

**PRELIMINARY OFFICIAL STATEMENT DATED APRIL 28, 2026**

**NEW ISSUE-FULL BOOK-ENTRY**

**RATING:  
S&P: “AA-”  
(See “RATING” herein)**

*In the opinion of Dannis Woliver Kelley, Special Counsel to the Office, under existing law, interest with respect to the Certificates is exempt from personal income taxes of the State of California, and, assuming continuing compliance after the date of initial delivery of the Certificates with certain covenants and subject to the matters set forth under “TAX MATTERS” herein, interest with respect to the Certificates for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates, and will not be included in computing the alternative minimum taxable income of the owners thereof. See “TAX MATTERS” herein.*

**\$7,500,000\***  
**CERTIFICATES OF PARTICIPATION**  
**(2026 CAPITAL PROJECTS)**  
**(Bank Qualified)**  
**Evidencing the Fractional Interests of the**  
**Owners Thereof in Lease Payments to be Made by the**  
**SANTA CRUZ COUNTY OFFICE OF EDUCATION**

**Dated: Date of Delivery**

**Due: April 1, as shown on the inside cover hereof**

The Santa Cruz County Office of Education (the “Office”) Certificates of Participation (2026 Capital Projects) (Bank Qualified) (the “Certificates”) are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2026 (the “Trust Agreement”), by and among U.S. Bank Trust Company, National Association, as trustee, the California School Boards Association Finance Corporation (the “Corporation”) and the Office to (i) finance certain capital improvements to Office facilities, including modernization of the special education facilities operated by the Office on the Soquel High School campus and (ii) pay the costs related to the execution and delivery of the Certificates, all as further described in the sections “THE PROJECTS” and “ESTIMATED SOURCES AND USES OF PROCEEDS” herein.

Pursuant to a Site Lease, dated as of May 1, 2026, the Office will lease its administration building (the “Property”) to the Corporation, and will lease the Property back from the Corporation pursuant to a Lease Agreement, dated as of May 1, 2026 (the “Lease”), by and between the Corporation and the Office. The Certificates evidence fractional interests in Lease Payments to be made by the Office, as lessee under the Lease. The Office will covenant to budget and appropriate Lease Payments in each year in consideration of the use and occupancy of the Property from any source of legally available funds, and to take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations therefor. See “SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES — Lease Payments” herein. The Office’s obligation to make Lease Payments is subject to abatement in the event of the taking of, damage to, or loss of use and possession of the Property. See “RISK FACTORS — Abatement” herein.

Interest represented by the Certificates is payable semiannually on April 1 and October 1 of each year, commencing October 1, 2026. The Certificates will be delivered as fully registered securities, without coupons, and when delivered will be registered in the name of The Depository Trust Company (“DTC”), New York, New York, or its nominee. DTC will act as securities depository for the Certificates. Ownership interests in the Certificates may be purchased in book-entry form only, in authorized denominations, as described in this Official Statement. See “APPENDIX F — BOOK-ENTRY ONLY SYSTEM”.

**The Certificates are subject to prepayment prior to their stated maturity as described herein. See “THE CERTIFICATES — Prepayment” herein.**

**NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE OFFICE TO MAKE LEASE PAYMENTS CONSTITUTES A DEBT OF THE OFFICE, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE OBLIGATION OF THE OFFICE TO MAKE LEASE PAYMENTS IS SUBJECT TO THE OFFICE’S BENEFICIAL USE AND POSSESSION OF THE PROPERTY.**

This cover page of the Official Statement contains information for quick reference only. It is not a complete summary of the Certificates or the Lease. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See “RISK FACTORS” herein.

*The Certificates are offered when, as and if issued, subject to the approval of their legality by Dannis Woliver Kelley, Long Beach, California, Special Counsel, and certain other conditions. Dannis Woliver Kelley, Long Beach, California, is acting as Disclosure Counsel for the issue. Kutak Rock LLP, Denver, Colorado is acting as counsel to the Underwriter. It is anticipated that the Certificates will be available for delivery in definitive form in New York, New York, through the facilities of DTC on or about May 27, 2026.*

**RAYMOND JAMES®**

Dated: \_\_\_\_\_, 2026

\*Preliminary; subject to change.

*This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.*

**MATURITY SCHEDULE**

**\$7,500,000\***  
**CERTIFICATES OF PARTICIPATION**  
**(2026 CAPITAL PROJECTS)**  
**(Bank Qualified)**  
**Evidencing the Fractional Interests of the**  
**Owners Thereof in Lease Payments to be Made by the**  
**SANTA CRUZ COUNTY OFFICE OF EDUCATION**

**MATURITY SCHEDULE**

\$ \_\_\_\_\_ Serial Certificates

Maturity* (April 1)	Principal Amount	Interest Rate	Yield	CUSIP <sup>1</sup> (80182Q)
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				
2041				

\$ \_\_\_\_\_ % Term Certificate, due April 1, 20\_\_, Yield \_\_\_% CUSIP 80182Q\_\_

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\* Preliminary; subject to change.

<sup>1</sup> Copyright 2026, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Factset Research Systems Inc. on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. The CUSIP number is provided for convenience of reference only. Neither the Office nor the Underwriter take any responsibility for the accuracy of such CUSIP number.

No dealer, broker, salesperson or other person has been authorized by the Office to provide any information or to make any representations other than as contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the Office. This Official Statement does not constitute an offer to sell, the solicitation of an offer to buy, nor shall 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. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly described herein, are intended solely as such and are not to be construed as a representation of facts.

The information and expressions of opinion herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Office since the date hereof. Although certain information set forth in this Official Statement has been provided by the County of Santa Cruz, the County of Santa Cruz has not approved this Official Statement and is not responsible for the accuracy or completeness of the statements contained in this Official Statement except for the information set forth under the caption "SANTA CRUZ COUNTY POOLED INVESTMENT FUND."

The Underwriter has provided the following sentence for inclusion in this Official Statement:

"The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities 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 the completeness of such information."

**In connection with this offering, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices of the Certificates at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Certificates to certain securities dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the inside cover page and said public offering prices may be changed from time to time by the Underwriter.**

The Office maintains a website and certain social media accounts. However, the information presented there is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Certificates.

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

**SANTA CRUZ COUNTY OFFICE OF EDUCATION**  
**Santa Cruz County, State of California**

**Board of Education**

Rachel Williams, *President*, Trustee Area 5  
Greg Larson, *Vice President* Trustee Area 3  
Ed Acosta, *Member*, Trustee Area 6  
Dr. Stacey Kyle, *Member*, Trustee Area 4  
Sue Roth, *Member*, Trustee Area 1  
Abel Sanchez, *Member*, Trustee, Area 7  
Bruce Van Allen, *Member*, Trustee Area 2

**Office Administration**

Dr. Faris Sabbah, *Superintendent*  
Marcia Russell, *Associate Superintendent of Educational Services*  
Rebecca Olker, *Interim Deputy Superintendent Business Services*  
Michelle Kennedy, *Manager Fiscal Services*

**SPECIAL SERVICES**

**Special Counsel and Disclosure Counsel**

Dannis Woliver Kelley  
*Long Beach, California*

**Municipal Advisor**

Dale Scott & Co., Inc.  
*San Francisco, California*

**Trustee**

U.S. Bank Trust Company, National Association  
*Los Angeles, California*

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**\$7,500,000\***  
**CERTIFICATES OF PARTICIPATION**  
**(2026 CAPITAL PROJECTS)**  
**(Bank Qualified)**  
**Evidencing the Fractional Interests of the**  
**Owners Thereof in Lease Payments to be Made by the**  
**Santa Cruz County Office of Education**

**INTRODUCTION**

This Official Statement, which includes the cover page, inside cover and appendices hereto, provides certain information concerning the sale and delivery of the Certificates of Participation (2026 Capital Projects) (Bank Qualified) (the “Certificates”), in the aggregate principal amount of \$7,500,000,\* evidencing the fractional interests of the registered owners thereof (the “Owners”) in Lease Payments (as hereinafter defined) to be made by the Santa Cruz County Office of Education (the “Office”) pursuant to a Lease Agreement, dated as of May 1, 2026 (the “Lease”), by and between the California School Boards Association Finance Corporation, as lessor (the “Corporation”), and the Office, as lessee, for the use and possession of the Office’s administration building (the “Property”).

This introduction is not a summary of the Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, inside cover page and appendices hereto. Capitalized terms not defined herein shall have the meanings set forth in APPENDIX A hereto.

**The Office**

For information concerning the Office, including certain financial information, see “SANTA CRUZ COUNTY OFFICE OF EDUCATION” and “OFFICE FINANCIAL INFORMATION.” herein. The Santa Cruz County Superintendent of Schools audited financial statements for the fiscal year ended June 30, 2025, are included as APPENDIX D.

