

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2012

NEW ISSUE – FULL BOOK-ENTRY

RATING: S&P: _____
See "RATING" herein.

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to certain qualifications described herein, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Special Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

\$ _____ *

**2012 Refunding Certificates of Participation
Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof In
Lease Payments to be Made by the
COUNTY OF NAPA
As the Rental for Certain Leased Property Pursuant to a
Lease Agreement with the
NAPA COUNTY PUBLIC IMPROVEMENT CORPORATION**

Dated: Date of Delivery

Due: June 1, as shown below

The Certificates evidence and represent direct, undivided fractional interests of the Owners thereof in the Lease Payments (which include principal and interest components) to be made by the County of Napa, (the "County"), for the right to the use of certain real property and improvements thereon (the "Leased Property") within the County pursuant to that certain Lease Agreement, dated as of May 1, 2012 (the "Lease Agreement"), by and between the County, as lessee, and the Napa County Public Improvement Corporation (the "Corporation") as lessor. The Certificates are being executed and delivered to provide funds to prepay an outstanding issue of certificates of participation of the County executed and delivered in 2003, to fund a reserve fund, and to pay certain costs incurred in connection with execution and delivery of the Certificates. Interest represented by the Certificates is payable semiannually on each June 1 and December 1, commencing December 1, 2012.

The County has covenanted in the Lease Agreement to make the Lease Payments for the Leased Property as provided for therein, to include all such Lease Payments in each of its budgets and to make the necessary annual appropriations for all such Lease Payments. *The Lease Payments, however, are subject to abatement under certain circumstances, as described herein.*

The Certificates will be initially delivered only in book-entry form, registered to Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository of the Certificates. Interest and principal represented by the Certificates are payable by U.S. Bank National Association, Seattle, Washington, as Trustee, to DTC, which remits such payments to its Participants for subsequent distribution to the beneficial owners of the Certificates. See "THE CERTIFICATES – Book-Entry Only System" and "– General."

The Certificates are subject to prepayment prior to maturity as described herein. See "THE CERTIFICATES – Prepayment."

[KNN LOGO]

The obligation of the County to make the Lease Payments does not constitute a debt of the County or the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the County or the State of California is obligated to levy or pledge any form of taxation or for which the County or the State of California has levied or pledged any form of taxation.

This cover page contains information for reference only. Investors must read the entire Official Statement to obtain information essential in making an informed investment decision. See "RISK FACTORS" for a discussion of factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Certificates.

MATURITY SCHEDULE

<u>Maturity</u> <u>(June 1)</u>	<u>Principal</u>	<u>Interest</u> <u>Rate</u>	<u>Yield/</u> <u>Price</u>	<u>CUSIP</u> † <u>()</u>
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† Copyright 2012, American Bankers Association. CUSIP data herein are provided by

Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are provided for convenience of reference only. Neither the City nor the Underwriter assumes any responsibility for the accuracy of these CUSIP data.

The Certificates will be sold and awarded by competitive bid held _____, 2012, as set forth in the official Notice of Sale. The Certificates are offered when, as and if executed and delivered, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel. Jones Hall is also acting as Disclosure Counsel to the County. In addition, certain legal matters will be passed upon for the County and the Corporation by County Counsel. It is anticipated that the Certificates in book-entry form will be available for delivery to DTC in New York, New York on or about _____, 2012.

Dated: _____, 2012

* Preliminary, subject to change.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

Use of Official Statement. This Official Statement is submitted in connection with the sale of the Certificates referred to in this Official Statement and may not be reproduced or used, in whole or in part, for any other purpose.

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the County or the Corporation, in any press release and in any oral statement made with the approval of an authorized officer of the County or the Corporation, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements." Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

Limit of Offering. No dealer, broker, salesperson or other person has been authorized by the County, the Corporation or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy the Certificates, nor may there be any sale of the Certificates by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. This Official Statement is not to be construed as a contract with the purchasers of the Certificates.

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

Official Statement Speaks Only as of its Date. The information and expressions of opinions in this Official Statement are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the County or the Corporation since the date hereof.

Document Summaries. All summaries of the Trust Agreement, the Lease (as such terms are defined in this Official Statement) or other documents referred to in this Official Statement, are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

No Registration or Qualification. THE CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE CERTIFICATES HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

COUNTY OF NAPA

COUNTY OF NAPA BOARD OF SUPERVISORS

Brad Wagenknecht, District 1
Mark Luce, District 2
Diane L. Dillon, District 3
Bill Dodd, District 4
Keith Caldwell, District 5

COUNTY OFFICIALS

Nancy Watt, *County Executive Officer*
Tamie R. Frasier, *Treasurer-Tax Collector*
Tracy A. Schulze, *Auditor-Controller*
John Tuteur, *Assessor-Recorder-County Clerk*
Robert Westmeyer, Esq., *County Counsel*

NAPA COUNTY PUBLIC IMPROVEMENT CORPORATION

Brad Wagenknecht, *President*
Mark Luce, *Vice President*
Tamie R. Frasier, *Treasurer*

FINANCIAL ADVISOR

KNN Public Finance,
a Division of Zions First National Bank
Oakland, California

SPECIAL COUNSEL and DISCLOSURE COUNSEL

Jones Hall, A Professional Law Corporation
San Francisco, California

TRUSTEE and ESCROW AGENT

U.S. Bank National Association
Seattle, Washington

VERIFICATION AGENT

Causey, Demgen & Moore LLP
Denver, Colorado

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION.....	1
THE FINANCING PLAN.....	3
ESTIMATED SOURCES AND USES OF FUNDS	4
THE LEASED PROPERTY	4
THE CERTIFICATES	5
General	5
Registration, Transfers and Exchanges.....	6
Prepayment	6
Book-Entry Only System	7
LEASE PAYMENT SCHEDULE.....	12
SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES	13
Nature of the Certificates.....	13
Lease Payments.....	13
Additional Payments	13
Covenant to Appropriate Funds for Lease Payments or Additional Payments	14
Abatement	14
Action on Default	14
Reserve Fund.....	14
Insurance.....	15
Substitution or Removal of Leased Property	16
RISK FACTORS	18
General Considerations – Security for the Certificates.....	18
Eminent Domain.....	19
Abatement	19
Limited Recourse on Default; No Acceleration	19
Limitation on Remedies; Bankruptcy	19
Loss of Tax Exemption.....	20
Seismic Considerations	20
State of California Financial Condition	20
No Liability of Corporation to the Owners.....	21
Substitution and Removal of the Leased Property.....	21
CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS.....	21
Article XIII A of the California Constitution.....	21
Legislation Implementing Article XIII A	22
Article XIII B of the California Constitution	22
Proposition 62	22
Proposition 218	23
Unitary Property	24
Future Initiatives.....	24
THE CORPORATION	24
THE COUNTY	24
COUNTY FINANCES.....	25
Accounting Policies and Financial Reporting	25
General Fund Financial Summary	26
Budgetary Process	28
General Fund Reserves	28
Comparison of Budget to Actual Performance.....	29
State Budget Impact on County Revenues	29
Property Taxes	31
Tax Levies, Collections and Delinquencies	31
County Tax Loss Reserve Fund ("Teeter Plan")	32
Largest Taxpayers.....	32
Outstanding General Fund Debt and Lease Obligations	33
Lease Obligations.....	33
Direct and Overlapping Debt.....	34
Investment of County Funds	34
County Debt Advisory Committee	35
CONTINUING DISCLOSURE.....	46
TAX MATTERS.....	46

CERTAIN LEGAL MATTERS	48
VERIFICATION REPORT	48
LITIGATION	48
FINANCIAL ADVISOR.....	49
UNDERWRITING	49
RATING.....	49
MISCELLANEOUS	50

APPENDIX A - Summary of Principal Legal Documents	
APPENDIX B - General Information About the County of Napa	
APPENDIX C - Independent Auditor's Report of the County for the Year Ended June 30, 2011	
APPENDIX D - Proposed Form of Special Counsel Opinion	
APPENDIX E - Form of Continuing Disclosure Certificate	

OFFICIAL STATEMENT

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COUNTY OF NAPA
Refunding Certificates of Participation

**Evidencing the Direct, Undivided Fractional Interests of the Owners Thereof In
Lease Payments to be Made by the
County of Napa
As the Rental for Certain Leased Property Pursuant to a
Lease Agreement with the
Napa County Public Improvement Corporation**

This Official Statement (which includes the cover page and Appendices hereto) (the **"Official Statement"**) provides certain information concerning the execution, sale and delivery of the County of Napa 2012 Refunding Certificates of Participation (the **"Certificates"**).

INTRODUCTION

This Introduction contains a brief summary of certain information contained in this Official Statement. It is not intended to be complete and is qualified by the more detailed information contained elsewhere in this Official Statement. Definitions of certain terms used in this Official Statement are set forth in "APPENDIXA – Summary of Principal Legal Documents".

Issuance of Certificates. The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2012 (the **"Trust Agreement"**), by and among U.S. Bank National Association, Seattle, Washington, as trustee (the **"Trustee"**), the Napa County Public Improvement Corporation the **"Corporation"**) and the County of Napa, California (the **"County"**). The Certificates are being executed and delivered in denominations of \$5,000 or any integral multiple thereof. Interest will accrue on the principal components of each Certificate at the applicable interest rate (as set forth on the cover hereof) from the Dated Date until its date of maturity or prior prepayment, with interest becoming payable on each June 1 and December 1, commencing December 1, 2012. The Certificates are subject to prepayment as described herein. See **"THE CERTIFICATES – Prepayment."**

Use of Proceeds. The net proceeds of the sale of the Certificates will be used to provide funds to refund certificates of participation executed and delivered in 2003, to provide for a reserve fund for the Certificates and to pay certain costs incurred in connection with the execution and delivery of the Certificates. See **"THE FINANCING PLAN."**

* Preliminary, subject to change.

Ownership of Certificates. The Certificates evidence and represent the direct, undivided fractional interests of the registered owners (the "**Owners**") thereof in Lease Payments (as defined herein) to be made by the County for the right to the use of certain capital facilities (the "**Leased Property**"), pursuant to a Lease Agreement, dated as of May 1, 2012 (the "**Lease Agreement**"), by and between the Corporation, as sublessor, and the County, as sublessee. In order to facilitate the transfer contemplated by the Lease Agreement, the County will lease the Leased Property to the Corporation pursuant to a Site Lease, dated as of May 1, 2012 (the "**Site Lease**"), by and between the County, as lessor and the Corporation, as lessee.

Lease Payments. The County covenants under the Lease Agreement to take such action as may be necessary to include all Lease Payments due under the Lease Agreement in the operating budget for each Fiscal Year and to make the necessary annual appropriations therefor, subject to abatement as described herein.

Lease Payments are subject to complete or partial abatement in the event and to the extent that there is substantial interference with the County's right to use and occupancy of the Leased Property or any portion thereof. Abatement of Lease Payments under the Lease Agreement, to the extent payment is not made from alternative sources as described herein, would result in all Certificate Owners receiving less than the full amount of principal and interest represented by the Certificates. To the extent proceeds of an eminent domain or insurance award are available to pay Lease Payments, or to the extent that moneys are available in the Lease Payment Fund or the Reserve Fund, Lease Payments (or a portion thereof) may be made during periods of abatement.

THE OBLIGATION OF THE COUNTY TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE COUNTY OR THE STATE OF CALIFORNIA (THE "STATE") OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Risk Factors. Investment in the Certificates have certain risks arising from circumstances which could have an adverse impact on the ability of the County to pay the Lease Payments. See "RISK FACTORS" herein.

Miscellaneous. There follows in this Official Statement, which includes the cover page and Appendices hereto, a brief description of the Certificates, the County, the Trust Agreement, the Site Lease, the Lease Agreement and other documents, risk factors and certain other information relevant to the issuance of the Certificates. All references herein to the Trust Agreement, Lease Agreement and other documents, agreements and statutes referred to herein, and the description of the Certificates included in this Official Statement, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document or statute. A summary of certain provisions of the Trust Agreement and Lease Agreement is included in APPENDIX A. A recent financial statement of the County is included in APPENDIX C. The information set forth herein and in the Appendices hereto has been furnished by the County and includes information which has been obtained from other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Trust Agreement or the Lease Agreement shall have the meanings set forth therein, some of which are summarized in "APPENDIX A – Summary of Principal Legal Documents."

The information and expressions of opinion herein speak only as of the date of this Official Statement and are subject to change without notice. Neither delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

All financial and other information presented in this Official Statement has been provided by the County from its records, except for information expressly attributed to other sources. The presentation of information, including table of receipts from tax increment revenues, is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the County. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

THE FINANCING PLAN

The net proceeds of the sale of the Certificates will be used to (i) provide funds to refund on a current basis, the 2003 Refunding Certificates of Participation (Capital Projects and Refunding) (the "**2003 Certificates**") executed and delivered in the original principal amount of \$32,350,000, (ii) provide moneys for a reserve fund for the Certificates, and (iii) pay certain costs incurred in connection with the execution and delivery of the Certificates. The 2003 Certificates were issued to refund the Certificates of Participation (1993 Capital Improvements Project) executed and delivered in the original principal amount of \$14,340,000. The 1993 Certificates were executed and delivered for the purpose of (i) renovation of County Hall of Records Building, development costs related to the construction of a criminal courts facility, construction of improvements to the County Juvenile Hall and the acquisition of an automated justice information system; (ii) acquisition and construction of improvements to the Napa County Airport; (iii) demolition of the existing building housing the County agricultural-related departments and the development costs related to the construction of a new building to house such departments; (iv) acquisition of certain water entitlements; (v) renovation of the Napa City-County Library; (vi) construction of a County fire station; and (vii) renovation of the County Jail. All of the projects financed with the proceeds of the 1993 Certificates have been completed.

Refunding of 2003 Certificates. Proceeds of the Certificates used for prepaying the 2003 Certificates, together with certain funds held in the funds and accounts related to the 2003 Certificates and made available through the concurrent defeasance of the 2003 Certificates, will be deposited in an Escrow Fund to be established pursuant to an Escrow Deposit and Trust Agreement, dated as of May 1, 2012 (the "**Escrow Agreement**"), by and among the County and U.S. Bank National Association, as escrow bank (the "**Escrow Bank**"). The moneys in the Escrow Fund will be used, in part, to purchase Federal Securities (as defined in the Escrow Agreement) and subsequently applied by the Escrow Bank to the prepayment of the 2003 Certificates on _____, 2012. Any amounts remaining in the Escrow Fund following the full prepayment of the 2003 Certificates shall be transferred by the Escrow Bank to the County. The deposit with the Escrow Bank will result in the defeasance of the 2003 Certificates pursuant to the provisions of the documents under which they were executed and delivered, as of the date of the deposit. Sufficiency of the deposits and investment earnings for such purpose will be verified by an independent accounting firm. See "VERIFICATION REPORT."

The escrowed Federal Securities and other moneys held by the Escrow Bank are pledged to the payment of the 2003 Certificates. Neither the principal of the Federal Securities deposited

with the Escrow Bank nor the interest thereon shall be available for the payment of principal of and interest evidenced by the Certificates.

ESTIMATED SOURCES AND USES OF FUNDS

The Trustee will receive the proceeds from the sale of the Certificates, upon delivery of the Certificates to the purchasers thereof, and will use such proceeds, exclusive of accrued interest, as set forth in the following table.

SOURCES:

Par Amount of Certificates
Net Original Issue Premium
Funds Relating to the 2003 Certificates
Total Sources:

USES:

Deposit to Escrow Fund
Underwriter's Discount
Deposit to Costs of Issuance Fund ⁽¹⁾
Total Uses:

(1) Includes legal, financial advisory, rating agency and printing costs, municipal bond insurance and reserve fund insurance premiums and other miscellaneous costs of issuance.

THE LEASED PROPERTY

Under the Lease, the County leases the Leased Property from the Corporation. The Leased Property consists of the following real properties, which may be substituted or removed by the County upon satisfaction of certain conditions set forth in the Lease. See "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES – Substitution or Removal of Leased Property" below.

Historic Courthouse. The County's 34,708 square foot Historic Courthouse is located at 825 Brown Street in Napa. The Historic Courthouse facility includes the original Courthouse along Brown Street built in 1878, the Hall of Records along Coombs Street built in 1916 and the Courthouse Infill building which joins the original Courthouse and the Hall of Record into one building, built in 1977. The old Courthouse and the infill house courtrooms, judicial chambers, administrative offices, the law library and other work areas. The 2003 improvements included remodeling the Information Technology Division Offices, Clerks Offices, Payment Processing Center, Courtroom C, Family Court Services and various finishes to common areas. The exterior work included changing the main entrance to Brown Street and providing ADA access. The Historic Courthouse was seismically retrofitted in 1998. The Hall of Records was renovated beginning in 1995 and houses the County's Jury Assembly Room and files. Proceeds of the 1993 obligations refunded by the 2003 Certificates in the approximate amount of \$1.1 million were used for the renovation.

