal cost was \$1.2 million. If the accrued actuarial liability of \$43.8 million were amortized over a 30-year period, the total annual required contribution (normal cost plus amortization amount) would have been \$2.3 million.

The Board of Supervisors took action on October 25, 2006 to set aside \$10 million as a contribution to the California Employers' Retiree Benefit Trust (the "OPEB Trust"). On November 7, 2007 the irrevocable OPEB Trust was established with CalPERS and a payment of \$10.4 million was made to OPEB Trust. On June 26, 2009, the County contributed an additional \$2.2 million to the OPEB Trust. The pre-funding of OPEB through the use of the OPEB Trust allows the County to use different actuarial assumptions to determine the actuarial value of assets and liabilities, including assuming a higher rate of return on assets held in the OPEB Trust. According to the Health Benefits Valuation, overall the actions of the Board have reduced the County's OPEB liability from \$237 million in 2006 to \$17 million most recently.

Medical Center

RCRMC is a 520,000 square foot state-of-the-art tertiary care and level II trauma facility, licensed for a total of 439 beds. There are 362 licensed beds in the main acute-care hospital and 77 licensed beds in a separate psychiatric facility. RCRMC has 12 operating rooms, a helipad located directly adjacent to the Trauma Center, and state-of-the-art digital radiology services, including magnetic resonance imaging (MRI) and computerized tomography (CT) and all single bed rooms. There are also adult, pediatric and neonatal intensive care units, a birthing center and complete pulmonary services including hyperbaric oxygen treatments. RCRMC provides services to patients covered by various reimbursement programs, principally Medicare, Medi-Cal and private insurance, and provides services to the uninsured.

The County has the responsibility for providing health care to all individuals, regardless of their ability to pay or insurance status. In recent years, it has become more and more difficult to meet this obligation as a Riverside County safety net provider. Declining and inadequate federal and State health care reimbursement and non-payment by a growing uninsured population, coupled with rising service needs as a result of the recent economic downturn and costs of an older and sicker population, have placed significant demands on the County's health care system. These factors have negatively impacted RCRMC's financial performance over the past several years.

RCRMC ended Fiscal Year 2012-13 with an approximate \$27.1 million operating cash deficit. In the same fiscal year, RCRMC had a decrease in net unrestricted assets of approximately \$18.3 million, ending the fiscal year with unrestricted net assets of approximately \$53.1 million. RCRMC continued to experience a decline in patient collections in Fiscal Year 2012-13 as the poor economy affected the ability of patients to maintain insurance coverage. Amounts received by RCRMC in Fiscal Year 2012-13 for Medi-Cal days and Medi-Cal costs and unreimbursed uninsured costs are subject to future adjustment as a result of the Federal-State Medi-Cal Waiver (the "Waiver") that became effective in Fiscal Year 2005-06. Based on the State's reconciliation of the paid Medi-Cal days and Medi-Cal costs and unreimbursed costs for each public hospital in the State, each year RCRMC may receive additional payments from the State for Fiscal Year 2011-12 or may be required to reimburse the State for any overpayment received during the prior fiscal year. Such tentative interim reconciliation is generally completed following the submission of cost reports by the State's public hospitals around January 1 of the following fiscal year. In Fiscal Year 2013-14, the County estimates that it will have to reimburse the State approximately \$26

million for overpayments attributable to Fiscal Year 2012-13. Final settlements, however, may take up to seven years to complete after a public hospital cost report is submitted. RCRMC fully reserves the estimated overpayments made by the State that are subject to the Waiver.

In 2013, RCRMC retained Huron Consulting Group ("Huron") to provide consulting services designed to improve efficiencies and increase revenue at RCRMC. The engagement is one-third complete, but early estimates project budget improvement of approximately \$44 million to \$66 million per year. Additionally, the projected continued economic recovery may return the average RCRMC patient to where they were before the 2007 recession, when they were in a better financial position to afford insurance and medical costs. Further, RCRMC expects that the Affordable Care Act will decrease the number of uninsured hospital patients and thereby benefit RCRMC's financial situation. Since the implementation of the Affordable Care Act in January 2014, RCRMC has experienced an 11% decline in the number of patients treated at RCRMC. RCRMC cannot predict at this time if this trend will continue and the extent to which it will impact RCRMC's financial position.

In July 2013, the Board of Supervisors approved a loan of up to \$40 million to RCRMC from the County's Workers Compensation Fund to cover RCRMC's negative cash position at the end of Fiscal Year 2012-13. The loan was issued in September 2013 and repaid in full in October 2013 from funds received from collections of delayed Medi-Cal reimbursements and of delayed outpatient service bills.

On November 26, 2013, the Board of Supervisors approved a temporary transfer of approximately \$26 million to RCRMC from the County's Waste Management Enterprise Fund to pay for the Huron engagement. RCRMC is required to repay the funds, with interest calculated at the County's pooled investment fund rate, starting in 2016 pursuant to a negotiated repayment schedule, with final maturity on June 30, 2022. If RCRMC is unable to timely repay the loan in full within 10 years of its origination date, then unpaid amounts will be payable by the County from unencumbered General Fund sources.