**Purpose of the Certificates**

The proceeds received from the sale of the Certificates will be used to (i) finance certain capital improvements to Office facilities, including modernization of the special education facilities operated by the Office on the Soquel High School campus and (ii) pay the costs related to the execution and delivery of the Certificates, all as further described in the sections “THE PROJECTS” and “ESTIMATED SOURCES AND USES OF PROCEEDS” herein.

**Security and Source of Payment of the Certificates**

The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2026 (the “Trust Agreement”), by and among the Office, the Corporation and U.S. Bank Trust Company, National Association, as trustee (the “Trustee”). The Office is required under the Lease to pay Lease Payments for the use and possession of the Property, which is further described under the caption “THE PROPERTY” herein. The Office is also required to pay any taxes and assessments and the cost of maintenance and repair of the Property.

Pursuant to an Assignment Agreement, dated as of May 1, 2026 (the “Assignment Agreement”), by and between the Corporation and the Trustee, the Corporation will assign to the Trustee, for the benefit of the

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\* Preliminary; subject to change.

Owners of the Certificates, substantially all of its rights under the Lease and a Site Lease, dated as of May 1, 2026 (the “Site Lease”), by and between the Office and the Corporation, including its rights to receive and collect Lease Payments, Additional Payments and Prepayments from the Office under the Lease and rights as may be necessary to enforce payment of Lease Payments and Prepayments and to exercise all rights and remedies under the Lease following a default. All rights assigned by the Corporation pursuant to the Assignment Agreement shall be administered by the Trustee in accordance with the provisions of the Trust Agreement for the equal and proportionate benefit of all Owners.

The Certificates evidence fractional and undivided interests in the right to receive Lease Payments and Prepayments thereof to be made by the Office to the Corporation under the Lease. The Lease Payments are designed to pay, when due, the principal and interest with respect to the Certificates. The Office will covenant in the Lease that it will take such action as may be necessary to include the Lease Payments and other payments due under the Lease in its annual budgets and to make the necessary annual appropriations therefor. The Office’s obligation to make Lease Payments is subject to abatement in the event of the loss of use and possession of all or a portion of the Property due to its damage, destruction, title defect or taking by eminent domain. See “RISK FACTORS — Abatement” herein.

**The obligation of the Office to make Lease Payments does not constitute an obligation of the Office for which the Office is obligated to levy or pledge any form of taxation or for which the Office has levied or pledged any form of taxation. Neither the Certificates nor the obligation of the Office to make Lease Payments constitutes a debt of the Office, the State or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction. See “RISK FACTORS” herein.**

#### **Description of the Certificates**

For a more complete description of the Certificates and the basic documentation pursuant to which they are being sold and delivered, see “THE CERTIFICATES” and “APPENDIX A — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” hereto. The summaries and descriptions in the Official Statement of the Trust Agreement, the Lease, the Site Lease, the Assignment Agreement and other agreements relating to the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in such documents.

**Prepayment.** The Certificates are subject to optional, mandatory and extraordinary prepayment prior to maturity. See “THE CERTIFICATES — Prepayment” herein.

**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 described herein. Beneficial Owners will not be entitled to receive physical delivery of the Certificates. See “THE CERTIFICATES — Book-Entry Only System” herein. In the event that the book-entry only system described below is no longer used with respect to the Certificates, the Certificates will be registered and transferred in accordance with the provisions of the Trust Agreement. The Certificates are being delivered in the minimum denominations of \$5,000 and any integral multiple thereof.

**Payments.** Principal and interest due with respect to the Certificates are payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the Certificates, the Beneficial Owners will become the registered owners of the Certificates and will be paid principal and interest by the Trustee, all as described in the Trust Agreement. See “THE CERTIFICATES — General” herein.

## **Bank Qualified**

The Office has designated the Certificates as “qualified tax-exempt obligations,” thereby allowing certain financial institutions that are holders of such qualified tax-exempt obligations to deduct a portion of such institution’s interest expense allocable to such qualified tax-exempt obligations, all as determined in accordance with Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. See “BANK QUALIFICATION” herein.

## **Continuing Disclosure**

The Office will agree in the Continuing Disclosure Agreement for the benefit of Certificate Owners and Beneficial Owners to make available certain financial information and operating data relating to the Office and to provide notices of the occurrence of certain enumerated events in compliance with Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission. The specific nature of the information to be made available and of the event notices to be provided is summarized below under the caption “CONTINUING DISCLOSURE” and “APPENDIX E — FORM OF CONTINUING DISCLOSURE AGREEMENT” hereto. For information concerning the Office’s compliance with its continuing disclosure undertakings over the past five years, see “CONTINUING DISCLOSURE” herein.

## **Professionals Involved in the Offering**

U.S. Bank Trust Company, National Association will act as Trustee with respect to the Certificates. The Certificates will be delivered subject to the approval as to their legality by Dannis Woliver Kelley, Long Beach, California, Special Counsel. Dannis Woliver Kelley will also act as the Office’s Disclosure Counsel with respect to the Certificates. Dale Scott & Co., Inc. will act as Municipal Advisor to the Office. Kutak Rock LLP, Denver, Colorado will act as counsel to the Underwriter. Certain matters will be passed on for the Corporation by its counsel and the Trustee by its counsel. The Santa Cruz County Superintendent of Schools audited financial statements for the fiscal year ended June 30, 2025 are included as APPENDIX D.

## **Certificate Owners’ Risks**

Certain events could affect the ability of the Office to make the Lease Payments when due. See “RISK FACTORS” for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Certificates.

## **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change. The sale and delivery of the Certificates to potential investors is made only by means of the Official Statement.

Copies of the Lease, the Site Lease, the Trust Agreement, the Assignment Agreement and the Continuing Disclosure Agreement are available, upon request, and upon payment to the Office of a charge for copying, mailing and handling, from the Office at 400 Encinal Street Santa Cruz, California 95060.

This Official Statement contains brief descriptions of, among other things, the Office, the Corporation, the Certificates, the Trust Agreement, the Lease, the Assignment Agreement, the Site Lease and certain other matters relating to the security for the Certificates. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to documents and agreements are qualified in their entirety by reference to such documents, and agreements and references herein to the Certificates are qualified in their entirety by reference to the form thereof included in the Trust Agreement. Copies of such documents will be available for inspection at the principal office of the Trustee after delivery of the Certificates. Capitalized terms used but not otherwise defined herein shall have the meanings assigned thereto in the Trust Agreement.

## THE PROJECTS

The Office expects to apply the net proceeds from the sale of the Certificates to (i) finance certain capital improvements to Office facilities, including modernization of the special education facilities operated by the Office on the Soquel High School campus, and (ii) pay the costs related to the execution and delivery of the Certificates.

## THE PROPERTY

Pursuant to the Site Lease, the Office is leasing the Property to the Corporation and leasing the Property back from the Corporation pursuant to the Lease. The Property consists of the Office's administration building located at 400 Encinal Street, Santa Cruz, CA 95060 and is comprised of approximately 69,000 square feet. The estimated insured replacement value of the real property constituting the Property is approximately \$27.5 million.

## THE CERTIFICATES

### General

The Certificates will be executed in the aggregate principal amount of \$7,500,000\*. The Certificates will be dated their date of delivery and will be delivered as registered Certificates without coupons in denominations of \$5,000 each, and any integral multiple thereof. Interest with respect to the Certificates will be payable on each April 1 and October 1, commencing October 1, 2026 (each a "Certificate Payment Date"), at the rates per annum set forth on the inside cover page of this Official Statement. The Certificates will mature on April 1 in the designated years and in the principal amounts as set forth on the inside cover of this Official Statement.

If a Certificate is executed: (i) as of a Certificate Payment Date, interest will be payable from such Certificate Payment Date; (ii) after the close of business on the fifteenth day of the month preceding each Certificate Payment Date (whether or not a business day) (each, a "Record Date") and before the following Certificate Payment Date, interest will be payable from such following Certificate Payment Date and (iii) on or prior to September 15, 2026, interest evidenced thereby shall be payable from the date of execution and delivery of the Certificates. Interest with respect to the Certificates will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The Certificates evidence and represent fractional and undivided interests of the Owners thereof in the Lease Payments and Prepayments thereof to be made by the Office pursuant to the Lease. To the extent Lease Payments are abated or not made under the Lease and insurance proceeds are not available to make such Lease Payments, all Certificate Owners will receive a proportionate reduction in their payments. See "RISK FACTORS — Abatement."

So long as the Certificates are held in book-entry form, principal and interest will be paid to DTC for disbursement to Beneficial Owners of interests in the Certificates in accordance with DTC's procedures. See "— Book-Entry Only System" below. In the event that the Certificates are no longer held in book-entry form, the following provisions will apply. Principal with respect to the Certificates will be payable upon surrender by the Certificate Owners thereof at the principal office of the Trustee. Interest with respect to the Certificates will be payable by check mailed by first class mail to the Certificate Owners of record at the address shown on the Certificate registration books maintained by the Trustee for such purpose. Certificate Owners in an aggregate principal amount of \$1,000,000 or more may, by providing written instruction to the Trustee, receive interest with respect to the Certificates by wire transfer.