The County holds title to the Historic Courthouse, with use of the facility subject to the Trial Court Facilities Act of 2002 and a Transfer Agreement between the County and the Judicial Council of California, Administrative Offices of the Courts, executed in 2008. Currently, the

County has legal responsibility to provide space for court operations and the agreement identifies areas of the building which each party has the right to use exclusively and common areas that could be used jointly, as well as related maintenance obligations. As such, the County has title to the facility and retains responsibility for the exterior grounds and the county parking lots, but responsibility for the building itself has been transferred to the State. In addressing court facilities subject to bonded indebtedness, the Act provides for title to facilities is to be transferred to the State when related bonded indebtedness is paid, however there is a separate provision in State law excepting historic buildings and the County has elected under this provision to permanently keep ownership of the Historic Courthouse regardless of any bond indebtedness. The terms of the Transfer Agreement will not prevent the Corporation or the Trustee from exercising any of the remedies set forth in the Lease if an Event of Default occurs.

Sheriff's Facility. A portion of the proceeds of the 2003 Certificates were used to construct a Sheriff's Facility to replace a then-existing use of space on the ground floor and part of the basement of the County's Hall of Justice. The new facility was completed in 2005 on a 3.06-acre site located on Airport Boulevard, adjacent to the existing Napa County Greenwood Fire Station. The site lies within the unincorporated area of Napa, in a commercial/industrial area near the County's existing Regional Airport.

The approximately 49,000 square foot facility houses the entire Napa County Sheriff's Department, consisting of the Sheriff's Administration, Field Operations Division (Patrol, Investigations) and Civil/Coroner Division (Civil, Coroner and Court Security/Transportation Bureau). The building is a split-level, steel frame structure with a metal-seam roof and as part of it being LEED Gold rated utilizes high efficiency mechanical equipment integrated with a direct digital control system, including photovoltaic technology to help offset energy usage. Aside from housing the Sheriff's Department, the facility also provides space for a Coroner's forensic facility, a tissue recovery facility and adequate storage and parking for the Sheriff's Department's needs. The total cost for the new facility was approximately \$16 million.

THE CERTIFICATES

General

The Certificates evidence and represent direct, undivided fractional interest of the Owners thereof in the principal and interest components of Lease Payments to be made by the County pursuant to the Lease Agreement.

The Certificates will be executed and delivered in principal amounts of \$5,000 or integral multiples thereof. Interest represented by each Certificate will accrue on the principal components represented by such Certificate at the applicable interest rate from the Dated Date until its date of maturity or prior prepayment, with interest becoming payable on each June 1 and December 1 (each, an "Interest Payment Date"), commencing December 1, 2012.

Each Certificate will be dated as of May 1, 2012 and interest represented thereby will be payable from the Interest Payment Date next preceding the date of execution thereof, (a) unless it is executed following a Record Date and on or before the next succeeding Interest Payment Date, in which event interest represented thereby will be payable from such Interest Payment Date, or (b) unless it is executed on or before the first Record Date, in which event interest represented thereby will be payable from the Closing Date; *provided, however*, that if, as of the date of any Certificate, interest represented by such Certificate is in default, interest represented thereby shall be payable from the Interest Payment Date to which interest has previously been

paid or made available for payment with respect to such Certificate. Interest evidenced by each Certificate will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Registration, Transfers and Exchanges

The Certificates will be executed and delivered as fully registered Certificates, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Certificates (the "**Beneficial Owners**") in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined herein). Beneficial Owners will not be entitled to receive physical delivery of the Certificates. In the event that the book-entry-only system is no longer used with respect to the Certificates, the Certificates will be registered and transferred in accordance with the Trust Agreement. See "Book-Entry Only System" below.

Prepayment

Optional Prepayment. The Certificates maturing on or before June 1, _____, are not subject to optional prepayment prior to the respective stated maturities. The Certificates maturing on or after June 1, _____, are subject to optional prepayment in whole or in part, on any Business Day on or after June 1, _____, from prepayments of the Lease Payments made at the option of the County pursuant to the Lease Agreement, at a prepayment price (expressed as a percentage of the principal amount to be prepaid), as set forth in the following table together with accrued interest represented thereby to the date fixed for prepayment.

Prepayment Date	Prepayment Price
June 1, _____ through May 31, _____	_____%
June 1, _____ and thereafter	_____

The County shall have the right to rescind any notice of prepayment delivered by the Trustee prior to the date fixed for prepayment.

Prepayment From Net Proceeds of Insurance or Eminent Domain. The Certificates are also subject to mandatory prepayment on any Business Day, in whole or in part, from the Net Proceeds of insurance or eminent domain proceedings credited towards the prepayment of the Lease Payments pursuant to the Lease Agreement, at a prepayment price equal to 100% of the principal amount to be prepaid, together with accrued interest represented thereby to the date fixed for prepayment, without premium.

Selection of Certificates for Prepayment. Whenever provision is made in the Trust Agreement for the prepayment of Certificates and less than all Outstanding Certificates are called for prepayment, the Trustee will select Certificates for prepayment among maturities in any manner as directed by the County, and in the absence of such direction, pro rata among maturities, and by lot within a maturity. For the purposes of such selection, Certificates will be deemed to be composed of \$5,000 portions, and any such portion may be separately prepaid. The Trustee will promptly notify the County and the Corporation in writing of the Certificates or portions thereof so selected for prepayment.

Notice of Prepayment. When prepayment is authorized or required pursuant to the Trust Agreement, the Trustee will give notice of the prepayment of the Certificates on behalf and at the expense of the County. Such notice will state the publication date, the Trustee's

name and address, the date of issue, the prepayment date and prepayment price and, if less than all of the then Outstanding Certificates are to be called for prepayment, will designate the CUSIP numbers, the Certificate numbers, and the amounts of the Certificates to be prepaid by giving the individual number of each Certificate or by stating that all Certificates between two stated numbers, both inclusive, have been called for prepayment or by stating that all of the Certificates of one or more maturities have been called for prepayment, and shall require that such Certificates be surrendered on the prepayment date at the principal corporate trust office (the "Corporate Trust Office") of the Trustee in St. Paul, Minnesota, for prepayment at said prepayment price, giving notice also that further interest represented by the Certificates will not accrue after the prepayment date. Such notice will further state that on the prepayment date there will become due and payable, the principal and premium, if any, represented by each Certificate together with accrued interest represented thereby to said date, and that from and after such date interest represented thereby will cease to accrue and be payable.

Notice of such prepayment will be mailed by the Trustee via first class mail with postage prepaid, to one or more of the Information Services, and to the Owners of Certificates designated for prepayment at their respective addresses appearing on the Registration Books, at least thirty days but not more than sixty days prior to the prepayment date. Such notice will, in addition to setting forth the above information, set forth, in the case of each Certificate called only in part, the portion of the principal represented thereby which is to be prepaid; provided, however, that neither failure to receive such notice so mailed nor any defect in any notice so mailed will affect the sufficiency of the proceedings for the prepayment of such Certificates or the cessation of accrual of interest represented thereby from and after the date fixed for prepayment.

Partial Prepayment of Certificates. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the Owner thereof, at the expense of the County, a new Certificate or Certificates of authorized denominations equal in aggregate principal amount to the unprepaid portion of the Certificate surrendered and of the same interest rate and the same maturity.

Effect of Prepayment. Moneys for the prepayment (including the interest to the applicable date of prepayment) of Certificates having been set aside in the Lease Payment Fund shall become due and payable on the date of such prepayment, and, upon presentation and surrender thereof at the Corporate Trust Office, said Certificates shall be paid at the unpaid principal amount (or applicable portion thereof) represented thereby plus interest accrued and unpaid to said date of prepayment.

If, on said date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest represented thereby to said date of prepayment, will be held by the Trustee so as to be available therefor on such date of prepayment, then, from and after said date of prepayment, interest represented by the Certificates shall cease to accrue and become payable. All moneys held by the Trustee for the prepayment of Certificates will be held in trust for the account of the Owners of the Certificates so to be prepaid, and will be held by the Trustee in cash uninvested.

All Certificates paid at maturity or prepaid prior to maturity pursuant to the provisions of the Trust Agreement will be cancelled upon surrender thereof and destroyed in accordance with the Trustee's retention policy then in effect.

Book-Entry Only System

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC", "GSCC", "MBSCC", and "EMCC", also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to DTC. If less than all of the Certificates within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

In the event that the book-entry system is discontinued as described above, the requirements of the Trust Agreement will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and neither the County or the Corporation take any responsibility for the accuracy thereof.

Neither the County or the Underwriter can and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Certificates paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. Neither the County or the Underwriter is responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Certificates or an error or delay relating thereto.

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

Discontinuance of DTC Service. In the event that (a) DTC determines not to continue to act as securities depository for the Certificates, or (b) the County determines to remove DTC from its functions as a depository, DTC's role as securities depository for the Certificates and use of the book-entry system will be discontinued. If the County fails to select a qualified securities depository to replace DTC, the County will cause the Trustee to execute and deliver new Certificates in fully registered form in such denominations numbered in the manner determined by the Trustee and registered in the names of such persons as are requested by the Beneficial Owners thereof. Upon such registration, such persons in whose names the Certificates are registered will become the registered Owners of the Certificates for all purposes.

Transfer and Exchange of Certificates. The following provisions regarding the exchange and transfer of the Certificates apply only during any period in which the Certificates are not subject to DTC's book-entry system. While the Certificates are subject to DTC's book-entry system, their exchange and transfer will be effected through DTC and the Participants and will be subject to the procedures, rules and requirements established by DTC.

The registration of any Certificate may, in accordance with its terms, be transferred upon the Registration Books by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Certificate for cancellation at the Corporate Trust Office of the Trustee in St. Paul, Minnesota, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed. Whenever any Certificate or Certificates shall be surrendered for registration of transfer, the Trustee shall execute, authenticate and deliver a new Certificate or Certificates of the same maturity and aggregate principal amount, in any authorized denominations.

Certificates may be exchanged at the Corporate Trust Office of the Trustee, for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity. The County shall pay any costs of the Trustee incurred in connection with such exchange, except that the Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

LEASE PAYMENT SCHEDULE

Following is the annual schedule of Lease Payments due with respect to the Certificates (assuming no optional prepayment of the Certificates).

Year Ending <u>(June 1)</u>	Principal <u>Component</u>	Interest <u>Component</u>	Annual <u>Total</u>
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SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

Nature of the Certificates

Each Certificate evidences and represents a direct, undivided fractional interest in the principal component of the Lease Payments due under the Lease Agreement on the payment date or prepayment date of such Certificate, and the interest component of all Lease Payments (based on the stated interest rate with respect to such Certificate) to accrue from the Dated Date, to its payment date or prepayment date, as the case may be.

The Trustee and the Corporation will enter into an Assignment Agreement, dated as of May 1, 2012 (the "**Assignment Agreement**"), pursuant to which the Corporation, pursuant to the Assignment Agreement, will assign to the Trustee for the benefit of the Owners of the Certificates, substantially all of the Corporation's right, title and interest in and to the Lease Agreement, including, without limitation, its right to receive Lease Payments to be paid by the County. The County will pay Lease Payments directly to the Trustee, as assignee of the Corporation.

Lease Payments

For the right to the use and occupancy of the Leased Property, the Lease Agreement requires the County to make Lease Payments. Scheduled Lease Payments relating to the Certificates are set forth above under the heading "LEASE PAYMENT SCHEDULE."

THE OBLIGATION OF THE COUNTY TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE COUNTY OR THE STATE OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY OR THE STATE IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY OR THE STATE HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Additional Payments

The County is obligated under the Lease Agreement to pay when due, during the term of the Lease Agreement, in addition to the Lease Payments, all costs and expenses incurred by the Corporation to comply with the provisions of the Trust Agreement, including without limitation all Costs of Issuance (to the extent not paid from amounts on deposit in the Costs of Issuance Fund), indemnification and annual compensation due to the Trustee and all of its reasonable costs payable as a result of the performance of and compliance with its duties under the Trust Agreement, and all costs and expenses of attorneys, auditors, engineers and accountants (the "**Additional Payments**"). Such costs and expenses shall be payable as additional amounts of rental in consideration of the right of the County to the use and occupancy of the Leased Property. Amounts payable to holders of the Certificates are not derived from Additional Payments.

Covenant to Appropriate Funds for Lease Payments or Additional Payments

The County has covenanted in the Lease Agreement to take such action as may be necessary to include all Lease Payments and Additional Payments as one or more separate line items in each of its annual budgets and to make the necessary annual appropriations for all such Lease Payments and Additional Payments.

Abatement

Lease Payments are to be paid by the County in each rental period for and in consideration of the right to use and occupy the Leased Property during each such period. The amount of Lease Payments shall be abated during any period in which by reason of damage or destruction (other than by eminent domain which is otherwise provided for) there is substantial interference with the use and occupancy by the County of the Leased Property or any portion thereof. The amount of the Lease Payments under such circumstances shall not be less than the amount of the unpaid Lease Payments required to pay principal and interest with respect to the Certificates, as scheduled, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Leased Property not damaged or destroyed, based upon the opinion of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, in which event the Lease Payments shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement shall continue in full force and effect and the County has waived any right to terminate the Lease Agreement by virtue of any such damage and destruction. Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the Lease Agreement to the extent that the proceeds of hazard insurance, and eminent domain award, rental interruption insurance or amounts in the Reserve Fund are available to pay Lease Payments which would otherwise be abated.

Action on Default

Should the County default under the Lease Agreement, the Trustee, as assignee of the Corporation under the Lease Agreement, may exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there is no right under any circumstances to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. The Corporation and the Trustee (as assignee of the Corporation) may terminate the Lease and re-lease all or any portion of the Leased Property. See "RISK FACTORS - Limited Recourse on Default" herein.

For a description of the events of default and permitted remedies of the Trustee (as assignee of the Corporation) contained in the Lease Agreement and the Trust Agreement, see "APPENDIX A – Summary of Principal Legal Documents" herein.

Reserve Fund

A reserve fund (the "**Reserve Fund**") is established from proceeds of the Certificates pursuant to the Trust Agreement and will be held by the Trustee in trust for the benefit of the Owners of the Certificates. The Reserve Fund shall be maintained in the amount of the "**Reserve Requirement**", which is defined to be an amount equal to the lesser of an amount equal to one-half* (* preliminary, subject to change) of: (i) 10% of the issue price of the Certificates then Outstanding, excluding accrued interest; (ii) 125% of average annual Lease

Payments coming due and payable; or (iii) maximum annual Lease Payments coming due and payable.

If on any Payment Date the moneys available in the Lease Payment Fund do not equal the amount of the principal and interest represented by the Certificates then coming due and payable, the Trustee will apply the moneys available in the Reserve Fund to make delinquent Lease Payments on behalf of the County by transferring the amount necessary for this purpose to the Lease Payment Fund. Upon receipt of any delinquent Lease Payment or portion thereof with respect to which moneys have been advanced from the Reserve Fund, such Lease Payment or portion thereof shall be deposited in the Reserve Fund to the extent of such advance.

Pursuant to the Trust Agreement, any moneys held by the Trustee in the Reserve Fund will be invested by the Trustee upon the written request of the County only in Permitted Investments (as defined in the Trust Agreement). All cash amounts on deposit in the Reserve Fund at any time in excess of the Reserve Requirement, and all amounts derived from the investment of amounts in the Reserve Fund which are not required to be retained therein to maintain the Reserve Requirement, shall be transferred by the Trustee to the Lease Payment Fund.

Insurance

The County agrees in the Lease Agreement that for the term of such Lease Agreement it will maintain insurance with respect to the Leased Property against the risks and in the amounts described in the following paragraphs.