For Fiscal Year 2013-14, consistent with its past practice, the County contributed approximately \$10 million to RCRMC from General Fund tobacco settlement revenues and \$5 million in redevelopment pass through funds to support debt service on the main RCRMC facility and to offset operating expenses. RCRMC estimates an operating cash deficit of approximately \$54 million for Fiscal Year 2013-14. RCRMC attributes the Fiscal Year 2013-14 deficit primarily to uncompensated services provided to uninsured patients, jail inmates and Medi-Cal patients and to operating inefficiencies.

The County's Executive Office, in collaboration with RCRMC, provides the Board of Supervisors monthly reports on its financial status. The latest report indicates that RCRMC has launched \$62.5 million of one-time and recurring savings in new initiatives and \$9 million in one-time non-labor and revenue savings. The April 2014 monthly financial update projects a slight improvement in the projected June 30, 2014 cash position, to a cumulative cash deficit of \$82 million over the past two fiscal years. The County has helped RCRMC meet its liquidity needs by making temporary transfers to RCRMC from the County's available, non-General Fund resources. The Executive Office continues monitoring these issues closely.

RCRMC is projecting that its fiscal situation will somewhat stabilize in Fiscal Year 2014-15, but that it will still experience an operating cash deficit of approximately \$20 million for Fiscal Year 2014-15. RCRMC expects and that it will seek further approvals from the Board of Supervisors for temporary transfers from the County's available non-General Fund resources to meet such deficit.

RCRMC is pursuing various avenues to reduce the operating deficit, including maximizing reimbursement from available sources, implementing cost-saving measures and exploring new revenue

opportunities. The Huron consulting engagement is ongoing, and is expected to improve patient service, increase efficiencies, cut costs and increase revenue collection. It is the County's intent that RCRMC's costs of providing services be recovered primarily through fees charged for services with minimal or no General Fund support.

Insurance

The County is self-insured for short-term disability, unemployment insurance, general liability, medical malpractice and workers' compensation claims. General liability claims are self-insured to \$1 million for each occurrence and the balance (to \$25 million for each occurrence) is insured through CSAC Excess Insurance Authority. Medical malpractice is self-insured for the first \$1.1 million for each claim and insured for the balance to \$20 million for each claim on an occurrence basis, through CSAC Excess Insurance Authority. Workers' compensation claims are self-insured to \$2 million for each occurrence and the balance is statutory limits (unlimited) is insured through CSAC Excess Insurance Authority. Long-term disability income claims are fully insured by an independent carrier.

The property insurance program provides insurance coverage for all risks subject to a \$50,000 per occurrence deductible; flood coverage is subject to a 2% of total value per unit per occurrence, with a \$100,000 minimum per occurrence and \$500,000 maximum per occurrence deductible within a 100-year flood zone and a \$25,000 deductible outside of a 100-year flood zone. Property in the County is categorized into four "towers" and each tower provides \$300 million in limits. Earthquake coverage (covering scheduled locations and buildings equal to or greater than \$1 million in value and lesser valued locations where such coverage is required by contract) has a sub-limit in each tower of \$80 million with an additional \$247.5 million excess rooftop limit combined for towers I through V. Earthquake is subject to a deductible equal to 5% of total value per building subject to a \$100,000 minimum. Boiler and machinery provides up to \$100 million in limits, with a \$5,000 deductible per event. The limits in each tower are shared with other counties on a per event basis. If a catastrophic event occurs and losses exceed the limits, the County would be responsible for such amounts.

The activities related to such programs are accounted for in internal service funds. Accordingly, estimated liabilities for claims filed or to be filed for incidents which have occurred through June 30, 2013 are reported in these funds. Where these funds have an unfunded liability, or insufficient reserves to cover all incurred but not reported claims, the County has developed a policy to manage the accumulated deficits at a reasonable level. Revenues of the internal service funds are primarily provided by other County funds and are intended to cover self-insured claim liabilities, insurance premiums and operating expenses. The combined cash balance in these funds as of June 30, 2013 was approximately \$183.9 million.

Litigation

There is no action, suit or proceeding known to the County be pending or threatened, restraining or enjoining the execution or delivery of the Bonds or in any way contesting or affecting the validity of the foregoing or any proceedings of the County taken with respect to any of the foregoing. Although the County may, from time to time, be involved in legal or administrative proceedings arising in the ordinary course of its affairs, it is the opinion of the County that any currently-pending or known threatened proceedings will not materially affect the County's finances or impair its ability to meet its obligations.

The County is currently involved in a litigation brought by the Agua Caliente Band of Cahuilla Indians ("Agua Caliente") in federal court requesting a declaration that the County's assessment, levy, and collection of a possessory interest tax on non-tribal members on tribal and U.S. trust lands violates federal law. For Fiscal Year 2013-2014, the total possessory interest tax for Agua Caliente's non-tribal

member leases is estimated to be approximately \$28,000,000, of which \$3,300,000 is allocable to the County. Should Agua Caliente be successful, the County would be prohibited from assessing, levying, and collecting the possessory interest tax in the future. In addition, taxpayers could have the right to seek a refund of possessory interest taxes paid for the previous four years with interest. The County estimates that its total liability for such refunds would be approximately \$12 million, plus accrued interest. The County denies the allegations of the complaint and is actively defending the action.