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\* Preliminary; subject to change.

## Prepayment

**Optional Prepayment.\*** The Certificates maturing on and after April 1, 20\_\_ are subject to optional prepayment prior to their stated maturities on any date on or after April 1, 20\_\_, in whole or in part, at the option of the Office, from any lawfully available source in the event the Office exercises its option under the Lease to prepay the Principal Component of the Lease Payments at a prepayment price equal to the Principal Component of the Lease Payments to be prepaid, plus accrued interest to the date fixed for prepayment, without premium.

The Office may provide a conditional notice to optionally prepay Certificates. In the event the Office gives a conditional notice to the Trustee of its intention to exercise such option, but does not deposit with the Trustee on or prior to the prepayment date an amount equal to the prepayment price, the prepayment of the Certificates shall not occur and the Office shall not be required to prepay the Certificates and the Office will continue to pay the Lease Payments as if no such notice had been given. Within a reasonable time thereafter, the Trustee shall give notice to the Owners that the conditions to prepayment were not met and the prepayment was cancelled.

**Mandatory Sinking Fund Prepayment.** The Certificates maturing April 1, 20\_\_ are subject to mandatory sinking fund prepayment on April 1 of each Mandatory Sinking Fund Payment Date and in the respective principal amounts as set forth in the following schedule, at a prepayment price equal to the principal amount thereof to be prepaid plus accrued interest thereon to the date fixed for prepayment, without premium:

Mandatory Sinking Fund Payment Date (April 1)	Principal Amount to be Prepaid
(1)	

(1) Maturity.

In the event that a portion of the Certificates maturing on April 1, 20\_\_ is optionally prepaid prior to maturity, the remaining mandatory sinking fund payments shown above shall be reduced proportionately, or as otherwise directed by the Office, in integral multiples of \$5,000 principal amount of such Certificates optionally prepaid.

**Extraordinary Prepayment.** The Certificates are subject to prepayment prior to their respective maturity dates on any date, in whole or in part, from Net Proceeds which the Trustee shall transfer to the Prepayment Fund as provided in the Lease at least 45 days prior to the date set for prepayment, at a prepayment price equal to the Principal Component of the Lease Payments to be prepaid, together with accrued interest to the date fixed for prepayment, without premium, in the event of certain accidents, destruction, theft or taking by eminent domain or condemnation with respect to the Property as described in the Lease.

Prepayments from Net Proceeds and the resulting prepayment of Certificates that were purchased at a price greater than the applicable prepayment price could reduce the otherwise expected yield on such Certificates. See “RISK FACTORS – Extraordinary Prepayment from Net Proceeds.”

**Selection of Certificates for Prepayment.** Whenever provision is made for the optional prepayment of Certificates and less than all Outstanding Certificates are called for prepayment, and if the Certificates are registered in book-entry form and so long as the nominee is the sole registered owner of the Certificates on

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\* Preliminary; subject to change.

behalf of DTC the Certificates shall be selected for optional prepayment from among maturities selected by the Office and by lot within any maturity in accordance with the operational arrangements of DTC. In connection with an extraordinary prepayment of the Certificates, the Certificates shall be selected for prepayment pro rata among maturities and by lot within a maturity in accordance with the operational arrangements of DTC. The Trustee will promptly notify the Office and the Corporation in writing of the Certificates selected for prepayment by mailing to the Office and the Corporation copies of the notice of prepayment provided.

### **Prepayment Procedures**

Notice of prepayment shall be mailed by first-class mail, postage prepaid, not less than 20 nor more than 60 days before the prepayment date, to the respective Certificates Owners designated for prepayment at their addresses appearing on the Certificate registration books; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for prepayment. In addition, notice shall be sent to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access System. Neither failure to send such notice nor any defect in any notice so sent shall affect the sufficiency of the proceedings for the prepayment of the Certificates. Such notice shall specify: (a) the prepayment date, (b) the prepayment price, (c) if less than all of the Outstanding Certificates are to be prepaid, the series and Certificate numbers (and in the case of partial prepayment, the respective principal amounts), (d) the CUSIP numbers of the Certificates to be prepaid, (e) the place or places where the prepayment will be made, (f) the original date of execution and delivery of the Certificates, (g) the rate of interest payable with respect to each Certificate being prepaid, (h) any other descriptive information regarding the Certificates needed to identify accurately the Certificates being prepaid, and (i) if the notice is conditional, a statement to that effect. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate to be prepaid, the portion of the principal amount of such Certificate to be prepaid, together with interest accrued to said date and that from and after such date, provided that moneys therefor have been deposited with the Trustee, interest with respect thereto shall cease to accrue and be payable.

So long as DTC is the registered Owner of the Certificates, all such notices will be provided only to DTC as the registered Owner, and such notices will not be mailed by the Trustee to the Beneficial Owners of the Certificates. See “— Book-Entry Only System” herein.

***Effect of Prepayment.*** Notice having been given to the Owners of the Certificates in accordance with the Trust Agreement, and the moneys for the prepayment (including the interest to the applicable date of prepayment), having been set aside in the Prepayment Fund, the Certificates shall become due and payable on the date of prepayment, and upon presentation and surrender thereof at the Principal Office, said Certificates shall be paid at the prepayment price with respect thereto, plus interest accrued and unpaid to said date of prepayment.

If, on the date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest to the date of prepayment, shall be held by the Trustee so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as provided in the Trust Agreement, then, from and after the date of prepayment, interest with respect to the Certificates to be prepaid shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates so to be prepaid, without liability for interest thereon.

### **Book-Entry Only System**

The Certificates will be executed and delivered as one fully registered certificate without coupons for each maturity and, when executed and delivered, will be registered in the name of Cede & Co., as nominee DTC. DTC will act as securities depository of the Certificates. Individual purchases may be made in book-entry form only, in the principal amount of \$5,000 and integral multiples thereof for each maturity. Beneficial Owners will not receive certificates representing their interest in the Certificates purchased. Principal and

interest will be paid to DTC, which will in turn remit such principal and interest to its participants for subsequent dispersal to the Beneficial Owners of the Certificates in accordance with DTC’s procedures. See “APPENDIX F — BOOK-ENTRY ONLY SYSTEM” hereto.

**CERTIFICATE PAYMENT SCHEDULE**

Lease Payments are required to be made by the Office under the Lease on or before March 15 and September 15 of each year for the use and possession of the Property for the period commencing as of the Closing Date and terminating as provided in the Lease. The following table summarizes the annual Certificate payments to be made from the Lease Payments of the Office, assuming no optional or extraordinary prepayments.

**ANNUAL CERTIFICATE PAYMENT SCHEDULE**

Certificate Year (April 1)	Principal Component	Interest Component	Total Annual Certificate Payments
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
<b>Total</b>			

**SECURITY AND SOURCES OF PAYMENT OF THE CERTIFICATES**

*Neither the Certificates nor the obligation of the Office to make Lease Payments constitutes an obligation of the Office for which the Office is obligated to levy or pledge, or for which the Office has levied or pledged, any form of taxation. Neither the Certificates nor the obligation of the Office to make Lease Payments constitutes a debt of the Office, the State or any of its political subdivisions within the meaning of any constitutional limitation or violates any statutory debt limitation.*

**General**

Each Certificate represents a fractional interest in the Lease Payments and Prepayments to be made by the Office to the Trustee pursuant to the Lease. The Office is obligated to pay Lease Payments from any source of legally available funds, and will covenant in the Lease, subject to the abatement provisions therein, to include all Lease Payments coming due in its annual budgets and to make the necessary annual appropriations therefor. The Corporation, pursuant to the Assignment Agreement, will assign all of its rights under the Lease (excepting certain rights as specified therein), including the right to receive Lease Payments and Prepayments, to the Trustee for the benefit of the Certificate Owners. By the fifteenth day of each March and September (if such day is not a Business Day, the next succeeding Business Day), the Office must pay to the Trustee a Lease Payment (to the extent required under the Lease) which is equal to the amount necessary to

pay the principal, if any, and interest due with respect to the Certificates on the next succeeding Certificate Payment Date.

Under the Lease, the Office will agree to pay certain taxes, assessments, utility charges, and insurance premiums due with respect to the Property and the Certificates and fees and expenses of the Trustee. The Office is responsible for repair and maintenance of the Property during the term of the Lease. The Office may at its own expense in good faith contest such taxes, assessments and utility and other charges if certain requirements set forth in the Lease are satisfied, including obtaining an opinion of counsel that the Property will not be subjected to loss or forfeiture.