Public Liability and Property Damage Insurance. The County is obligated under the Lease Agreement to maintain or cause to be maintained, throughout the term of the Lease Agreement a standard comprehensive general insurance policy or policies in protection of the Corporation, County, and their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Leased Property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event and in a minimum amount of \$150,000 for damage to property resulting from each accident or event, subject to a deductible of \$250,000 or less. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the minimum amount of \$3,000,000 covering all such risks. Such liability insurance may be maintained as self-insurance or as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the County. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the proceeds of such insurance shall have been paid. **The County is under no obligation to provide insurance against loss or damage occasioned by the perils of earthquake or flood.**

Fire and Extended Coverage Insurance. The County is obligated under the Lease Agreement to procure and maintain, or cause to be procured and maintained, throughout the term of the Lease Agreement, insurance against loss or damage to any structures constituting any part of the Leased Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the lesser of one hundred percent of the replacement cost of the structures located on the Leased Property or the outstanding principal amount of the Certificates of

Participation, and must apply exclusively to the Leased Property. If the County elects to provide property and casualty insurance in an amount that is equal to the par amount of the Certificates but less than the replacement cost of the structures located on the Leased Property, the proceeds of such casualty insurance must be paid to the Trustee and applied to the redemption of the Certificates in accordance with the Trust Agreement, unless such proceeds, together with any additional funds deposited with the Trustee, are sufficient to fully rebuild or repair the Leased Property. Full payment of insurance proceeds up to the required policy dollar limit in connection with damage to the Leased Property shall, under no circumstances, be contingent on the degree of damage sustained at other facilities owned or leased by the County. Such insurance may be maintained as self-insurance or as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the County.

Self-Insurance. The County has been self-insured for workers' compensation and general liability since 1978. The current self-insured level is \$350,000 per claim for workers' compensation and \$300,000 per incident for general liability. The County participates in the California State Association of Counties (CSAC) - Excess Insurance Program for excess insurance up to a maximum of \$25 million for liability insurance and the statutory limit for worker's compensation insurance.

Rental Interruption Insurance. The Lease Agreement requires the County to procure and maintain throughout the term of the Lease Agreement, rental interruption or use and possession insurance to cover loss, total or partial, of the use of any structures constituting any part of the Leased Property as a result of any of the hazards covered in the insurance required by the Lease Agreement in an amount at least equal to Lease Payments due during a 24-month period. The proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited towards the payment of the Lease Payments as the same become due and payable. The County may not satisfy the requirement for rental interruption or use and occupancy insurance by self insurance.

Title Insurance. The County is obligated under the Lease Agreement to obtain a California Land Title Association form of title insurance policy which insures the leasehold estate created under the Lease Agreement, subject only to Permitted Encumbrances, in an amount equal to the principal amount of the Certificates.

Net Proceeds; Form of Insurance. All proceeds of such insurance must be payable to the Trustee as and to the extent required under the Lease Agreement. All policies of insurance required by the Lease Agreement must be in form satisfactory to the Trustee. All such policies must provide that the Trustee shall be given thirty days notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. The Trustee will not be responsible for the sufficiency of any required insurance 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 Trustee. The County will cause to be delivered to the Trustee annually a certificate of the County that the insurance policies required by the Lease Agreement are in full force and effect.

Substitution or Removal of Leased Property

Pursuant to the Lease Agreement, the County has the options listed below with respect to substitution or removal of the Leased Property.

Substitution of Leased Property. The County has the option at any time and from time to time during the Term of the Lease Agreement to substitute other land, facilities, improvements or other property (a "**Substitute Property**") for the Leased Property or any

portion thereof (a "**Former Property**"), provided that the County shall satisfy all of the following requirements:

(a) The County shall notify Moody's and Ambac Assurance in writing of such substitution, which notice shall contain the certification that all conditions set forth in the Lease regarding substitution of property are met with respect to such substitution;

(b) The County shall take all actions and shall execute all documents required to subject such Substitute Property to the terms and provisions of the Lease, including the filing with the Corporation and the Trustee an amended exhibit thereto which adds a description of such Substitute Property and deletes the description of such Former Property, and including the recordation of the Lease or a memorandum thereof with respect to such Substitute Property in the office of the Napa County Clerk-Recorder;

(c) The County shall certify in writing to the Corporation and the Trustee, such certification to be accompanied by an appraisal prepared by a qualified appraiser that the value of such Substitute Property is at least equal to the value of such Former Property, and that the combined fair market rental value of such Substitute Property and the portion of the Leased Property remaining after the removal of the Former Property is at least equal to the combined fair market rental value of the Leased Property;

(d) The County has caused to be filed with the Trustee an opinion of Bond Counsel substantially to the effect that such substitution will not affect the obligation of the County to continue to pay Lease Payments in the amounts and at the times and in the manner required by the Lease Agreement;

(e) With respect to the Substitute Leased Property, evidence of ownership of, or, at the option of the County, insurance naming the Trustee as the insured and insuring, the fee or leasehold estate of the County in such Substitute Leased Property subject only to such exception as do not substantially interfere with the County's right to use and occupy such Substitute Leased Property and as will not result in an abatement of Lease Payments payable by the County under the Lease Agreement;

(f) No event of default has occurred and is continuing under the Lease Agreement; and

Upon the satisfaction of all such conditions precedent, the term of the Lease Agreement will thereupon cease with respect to the Former Property and shall be continued with respect to the Substitute Property, and all references in the Lease Agreement to the Former Property shall apply with full force and effect to the Substitute Property. The County shall not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution.

Removal of Leased Property. Under the Lease Agreement, the County has the option at any time and from time to time during the term of the Lease Agreement to remove any property from the description of the Leased Property, provided that the County shall satisfy all of the following requirements which are hereby declared to be conditions precedent to such removal:

(i) No event of default has occurred and is continuing under the Leases;

(ii) the County shall obtain a report of a qualified appraiser certifying that the appraised value of the Leased Property which will remain following such removal is not less than the aggregate principal amount of the Outstanding Certificates; and

(iii) the County shall obtain and cause to be filed with the Trustee and the Corporation an opinion of Bond Counsel stating that such removal does not cause interest with respect to the Certificates to become includable in the gross income of the Certificate Owners for federal income tax purposes.

See "RISK FACTORS - Substitution and Removal of the Leased Property" for a discussion of certain risk factors related to the County's right to substitution and removal of the Leased Property.

RISK FACTORS

The following factors, along with the other information in this Official Statement, should be considered by potential investors in evaluating purchase of the Certificates. However, the following does not purport to be an exhaustive listing of risks and other considerations which may be relevant to an investment in the Certificates. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

General Considerations – Security for the Certificates

The obligation of the County to make the Lease Payments does not constitute a debt of the County or the State or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the County or the State is obligated to levy or pledge any form of taxation or for which the County or the State has levied or pledged any form of taxation.

Although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the County, the County is obligated, subject to abatement, under the Lease Agreement to pay the Lease Payments from any source of legally available funds. The County has covenanted in the Lease Agreement that it will take such action as may be necessary to include all rental payments due under the Lease Agreement in its annual budgets and to make necessary annual appropriations for all such rental payments. The County is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Lease Payments.

The County has the capacity to enter into other obligations which may constitute additional charges against its revenues. To the extent that additional obligations are incurred by the County, the funds available to make Lease Payments may be decreased. In the event the County's revenue sources are less than its total obligations, the County could choose to fund other activities before making Lease Payments and other payments due under the Lease Agreement.

The County's ability to collect, budget and appropriate various revenues is subject to current and future State laws and constitutional provisions, and it is possible that the interpretation and application of these provisions could result in an inability of the County to pay the Lease Payments when due. See "RISK FACTORS" and "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" herein.

Eminent Domain

If the Leased Property is taken permanently under the power of eminent domain or sold to a government threatening to exercise the power of eminent domain, the term of the Lease Agreement will cease as of the day possession is taken. If less than all of the Leased Property is taken permanently, or if the Leased Property or any part thereof is taken temporarily, under the power of eminent domain, (1) the Lease Agreement will continue in full force and effect and will not be terminated by virtue of such taking, and (2) there will be a partial abatement of Lease Payments as a result of the application of the Net Proceeds of any eminent domain award to the prepayment of the Lease Payments, in an amount to be agreed upon by the County and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the remaining usable portion of the Leased Property.

Abatement

The Lease Agreement provides that the amount of Lease Payments will be subject to abatement during any period in which by reason of damage or destruction there is substantial interference with the use and occupancy by the County of the Leased Property. The amount of such abatement will be agreed upon by the County and the Corporation such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Leased Property not damaged or destroyed. Such abatement will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction. In the event of any such damage or destruction, the Lease Agreement will continue in full force and effect and the County, in the Lease Agreement, waives any right to terminate the Lease Agreement by virtue of any such damage and destruction.

However, there will be no abatement of Lease Payments to the extent that the proceeds of an eminent domain or insurance award are available to pay Lease Payments, or to the extent that moneys are available in the Lease Payment Fund or the Reserve Fund, it being declared in the Lease Payment Fund that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Limited Recourse on Default; No Acceleration

If the County defaults on its obligation to make Lease Payments, there is no available remedy of acceleration of the total Lease Payments due over the term of the Lease Agreement. The County will only be liable for Lease Payments on an annual basis, and the Trustee would be required to seek a separate judgment in each fiscal year for that fiscal year's rental payments.

Limitation on Remedies; Bankruptcy

The rights of the Owners of the Certificates are subject to the limitations on legal remedies against cities and counties in the State, including State constitutional limits on expenditures and limitations on the enforcement of judgments against funds needed to serve the public welfare and interest, by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws affecting the enforcement of creditors' rights, by equitable principles, by the exercise of judicial powers in appropriate cases and by the exercise by the federal and State governments of their sovereign powers. The opinions of counsel, including Special Counsel, delivered in connection with the Certificates will be so qualified. Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs the bankruptcy proceedings for public agencies such as the County, there are no involuntary petitions in bankruptcy. Bankruptcy proceedings, if initiated, or the exercise of

powers by the federal or state government, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy proceedings or otherwise and consequently may entail risk or delay, limitation or modification of their rights.

Loss of Tax Exemption

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

Seismic Considerations

The County, like much of California, is subject to seismic activity that could result in interference with its right to use and possession of the Leased Property. The two faults likely to have the most impact on the County are the West Napa Fault and Concord-Green Valley Fault Zone. **The County is not obligated by the Lease Agreement or otherwise to maintain earthquake insurance with respect to the Leased Property.** The occurrence of severe seismic activity in the area of the Leased Facilities and Site could result in substantial damage and interference with the County's right to use and occupy all or a portion of the Leased Facilities and Site, and result in Lease Payments being subject to abatement. See "Abatement" above.

State of California Financial Condition

The State of California is currently experiencing significant financial and budgetary stress. The financial condition of the State has an impact on the level of revenues received by the County. The 2011-12 State budget, and possibly subsequent years' budgets, will have an impact on the finances of the County, the extent of which is not currently known. No prediction can be made as to whether the State will continue to encounter budgetary problems in this or any future fiscal years, and if it were to do so, it is not clear what measures would be taken by the State to balance its budget, as required by law. In addition, the County cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the County has no control. There can be no assurance that the State's efforts to balance the State general fund will not materially adversely affect the financial condition of the County. See "COUNTY FINANCES – State Budget Impact on County Revenues."

No Liability of Corporation to the Owners

Except as expressly provided in the Trust Agreement, the Corporation will not have any obligation or liability to the Owners of the Certificates with respect to the payment when due of the Lease Payments by the County, or with respect to the performance by the County of other agreements and covenants required to be performed by it contained in the Lease Agreement or the Trust Agreement, or with respect to the performance by the Trustee of any right or obligation required to be performed by it contained in the Trust Agreement.

Substitution and Removal of the Leased Property

The Lease Agreement permits the County, under certain circumstances described in "SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES - Substitution or Removal of Leased Property", to remove and or substitute all or a portion of the Leased Property so long as the resulting Leased Property has a value at least equal to the then-outstanding principal amount of the Certificates. The Lease Agreement does not require that the Leased Property after the substitution or release have a value equal to the value of the Leased Property prior to such substitution or release. Thus, a portion of the property comprising the Leased Property could be replaced with less valuable property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the Certificates, particularly if an event requiring abatement of Lease Payments were to occur subsequent to such substitution or release.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution

In 1978, California voters approved Proposition 13, adding Article XIII A to the California Constitution. Article XIII A was subsequently amended in 1986, as discussed below. Article XIII A limits the amount of any *ad valorem* tax on real property to 1% of the full cash value thereof, except that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters voting on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash" or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year to account for inflation, provided however, a homeowner's assessment could increase by more than 2% per year, when the price appreciation in prior years was less than 2% per year.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster. Also in 1986, the voters of the State of California approved two measures, Propositions 58 and 60, which further amended Article XIII A. Proposition 58 amended Article XIII A to provide that the terms "purchased" and "change of ownership," for purposes of determining full cash value of property under Article

XIIIA, do not include the purchase or transfer of (1) real property between spouses and (2) the principal residence and the first \$1,000,000 of other property between parents and children.

Legislation Implementing Article XIII A

Legislation has been enacted and amended a number of times since 1978 to implement Article XIII A. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979, but is subject to legislative change at any time.

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

If the Court's reasoning is applied generally to all taxpayers, the loss of tax revenue to communities could be significant. Further, the County cannot predict the effect, if any, that the outcome of the Orange County Litigation would have on property tax revenues to be received by the County, although the effect could be adverse.

Article XIII B of the California Constitution

At the statewide special election on November 6, 1979, the voters approved an initiative entitled "Limitation on Government Appropriations" which added Article XIII B to the California Constitution. Under Article XIII B, state and local government entities have an annual "appropriations limit" which limits the ability to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues and certain state subventions together called "proceeds of taxes" and certain other funds) in an amount higher than the "appropriations limit." Article XIII B does not affect the appropriation of monies which are excluded from the definition of "appropriations limit" including debt service on indebtedness existing or authorized as of September 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the "appropriations limit" is to be based on certain 1978-79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population and services provided by these entities. Among other provisions of Article XIII B, if those entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

In general terms, the "appropriations limit" is to be based on the adjusted fiscal year 1986-87 appropriations limit, which is traced back through an annual adjustment process to the 1978-79 fiscal year. Annual adjustments reflect changes in California per capita personal income (or, at the City's option, changes in assessed value caused by local nonresidential new construction), population and services provided by these entities. Among other provisions of Article XIII B, if the revenues of such entities in any fiscal year and the following fiscal year exceed the amounts permitted to be spent in such years, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Proposition 62

Proposition 62 was a statutory initiative adding Sections 53720 to 53730, inclusive, to the California Government Code. It confirmed the distinction between a general tax and special tax, established by the State Supreme Court in 1982 in *City and County of San Francisco v. Farrell*, by

defining a general tax as one imposed for general governmental purposes and a special tax as one imposed for specific purposes. Proposition 62 further provided that no local government or district may impose (i) a general tax without prior approval of the electorate by majority vote or (ii) a special tax without such prior approval by two-thirds vote. It further provided that if any such tax is imposed without such prior approval, the amount thereof must be withheld from the levying entity's allocation of annual property taxes for each year that the tax is collected. By its terms, Proposition 62 applies only to general and special taxes imposed on or after August 1, 1985. In September 1995, the California Supreme Court invalidated a one-half cent sales tax imposed in 1986 by 54.0% of Santa Clara County's voters to fund local transportation projects (*Santa Clara County Local Transportation Authority v. Guardino*). The Court determined that the tax was a "special tax", one whose proceeds are dedicated to a special purpose (in this case, transportation). Consequently, the California Constitution required a two-thirds voter approval. The Court relied in part upon the provisions of Proposition 62, even though the California Appellate Courts had previously ruled Proposition 62 unconstitutional in most respects. The County believes that loss of amounts equal to the general fund revenues derived from general taxes imposed on or after August 1, 1985, either retroactively and/or prospectively, would not adversely affect the County's ability to pay the Lease Payments.

Proposition 218

On November 5, 1996, California voters approved Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment. Proposition 218 added Articles XIII C and XIII D to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges. Proposition 218 states that all taxes imposed by local governments shall be deemed to be either general taxes or special taxes. Special purpose districts, including school districts, have no power to levy general taxes. No local government may impose, extend or increase any general tax unless and until such tax is submitted to the electorate and approved by a majority vote. No local government may impose, extend or increase any special tax unless and until such tax is submitted to the electorate and approved by a two-thirds vote.

Proposition 218 also provides that no tax, assessment, fee or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except: (i) the ad valorem property tax imposed pursuant to Article XIII and Article XIII A of the California Constitution, (ii) any special tax receiving a two-thirds vote pursuant to the California Constitution, and (iii) assessments, fees and charges for property related services as provided in Proposition 218. Proposition 218 then goes on to add voter requirements for assessments and fees and charges imposed as an incident of property ownership, other than fees and charges for sewer, water, and refuse collection services. In addition, all assessments and fees and charges imposed as an incident of property ownership, including sewer, water, and refuse collection services, are subjected to various additional procedures, such as hearings and stricter and more individualized benefit requirements and findings. The effect of such new provisions will presumably be to increase the difficulty a local agency will have in imposing, increasing or extending such assessments, fees and charges.

Proposition 218 also provides that the constitutional initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local taxes, assessments, fees and charges. This provision with respect to the initiative power is not limited to taxes imposed on or after November 6, 1996, the effective date of Proposition 218. However, on July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code 5854, which states:

Section 3 of Article XIII C of the California Constitution, as adopted at the November 5, 1996 general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protection by Section 10 of Article I of the United States Constitution.

As a result, although no court has yet considered the relationship between Section 5854 and Article XIII C, it is likely that Proposition 218 has not conferred on the voters the power to repeal or reduce taxes, assessments, fees or charges if such reduction would interfere with the County's payment of Lease Payments.

Unitary Property

AB 454 (Chapter 921, Statutes of 1986) provides that revenues derived from most utility property assessed by the State Board of Equalization ("Unitary Property"), commencing with the 1988-89 fiscal year, will be allocated as follows: (i) each jurisdiction will receive up to 102% of its prior year State-assessed revenue; and (ii) if county-wide revenues generated from Unitary Property are less than the previous year's revenues or greater than 102% of the previous year's revenues, each jurisdiction will share the burden of the shortfall or benefit of the excess revenues by a specified formula. This provision applies to all Unitary Property except railroads, whose valuation will continue to be allocated to individual tax rate areas.

The provisions of AB 454 do not constitute an elimination of the assessment of any State-assessed properties nor a revision of the methods of assessing utilities by the State Board of Equalization. Generally, AB 454 allows valuation growth or decline of Unitary Property to be shared by all jurisdictions in a county.

Future Initiatives

Article XIII A, Article XIII B, Proposition 62 and Proposition 218 were each adopted as measures that qualified for the ballot through California's initiative process. From time to time other initiative measures could be adopted, further affecting the County's revenues.

THE CORPORATION

The Corporation is a nonprofit public benefit corporation duly organized and existing under the laws of the State. The Corporation was established for the purpose of facilitating the financing of public projects in the County. The Board of Directors of the Corporation is composed of the sitting members of the Board of Supervisors of the County.

THE COUNTY

For certain general and demographic information regarding the County, see "APPENDIX B - General Information About the County of Napa."

COUNTY FINANCES

The following selected financial information provides a brief overview of the County's finances. This financial information has been extracted from the County's audited financial statements and, in some cases, from unaudited information provided by the County's Auditor-Controller. See "APPENDIX C – Independent Auditor's Report of the County for the Year Ended June 30, 2011."

Accounting Policies and Financial Reporting

The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. The basis of accounting for all funds is more fully explained in the "Note 1- Summary of Significant Accounting Policies" contained in Appendix C.

The Board of Supervisors of the County (the "**Board of Supervisors**") employs, at the beginning of each fiscal year, an independent certified public accountant who, at such time or times as specified by the Board of Supervisors, at least annually, and at such other times as he or she shall determine, examines the combined financial statements of the County in accordance with generally accepted auditing standards, including such tests of the accounting records and such other auditing procedures as such accountant considers necessary. As soon as practicable after the end of the fiscal year, a final audit and report is submitted by such accountant to the Board of Supervisors and a copy of the financial statements as of the close of the fiscal year is published. The County's Independent Auditor's Report for fiscal year 2010-11 was prepared by Gallina LLP, 925 Highland Pointe Drive, Suite 450, Roseville, California 95678.

General Fund Financial Summary

The audited information contained in the following tables of revenues, expenditures and changes in fund balances, and assets, liabilities and fund equity has been derived from the County's audited financial statements for fiscal years 2006-07 through 2010-11.

Set forth below is excerpts from the County's general fund financial statements for fiscal years 2006-07 through 2010-11.

Table No. 1
COUNTY OF NAPA
General Fund Revenues, Expenditures and Fund Balances
for Fiscal Years 2006-07 through 2010-11

	Fiscal Year 2006-07 (audited)	Fiscal Year 2007-08 (audited)	Fiscal Year 2008-09 (audited)	Fiscal Year 2009-10 (audited)	Fiscal Year 2010-11 (audited) ⁽¹⁾
Revenues					
Taxes	\$ 82,510,684	\$ 89,664,388	\$ 96,107,507	\$ 89,913,364	\$ 98,871,108
Licenses and permits	2,315,359	2,056,431	2,104,113	2,246,899	2,414,070
Fines, forfeitures and penalties	1,509,642	138,137	2,027,326	2,143,241	3,199,386
Revenue from use of money and property	2,662,862	2,397,304	1,317,356	846,766	974,283
Aid from other governments	65,489,473	57,886,318	54,208,541	67,420,973	85,575,530
Charges for services	27,426,160	20,124,685	26,303,871	29,107,255	30,800,452
Contributions and donations	--	624,496	237,807	786,072	552,530
Other revenue	865,283	1,429,167	705,132	196,808	796,398
Total Revenues	182,779,463	174,320,926	183,011,653	192,661,378	223,183,757
Expenditures					
Current					
General government	30,244,787	34,963,980	30,035,450	30,612,563	33,242,632
Public protection	67,685,700	68,151,140	74,989,468	75,327,775	83,102,612
Public ways and facilities	5,738,070	6,496,698	6,288,702	6,132,488	6,308,778
Health and sanitation	35,684,612	38,271,914	39,776,790	39,412,337	40,727,979
Public assistance	27,874,185	29,452,633	30,873,686	32,746,329	35,255,490
Education	350,200	367,895	386,940	398,228	404,552
Recreation and cultural services	206,752	211,686	51,393	1,476	1,264,842
Capital outlay	--	--	--	--	--
Debt Service:					
Principal	21,641	40,349	41,916	43,630	45,371
Interest and fiscal charges	6,763	24,112	14,025	12,319	5,513
Administration, issuance and arbitrage fees	--	--	--	--	--
Total Expenditures	167,812,710	177,980,407	182,458,370	184,687,145	200,357,769
Excess (Deficiency) of revenues Over (Under) Expenditures	14,966,753	(3,659,481)	553,283	7,974,233	22,825,988
Other Financing Sources (Uses):					
Transfers in	1,603,386	8,320,256	8,232,826	10,608,000	130,697
Transfers out	(15,396,339)	(29,816,764)	(7,790,119)	(8,175,439)	(19,830,791)
Total Other Financing Sources (Uses)	(13,792,953)	(21,496,508)	442,707	2,432,561	(19,700,094)
Net change in fund balances	1,173,800	(25,155,989)	995,990	10,406,794	3,125,894
Fund Balance – Beginning of Year	73,953,496	75,127,296	49,971,307	50,967,297	85,321,757⁽¹⁾
Fund Balance – End of Year	\$ 75,127,296	49,971,307	50,967,297	61,374,091	88,447,651

(1) Beginning in fiscal year 2010-11, activities and fund balance amounts previously included in special revenue funds are combined in General Fund in accordance with GASB 54.

Source: County of Napa Financial Statements (2006-07 through 2010-11).

Table No. 2
COUNTY OF NAPA
General Fund Balance Sheet as of June 30
for Fiscal Years 2006-07 through 2010-11

	Fiscal Year 2006-07 (audited)	Fiscal Year 2007-08 (audited)	Fiscal Year 2008-09 (audited)	Fiscal Year 2009-10 (audited)	Fiscal Year 2010-11 (audited) ⁽¹⁾
Assets:					
Cash and investments	\$64,657,106	\$43,349,528	\$35,530,282	\$37,853,639	\$64,518,258
Imprest cash	119,622	141,197	87,636	93,048	111,421
Other cash					
Receivables (Net):					
Taxes	5,023,166	5,986,813	12,207,467	19,080,540	18,482,965
Special assessments	--	--	--	--	4,880
Accounts receivable	871,445	759,257	325,291	281,029	732,101
Due from other government agencies	16,693,741	20,574,929	21,769,733	24,815,976	28,231,544
Due from other funds	<u>968,275</u>	<u>67,390</u>	<u>971,002</u>	<u>727,237</u>	<u>764,318</u>
Prepaid items	--	<u>20,935</u>	<u>1,371,875</u>	<u>1,476,979</u>	<u>145,443</u>
Advances to other funds	--	--	--	<u>895,000</u>	<u>1,445,000</u>
TOTAL ASSETS	<u>88,333,355</u>	<u>71,470,049</u>	<u>72,263,286</u>	<u>85,223,448</u>	<u>112,435,930</u>
Liabilities:					
Accounts payable	2,666,846	4,125,524	4,311,499	4,414,845	3,935,902
Accrued salaries and benefits	3,426,290	3,900,446	4,490,719	4,912,836	4,938,237
Other accrued liabilities	--	7,652	--	--	--
Due to other governmental agencies	243,730	1,499,560	271,543	574,901	1,241,390
Deferred Revenue	6,869,193	11,235,852	11,415,366	13,723,359	13,120,622
Unearned Revenue	--	729,708	806,862	223,416	752,128
TOTAL LIABILITIES	<u>13,206,059</u>	<u>21,498,742</u>	<u>21,295,989</u>	<u>23,849,357</u>	<u>23,988,279</u>
Fund Balances:					
Reserved for:					
Encumbrances	2,740,844	265,974	289,598	78,124	--
General	8,835,238	9,255,238	9,445,238	9,445,238	--
Imprest cash	119,622	141,197	87,636	93,048	--
Loans receivables and advances	--	--	575,000	895,000	--
Unreserved:					
Designated, reported in:					
General fund	22,981,096	20,617,238	25,016,686	23,014,800	--
Undesignated:					
General fund	<u>40,450,496</u>	<u>19,691,660</u>	<u>15,553,139</u>	<u>27,847,881</u>	--
Nonspendable	--	--	--	--	<u>1,590,443⁽¹⁾</u>
Restricted	--	--	--	--	<u>28,631,344⁽¹⁾</u>
Committed	--	--	--	--	<u>1,008,938⁽¹⁾</u>
Assigned	--	--	--	--	<u>34,080,878⁽¹⁾</u>
Unassigned	--	--	--	--	<u>23,136,048⁽¹⁾</u>
TOTAL FUND BALANCES	75,127,296	49,971,307	50,967,297	61,374,091	88,447,651
TOTAL LIABILITIES AND FUND BALANCES	\$ 88,333,355	\$71,470,049	\$72,263,286	\$85,223,448	\$112,435,930

(1) In accordance with GASB 54, beginning in fiscal year 2010-11 balances previously included in special revenue funds are combined in the General Fund and new balance classifications are required.
Source: County of Napa Financial Statements (2006-07 through 2010-11).

Budgetary Process

The County has a history of conservative budgeting, including such practices as saving rather than spending one-time or limited duration revenues, not using local funds to back-fill reductions in state or federal funding for state or federal programs, paying for capital projects on a pay-as-you-go basis rather than issuing debt, aggressively paying off unfunded liabilities and maintaining significant fund balances and reserves, particularly in the General Fund, the County's main operating fund. The County views maintaining adequate reserves as important to provide a hedge against economic downturns or other emergencies, to insure the availability of sufficient cash flow to meet expenditure obligations without the need for short-term borrowing and to provide resources that can be used for one-time needs, such as major capital projects.

The County is required by its state law to approve a proposed tentative budget no later than June 30 of each year and to adopt a final budget no later than August 30. However, when the state budget is enacted after July 1, the Board of Supervisors may, by resolution, extend the date for a period not to exceed 60 days from the date of the enactment of the state budget or October 2, whichever is later. A public hearing must be conducted to receive comments prior to adoption. From the effective date of the budget, which is adopted and controlled at the departmental level, the amounts stated therein as proposed expenditures become appropriations to the various County departments. However, the legal level of control is at the fund level. The Board of Supervisors may amend the budget by minute order resolution during the fiscal year. Department heads may, upon approval from the County Executive Officer, make transfers from one object or purpose to another within the same budget unit. All other budget amendments must be approved by the Board of Supervisors.

General Fund Reserves

General Fund reserves are typically categorized as either General Reserves – which, by law, cannot be spent during a year except in an emergency- and designations – which represent money set aside for various purposes and can be spent during a fiscal year if approved by a four-fifths vote of the Board of Supervisors. Designations are either “restricted,” (legally earmarked for a particular purpose) or “unrestricted,” which can be spent for any purpose as directed by the Board of Supervisors. For the County, most General Fund designations have historically been unrestricted.

Prior to Fiscal Year 2005-06, the County's practice was to maintain General Reserves that were roughly equal to 3% of General Fund appropriations, not including the General Fund's budgeted Operating Contingency. Starting with FY2005-06, the Board of Supervisors adopted Budget Policies that called for maintaining General Reserves that were equal to at least 5% of General Fund appropriations, not including the budgeted Operating Contingency. In FY2008-09, in response to the recession, the Board approved the County's Fiscal Contingency Plan that, among other things, called for maintaining a minimum of 10% of General Fund appropriations in General Reserves and unrestricted designations combined. In FY2009-10, the Board of Supervisors created a Designation for Fiscal Uncertainties to be used specifically as a resource to deal with the impact of economic downturns or emergencies. Finally, in FY2011-12, the Board approved a Strategic Financial Plan that included the following provisions regarding General Fund reserves:

- Maintain a General Reserves balance of 10% of General Fund appropriations, not including the appropriation for Contingency and any budgeted transfer to the Accumulated Capital Outlay Fund. General Reserves are to be maintained at this level at all times, except in the case of a dire fiscal emergency.

- Strive to maintain a Designation for Fiscal Uncertainties balance in the General Fund of 10% of General Fund appropriations, not including the appropriation for Contingency and any transfer to the Accumulated Capital Outlay Fund. In times of fiscal distress, these funds can be used to help balance the General Fund budget as part of a plan to achieve long-term structural balance. Any plan to achieve long-term structural balance should include a provision to replenish the Designation for Fiscal Uncertainties balance to the 10% level.

Over the last ten years, General Fund reserves have grown from approximately \$18.2 million to approximately \$48.2 million, a 165% increase. General Fund reserves increased by almost 80% over the last four fiscal years. In addition, from FY2009-10 to FY2011-12 the County increased the combined amount of General Reserves and the Designation for Fiscal Uncertainties by 98%, to almost \$44 million.

General Reserves increased from 3% of appropriations in FY2002-03 to 10% in FY2011-12 and General Reserves and the Designation for Fiscal Uncertainties combined increased from 11% in FY2009-10 to 20% in FY2011-12. Over the last 10 years, total General Fund reserves have grown from 12% of General Fund appropriations to 22%, an 83% increase.

Comparison of Budget to Actual Performance

For purposes of comparison, the following table summarizes the County's adopted budgets and actual data for fiscal years 2009-10 and 2010-11. The County's 2011-12 budget is also presented.