In accordance with the Lease, the Office will certify to the Trustee on or before September 1 of each year that the Office has included all Lease Payments and Additional Payments (known as of the date of budget adoption) due under the Lease in the fiscal year covered by its annual budget and the amount so included. If the Office fails to certify that it has included all such Lease Payments and Additional Payments in its annual budget, the Trustee will promptly provide the Office written notice specifying that the Office has failed to observe and perform its covenant and agreement in the Lease and requesting that such failure be remedied within 30 days, or such failure shall constitute an Event of Default under the Lease.

The Office's obligation to make Lease Payments will be abated in the event of, and to the extent of, substantial interference with use and possession of the Property arising from damage, destruction, title defect, or taking by eminent domain or condemnation of the Property. Abatement does not constitute a default under the Lease and the Trustee will not be entitled in such event to pursue remedies against the Office. See "RISK FACTORS — Abatement" herein.

Should the Office default under the Lease, the Trustee, as assignee of the Corporation, may terminate the Lease and re-lease the Property or may continue the Lease in effect and hold the Office liable for all Lease Payments thereunder on an annual basis. Under no circumstances will the Trustee have the right to accelerate Lease Payments. See "RISK FACTORS — No Acceleration Upon Default" and "— Limited Recourse on Default" herein.

### **Lease Payments**

Subject to the provisions of the Lease regarding abatement in the event of loss of use and possession of any portion of the Property (see "RISK FACTORS — Abatement" herein) and prepayment of Lease Payments (see the provisions relating to prepayment under the caption "THE CERTIFICATES" above), the Office agrees to pay to the Corporation, its successors and assigns, as annual rental for the use and possession of the Property, the Lease Payments to be due and payable on April 1 and October 1 of each year. Under the Lease, the Office is required to deposit the Lease Payments with the Trustee on March 15 and September 15 of each year, or, if such day is not a Business Day, the next succeeding Business Day (each, a "Lease Payment Deposit Date").

Any amounts held in the Lease Payment Fund on any Lease Payment Deposit Date (other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease and amounts required for payment of past due principal or interest with respect to any Certificates not presented for payment) shall be credited to the payment of Lease Payments due and payable on such Lease Payment Deposit Date.

The Trust Agreement requires that Lease Payments be deposited in the Lease Payment Fund maintained by the Trustee. Pursuant to the Trust Agreement, on each Certificate Payment Date, the Trustee will apply such amounts in the Lease Payment Fund as are necessary to make interest and principal payments, respectively, with respect to the Certificates as the same shall become due and payable.

## **No Reserve Fund**

No reserve fund is being established under the Indenture for payment of the interest and principal payments with respect to the Certificates in the event there is a shortfall in amounts otherwise available to make such payments.

## **Additional Payments**

The Office shall pay such amounts (“Additional Payments”) as shall be required for the payment of all administrative costs of the Corporation relating to the Property or the Certificates, including, without limitation, all expenses, assessments, compensation and indemnification of the Trustee payable by the Office under the Trust Agreement, taxes of any sort whatsoever payable by the Corporation as a result of its leasehold interest in the Property or undertaking of the transactions contemplated in the Lease or in the Trust Agreement, fees of auditors, accountants, attorneys or engineers, and all other necessary administrative costs of the Corporation or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement, including premiums on insurance required to be maintained by the Lease or to indemnify the Corporation and its officers and directors.

## **Insurance**

Pursuant to the Lease, the Office will obtain a CLTA leasehold title insurance policy (with certain exceptions) on the Property in an amount equal to the aggregate Principal Component of unpaid Lease Payments. The Lease also requires that the Office maintain rental interruption insurance to insure against loss of Lease Payments from the Property in an amount not less than the maximum remaining scheduled Lease Payments in any future two-year period. The Office is obligated to obtain a standard comprehensive general public liability and property damage insurance policy or policies and workers’ compensation insurance or to self-insure against such risks as permitted by the Lease. See “APPENDIX A — SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE LEASE — Insurance” and “THE OFFICE — Insurance” hereto.

The proceeds of any rental interruption or use and occupancy insurance will be deposited in the Lease Payment Fund to be credited towards the payment of the Lease Payments in the order in which such Lease Payments become due and payable. The Lease requires the Office to apply the Net Proceeds of any insurance or condemnation award either to replace or repair the Property or to prepay Certificates if certain certifications with respect to the adequacy of the Net Proceeds to make repairs, and the timing thereof, cannot be made. The amount of Lease Payments will be abated and Lease Payments due under the Lease may be reduced during any period in which a title defect, condemnation, material damage or destruction to all or part of the Property substantially interferes with the Office’s use and possession thereof. See “RISK FACTORS — Abatement” herein.

## **Remedies on Default**

If the Office defaults in performance of its obligations under the Lease, the Trustee, as assignee of the Corporation, may, among other things, elect either (i) to terminate the Lease and re-enter and relet the Leased Premises, or (ii) without terminating the Lease enforce the Lease and hold the Office liable for all Lease Payments on an annual basis whether or not it has re-entered and relet the Leased Premises. See “RISK FACTORS—Limited Recourse on Default” and APPENDIX A — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE TRUST AGREEMENT — Events of Default and Remedies.”

## **Additional Certificates**

Pursuant to the Trust Agreement, the Office may cause Additional Certificates to be executed and delivered without the consent of the Owners of the Certificates if certain conditions precedent are satisfied.

See “RISK FACTORS—Additional Certificates” and APPENDIX A — “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE TRUST AGREEMENT — Additional Certificates.”

### **Plan of Payment for the Certificates**

The Lease Payments are payable from any source of legally available funds, including but not limited to unrestricted moneys of the Office, the majority of which are deposited in the Office’s general fund (the “General Fund”). See “RISK FACTORS—General Considerations – Security for the Certificates” herein.

### **ESTIMATED SOURCES AND USES OF PROCEEDS**

The estimated sources and uses of proceeds to be received from the sale of the Certificates are as follows:

#### ***Sources***

Certificate Par Amount  
[Net] Original Issue Premium  
Total

#### ***Uses***

Deposit to Project Fund  
Costs of Delivery<sup>(1)</sup>  
Total

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<sup>(1)</sup> Includes Underwriter’s discount, legal fees, municipal advisor fees, printing, rating agency fees and expenses, Trustee fees and expenses, Corporation fees and expenses, and other miscellaneous delivery costs.

### **RISK FACTORS**

The following factors, together with all other information provided in this Official Statement, should be considered by potential investors in evaluating the purchase of the Certificates. The discussion below does not purport to be, nor should it be construed to be, complete nor a summary of all factors which may affect the financial condition of the Office, the Office’s ability to make Lease Payments in the future, the effectiveness of any remedies that the Trustee may have or the circumstances under which Lease Payments may be abated.

No representation is made as to the future financial condition of the Office. Payment of the Lease Payments is an obligation of the Office payable from legally available funds and the ability of the Office to make Lease Payments may be adversely affected by its financial condition as of any particular time. See “STATE OF CALIFORNIA FISCAL ISSUES” herein. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.

### **General Considerations - Security for the Certificates**

The obligation of the Office to make the Lease Payments does not constitute a debt of the Office or of 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 Office or the State is obligated to levy or pledge any form of taxation or for which the Office or the State has levied or pledged any form of taxation.

Although the Lease does not create a pledge, lien or encumbrance upon the funds of the Office, the Office is obligated under the Lease to pay the Lease Payments and Additional Payments from any source of legally available funds and the Office will covenant in the Lease that it will take such action as may be necessary to include all Lease Payments and Additional Payments due under the Lease in its annual budgets and to make necessary annual appropriations for all such rental payments. The Office 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. To the extent that additional obligations are incurred by the Office, the funds available to make Lease Payments may be decreased. In the event the Office's revenue sources are less than its total obligations, the Office could choose to fund other activities before making Lease Payments and other payments due under the Lease.

### **Extraordinary Prepayment from Net Proceeds**

Prepayment of the Certificates from Net Proceeds could be made as provided in the Trust Agreement, and the resulting prepayment of Certificates that were purchased at a price greater than the applicable prepayment price could reduce the otherwise expected yield on such Certificates.

### **Constitutional and Statutory Limitations on Appropriations**

There are limitations on the ability of the Office to increase revenues. The ability of the Office to increase the ad valorem property tax is limited pursuant to Article XIII A of the State Constitution, which was enacted in 1978. In 1986, California voters approved an initiative statute that attempts to limit the imposition of new or higher taxes by local agencies, including the Office. On November 5, 1996, voters approved Proposition 218 – the “Right to Vote on Taxes Act,” which further affects the ability of local agencies to levy and collect existing and future taxes, assessments, fees and charges. On November 3, 2010, California voters approved Proposition 26, which generally expands the definition of “taxes” that are subject to voter approval requirements imposed by Proposition 218. Additionally, Article XIII B of the State Constitution places certain limits on the appropriations the Office is permitted to make. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING OFFICE REVENUES” herein.