Table No. 3
COUNTY OF NAPA
General Fund - Comparison of Budgeted and Actual
Revenues, Expenditures and Fund Balances
For Fiscal Years 2009-10 and 2010-11 and Budget 2011-12

	Final Budget 2009-10 (unaudited)	Actual 2009-10 (audited)	Final Budget 2010-11 (unaudited) ⁽¹⁾	Actual 2010-11 (audited) ⁽¹⁾	Original Budget 2011-12 (unaudited) ⁽¹⁾
Revenues:					
Taxes	\$ 89,436,596	\$ 89,913,364	\$ 91,446,633	\$ 98,871,108	\$ 91,846,175
Licenses and permits	1,943,187	2,246,899	2,191,615	2,413,207	3,799,831
Fines and forfeits	208,089	2,143,241	1,517,150	2,001,007	228,074
Revenue from use of money & propert	1,374,688	846,766	786,869	696,962	662,293
Aid from other governments	67,818,411	67,420,973	80,783,549	72,199,502	77,793,854
Charges for current services	25,935,002	29,107,255	27,901,847	31,486,587	26,531,066
Contributions and donations	3,000	786,072	1,396,721	533,183	7,001
Other revenues	<u>4,340,522</u>	<u>196,808</u>	<u>3,351,121</u>	<u>751,918</u>	<u>4,701,496</u>
Total Revenues	191,059,495	192,661,378	209,375,505	208,953,474	205,569,790
Expenditures and Transfers:					
General government	46,584,239	30,612,563	51,131,846	34,645,670	51,647,175
Public protection	78,460,665	75,327,775	86,857,592	82,949,620	78,705,109
Public ways and facilities	6,978,875	6,132,488	6,994,072	6,308,778	6,544,828
Health and sanitation	41,614,122	39,412,337	42,090,038	40,727,979	38,209,480
Public assistance	35,510,284	32,746,329	36,571,393	35,231,178	42,743,454
Education	413,082	398,228	422,989	404,552	412,868
Recreation and cultural services	1,476	1,476	63,954	63,954	504
Debt Service:					
Principal	43,631	43,630	45,371	45,371	47,181
Interest and fiscal charges	<u>12,319</u>	<u>12,319</u>	<u>11,438</u>	<u>5,513</u>	<u>9,628</u>
Total Expenditures	209,618,693	184,687,145	224,188,693	200,382,615	218,320,227
Excess (Deficiency)					
Revenues over Expenditures	<u>(18,559,198)</u>	<u>7,974,233</u>	<u>(14,813,188)</u>	<u>8,570,859</u>	<u>(12,750,437)</u>
Other Financing Sources (Uses)					
Operating transfers in	12,187,433	10,608,000	12,467,423	9,298,945	11,969,514
Operating transfers out	<u>(10,125,111)</u>	<u>(8,175,439)</u>	<u>(21,944,069)</u>	<u>(20,963,790)</u>	<u>(10,154,823)</u>
Total Other Financing Sources(Uses)	2,062,322	2,432,561	(9,476,646)	(11,664,845)	1,814,691
Excess (Deficiency) of Rev and Other Financing Sources Over Expenditures and Other Uses	(16,496,876)	10,406,794	(24,289,834)	(3,093,986)	(10,935,746)
Beginning Fund Balance	<u>50,967,297</u>	<u>50,967,297</u>	<u>61,374,091</u>	<u>61,374,091</u>	<u>58,280,106</u>
Residual equity transfer in					
Ending Fund Balances	<u>\$ 34,470,421</u>	<u>\$ 61,374,091</u>	<u>\$ 37,084,257</u>	<u>\$ 58,280,106</u>	<u>\$ 47,344,360</u>

(1) Presented in pre-GASB 54 format for comparative purposes.

Source: County of Napa Financial Statements (audited for fiscal year 2009-10 and 2010-11; 2011-12 budget figures from County Auditor's Office.

State Budget Impacts on County Revenues

The State's financial condition and budget policies affect communities and local public agencies throughout California. Through the State budget process, the State can enact legislation that significantly impacts the source, amount and timing of the receipt of revenues by local agencies, including the County, often to the detriment of such local agencies. The County receives substantial general fund revenues from the State (including funds provided by the State for specific State and federal programs). The financial condition of the State has an impact on the level of these revenues. There can be no assurances that the State's efforts to balance the State general fund will not materially adversely affect the financial condition of the County.

Possible Effect of State Economic Difficulties on Revenues to Counties.

On January 5th, the Governor released his proposed FY2012-13 State Budget, outlining a plan to eliminate an estimated \$9.2 billion deficit (\$4.1 billion in FY2011-12 and \$5.1 billion in FY2012-13). To help address the deficit, the Governor's Budget included \$4.2 billion in expenditure reductions (primarily in Health & Human Services programs, education and various State mandates) and \$4.6 billion in new revenue, including approximately \$4.4 billion in revenue from a temporary increase in the sales tax and income tax that would require voter approval.

As proposed by the Governor, the temporary increase in sales and income taxes would be part of a November 2012 ballot measure that would also provide a constitutional protection for counties' 2011 Public Safety Realignment revenues (from Vehicle License Fees and Sales Tax revenue). The Governor's proposed FY2012-13 Budget includes \$5.8 billion in funding for 2011 Public Safety Realignment, which is a \$247 million (4%) increase from the FY2011-12 budget level, but the FY2012-13 Budget includes two new Realigned Mental Health programs – Mental Health Managed Care and Early Periodic Screening, Diagnosis and Treatment (EPSDT) – that are slated to receive approximately \$732 million in funding. The FY2012-13 Proposed Budget does not, however, include Realignment funding to reimburse the State for parole costs (\$957 million was included in the FY2010-11 State Budget for this purpose). When both of these factors are accounted for, the Governor's FY2012-13 Proposed Budget includes approximately \$472 million, or 10%, more in 2011 Public Safety Realignment funding for counties than was included in the FY2010-11 State Budget. The amount of Realignment funding included in the Governor's Proposed Budget for supervision of "lower level" offenders transferred to the counties is \$581.1 million, which is a 142% increase over the amount included in the FY2011-12 budget (and, in fact, we have been told by the State to expect to receive double the amount received in FY2011-12 for this purpose– for Napa County this would mean we would receive approximately \$2 million). It needs to be kept in mind, however, that the transfer of responsibility for offenders from the State to the counties took effect on October 1, 2011, three months after the 2011-12 fiscal year began and the number of offenders in county custody is expected to ramp up over a roughly two year period.

With regard to Realignment, the Governor's Budget outlines a revised juvenile justice proposal whereby the State would stop intake of juvenile offenders to the Division of Juvenile Justice facilities on January 1, 2013. In order to prepare counties for this shift in responsibilities the Budget proposed to provide \$10 million in planning funding to counties in FY2011-12.

If the November 2012 ballot measure proposed by the Governor is not approved, the Proposed Budget identifies \$5.395 billion in "Trigger Cuts" to take effect on January 1, 2013. \$4.8 million of those cuts are to K-12 education and community college funding, \$400 million

are to the University of California and California State University systems and the rest target various State departments, including the courts.

In terms of counties, the bulk of the proposed changes in the Health & Human Services area will impact our clients, but it appears that the impact on County budgets and staffing will be limited in FY2012-13. The three most significant changes in terms of State cost savings are:

- CalWORKS: The Governor is proposing a major restructuring of CalWORKS, involving a number of different components, including a two-track system, with one track providing assistance to all eligible participants at a certain level for 24 months, with a progress assessment at 12 months. The second track would be for those aid recipients who meet certain employment goals. Recipients in this track would receive a higher level of assistance for up to 48 months. The Governor's proposal also would include shifting responsibility for determining Child Care eligibility to counties in FY2013-14, changing the Child Care income eligibility criteria and reducing the child care reimbursement rate ceiling. Total cost savings from all of the Governor's CalWORKS changes are estimated to be \$946 million.
- In Home Supportive Services: The Governor is proposing a number of reductions to the In Home Supportive Services (IHSS) program, including eliminating "domestic and related services" for IHSS consumers living with other adults who are not participants in the IHSS program, unless those adults are found to be unable to perform those services. This proposal would affect 254,000 recipients and save an estimated \$164 million a year. If this proposal were adopted, it would likely save the County money.
- Medi-Cal: The Governor is also proposing a number of changes to the Medi-Cal program, including various actions to improve coordination of persons who are "dual eligible" for Medi-care and Medi-Cal (at first involving the implementation and then expansion of pilot projects in a number of counties) and making long-term care services a Medi-Cal Managed Care benefit. The Governor's Budget estimates that there will be nursing home and hospital cost savings from the pilot projects and is proposing a payment deferral and alignment of policies for all Managed Care counties. This proposal is projected to save the State \$678 million in FY2012-13 and \$1 billion in FY2013-14. The Governor is also proposing the expansion of Medi-Cal Managed Care into all counties, starting in June 2013 and enrolling all current Medi-Cal beneficiaries, including IHSS recipients and those in the institutional long-term care program. The Governor's Budget also includes implementing an annual open enrollment for Medi-Cal beneficiaries. Currently, beneficiaries can change plans up to 12 times a year. Napa County is already a Managed Care county.

There are a number of other proposals that could impact counties, including:

- A proposal to suspend the County share of Child Support Collections in FY2012-13, and redirect the \$34.5 million to the State's General Fund (this funding was also suspended in FY2011-12). Napa County's Child Welfare Services Division has historically received about \$177,000 from this source.
- A proposal to once again defer the State's payment for pre-2004 State mandates, as well as proposals to repeal or suspend numerous State mandates, though, in most cases, Napa County has not received funding related to these mandates for a number of years.

- The continuation of trigger cuts implemented in January 2012, when State revenue was forecast to fall below the statutory threshold level. These include cuts to library funding that will reduce revenue to the Napa County Library by more than \$300,000.

Staff of the County is continuing to evaluate the Governor's Proposed Budget to determine its impact on County finances and to track its progress through the Legislature. No assurance can be given as to what the ultimate impact of the State budget will be on the County until a number of months after the budget is adopted.

Other Information on Current State Economic Difficulties and Budget.

Certain information about the State budgeting processes, economic challenges faced by the State and the State Budget is available through several State of California sources. A convenient source of information is the State Treasurer's website, where recent reoffering circulars for State bonds are posted. The references to internet websites shown below are shown for reference and convenience only; the information contained within the websites has not been reviewed by the County and is not incorporated herein by reference.

- The California State Treasurer Internet home page at www.treasurer.ca.gov, under the heading "Bond Information", posts various State of California reoffering circulars, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on local governments in the State.

- The California State Treasurer's Office Internet home page at www.treasurer.ca.gov, under the heading "Financial Information", posts the State's audited financial statements. In addition, the Financial Information section includes the State's Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the "Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation" from the State's most current reoffering circular, dated as of December 1, 2011, which discusses the State budget and its impact on local agencies in the State.

- The California Department of Finance's Internet home page at www.dof.ca.gov, under the heading "California Budget", includes the text of proposed and adopted State Budgets.

- The State Legislative Analyst's Office ("LAO") prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst's Internet home page at www.lao.ca.gov under the heading "Products."

The State has not entered into any contractual commitment with the County or the owners of the Certificates to provide State budget information to the County or the owners of the Certificates. Although the County believes the State sources of information listed above are reliable, the County assumes not responsibility for the accuracy of the State budget information set forth or referred to herein.

Future State Budgets.

The County cannot predict what actions will be taken in future years by the State Legislature and Governor to address the State's then-current or future budget deficits, whether they will be similar to those actions proposed or undertaken in prior State Budget years, and the nature of length of future State Budget negotiation processes. Future State Budgets will be affected by national and state economic conditions and other factors over which the County has no control. To the extent that the State Budget process results in reduced revenues to the County, the County will be required to make adjustments to its budget. Decreases in such revenues may have an adverse impact on the County's ability to pay the Lease Payments.

Property Taxes

The County assesses property values and collects and distributes secured and unsecured property taxes to the County, cities, school districts and other special districts within the County area. The County reports that it retains the second highest per capita assessed value for counties with a population greater than 20,000.

For information on property assessed valuations generally, see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS" above. California law exempts \$7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since an amount equivalent to the taxes which would have been payable on such exempt values is paid by the State.

Property Assessment Appeals

An assessee of locally-assessed or state-assessed property may contest the taxable value enrolled by the county assessor or by the State Board of Equalization ("SBE"), respectively. The assessee of SBE-assessed property or locally-assessed personal property, the valuation of which are subject to annual reappraisal, actually contests the determination of the full cash value of property when filing an assessment appeal. Because of the limitations to the determination of the full cash value of locally-assessed real property by Article XIII A, an assessee of locally assessed real property generally contests the original determination of the base assessment value of the parcel, i.e. the value assigned after a change of ownership or completion of new construction. In addition, the assessee of locally-assessed real property may contest the current assessment value (the base assessment value plus the compounded annual inflation factor) when specified conditions have caused the full cash value to drop below the current assessment value.

At the time of reassessment, after a change of ownership or completion of new construction, the assessee may appeal the base assessment value of the property. Under an appeal of a base assessment value, the assessee appeals the actual underlying market value of the sale transaction or the recently completed improvement. A base assessment appeal has significant future revenue impact because a reduced base year assessment will then reduce the compounded value of the property prospectively. Except for the two percent inflation factor allowable under Article XIII A, the value of the property cannot be increased until a change of ownership occurs or additional improvements are added.

Pursuant to Section 51(b) of the Revenue and Taxation Code, the assessor may place a value on the tax roll lower than the compounded base assessment value, if the full cash value of real property has been reduced by damage, destruction, depreciation, obsolescence, removal of property or other factors causing a decline in the value. Reductions in value pursuant to Section 51(b), commonly referred to as "Proposition 8" appeals, can be achieved either by formal appeal or administratively by assessor staff appraising the property. A reduced full cash

value placed on the tax roll does not change the base assessment value. The future impact of a parcel subject to a Proposition 8 appeal is dependent upon a change in the conditions which caused the drop in value. In fiscal years subsequent to a successful Proposition 8 appeal, the assessor may determine that the value of the property has increased as a result of corrective actions or improved market conditions and enroll a value on the tax roll up to the parcel's compounded base assessment value.

The County has for each of the past three fiscal years reviewed all condominium and single family residences on less than five acres in the County for valuation accuracy, as well as commercial and industrial properties where owners supplied the County with current income and expense information. For fiscal year 2011-12, among the municipalities, American Canyon showed the only decrease at 1.12% down from an increase of 2.32% in 2010-2011. Saint Helena rose 2.53% after a decline of 0.27% in 2010-11 and Calistoga moved from the prior year's decrease of 3.82% to an increase of 3.89% for 2011-12. The City of Napa increased 0.27% as opposed to a reduction of 0.80% for 2010-11. Yountville had the largest increase of all the cities at 5.94% versus a 0.85% increase in 2010-11. There was a decrease in non-residential new construction including commercial, industrial and agricultural properties. The value of non-residential new construction dropped by almost 56% from the 2009 calendar year figure of \$222 million to less than \$99 million in calendar 2010.

The assessed valuation of property within the County, excluding exempt property, for the last ten years is shown in the following table, followed by a table showing recent Proposition 8 declines in assessed value.

Table No. 4
COUNTY OF NAPA
Assessed Valuation
Fiscal Years 2002-3 through 2011-12

<u>Fiscal Year</u>	<u>Assessed Valuation Secured Roll</u>	<u>Assessed Valuation Unsecured Roll</u>	<u>Total Assessed Valuation</u>	<u>Percent Change</u>	<u>Delinquency Rate ⁽¹⁾</u>
2002-03	15,688,528,423	642,616,828	16,331,145,251	10.52	1.80
2003-04	17,234,467,733	716,603,988	17,951,071,731	9.92	1.60
2004-05	18,234,702,887	773,464,580	19,008,167,467	5.89	1.89
2005-06	20,241,828,261	828,628,029	21,070,456,290	10.85	1.72
2006-07	22,429,308,992	922,496,869	23,351,805,861	10.83	2.41
2007-08	24,634,270,472	1,077,797,327	25,712,067,799	10.11	3.49
2008-09	25,953,177,722	1,307,707,296	27,260,885,018	6.02	3.58
2009-10	25,846,072,357	1,281,952,673	27,128,025,030	(0.49)	2.87
2010-11	26,032,834,468	1,143,342,513	27,176,176,981	0.18	2.25
2011-12	26,363,703,968	1,202,512,400	27,566,216,368	1.44	N/A

⁽¹⁾ As of September 2011 secured extension.
Source: Auditor-Controller's Office.

COUNTY OF NAPA
Proposition 8 Declines in Assessed Valuation
Fiscal Years 2007-08 through 2010-11

<u>2008</u>	<u>2008 Total AV</u>	<u>2008 Decline</u>	<u>% Total</u>
County	\$26,917,875,217	\$638,861,069	2.37%
City of Napa	\$8,952,775,766	\$297,969,399	3.33%
St. Helena	\$1,599,617,321	\$6,675,785	0.42%
American Canyon	\$2,371,879,699	\$231,648,791	9.77%
Calistoga	\$713,543,878	\$1,272,614	0.18%
Yountville	\$467,840,883	\$8,544,097	1.83%
 <u>2009</u>	 <u>2009 Total AV</u>	 <u>2009 Decline</u>	 <u>% Total</u>
County	\$27,120,668,713	\$2,055,612,412	7.58%
City of Napa	\$8,710,360,507	\$1,027,325,524	11.79%
St. Helena	\$1,691,809,875	\$37,851,700	2.24%
American Canyon	\$2,107,655,263	\$550,498,237	26.12%
Calistoga	\$677,404,528	\$52,408,711	7.74%
Yountville	\$502,536,567	\$27,573,675	5.49%
 <u>2010</u>	 <u>2010 Total AV</u>	 <u>2010 Decline</u>	 <u>% Total</u>
County	\$27,136,510,374	\$2,270,149,454	8.37%
City of Napa	\$8,640,639,245	\$1,150,726,222	13.32%
St. Helena	\$1,687,202,979	\$46,022,577	2.73%
American Canyon	\$2,156,630,418	\$515,526,207	23.90%
Calistoga	\$651,533,812	\$65,956,647	10.12%
Yountville	\$506,813,775	\$21,755,333	4.29%
 <u>2011</u>	 <u>2011 Total AV</u>	 <u>2011 Decline</u>	 <u>% Total</u>
County	\$27,408,277,018	\$2,312,333,452	8.44%
City of Napa	\$8,664,210,526	\$1,152,777,364	13.31%
St. Helena	\$1,729,939,665	\$54,247,183	3.14%
American Canyon	\$2,132,464,243	\$531,480,603	24.92%
Calistoga	\$676,866,460	\$55,746,197	8.24%
Yountville	\$536,931,027	\$27,047,612	5.04%

Source: Auditor-Controller's Office.