### **Abatement**

The obligation of the Office under the Lease to pay Lease Payments is in consideration for the use and possession of the Property. The obligation of the Office to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund) may be abated in whole or in part if the Office does not have full use and possession of the Property.

The amount of Lease Payments and Additional Payments due under the Lease will be adjusted or abated during any period in which by reason of damage, destruction, title defect or taking by eminent domain or condemnation, there is substantial interference with the use and possession of any portion of the Property. The amount of such abatement shall be determined by the Office such that the resulting Lease Payments and Additional Payments represent fair consideration for the Office's right to use and possession of the portion of the Property not damaged, destroyed or interfered with as a result of title defect or taking.

If damage or destruction, title defect or taking of the Property results in abatement or adjustment of Lease Payments and the resulting Lease Payments are insufficient to make all payments of principal and interest with respect to the Certificates during the period that the Property is being replaced, repaired or reconstructed, then such payments of principal and interest may not be made, and the only source of funds available to the Trustee or Owners will be any proceeds of rental interruption insurance. Such insurance is required to provide coverage of Lease Payments for up to two years following damage or destruction of the Property with respect to an insured loss. Rental interruption insurance does not cover a loss of use due to uninsured events such as earthquake and flood.

Notwithstanding the provisions of the Lease and the Trust Agreement specifying the extent of abatement in the event of the Office's failure to have use and possession of the Property, such provisions may be superseded by operation of law and, in such event, the resulting Lease Payments of the Office may not be sufficient to pay all of the remaining principal and interest with respect to the Certificates Outstanding.

### **Absence of Earthquake Insurance and Flood Insurance**

Much of California is seismically active, with numerous faults that could be earthquake sources. The Office has no earthquake insurance on the Property and is not obligated under the Lease to procure and maintain, or cause earthquake insurance on the Property to be procured and maintained. Seismic activity could cause significant damage to the Property and the value of the Property could be adversely affected and an abatement of Lease Payments could occur due to a seismic event. The Office is not able to predict whether or to what extent these results might occur.

Public school construction in the State, including the school facilities constructed on the Property, are entitled and approved through the California Division of State Architect (“DSA”), which reviews building plans and calculations based on three sets of criteria: Seismic and Engineering; Fire, Life, Safety; and Access. DSA applies the State building code standards and requires that certain buildings are compliant with the Field Act for Public Schools set forth in Sections 17280 & 81130 et seq of the California Education Code (the “Field Act”). The Field Act sets forth structural design standards to enable school buildings meet a higher threshold of seismic safety, ensuring safety for students and building occupants in the event of an earthquake.

The Property is not in a 100-year flood plain, although the Office has flood insurance on the Property.

### **Other Limitations on Liability**

Although the Office will covenant to budget and appropriate annually to provide for Lease Payments, the Office has not pledged its full faith and credit to such payment. In the event that the Office’s revenue sources are less than its total obligations in any year, the Office could choose to pay other Office expenditures before paying any or all of the annual Lease Payments.

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

### **No Acceleration upon Default**

In the event of a default by the Office under the Lease, the remedy of acceleration of the remaining Lease Payments is not available. The Office will only be liable for Lease Payments on an annual basis, and, in the event of default, the Trustee would be required to seek a separate judgment each year for that year’s defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against school districts in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

### **Limited Recourse on Default**

The Lease and the Trust Agreement provide that the Trustee may take possession of the Property and re-lease it if there is a default by the Office and that, in the event such re-leasing occurs, the Office would be liable for any resulting deficiency in the Lease Payments. The Lease provides that the Trustee may have such rights of access to the Property as may be necessary to exercise any remedies. If the Property is determined to be of an essential nature to the Office by a court, it is not certain whether such court would permit the exercise of the remedies of repossession and re-leasing of the Property. The Trustee is not empowered to sell the Property for the benefit of the Owners.

Alternatively, the Lease provides that, following an event of default, the Trustee may terminate the Lease with respect to the Property and proceed against the Office to recover damages pursuant to the Lease. Any suit for money damages would be subject to limitations on legal remedies against county offices of education in California, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest.

The enforceability of the rights and remedies of the Owners of the Certificates, and the obligations incurred by the Office, may become subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equity principles which may limit the specific enforcement under state law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of servicing a significant and legitimate public purpose.

Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, would subject the Owners to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently entail risks of delay, limitation, or modification of their rights with respect to the Certificates. In a bankruptcy case, a plan of adjustment for the Office could be confirmed that would allow for enforcement of the Lease, but the priority, interest rate, payment terms, collateral, maturity dates, payment sources, covenants and other terms or provisions of the Lease and the Certificates may be altered by the bankruptcy court. Such a plan could be confirmed even over the objections of the Trustee and the Owners, and without their consent. In addition, if the Lease is determined to constitute a "true lease" by the bankruptcy court (rather than a financing lease providing for the extension of credit), the Office could choose not to perform under the Lease and the claim of the Owners could be substantially limited. An allowable claim could be substantially less than the amount of the Certificates outstanding, resulting in the Owners not receiving the full amount of the principal and interest due with respect to the Certificates.

### **Addition or Substitution of Property**

The Lease provides that, upon the satisfaction of certain conditions specified therein, the Office may add or substitute other public facilities or real property for all or any portion of the Property and may release a portion of the Property from the Lease. Although the Lease requires, among other things, that the Property, as constituted after such addition, substitution or release, have an annual fair rental value at least equal to the maximum Lease Payments payable by the Office in any fiscal year, it does not require that such Property have an annual fair rental value equal to the annual fair rental value of the Property at the time of addition, substitution or release. Thus, a portion of the Property could be replaced with less valuable real 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. See APPENDIX A — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — THE LEASE AGREEMENT — Substitution or Release of the Property" hereto.

### **Additional Certificates**

The Trust Agreement permits Additional Certificates secured on a parity with the Certificates to be executed and delivered upon compliance with the provisions in the Trust Agreement. In connection with the execution and delivery of any Additional Certificates, the Lease Payments due under the Lease would be increased. The Certificates and any Additional Certificates will be secured on a parity under the Trust Agreement by Lease Payments and other amounts held in the funds established thereunder. See APPENDIX A — "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS — The Trust Agreement — Additional Certificates."

## **Property Values**

The Office has estimated the value of the real property constituting the Property. (See “THE PROPERTY” herein). The estimate makes certain assumptions which could affect the estimate of property value. If any of these assumptions are proven incorrect, there could be a negative impact on value. The estimates as to values are merely the opinions of the Office as of the date the Property was last insured. The Office has not sought the opinion of any appraiser. A different opinion of such value might be rendered by an appraiser.

The fee estate will not be assigned to the Trustee but, rather, the rights of the Corporation under the Lease, which is for a limited term, will be assigned to the Trustee. See APPENDIX A – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.” Thus, the value of the real property constituting the Property and the buildings and improvements thereon are not necessarily an accurate measure of the value of the interest in the Lease assigned to the Trustee.

## **Cybersecurity**

County offices of education, like other governmental and business entities, face significant risks relating to the use and application of computer software and hardware for educational and operational and management purposes. The Office also collects, processes, and distributes an enormous amount of private, protected and personal information on students, staff, parents, visitors, and contractors. As the custodian of such information, the Office may face cybersecurity threats from time to time. Given the importance of cybersecurity for school districts, federal lawmakers approved the K-12 Cybersecurity Act of 2021 to study cybersecurity risks that school Offices face and develop recommended guidelines and an online training toolkit for school district officials to address such cybersecurity risks.

The Office is not aware of any major cybersecurity attack or breach of its systems during the last five years. To protect itself from cybersecurity attacks, the Office utilizes firewalls, multifactor authentication, antivirus and anti-malware software, and provides cybersecurity training to Office employees. In addition, the Office has an informal general technology use policy. As a result, the Office expects that any such disruptions caused by a cyberattack would be temporary in nature. The Office currently maintains a policy of cyber liability insurance. There can be no assurance that a future cyberattack or attempted cyberattack would not compromise the personal information that the Office collects, processes and stores or cause a disruption in Office operations, particularly given that students, teachers, and staff are accessing Office computer systems and platforms remotely which may increase the risks of intrusion by third parties.

## **Natural Disasters Impacting Assessed Valuation**

***Drought Conditions.*** Water shortfalls resulting from the driest conditions in recorded State history caused a State-wide drought State of Emergency for California in 2014 and the imposition by State regulators of reductions in water usage through 2017 when the State-wide drought ended in almost all California counties.

During fiscal years 2020-21, 2021-22, and 2022-23, much of the State experienced Severe or Extreme Drought, pursuant to the U.S. Drought Monitor Classification Scheme. Beginning in April, 2021, Governor Newsom signed several executive orders relating to the drought, including declaring states of emergency due to drought in the State. On January 4, 2022, State Water Board adopted emergency use regulations prohibiting certain wasteful water practices such as watering ornamental landscapes during rain and using potable water to clean hard surfaces and driveways. In June 2022, additional emergency water conservation regulations took effect limiting watering of ornamental grasses in certain locations followed by additional water use regulations in December prohibiting wasteful water use practices. On March 24, 2023, as a result of rain and snowfall in the State, Governor Newsom rolled back many of the water use restrictions in his previous drought-related executive orders but left in place certain measures aimed at wasteful water uses as well as preserving ground

water supplies. In September 2024, Governor Newsom ended the drought state of emergency in 19 counties where conditions have improved significantly, including the County.

According to the U.S. Drought Monitor, approximately 43.72% of the State is not currently experiencing any drought, approximately 51.41% of the State is experiencing abnormally dry conditions, and approximately 4.88% of the State is experiencing moderate drought. Approximately 96.17% of the County is experiencing abnormally dry conditions, and approximately 3.83% is not experiencing any drought. The Office cannot predict if water usage restrictions might be imposed again or what impact such restrictions, if imposed, might have on the assessed valuation of the Office and the local economy.

**Floods.** Periods of heavy rainfall caused by atmospheric rivers in California between December 2022 and March 2023 resulted in flooding affecting much of California. Many homes and businesses suffered property damage, suffered road closures, and lost power during the rainstorms and flooding. In January 2023, both Governor Newsom and President Biden declared a state of emergency for several California counties, including the County, due to the flooding and damage. The Office was not materially impacted by the flooding.

**Wildfires.** In recent years, certain portions of the State were affected by large-scale wildfires which destroyed both natural lands and residential and commercial properties and resulted in large-scale property value reductions in the impacted areas. The Office has not been materially impacted by recent wildfires.

**Earthquakes.** All jurisdictions in California are subject to the effects of damaging earthquakes. An earthquake along one of the faults in the vicinity, either known or unknown, could cause a number of casualties and extensive property damage. The effects of such a quake could be aggravated by aftershocks and secondary effects such as fires, landslides, dam failure, liquefaction and other threats to public health, safety and welfare. The potential direct and indirect consequences of a major earthquake can easily exceed the resources of the Office and other local public entities and would require a high level of self-help, coordination and cooperation.

The County is located in a region of very high seismicity with numerous local faults, including the San Andreas fault. The City of Santa Cruz has experienced a total of 4,239 earthquakes since 1931, with the largest earthquake within 30 miles of the City being a 6.9 magnitude, which occurred in 1989. According to the USGS database, there is an almost 99% chance of a major earthquake within 30 miles of the City of Santa Cruz within the next 50 years.

**Climate Change.** Climate change caused by human activities may have adverse effects on the property within the boundaries of the Office. Climate change can also result in more variable weather patterns throughout the State, which can lead to longer and more severe droughts and wildfires as well as increased risk of flooding and a rise in sea levels. Projections of the impacts of global climate change are complex and depend on many factors that are outside the Office's control. The various scientific studies that forecast the amount and timing of adverse impacts of climate change are based on assumptions contained in such studies, but actual events may vary materially. Also, the scientific understanding of climate change and its effects continues to evolve. Accordingly, the Office is unable to forecast with certainty when adverse impacts of climate change will occur or the extent of such impacts.

The occurrence of natural disasters within the boundaries of the Office could result in substantial damage to property within the Office (including Office properties) and, in turn, could substantially reduce assessed valuations of such property.

**Pandemic.** The outbreak of COVID-19 and the corresponding measures to prevent its spread caused widespread unemployment and economic slowdown in the United States, the State and the County. The economic slowdown created by such a pandemic may increase the risk of an economic recession or depression

or a general market decline in real estate values in the future, which in turn could lead to a reduction of assessed values in the Office.

***Change in Economic Conditions.*** The Office cannot make any representation regarding the effects that drought, flooding, changes in economic conditions (caused by pandemic, tariffs or otherwise), fire conditions, earthquakes, or other natural disasters has had, or may have on the value of taxable property within the Office, or to what extent such conditions could cause disruptions to economic activity, destroy property, reduce land values and adversely impact other economic activity within the boundaries of the Office.

The occurrence of natural disasters within the boundaries of the Office could result in substantial damage to property within the Office, including the Property, and, in turn, could substantially reduce general fund revenues. Natural disasters could also result in substantial damage to properties within the Office. As a result, natural disasters could affect the ability of the Office to make Lease Payments or cause an abatement in Lease Payments. Reduced ability to pay Lease Payments could affect the timely payment of the principal of and interest represented by the Certificates.

### **Loss of Tax Exemption**

As discussed under the heading “TAX MATTERS,” certain acts or omissions of the Office in violation of its covenants in the Trust Agreement and the Lease could result in the interest represented by the Certificates being includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Certificates. Should such an event of taxability occur, the Certificates would not be subject to mandatory prepayment and would remain Outstanding until maturity or until prepaid at the option of the Office.

## **THE CORPORATION**

The Corporation, based in West Sacramento, California, is a nonprofit public benefit corporation organized under the laws of the State of California on June 19, 1987. The Corporation was organized for the primary purpose of providing financial assistance to school districts and other public agencies in California by acquiring, constructing, improving and financing various facilities, land and equipment, and by leasing facilities, land and equipment for the use of such public agencies.

## **SANTA CRUZ COUNTY OFFICE OF EDUCATION**

### **Introduction**

The State Constitution and the State legislature together have created a three-level public education system. This system includes the California Department of Education, 58 county offices of education (including the Board and the 58 county superintendents of schools), and over 1,000 school districts. Regulations and guidelines are set at the State level, while the day-to-day delivery of services takes place in the local districts. County boards of education and county superintendents operate between these two levels by linking state education policy to local programs and needs.

The primary function of county offices of education include: assisting schools to improve services to students; supporting and supervising school districts in complying with State law; providing centralized services to districts related to budget management, data processing, curriculum and instruction, media and technology, legal services and staff development; and educating specific groups of students not served by school districts. In addition, the county offices of education fulfill State mandates to audit school budgets, register teacher credentials and certify student attendance data. The county offices of education also develop special model programs for their service region and the State and serve as a resource broker bringing together community resources to help meet the needs of schools under its jurisdiction.

The Office, a political subdivision of the State, was formally organized in 1852 and serves an area of approximately 445 square miles consisting of all of Santa Cruz County. Within its jurisdiction are ten separate school districts comprised of seven elementary school districts, one high school district and two unified school districts. The Office is the governmental body charged with establishing educational policy within the County Office and acting upon a variety of fiscal, administrative, personnel and instructional matters. The Santa Cruz County Superintendent of Schools audited financial statements for the fiscal year ended June 30, 2025, are included as APPENDIX D.

**Board of Education**

The Office is governed by a Board of Education (“Board”), which consists of seven members who are elected by trustee area to overlapping four-year terms at elections held in staggered years. If a vacancy arises during any term, the vacancy is filled by either an appointment by the majority vote of the remaining Board members or by a special election. The years in which the current terms for each member of the Board expire are set forth in the following table:

**SANTA CRUZ COUNTY OFFICE OF EDUCATION  
Board of Education**

Name	Office	Trustee Area	Term Expires December
Rachel Williams	President	5	2028
Greg Larson	Vice President	3	2028
Ed Acosta	Member	6	2028
Dr. Stacey Kyle	Member	4	2028
Sue Roth	Member	1	2026
Abel Sanchez	Member	7	2026
Bruce Van Allen	Member	2	2026

Source: *The Office*.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the Office. Additional information concerning the Office and copies of the most recent and subsequent audited financial statements of the Santa Cruz County Superintendent of Schools may be obtained by contacting: 400 Encinal Street Santa Cruz, California 95060, Attention: Manager Fiscal Services. The Office may charge a small fee for copying, mailing and handling.

**Key Personnel**

The following is a listing of the key administrative personnel of the Office and a brief biography of the Superintendent follows.

Name	Title
Dr. Faris Sabbah	Superintendent
Rebecca Olker	Interim Deputy Superintendent Business Services
Marcia Russell	Associate Superintendent of Educational Services
Michelle Kennedy	Manager Fiscal Services

***Dr. Faris Sabbah, Superintendent.*** Over the past 25 years, Dr. Faris Sabbah has served as county deputy superintendent, county assistant superintendent, university professor, director, assistant principal, teacher, and instructional aide. He obtained his bachelor's degree in psychology from University of California, Santa Cruz, his Master's degree in Educational Leadership from San Jose State University, and his Doctorate degree in Leadership for Educational Equity from University of California, Berkeley.

### **Employees and Labor Relations**

The Office employs approximately 99 full-time equivalent ("FTE") certificated academic professionals as well as approximately 182 FTE classified employees and 51 FTE management employees.

The certificated employees have assigned California Teachers Association ("CTA"), as their exclusive bargaining agent. The contract between the Office and CTA expires on June 30, 2027.

The classified employees have assigned California School Employees Association, Chapter 484 ("CSEA"), as their exclusive bargaining agent. The contract between the Office and CSEA expires on June 30, 2027.