Tax Levies, Collections and Delinquencies

Taxes are levied for each fiscal year on taxable real property and personal property which is situated in the County as of the preceding January 1 (March 1 for fiscal years 1996-97 and prior). Real property which changes ownership or is newly constructed is revalued at the time the change occurs or the construction is completed. The current year property tax rate is applied to the reassessed value, and the taxes are then adjusted by a proration factor that reflects the portion of the remaining tax year for which taxes are due.

For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing state-assessed property and real property having a tax lien which is sufficient, in the opinion of the County assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll".

Property taxes on the secured roll are levied on January 1 and are due in two installments, on November 1 and February 1 of each fiscal year, and if unpaid, become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to all delinquent payments, plus a \$10.00 penalty on the second installment. Property on the secured roll with respect to which taxes are delinquent is declared tax-defaulted on July 1 of the following fiscal year. Such property may thereafter be redeemed by payment of the penalty of 1.5% per month to the time of redemption, together with the defaulted taxes, delinquent penalties, costs and a redemption fee. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to auction sale by the County Treasurer-Tax Collector.

Property taxes on the unsecured roll are levied January 1 and are billed in mid-July and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent unsecured taxes. If unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of 1.5% attaches to them on the first day of each month until paid. The County has four ways of collecting delinquent unsecured personal property taxes: (1) a civil action against the taxpayer; (2) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging or assessed to the assessee.

The following table shows a 5-year delinquency history for property taxes collected by the County on the secured roll.

Table No. 5
COUNTY OF NAPA
Property Tax Delinquencies- Secured Roll
Fiscal Years 2006-7 through 2010-11

Fiscal Year Ended June 30,	Uncollected within the Fiscal Year of the Levy		Total Cumulative Uncollected Taxes	
	Amount	First year Delinquencies	Amount	Percentage of Levy
2007	6,023,349	2.32%	207,629	0.08%
2008	9,675,625	3.33%	529,825	0.18%
2009	10,967,726	3.57%	901,371	0.29%
2010	8,710,190	2.82%	1,330,523	0.43%
2011	6,562,640	2.14%	2,306,072	0.75%

Source: County of Napa, Auditor-Controller's Office.

County Tax Loss Reserve Fund ("Teeter Plan")

Beginning in 1978-79, Article XIII A of the State Constitution and its implementing legislation shifted the function of property taxation primarily to the counties, except for levies to support prior voted debt, and prescribed how levies on countywide property values are to be shared with local taxing entities within each county.

The Board of Supervisors of the County adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan") on April 5, 1994 (amended 1995/96), as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Ad Valorem property taxes are collected by the County and distributed pursuant to the Teeter Plan. Under the Teeter Plan, each entity levying property taxes in the County may draw on the amount of uncollected secured taxes credited to its fund, in the same manner as if the amount credited had been collected. The County was required to create a tax loss reserve fund under one of two alternate methods: (1) one percent of the total amount of taxes levied on the secured roll for the year or (2) twenty-five percent of the total delinquent secured taxes as calculated at the end of the fiscal year. Currently, the County uses 25% of the total delinquent secured taxes to establish its tax losses reserve. The requirement for the 2011-12 fiscal year is \$2,297,550.

Upon implementation of the Teeter Plan, the County used its portion of the first year buyout to fund the Tax Losses Reserve Fund. For fiscal years 2005-06 through 2010-11, the County's General Fund benefited by approximately 3.0 million dollars in one-time monies that were generated from the surplus in the Tax Losses Reserve Fund.

Largest Taxpayers

The ten largest taxpayers within the County, as shown on the 2011-12 Secured Tax Roll, and the amount of their respective property tax levy for all taxing jurisdictions within the County are shown below. These top 10 taxpayers account for approximately 5.6% of the property taxes levied within the County. Total 1% property taxes levied on the Secured Tax Roll for fiscal 2011-12 is \$263,637,040.

Table No. 6
COUNTY OF NAPA
Top Ten Secured Taxpayers Based on Assessed Valuation
Fiscal Year 2011-12

<u>Taxpayer Name</u>	<u>Type of Business</u>	<u>Net Assessed Value</u>	<u>Property Tax Amount</u>	<u>% of Total Sec. A.V.⁽¹⁾</u>
Realty Income Properties 2 LLC	Winery	\$ 337,499,854	\$ 3,627,429	1.28%
Treasury Wine Estates Americas	Winery	196,331,446	2,141,285	0.74
Robert Mondavi Properties Inc.	Winery	194,138,217	2,082,515	0.74
Pacific Gas and Electric	Utilities	169,929,708	2,612,839	0.64
Kaiser Foundation Hospitals	Health Care	164,373,644	1,902,864	0.62
Sutter Home Winery Inc.	Winery	153,406,564	1,652,357	0.58
Dey Laboratories LP	Pharmaceutical	87,255,367	1,010,675	0.33
SPP Napa Vineyards LLC	Resort	74,755,522	823,674	0.28
Duckhorn Wine Co.	Winery	74,422,093	798,206	0.28
Hawthorn Village LP	Residential	61,751,490	752,120	0.22
	Leasing			
		\$1,513,863,905	\$17,403,964	5.74%

⁽¹⁾ Property Tax includes all ad valorem assessments in addition to the 1% tax.

⁽²⁾ Based on 2011-12 extension secured assessed valuation of \$26,363,703,968.

Source: County of Napa, Auditor-Controller's Office.

Outstanding General Fund Debt and Lease Obligations

The County currently has outstanding general fund debt and lease obligations described below. The County has never defaulted on the payment of principal or interest on any of its indebtedness. The County has complied with all significant bond covenants relating to reserve and sinking fund requirements, proofs of insurance, and budgeted revenues and maintenance costs.

Certificates of Participation. The net proceeds of the sale of the Certificates will be used to provide funds to refund the 2003 Refunding Certificates of Participation (Capital Projects and Refunding) executed and delivered in the original principal amount of \$32,350,000. The 2003 Certificates were issued to refund the Certificates of Participation (1993 Capital Improvements Project) executed and delivered in the original principal amount of \$14,340,000 and to provide new money to finance the acquisition and construction of a juvenile justice facility and a sheriff's facility for use by the County.

In March 2005 the County executed and delivered 2005 Refunding Certificates of Participation (1996 Capital Improvements Project) to provide funds to refund the Certificates of Participation (1996 Capital Improvements Project) dated August 15, 1996 executed and delivered in the original principal amount of \$17,985,000. The final maturity of the 2005 Certificates is in 2017.

The County has had several prior issuances of certificates of participation, all of which have been paid.

The County currently has no short-term debt obligations.

Lease Obligations

The County currently has short term operating leases for facilities, vehicles and copiers, which had a remaining commitment of approximately \$4,527,000 as of June 30, 2011.

Pension Benefits

The County contracts with CalPERS to provide retirement benefits for approximately 1,260 County employees. CalPERS is the largest pension system in the Country, providing benefits to 1.6 million public employees and retirees. CalPERS assets as of March 20, 2012 totaled approximately \$ 237 billion. The County's FY 11-12 budget includes approximately \$18.6 million for the County's share of pension costs, which make up approximately 5.5% of the overall County budget. The General Fund portion of this cost is approximately \$16.2 million, which represents approximately 7.1% of the total General Fund budget. In addition to the County's contribution, as a result of cost sharing agreements negotiated with County employees, non-safety employees contribute approximately 20% of the overall cost of retirement benefits, while safety employees currently contribute approximately 19% of the overall cost of retirement benefits. The annual cost of pension benefits is the result of a number of factors including the projected actuarial cost of future benefits, the value of current assets and projected investment returns. Based on agreements with its employees, any increases or decreases in the annual pension benefits costs are shared equally between the employees and the County.

The County provides a defined benefit retirement program which requires a five year vesting period and provides benefits based upon years of service, age at retirement and either

the highest or an average of the three highest years of earnings. Currently approximately 1,150 non-safety permanent employees are provided a benefit formula of 2.5% at age 55. During fiscal year 2011-2012, the County and the miscellaneous bargaining unit agreed to implement a 2% at age 60 retirement tier for new miscellaneous employees. This new tier is effective for qualifying miscellaneous employees hired after October 28, 2011. Not only will this retirement structure serve to incentivize employees to work their entire career with the County, in time it will also generate significant monetary savings helping to mitigate increasing costs for retirement benefits. It is estimated that over the next decade County and employee retirement contributions could be lowered by approximately \$12.5 million as a result of this change.

One hundred and ten safety employees are currently provided a benefit formula of 3% at age 50 and effective April 2011, newly hired safety employees receive 3% at age 55 based on the most recent agreement with the Deputy Sheriff's Association (DSA). Savings to the County are estimated to reach \$2.5 million in the future due to this agreement.

Employee's retirement benefits are calculated as a percentage of either the highest year or average of the three highest year's earnings (depending on the year the employee was hired and/or their bargaining unit). The percentage is determined by the number of years they have worked with the County (or prior CalPERS agency) and their formula. For miscellaneous employees, an employee's retirement will be either 2.5% or 2% times the number of years of service and for safety employees it will be 3% times the number of years of service. This percentage will be multiplied by either their highest year or the average of the three highest year's earnings to determine their retirement benefit. For example, a non-safety employee with 25 years of service who retires after age 55 will receive a retirement benefit of 62.5% of either an average of their highest years' earnings or the three highest years, depending upon when they were hired. Currently a safety employee with 25 years of service who retires after age 50 will receive a retirement benefit of 75% of their highest year's salary. It should be noted that the average age of retirement for non-safety employees is age 60 and the average age of safety employees is age 56. It should also be noted that County employees do not participate in Social Security, so, for many employees, this pension is the only guaranteed retirement income they will receive.

Active plan members in the Miscellaneous and Safety Plans are required to contribute 7%, 8% and 9%, of their annual covered salary. The County is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established by CalPERS. Both the Safety and Miscellaneous Plans include cost sharing agreements which determine whether a portion of the members' contribution is paid by the County or whether a portion of the Employer's contribution is paid by the member. The employees have agreed to share equally with the County any increases or decreases in pension costs. Results of the cost sharing agreements are as follows:

Plan	<u>Member Share</u>		<u>County Share</u>		<u>Total Member</u>	<u>Total County</u>
	<u>Member</u>	<u>County</u>	<u>Member</u>	<u>County</u>		
Miscellaneous	4.28%	3.72%	0.00%	13.46%	4.28%	17.18%
<i>As of July 1, 2010</i>						
Safety Management	3.10%	5.90%	0.00%	29.12%	3.10%	35.02%
Safety Non Management	9.00%	0.00%	1.11%	32.47%	9.00%	32.47%
<i>As of March 30, 2011</i>						
Safety Management	3.10%	5.90%	0.00%	21.25%	3.10%	27.15%
Safety Non Management	5.70%	3.30%	0.00%	21.25%	5.70%	24.55%

Employee contributions cannot be withdrawn until separation from employment.

Annual Pension Cost. For fiscal year 2010-11, the County's annual pension cost was \$19,358,636, including the \$4,965,259 Safety Plan side fund payoff, which the County contributed in full. The one time side fund payoff was in exchange for the lower retirement formula of 3% at 55 and resulted in reduced rates for the County and the safety members. The County has traditionally contributed the annual required contribution and not needed to report a net pension obligation.

The actuarial methods and assumptions used to determine the contributions are as follows:

	<u>Miscellaneous Plan</u>	<u>Safety Plan</u>
ACTUAL VALUATION:		
Actuarial valuation date	6/30/2010	6/30/2010
Basis for fiscal year 2010-2011 contribution	6/30/2008	6/30/2008
Actuarial cost method	Entry Age Normal	Entry Age Normal
AMORTIZATION:		
Amortization Method	Level % of pay	Level % of pay
New period policy		
Gains/Losses	30 years rolling	30 years rolling
Plan amendments	20 years	20 years
Actuarial assumptions	20 years	20 years
Remaining amortization period	21 years	21 years
ASSET VALUATION METHOD:	15 year smoothed market	15 year smoothed market
ACTUARIAL ASSUMPTIONS:		
Investment rate of return ⁽¹⁾	7.75%	7.75%
Projected salary increases	3.55% to 14.45%	3.55% to 14.45%
Inflation	3.00%	3.00%
Payroll growth	3.25%	3.25%

(1) Assumed investment rate of return is net of administrative costs.

Three-Year Trend Information for the County's Defined Benefit Plans (in thousands)

Fiscal Year Ended	Annual Pension Cost	Annual Pension Cost	Total Annual Pension Cost	Percentage of Annual Pension Cost	Net Pension Obligation
	<u>Miscellaneous</u>	<u>Safety</u>		<u>Contributed</u>	
6/30/2009	\$ 10,937	\$ 2,840	\$ 13,777	100%	\$ -
6/30/2010	10,840	2,886	13,726	100%	-
6/30/2011	11,509	7,850	19,359	100%	-

The funded status of the County's Miscellaneous Plan (in thousands) as of June 30, 2010, the date of the latest actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	\$	499,989
Actuarial value of plan assets		415,851
Unfunded actuarial accrued liability (UAAL)		84,138
Funded ratio (actuarial value of plan assets/AAL)		83%
Covered payroll (active Plan members)		89,211
Unfunded actuarial accrued liability as a percentage of covered payroll		94%

Because the County's Safety Plan had less than 100 members in at least one valuation since June 30, 2003, information related to the actuarial value of assets and the funded status of the Plan is no longer available outside of the Risk Pool. A Schedule of Funding for the Risk Pool's actuarial value of assets, accrued liability, their relationship, and the relationship of the UAAL to payroll for the risk pool to which this plan belongs can be obtained from CalPERS, P.O. Box 942709, Sacramento, CA 94229-2709.

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Other Post-Employment Benefits

The Government Accounting Standards Board (GASB) issued "Statement 45", which requires states and local governments to report the unfunded accrued liability of non-pension retiree benefits – called Other Post Employment Benefits (OPEB) - on those governments' financial statements. Prior to the adoption of this rule, state and local governments typically accounted for OPEB costs on a pay-as-you-go basis. Governments are not obligated to pre-fund these liabilities, but only to report them on their financial statements.

OPEB expenses are considered part of the overall salary and benefit package because the expenses constitute compensation for employee services. In the past, governments have typically accounted for this obligation using a "pay-as-you-go" methodology. Under GASB 45 the County and all other public employers are required to recognize and report in financial statements the value of the benefits.

As of January 1, 2006, the County had an Unfunded Actuarial Liability (UAL) for retiree healthcare benefits of between approximately \$37 million and \$51 million dollars depending on the interest rate used in calculating this liability. In Fiscal Year 2006-07, the County established a designation of \$4.1 million for purposes of the OPEB liability with annual payments since that time ranging from \$4.5 million to \$6.0 million.

The County began making annual payments based on a 14 year amortization schedule. In 2007, after taking into consideration short-term cash flow requirements and the need to meet other critical expenditure obligations as well as uncertainty regarding the longer term status of employer-provided healthcare, the Board determined that 20 year amortization schedule for payments was in the County's best interest. This schedule continues today and is reviewed by staff each year. The remaining amortization period as of June 30, 2011 was 18 years.

In addition to the UAL, each year additional benefit liabilities accrue as employees work. This cost is known as the Normal Cost (NC) which is the value of benefits that are accrued during a given year. For Napa County, the NC of these additional benefits for Miscellaneous

employees is between approximately \$2.1 million and \$3.5 million dollars per year depending on the interest rate used in the calculation.

The contribution requirements for plan members and the County are established and may be amended by the County. The County prefunds the plan through the California Employers' Retiree Benefit Trust (CERBT) by contributing at least 100% of the annual required contribution. The County began funding its liability under the Retiree Healthcare Plan in 2007-2008.