### **Office Retirement Systems**

*The information set forth below regarding the Office's retirement programs, other than the information provided by the Office regarding its annual contributions thereto, has been obtained from publicly available sources which are believed to be reliable but are not guaranteed as to accuracy or completeness, and should not be construed as a representation by the Office.*

**STRS.** All full-time certificated employees, as well as certain classified employees, are members of the California State Teachers' Retirement System ("STRS"). STRS provides retirement, disability and survivor benefits to plan members and beneficiaries, under a defined benefit program (the "STRS Defined Benefit Program").

Benefit provisions and employer contributions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. For fiscal year 2025-26, the Office is required by such statutes to contribute 19.10% of eligible salary expenditures, while participants contributed either 10.25% or 10.205% of their respective salaries. The State also contributes to STRS, currently in an amount equal to 10.828% of teacher payroll for fiscal year 2025-26. The State's contribution reflects a base contribution of 2.017% and a supplemental contribution that will vary from year-to-year based on statutory criteria, and a contribution of 2.5% of the fiscal year covered STRS member payroll to the Supplemental Benefit Protection Account (the "SBPA"), which was established by statute to provide supplemental payments to beneficiaries whose purchasing power has fallen below 85% of the purchasing power of their initial allowance.

As part of the 2014-15 State Budget, the Governor signed Assembly Bill 1469 ("AB 1469") which implemented a new funding strategy for STRS, increasing the employer contribution rate in fiscal year 2014-15 from 8.25% to 8.88% of covered payroll. Such rate increased by 1.85% in fiscal year 2015-16, and will continue to increase annually as further described below. Teacher contributions also increased from 8.00% to a total of 10.25% of pay for employees ("Classic Members") hired before the Implementation Date (defined herein) and 10.205% for employees ("PEPRA Members") hired after the Implementation Date (defined herein), over the three year period from 2014-15 through 2017-18. The State's total contribution also increased from approximately 3% in fiscal year 2013-14 to 6.30% of payroll in fiscal year 2016-17, plus the continued payment of 2.5% of payroll annually for a supplemental inflation protection program for a total of 8.80%. Based upon the recommendation from its actuary, for fiscal year 2017-18 and each fiscal year thereafter, the STRS Teachers' Retirement Board (the "STRS Board") is required, with certain limitations, to increase or decrease the State's contribution rates to reflect the contribution required to eliminate the unfunded actuarial accrued liability attributed to benefits in effect before July 1, 1990. However, the maximum increase

or decrease in a given year is limited to 0.5% of payroll under the STRS valuation policy. Once the State has eliminated its share of the STRS’ unfunded actuarial obligation, the State contribution will be immediately reduced to the base contribution rate of 2.017% of payroll.

In addition, based upon the recommendation from its actuary, for fiscal year 2021-22 and each fiscal year thereafter the STRS Board, is required to increase or decrease the K-14 school districts’ contribution rate to reflect the contribution required to eliminate the remaining unfunded liability by June 30, 2046; provided that the rate cannot change in any fiscal year by more than 1% of creditable compensation upon which members’ contributions to the STRS Defined Benefit Program are based; and provided further that such contribution rate cannot exceed a maximum of 20.25%. The State Teachers Retirement Board would also have authority to reduce employer and State contributions if they are no longer necessary.

Pursuant to AB 1469, school districts’ employer contribution rates increased over a seven-year phase-in period beginning in fiscal year 2014-15 through fiscal year 2019-20 when employer contribution rates reached 16.15% (including certain reductions in the contribution rate for supplemental payments made by the State in fiscal years 2019-20 and 2020-21.)

**Recent Investment Returns.** In fiscal years 2023-24 and 2024-25, STRS realized net return on investments of 8.4% and 8.5% respectively, exceeding its investment rate of return assumption of 7.0% in both years. The STRS pension system is ahead of schedule in reaching full funding by 2046.

The Office contributed \$1,942,069 to STRS for fiscal year 2021-22, \$2,290,888 for fiscal year 2022-23, \$2,521,596 for fiscal year 2023-24 and \$2,726,219 for fiscal year 2024-25. Such contributions were equal to 100% of the required contributions for the respective years. The Office has projected a contribution of approximately \$1,253,684 for fiscal year 2025-26, per its Second Interim Budget Report. With the implementation of AB 1469, the Office anticipates that its contributions to STRS will increase in future fiscal years as compared to prior fiscal years. The Office, nonetheless, is unable to predict all factors or any changes in law that could affect its required contributions to STRS in future fiscal years.

**PERS.** Classified employees working four or more hours per day are members of the California Public Employees’ Retirement System (“PERS”). PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended, with the Public Employees’ Retirement Law. The Office is currently required to contribute to PERS at an actuarially determined rate, which is 26.81% of eligible salary expenditures for fiscal year 2025-26, while Classic Members contribute at a rate established by statute which is 7.00% of their respective salaries. For fiscal year 2025-26, PEPRAs Members contribute at an actuarially determined rate which is 8.00% of their respective salaries, which will remain at 8.00% for fiscal year 2026-27. See –“California Public Employees’ Pension Reform Act of 2013” below.

On April 14, 2026, the PERS Board adopted the fiscal year 2026-27 contribution rate for school districts of 26.40% and released its school employer projected contribution rates as follows:

Fiscal Year	Projected Employer Contribution Rates
2027-28	26.80%
2028-29	25.90
2029-30	25.10
2030-31	24.00
2031-32	23.80

The projected employer contribution rates will fluctuate based on actual future investment returns and other demographic changes and will be updated after the release of the fiscal year 2025-26 valuation report.

**Recent Investment Returns.** From its Basic Financial Statements issued on November 15, 2022, PERS reported a negative 7.5% net return on investments for fiscal year 2021-22, which was PERS’ first negative return on investments since fiscal year 2008-09. However, PERS Basic Financial Statements for fiscal year ended June 30, 2023 and for fiscal year ended June 30, 2024 reported investment returns of 6.1% and 9.5%, respectively. Most recently, on July 14, 2025, PERS reported a preliminary investment return of 11.6% for the fiscal year ended June 30, 2025.

The Office contributed \$2,881,752 to PERS for fiscal year 2021-22, \$3,447,466 for fiscal year 2022-23, \$4,140,998 for fiscal year 2023-24 and \$4,648,134 for fiscal year 2024-25 which amounts equaled 100% of required contributions to PERS. The Office has projected a contribution of approximately \$2,681,849 for fiscal year 2025-26, per its Second Interim Budget Report.

**State Pension Trusts.** Each of STRS and PERS issues a separate comprehensive financial report that includes financial statements and required supplemental information. Copies of such financial reports may be obtained from each of STRS and PERS as follows: (i) STRS, P.O. Box 15275, Sacramento, California 95851-0275; (ii) PERS, P.O. Box 942703, Sacramento, California 94229-2703. Moreover, each of STRS and PERS maintains a website, as follows: (i) STRS: [www.calstrs.com](http://www.calstrs.com); (ii) PERS: [www.calpers.ca.gov](http://www.calpers.ca.gov). However, the information presented in such financial reports or on such websites is not incorporated into this Official Statement by any reference.

Both STRS and PERS have substantial statewide unfunded liabilities. The amount of these unfunded liabilities will vary depending on actuarial assumptions, returns on investments, salary scales and participant contributions. The following table summarizes information regarding the actuarially-determined accrued liability for PERS as of June 30, 2024 and STRS as of June 30, 2024.

**FUNDED STATUS  
STRS (DEFINED BENEFIT PROGRAM) and PERS  
Actuarial Valuation  
(Dollar Amounts in Millions)**

Plan	Accrued Liability	Market Value of Trust Assets	Unfunded Liability
California Public Employees Retirement Fund (PERS)	\$133,978	\$ 93,187	\$(40,791)
California State Teachers’ Retirement Fund Defined Benefit Program (STRS)	380,507	321,910	(85,532)

Source: *PERS State & Schools Actuarial Valuation; STRS Defined Benefit Program Actuarial Valuation.*

Unlike PERS, STRS contribution rates for participant employers, Classic Members and the State are set by statute and do not currently vary from year-to-year based on actuarial valuations. As a result of the Reform Act (defined below), the contribution rate for STRS PEPRA Members will vary from year-to-year based on actuarial valuations. See “ – California Public Employees’ Pension Reform Act of 2013” below. In recent years, the combined employer, employee and State contributions to STRS have been less than actuarially required amounts. As a result, and due in part to investment losses, STRS continues to maintain an unfunded liability. AB 1469 is intended to address this unfunded liability. The Office can make no representations regarding the future program liabilities of STRS, or whether the Office will be required to make larger contributions to STRS in the future. The Office can also provide no assurances that the Office’s required contributions to PERS will not increase in the future.