The annual required contribution (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The County ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize the unfunded actuarial accrued liability (UAAL). The plan's UAAL is being amortized as a level percentage of projected payroll on a closed basis.

For fiscal year 2010-2011, the County's ARC was \$4,731,736 which was fully funded for GASB 45 purposes. The County paid \$1,948,105 to retirees during the year, and \$2,783,631 to the CERBT.

CERBT is a tax-qualified irrevocable trust organized under Internal Revenue Code Section 115 and established to pre-fund retiree healthcare benefits. CERBT assets as of March 20, 2011 are \$2 billion. CERBT issues a publicly available financial report including GASB 43 disclosure information in aggregate with the other CERBT participating employers. That report may be obtained by contacting CalPERS.

In the County's June 30, 2010 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7.75% investment rate of return (net of investment expenses) and annual healthcare cost trend rates for HMO and PPO coverage. The Non-Medicare and Medicare cost trend rates start at 9.5% and 10%, respectively, and decline to 5% over nine years. Pursuant to new GASB rules, the County's actuarial consultant is preparing a valuation as of June 30, 2011 which will include assumptions using lower investment rate of return

Direct and Overlapping Debt

Contained within the County are overlapping local agencies providing public services which have issued general obligation Certificates and other types of indebtedness. Direct and overlapping bonded indebtedness is shown in the following table.

Table 7
COUNTY OF NAPA
Statement of Direct and Overlapping Debt As of March 1, 2012

2011-12 Assessed Valuation: \$27,674,055,965 (includes unitary utility valuation)
Redevelopment Incremental Valuation: 581,504,752
Adjusted Assessed Valuation: \$27,092,551,213

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>		<u>% Applicable</u>	<u>Debt 4/1/12</u>
Napa Joint Community College District		99.108%	\$112,259,894
Calistoga Joint Unified School District		87.584	15,923,048
Fairfield-Suisun Joint Unified School District		1.349	1,138,421
Napa Valley Unified School District		100.	275,365,000
St. Helena Unified School District		100.	35,400,421
Howell Mountain School District		100.	2,572,267
City of St. Helena		100.	800,000
City of American Canyon 1915 Act Bonds		100.	22,525,000
Lake Berryessa Resort Improvement Assessment District No. 2006-1		100.	4,405,000
California Statewide Community Development Authority Assessment Districts		100.	<u>2,423,910</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT			\$472,812,961
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>			
Napa County Certificates of Participation	100.	%	\$29,485,000 (1)
Napa County Board of Education Certificates of Participation	100.		3,475,000
Calistoga Joint Unified School District Certificates of Participation	87.584		770,739
Fairfield-Suisun Joint Unified School District Certificates of Participation	1.349		22,945
City of American Canyon General Fund Obligations	100.		2,660,000
Town of Yountville General Fund Obligations	100.		<u>10,355,000</u>
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT			\$46,768,684
COMBINED TOTAL DEBT			\$519,581,645 (2)

(1) Excludes refunding certificates of participation to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2011-12 Assessed Valuation:

Total Overlapping Tax and Assessment Debt1.71%

Ratios to Adjusted Assessed Valuation:

Total Direct Debt (\$29,485,000).....0.11%

Combined Total Debt1.92%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/11: \$0

Source: California Municipal Statistics Inc.

Investment of County Funds

State law requires that all moneys of the County, school districts, and certain special districts be held in the County Treasury by the Treasurer. The Treasurer has authority to implement and oversee the investment of such funds in the County Investment Pool (the "Pool") in accordance with section 53600 et seq. of the California Government Code. The Treasurer-Tax Collector accepts funds only from agencies located within the County. The moneys on deposit are predominantly derived from local government revenues consisting of property taxes, State and federal funding and other fees and charges. Each depositor is assigned a distinct fund number within the County General Ledger. Cash represented by fund balances is commingled in the portfolio; no funds are segregated for separate investment.

Authorized investments are required to match the general categories established by Sections 53601 et seq., 53635 et seq., and 16429.1 et seq. of the California Government Code; including the specific categories of financial futures and financial options contracts established by California Government Code Section 53601.1.

Decisions on the investment of funds in the Pool are made by the Treasurer in accordance with established policy guidelines. In the County, investment decisions are governed by California Government Code Sections 53601 and 53635, et seq., which govern legal investments by local agencies in the State, and by a more restrictive investment policy (the "Investment Policy") proposed by the Treasurer and monitored by the Treasury Oversight Committee on an annual basis. The Investment Policy sets forth the manner in which the Pool is to be invested. The duty of the Treasurer is to safeguard all public funds which by law are managed by the Treasurer. The Pool must maintain sufficient cash to meet the disbursement needs of all participating agency depositors. Prudence must be used in obtaining a competitive yield while maintaining the value and availability of the cash involved. The Investment Policy is more restrictive than State law in regard to types of securities authorized for investment.

The Investment Policy allows for purchase of a variety of securities with limitations as to exposure, maturity and rating, varying with each type of security. The composition of the portfolio will change over time as old investments mature or are sold, and as new investments are made. The market value of certain types of securities fluctuate, but the County does not anticipate that it will realize any losses with respect to any such investments since the County intends to hold such investments until their maturity.

The following table reflects certain limited information with respect to the County Pool for the month ending on February 29, 2012. As described above, a wide range of investments is authorized under state law. The value of the various investments in the County Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the County Pool will not vary significantly from the values described below. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on the date indicated, the County Pool necessarily would have received the values specified. The County expects that the County Pool is sufficiently liquid to cover all anticipated cash flow needs for the Pool participants for at least the next six months, with approximately 25.6% of the portfolio maturing within 90 days.

**Napa County Investment Pool Information
Month Ending on February 29, 2012**

<u>Investment</u>	<u>Principal</u>	<u>Percent of Total</u>
U.S. Treasuries and Agencies	432,485,000.	83.10
LAIF	50,000,000.	9.61
Teeter Notes	9,515,673.	1.83
Time Deposits	100,000.	.01
Commercial Paper	20,250,000.	3.89
	8,096,211.	1.56
	0.	0%
Bankers Acceptances	0.	0%
Total, all funds	520,446,884.	100.0%

The Investment Policy may be changed at any time at the discretion of the Board of Supervisors (subject to the state law provisions relating to authorized investments) and as the California Government Code is amended. There can be no assurance that State law and/or the Investment Policy will not be amended in the future to allow investments that are currently prohibited, or that the stated objectives of the County with respect to investments will not change.

County Debt Advisory Committee

The County has established a Debt Advisory Committee, consisting of the County Executive Officer, Treasurer-Tax Collector, Auditor-Controller and County Counsel. The purpose of this group is to oversee the County's debt position, maintain the integrity of its balance sheet and coordinate access to the market for all debt issued or administered by the County, including special district and school district issues.

CONTINUING DISCLOSURE

The County has covenanted for the benefit of the holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the County by no later than nine (9) months following the end of the County's fiscal year (which date would be April 1 based upon the County's current fiscal year end of June 30), commencing April 1, 2013 with the report for the 2011-12 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The County will file, or cause to be filed, the Annual Report with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State information depository, if any. The County will file, or cause to be filed, the notices of material events with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth below in "APPENDIX E - Form of Continuing Disclosure Certificate." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The County has never failed to comply, in all material respects, with an undertaking pursuant to said Rule.

TAX MATTERS

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, subject, however to the qualifications set forth below, under existing law, the portion of lease payments designated as and comprising interest and received by the owners of

the Certificates is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the [Issuer] comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Tax Code") that must be satisfied subsequent to the issuance of the Certificates. The [Issuer] has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest with respect to the Certificates in gross income for federal income tax purposes to be retroactive to the date of issuance of the Certificates.

If the initial offering price to the public (excluding bond houses and brokers) at which a Certificate is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Certificate is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Certificate on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Certificates to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Certificate. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Certificates who purchase the Certificates after the initial offering of a substantial amount of such maturity. Owners of such Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Certificates under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Certificate (said term being the shorter of the Certificate's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Certificate for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Certificate is amortized each year over the term to maturity of the Certificate on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Certificate premium is not deductible for federal income tax purposes. Owners of premium Certificates, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Certificates.

In the further opinion of Special Counsel, the portion of lease payments designated as and comprising interest and received by the owners of the Certificates is exempt from California personal income taxes.

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

CERTAIN LEGAL MATTERS

The legal opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Special Counsel, substantially in the form of Appendix D hereto, will be made available to purchasers at the time of original delivery of the Certificates, and a copy thereof will accompany each Certificate. Jones Hall is also acting as Disclosure Counsel to the County. Certain legal matters will be passed upon for the Corporation and the County by the County Counsel.

Payment of the fees and expenses of Special Counsel and Disclosure Counsel is contingent upon the execution and delivery of the Certificates.

VERIFICATION REPORT

Causey Demgen & Moore LLP, Denver, Colorado will verify from the information provided to them the mathematical accuracy as of the date of the initial delivery of the Certificates of (1) the computations contained in the provided schedules to determine that the anticipated receipts from the securities and cash deposits listed in the underwriter's schedules, to be held in the Escrow Fund, will be sufficient to pay, when due, the principal, interest and call premium payment requirements, if any, of the 2003 Certificates, and (2) the computations of yield on both the Federal Securities and the Certificates contained in the provided schedules used by Special Counsel in its determination that the interest on the Certificates is exempt from federal income taxation. Causey Demgen & Moore LLP will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Certificates.

LITIGATION

There is no litigation pending or, to the County's knowledge, threatened in any way to restrain or enjoin the execution or delivery of the Certificates, the Lease Agreement or the Trust Agreement, to contest the validity of the Certificates, the Lease Agreement or the Trust Agreement, or any proceeding of the County with respect thereto. In the opinion of the County and its counsel, there are no lawsuits or claims pending against the County which will materially affect the County's finances so as to impair its ability to pay Lease Payments when due.

FINANCIAL ADVISOR

Kelling, Northcross & Nobriga, Oakland, California, has served as Financial Advisor to the Agency with respect to the sale of the Certificates. The Financial Advisor has assisted in various matters relating to the planning, structuring and sale of the Certificates. The Financial Advisor has not independently verified any of the data contained in the Official Statement or conducted a detailed investigation of the affairs of the Agency to determine the accuracy or completeness of the Official Statement.

UNDERWRITING

The Certificates were offered for purchase pursuant to a [limited] competitive bidding process and are being purchased by _____ at a purchase price of \$_____, which represents the aggregate principal component of the Certificates (\$_____) plus net original issue premium of (\$_____) and less an underwriter's discount (\$_____).

RATING

Standard & Poor's Rating Services, a division of McGraw Hill Company ("S&P") has assigned its municipal bond rating of "_____" to the Certificates. There is no assurance that any credit rating given to the Certificates will be maintained for any period of time or that the rating may not be lowered or withdrawn entirely by such rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates. Such rating reflects only the views of S&P and an explanation of the significance of such rating may be obtained from S&P.

MISCELLANEOUS

Insofar as any statements made in this Official Statement involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representations of fact. No representation is made that any of the statements will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the owners of the Certificates.

During the initial offering period for the Certificates, copies of the Lease Agreement, the Trust Agreement, the Assignment Agreement and the Escrow Agreement may be obtained, upon written request, from the County. After delivery of the Certificates, copies of such documents may be obtained from the Trustee.

The execution and delivery of this Official Statement have been duly authorized by the Board of Supervisors of the County.

COUNTY OF NAPA

By: _____
Chairman of the Board of Supervisors

[S E A L]

Attest:

Clerk of the Board of Supervisors

APPENDIX A

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following table summarizes the principal legal documents that have been filed with the SEC in connection with the offering of the Fund. The table is organized into two columns: "Document" and "Date". The "Document" column lists the name of the document, and the "Date" column lists the date on which the document was filed with the SEC. The documents are listed in chronological order, with the most recent documents at the top of the table.

The documents listed in the table are: (1) the Fund's prospectus, (2) the Fund's statement of additional material information, (3) the Fund's annual report, (4) the Fund's quarterly report, (5) the Fund's semi-annual report, (6) the Fund's annual financial statements, (7) the Fund's quarterly financial statements, (8) the Fund's semi-annual financial statements, (9) the Fund's annual report of independent members, (10) the Fund's quarterly report of independent members, (11) the Fund's semi-annual report of independent members, and (12) the Fund's annual report of independent members.

The documents listed in the table are available for review and copying at the SEC's public reference room, located at 1000 Pennsylvania Avenue, N.W., Washington, D.C. 20549. The documents are also available for review and copying at the SEC's website, located at www.sec.gov.

The documents listed in the table are also available for review and copying at the Fund's principal office, located at 1000 Pennsylvania Avenue, N.W., Washington, D.C. 20549. The documents are also available for review and copying at the Fund's website, located at www.fund.com.

The documents listed in the table are also available for review and copying at the Fund's principal office, located at 1000 Pennsylvania Avenue, N.W., Washington, D.C. 20549. The documents are also available for review and copying at the Fund's website, located at www.fund.com.

APPENDIX B

NAPA COUNTY

GENERAL DEMOGRAPHIC INFORMATION

General and Location

Napa County (the "County"), located in Northern California about fifty miles northeast of San Francisco, was incorporated in 1850 as one of the original 27 California counties. The County encompasses an area of approximately 794 square miles and includes five incorporated cities. The County is bordered on the west by Sonoma County, on the northeast by Yolo County, on the north by Lake County, and on the southeast by Solano County. Napa County is characterized by northwest to southeast mountain ranges and valleys, the major valley being that of the Napa River. The topography is also marked by Lake Berryessa, an approximately 25 mile long, man-made lake in the northeastern part of the County, and Mt. Saint Helena, approximately 4,444 feet high, to the northwest.

Population

As of January 1, 2011 the County's population was approximately 137,639, which represents a 1% increase above the January 1, 2010 population estimate of 136,316. The historic population estimates for the County and cities within the County as of January 1 of the years 2007 through 2011 are listed below.

COUNTY OF NAPA Population Estimates As of January 1

<i>Area</i>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
American Canyon	15,911	16,241	16,521	19,401	19,693
Calistoga	5,253	5,284	5,335	5,151	5,188
Napa	76,247	76,857	77,917	76,838	77,464
St. Helena	5,936	5,905	5,969	5,809	5,849
Yountville	3,271	3,257	3,267	2,930	2,997
Unincorporated	<u>28,108</u>	<u>28,732</u>	<u>28,714</u>	<u>26,187</u>	<u>26,448</u>
Total County	134,726	136,276	137,723	136,316	137,639

Source: California State Department of Finance.

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 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 insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the County of Napa, the State and the United States for the period 2005 through 2010.

COUNTY OF NAPA
Effective Buying Income
2005 through 2010

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2005	Napa County	\$3,129,797	\$48,934
	California	720,798,106	44,681
	United States	5,894,663,750	40,529
2006	Napa County	\$3,340,478	\$51,085
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	Napa County	\$3,624,810	\$54,498
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	Napa County	\$3,492,675	\$52,144
	California	832,531,445	48,952
	United States	6,443,994,426	42,303
2009	Napa County	\$3,549,050	\$54,426
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	Napa County	\$3,370,165	\$51,737
	California	801,393,028	41,177
	United States	6,365,020,076	41,368

Source: The Nielsen Company (US), Inc.

Commercial Activity

In 2009, the State Board of Equalization converted the business codes of sales and use tax permit holders to North American Industry Classification System codes. As a result of the coding change, retail stores data for 2009 is not comparable to that of prior years. A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table.

Total taxable sales during calendar year 2010 in the County were reported to be \$2.3 billion, a 3.9% increase over the total taxable sales of \$2.2 billion reported during calendar year 2009. Figures are not yet available for 2011.

NAPA COUNTY Taxable Transactions (Figures in Thousands)

	Retail Stores		Total All Outlets	
	Numbers of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2006	1,800	1,455,025	4,844	2,438,907
2007	1,762	1,514,461	4,948	2,572,656
2008	1,855	1,499,296	5,023	2,548,990
2009 ⁽¹⁾	2,673	1,325,300	4,992	2,216,283
2010	2,712	1,383,035	5,071	2,301,907

(1) Retail Stores data not comparable to prior years.
Source: California State Board of Equalization

Building and Construction

Provided below are the building permits and valuations for the County of Napa for calendar years 2006 through 2010.

NAPA COUNTY TOTAL BUILDING PERMIT VALUATIONS (VALUATIONS IN THOUSANDS)

	2006	2007	2008	2009	2010
<u>Permit Valuation</u>					
New Single-family	\$82,143.6	\$114,385.6	\$97,697.9	\$82,970.9	\$60,137.9
New Multi-family	20,975.4	7,471.9	4,552.6	1,008.3	0.0
Res. Alterations/Additions	<u>32,900.5</u>	<u>41,969.3</u>	<u>28,902.3</u>	<u>36,876.1</u>	<u>32,186.0</u>
Total Residential	136,019.4	163,826.8	131,152.8	120,855.3	92,323.8
New Commercial	40,903.1	128,087.7	56,042.7	45,385.4	16,387.4
New Industrial	6,410.9	58,245.5	18,978.4	8,916.8	0.0
New Other	24,325.1	25,609.7	42,917.7	20,746.1	20,199.8
Com. Alterations/Additions	<u>45,301.5</u>	<u>75,906.4</u>	<u>79,750.6</u>	<u>57,327.4</u>	<u>57,667.9</u>
Total Nonresidential	\$116,940.5	\$287,849.3	\$197,689.4	\$132,375.8	\$94,255.1
<u>New Dwelling Units</u>					
Single Family	263	262	215	126	106
Multiple Family	<u>240</u>	<u>52</u>	<u>32</u>	<u>6</u>	<u>0</u>
TOTAL	503	314	247	132	106

Source: Construction Industry Research Board, Building Permit Summary

Employment and Industry

The table below provides information about employment rates and employment by industry type for Napa County for calendar years 2007 through 2011.

NAPA COUNTY Employment by Industry Annual Averages

	2007	2008	2009	2010	2011
Civilian Labor Force ⁽¹⁾	73,400	75,600	75,500	74,400	76,500
Employment	70,400	71,800	69,000	67,100	69,600
Unemployment	2,900	3,800	6,500	7,300	6,900
Unemployment Rate	4.0%	5.1%	8.6%	9.8%	9.0%
Wage and Salary Employment ⁽²⁾					
Agriculture	4,900	4,900	4,900	4,700	4,600
Logging, Mining, Construction	4,600	4,000	3,000	2,600	2,400
Manufacturing	11,700	12,000	11,000	10,700	10,700
Wholesale Trade	1,700	1,600	1,500	1,500	1,500
Retail Trade	6,100	6,100	5,800	5,800	5,700
Transportation, Warehousing and Utilities	1,600	1,700	1,600	1,500	1,600
Information	700	700	600	600	600
Finance and Insurance	6,100	6,100	5,700	5,300	5,400
Real Estate and Rental and Leasing	8,000	8,200	8,000	8,300	8,600
Professional and Business Services	9,100	9,200	8,800	9,300	9,900
Educational and Health Services	1,800	2,100	1,900	1,900	2,000
Leisure and Hospitality	400	400	400	400	400
Other Services	3,500	3,500	3,700	3,600	3,500
Federal Government	6,300	6,700	6,500	6,400	6,300
State Government	4,900	4,900	4,900	4,700	4,600
Local Government	4,600	4,000	3,000	2,600	2,400
Total, All Industries ⁽³⁾	69,000	69,800	65,800	64,800	65,500

(1) Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(2) Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

(3) Totals may not add due to rounding.

Source: State of California Employment Development Department.

Major Employers

The major employers in the County as of January 2012 are shown below.

NAPA COUNTY Major Employers

<u>Employer Name</u>	<u>Location</u>	<u>Industry</u>
Auberge du Soleil	Rutherford	Full-Service Restaurant
Dey Pharma LP	Napa	Physicians & Surgeons Equip & Supls-Mfrs
Domaine Chandon Winery	Yountville	Wineries (Mfrs)
Evans Airport Services	Napa	Airport Transportation Services
Health & Human Svc	Napa	County Government-Public Health Programs
Health & Human Svc Agency	Napa	County Government-Social/Human Resources
Home Depot	Napa	Home Centers
Marriott-Napa Valley	Napa	Hotels & Motels
Meadowood Napa Valley	Saint Helena	Resorts
Meadows Care Ctr	Napa	Nursing & Convalescent Homes
Napa County Children's Center	Napa	Schools
Napa County Health & Human Svc	Napa	County Government-Public Health Programs
Napa State Hospital	Napa	Mental Health Services
Napa Valley College	Napa	Schools-Universities & Colleges Academic
Owens Corning	Napa	Cut Stone & Stone Products (Mfrs)
Pacific Union College Ltd	Angwin	Schools-Universities & Colleges Academic
Queen Of The Valley Hospital	Napa	Hospitals
Robert Mondavi Winery	Oakville	Wineries
Silverado Resort	Napa	Golf Courses
Stone Bridge Cellars Inc	Saint Helena	Wines Brandy & Brandy Spirits (Mfrs)
Syar Industries Inc	Napa	Sand & Gravel (Whls)
Treasury Wine Estates	Saint Helena	Wineries (Mfrs)
Trinchero Family Estates	Saint Helena	Wineries (Mfrs)
Universal Protection Svc	Napa	Security Guard & Patrol Service
Veterans Home of CA	Yountville	Government-Specialty Hosp Ex Psychiatric
Walmart	Napa	Department Stores
Vetrans Home of California	Yountville	Government-Specialty Hospital
Walmart Supercenter	American Canyon	Department Stores

Source: California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2012 1st Edition.

COUNTY GOVERNMENT

The City of Napa is the seat of the County. The County is a general law county divided into five supervisorial districts on the basis of registered voters and population. The five members of the County Board of Supervisors (the "Board") are elected to four-year terms in staggered years. Also elected are the Assessor-Recorder-County Clerk, Auditor-Controller, District Attorney/Public Administrator, Sheriff/Coroner and the Treasurer-Tax Collector. A County Executive Officer appointed by the Board runs the day-to-day business affairs of the County. The current Board and the expiration date of their respective terms of office are shown in the following table.

County of Napa Board of Supervisors

<u>Member</u>	<u>Area</u>	<u>Term Expires</u>
Brad Wagenknecht	District 1	January 2015
Mark Luce	District 2	January 2013
Diane L. Dillon	District 3	January 2015
Bill Dodd	District 4	January 2013
Kieth Caldwell	District 5	January 2013

The following are brief resumes of key County Managers.

Nancy Watt, County Executive Officer. Ms. Watt became the Assistant County Executive Officer in July 1999 after serving as a Management Analyst since May 1997, and became the County Executive Officer in 2004. Prior to that time, she held various increasingly responsible positions in local government for the City of Napa and the Town of East Greenwich, Rhode Island, as well as a planning consultant to several jurisdictions in California. She received a Bachelor of Science degree in 1985 from the University of Southern California and a Masters of Public Administration in 1995 from Sonoma State University.

Tamie R. Frasier, Treasurer-Tax Collector. Ms. Frasier began her career with the Napa County Treasurer-Tax Collector office in March 1994; she has held various positions with increased responsibility working 2 years as the Assistant Treasurer Tax Collector. Ms. Frasier was appointed Treasurer-Tax Collector by the Board of Supervisors in April 2008, and was elected in June of 2010 to serve a 4-year term beginning January 2011. Prior to switching to public service she held positions in the banking industry for 16 years most of that time in a management role. Ms. Frasier holds a Public Treasury Management certificate from University of Southern California and a Bachelor of Science degree in Business Management.

Tracy A. Schulze, Auditor-Controller. Ms. Schulze started with Napa County in April of 2007 as the Assistant Auditor-Controller, was appointed Auditor-Controller by the Board of Supervisors in January 2009, and was elected in June of 2010 to serve her first 4-year term beginning January 2011. As Napa County's Auditor-Controller, she oversees all areas of accounting and financial reporting, internal audits, property tax allocations, and grant compliance throughout the County and various County Special Districts. Ms. Schulze has a Bachelor of Science Degree in Accounting from Carroll College, Wisconsin; is a Certified Public Accountant in both Wisconsin and California; and has over 17 years of management level accounting experience. Previous employment included working for non-profit organizations and serving as the Controller for Walworth County, Wisconsin.

Robert Westmeyer, Esq., County Counsel. Mr. Westmeyer has been involved in advising local government in legal matters for more than twenty-five years. Prior to that he was an associate with a private law firm in Los Angeles, California, specializing in corporate, tax and entertainment law. He received a Bachelor of Science in Business Administration (Corporate Finance concentration) from Duquesne University, Pittsburgh, Pennsylvania in 1967

and a Juris Doctor from the University of Utah, Salt Lake City in 1972. Mr. Westmeyer began his governmental career as a deputy county counsel in Riverside County, moving to serve as a deputy county counsel in Napa County in 1980 and Chief Deputy County Counsel in 1985. He has served as the Napa County Counsel since 1987.

COUNTY SERVICES

The County provides a wide range of services to its residents, including law enforcement, judicial support, medical and health services, senior citizen assistance, a variety of public assistance programs, library services, and consumer affairs. Other services which are governed by the Board of Supervisors include airport service, parks, road maintenance, and fire protection.

Some municipal services are provided by the County, on a contract basis, to incorporated cities within the County's boundaries. This plan is designed to allow cities to contract for municipal services without incurring the cost of creating numerous city departments and providing related facilities and equipment. Under the plan, the County provides services to a city at the same level as provided in unincorporated areas, or at any higher level the city may choose. Services are provided at cost.

Employees

A summary of County allocated full time equivalent position levels is set forth below.

County of Napa Employees Fiscal Years 2005 to 2011

<u>As of June 30</u>	<u>Number of Employees</u>
2005	1289.2
2006	1337
2007	1338.7
2008	1338.7
2009	1315.9
2010	1294.5
2011	1307.6

Source: Napa County Executive Office

Collective Bargaining

A majority of County employees are in four bargaining units. Two units, a supervisory and a non-supervisory unit (comprised of all employees except elected officials and management and/or confidential employees), are collectively organized as "NAPE" (the Napa Association of Public Employees). Two other units, supervisory and non-supervisory (comprised of deputy sheriffs and other non-management law enforcement positions), are collectively organized as the "DSA" (Deputy Sheriffs' Association). NAPE is exclusively represented by the Service Employees International Union ("SEIU"), Local 1021. Taking NAPE and DSA together, approximately 90 percent of all County employees in a variety of classifications. The NAPE units negotiated a new three-year contract in 2011. The County and the DSA units negotiated a two-year contract in 2011.

The County enjoys a successful and positive employee relations program, including successful negotiations of cost effective agreements over the years, with only a one-day work stoppage which occurred in 1975.

Education

Public instruction in the County is provided by one elementary school district and four unified (combined elementary and high school) districts. The largest district, Napa Valley Unified School District, has approximately 16,000 students enrolled. The Napa Valley College and the Pacific Union College are also located within the County.

Transportation

The transportation network includes publicly operated systems as well as private enterprise systems within the cities. A privately owned shuttle service The transportation network includes publicly operated systems as well as private enterprise systems within the cities. A privately owned shuttle service provides ground transportation seven days a week from St. Helena, Napa and Vallejo to San Francisco International Airport. There are two public-use general aviation airports in the County. The Angwin Airport is privately owned and operated by Pacific Union College. The Napa County Airport is owned and operated by the County of Napa.

APPENDIX C

INDEPENDENT AUDITOR'S REPORT OF THE COUNTY FOR THE YEAR ENDED JUNE 30, 2011

APPENDIX D

PROPOSED FORM OF SPECIAL COUNSEL OPINION

On [date], I was requested to provide an opinion on [subject]. I have reviewed the [documents] and the [facts] and have concluded that [conclusion].

I have reviewed the [documents] and the [facts] and have concluded that [conclusion].

I have reviewed the [documents] and the [facts] and have concluded that [conclusion].

I have reviewed the [documents] and the [facts] and have concluded that [conclusion].

I have reviewed the [documents] and the [facts] and have concluded that [conclusion].

I have reviewed the [documents] and the [facts] and have concluded that [conclusion].

I have reviewed the [documents] and the [facts] and have concluded that [conclusion].

I have reviewed the [documents] and the [facts] and have concluded that [conclusion].

I have reviewed the [documents] and the [facts] and have concluded that [conclusion].

I have reviewed the [documents] and the [facts] and have concluded that [conclusion].

I have reviewed the [documents] and the [facts] and have concluded that [conclusion].

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the COUNTY OF NAPA (the "County") in connection with the issuance of \$_____ 2012 Refunding Certificates of Participation (the "Certificates"). The Certificates are being issued pursuant to Trust Agreement dated as of May 1, 2012 between the County and U.S. Bank National Association (the "Trustee") (the "Trust Agreement"). The County covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

"*Annual Report Date*" means the date that is nine months after the end of the County's fiscal year (currently April 1 based on the County's fiscal year end of June 30).

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

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

"*MSRB*" means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"*Official Statement*" means the final official statement executed by the County in connection with the issuance of the Bonds.

"*Participating Underwriter*" means _____, the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Rule*" means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as it 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 the Annual Report Date, commencing April 1, 2013, with the report for the 2011-12 fiscal year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that

is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the County shall provide the Annual Report to the Dissemination Agent (if other than the County). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the County) has not received a copy of the Annual Report, the Dissemination Agent shall contact the County to determine if the County is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the County may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. If the County's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The County shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the County hereunder.

(b) If the County does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the County shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the County, file a report with the County certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and 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:

(a) The County's audited financial statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the County's audited financial statements are not available by the Annual Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements 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) Unless otherwise provided in the audited financial statements filed on or before the Annual Report Date, financial information and operating data with respect to the County for the preceding fiscal year, substantially similar to that provided in the corresponding tables in the Official Statement:

(1) Number of County employees.

(2) County contribution to Public Employees Retirement System (PERS) for miscellaneous and safety employees.

(3) General and Special Revenue Funds Balance Sheet and General and Special Revenue Funds Summary of Revenues and Expenditures in substantially the format displayed in the Official Statement.

(4) Assessed value, property taxation, collections and delinquency rate.

(5) Teeter Plan Fund Balance requirement, and benefit (or loss) to the County's general fund from the operation of the Teeter Plan.

(6) A table setting forth outstanding balance of County long-term debt and Certificates of Participation, substantially in the form set forth in the Official Statement.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the County shall provide such further material information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the County or related public entities, which are available to the public on the MSRB's Internet web site or filed with the Securities and Exchange Commission. The County shall clearly identify each such other document so included by reference.

Section 5. Reporting of Significant Events.

(a) The County shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

(1) Principal and interest payment delinquencies.

(2) Non-payment related defaults, if material.

(3) Unscheduled draws on debt service reserves reflecting financial difficulties.

(4) Unscheduled draws on credit enhancements reflecting financial difficulties.

(5) Substitution of credit or liquidity providers, or their failure to perform.

(6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security.

(7) Modifications to rights of security holders, if material.

(8) Bond calls, if material, and tender offers.

(9) Defeasances.

- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the County or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the County or an obligated person, or the sale of all or substantially all of the assets of the County or an obligated person (other than in the ordinary course of business), the entry into a definitive agreement to undertake such an action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the County obtains knowledge of the occurrence of a Listed Event, the County shall, or shall cause the Dissemination Agent (if not the County) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The County acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material" and that subparagraph (a)(6) also contains the qualifier "material" with respect to certain notices, determinations or other events affecting the tax status of the Bonds. The County shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that it determines the event's occurrence is material for purposes of U.S. federal securities law. Whenever the County obtains knowledge of the occurrence of any of these Listed Events, the County will as soon as possible determine if such event would be material under applicable federal securities law. If such event is determined to be material, the County will cause a notice to be filed as set forth in paragraph (b) above.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the County 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 the County, 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 the County.

Section 6. Identifying Information for Filings with the MSRB. All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. 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. If 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 8. 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 Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be _____. Any Dissemination Agent may resign by providing 30 days' written notice to the County.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the County may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, 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 type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the County to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. 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 11. Default. If the County fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the 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 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 to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) 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 they 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 shall have no duty or obligation to review any information provided to it by the County hereunder, and shall not be deemed to be acting in any fiduciary capacity for the County, the Bond holders 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.

(b) The Dissemination Agent shall be paid compensation by the County for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the County, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: _____, 2012

COUNTY OF NAPA

By: _____

Title: _____

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: County of Napa, California
Name of Issue: \$_____ 2012 Refunding Certificates of Participation
Date of Issuance: _____, 2012

NOTICE IS HEREBY GIVEN that the County has not provided an Annual Report with respect to the above-named Certificates as required by Section 10.07 of the Trust Agreement dated May 1, 2012 between the County and U.S. Bank National Association. The County anticipates that the Annual Report will be filed by _____.

Dated: _____, 2012

COUNTY OF NAPA

By: _____

Title: _____