**California Public Employees’ Pension Reform Act of 2013.** On September 12, 2012, the Governor signed into law the California Public Employee’s Pension Reform Act of 2013 (the “Reform Act”), which makes changes to both STRS and PERS, most substantially affecting new employees hired after January 1, 2013 (the “Implementation Date”). For STRS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor (the age factor is the percent of final compensation to which an employee is entitled to for each year of service) from age 60 to 62 and increasing the eligibility of the maximum age factor of 2.4% from age 63 to 65. Similarly, for non-safety PERS participants hired after the Implementation Date, the Reform Act changes the normal retirement age by increasing the eligibility for the 2% age factor from age 55 to 62 and increases the eligibility requirement for the maximum age factor of 2.5% to age 67. Among the other changes to PERS and STRS, the Reform Act also: (i) requires all new participants enrolled in PERS and STRS after the Implementation Date to contribute at least 50% of the total annual normal cost of their pension benefit each year as determined by an actuary, (ii) requires STRS and PERS to determine the final compensation amount for employees based upon the highest annual compensation earnable averaged over a consecutive 36-month period as the basis for calculating retirement benefits for new participants enrolled after the Implementation Date (currently 12 months for STRS members who retire with 25 years of service), and (iii) caps “pensionable compensation” for new participants enrolled after the Implementation Date at 100% of the federal Social Security contribution and benefit base for members participating in Social Security or 120% for members not participating in social security, while excluding previously allowed forms of compensation under the formula such as payments for unused vacation, annual leave, personal leave, sick leave, or compensatory time off.

**GASB Statement Nos. 67 and 68.** On June 25, 2012, GASB approved Statements No. 67 and No. 68 (“Statements”) with respect to pension accounting and financial reporting standards for state and local governments and pension plans. The new Statements, No. 67 and No. 68, replace GASB Statement No. 27 and most of Statements No. 25 and No. 50. The changes impact the accounting treatment of pension plans in which state and local governments participate. Major changes include: (1) the inclusion of unfunded pension liabilities on the government’s balance sheet (currently, such unfunded liabilities are typically included as notes to the government’s financial statements); (2) more components of full pension costs being shown as expenses regardless of actual contribution levels; (3) lower actuarial discount rates being required to be used for underfunded plans in certain cases for purposes of the financial statements; (4) closed amortization periods for unfunded liabilities being required to be used for certain purposes of the financial statements; and (5) the difference between expected and actual investment returns being recognized over a closed five-year smoothing period. In addition, according to GASB, Statement No. 68 means that, for pensions within the scope of such Statement, a cost-sharing employer that does not have a special funding situation is required to recognize a net pension liability, deferred outflows of resources, and deferred inflows of resources related to pensions and pension expense, based on its proportionate share of the net pension liability for benefits provided through the pension plan. The reporting requirements for pension plans took effect for the fiscal year beginning July 1, 2013 and the reporting requirements for government employers, including the Office, took effect for the fiscal year beginning July 1, 2014.

The Office’s proportionate shares of the net pension liability of PERS and STRS, as of June 30, 2025, are as shown in the following table.

<u>Pension Plan</u>	<u>Proportionate Share of Net Pension Liability</u>
PERS	\$29,293,729
STRS	<u>13,561,599</u>
Total	\$42,855,328

Source: *The Office*.

For further information about the Office’s contributions to PERS and STRS, see Note 12 in the Santa Cruz County Superintendent of Schools audited financial statements for the fiscal year ended June 30, 2025, which are included as APPENDIX D.

County office of education’s retirement contributions decrease when investment earnings rise and increase when investment earnings decline. As a result, declines in investment earnings may result in substantial increases in school district contributions. The Office cannot determine whether current financial market losses and/or volatility might impact the value of investments held by either PERS or STRS to fund retirement benefits or whether the Office’s contribution rates to PERS or STRS might increase in the future as a result of any declines in the value of investments.

**Other Post-Employment Benefits**

In June 2004, the Governmental Accounting Standards Board (“GASB”) pronounced Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. The pronouncement required public agency employers providing healthcare benefits to retirees to recognize and account for the costs for providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. In June 2015, GASB replaced Statement No. 45 with Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Employees who are eligible to receive retiree employment benefits other than pensions (“Health & Welfare Benefits”) while in retirement must meet specific criteria, *i.e.*, age and years with the Office. Health & Welfare Benefits include medical, dental and vision insurance benefits (no vision benefits for classified) to eligible retirees and their dependents (no dependent coverage for classified employees unless hired prior to July 1, 1999). One year of benefits is provided for 2 years of service but not beyond age 65 for certificated employees (if hired prior to July 1, 1999, classified employees are not limited to age 65 and management employees receive lifetime coverage). At June 30, 2023 (the valuation date), 61 retirees met these qualifications with 272 employees earning service credit towards eligibility.

The following table shows the changes in the Office’s net Health and Welfare Benefits as of June 30, 2024.

**SANTA CRUZ COUNTY OFFICE OF EDUCATION  
Health & Welfare Benefit Liability**

Balance at June 30, 2023	\$8,877,840
Service Cost	352,451
Interest	587,778
Administrative Expenses	--
Employer Contributions to Trust*	--
Benefit Payments form Trust*	(805,114)
Experience (gains)/losses	112,638
Net Change in total OPEB liability	<u>247,743</u>
Balance at June 30, 2024	\$9,125,593

\* Includes \$71,345 due to implied rate subsidy.  
Source: *The Office*.

The Office currently has an irrevocable trust for funding its OPEB liability. As of June 20, 2025, the balance of such trust was \$15,755,828.

## **Risk Management**

The Office is a member of the Santa Cruz County Schools' Health Insurance Group (SCCSHIG), Santa Cruz-San Benito County Schools' Insurance Group (SIG), and the Southern Peninsula Region Property and Liability Insurance Group (SPRIG) public entity risk pools and the North Santa Cruz County Special Education Local Plan Area joint powers authorities (JPA's). The Office pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationships between the Office, the pools, and the JPA's are such that they are not component units of the Office for financial reporting purposes.

The Office maintains insurance or self-insurance in such amounts and with such retentions and other terms providing coverage for property damage, fire and theft, general public liability and worker's compensation as are adequate, customary and comparable with such insurance maintained by similarly situated entities. In addition, based upon prior claims experience, the Office believes that the recorded liabilities for self-insured claims are adequate. See Note 11 in the Santa Cruz County Superintendent of Schools audited financial statements for fiscal year ended June 30, 2025 attached hereto in substantially final draft form as APPENDIX D. The Santa Cruz County Superintendent of Schools 2024-25 audited financial statements should be read in their entirety.

## **Charter Schools**

The State Legislature enacted the Charter Schools Act of 1992 (Education Code Sections 47600-47663) to permit teachers, parents, students, and community members to establish schools that would operate in accordance with its charter, from most state and district regulations. State education standards apply, and charter schools are required to use the same student assessment instruments. Charter schools are exempt from state and local education rules and regulations, except as specified in the legislation. Charter schools may be approved by school districts, county boards of education, and the State Board of Education ("SBE").

The Office is the chartering agency for the Pacific Collegiate Charter School. As the chartering agency, the Office has certain oversight responsibilities to ensure that the charter school is in compliance with applicable charter school laws and regulations. However, the Office is not liable for the debts or obligations of the charter school.

The Office is also the charter authorizer for Santa Cruz County Career Advancement Charter School pursuant to Education Code Section 47605. The Santa Cruz County Career Advancement Charter School is operated by the Office but is not considered a component unit of the Santa Cruz County Superintendent of Schools audited financial statements.

## **OFFICE FINANCIAL INFORMATION**

### **Office Investments**

The Santa Cruz County Treasurer-Tax Collector (the "Treasurer") manages, in accordance with California Government Code Section 53600 *et seq.*, funds deposited with the Treasurer by school and community college districts located in the County, various special districts, and some cities within the State of California. State law generally requires that all moneys of the County, school and community college districts and certain special districts located in the County be held in the County's Treasury Pool.

### **Financial Statements of the Office**

The Office's general fund finances the legally authorized activities of the Office for which restricted funds are not provided. General fund revenues are derived from such sources as State fund apportionments,

taxes, use of money and property, and aid from other governmental agencies. The Office has not requested its auditor to provide any review or update of such financial statements in connection with their inclusion in this Official Statement. Certain information from the Santa Cruz County Superintendent of Schools financial statements, which are the financial statements for the Office, follows. The Santa Cruz County Superintendent of Schools audited financial statements for the fiscal year ended June 30, 2025, are included as APPENDIX D. The audited financial statements for prior and subsequent fiscal years can be obtained by contacting the Office at 400 Encinal Street, Santa Cruz, California 95060. The Office may impose a charge for copying, mailing and handling.

The Santa Cruz County Superintendent of Schools financial statements are prepared on a modified accrual basis of accounting in accordance with generally accepted accounting principles as set forth by the Governmental Accounting Standards Board. See “OFFICE FINANCIAL INFORMATION – General Fund” for more information regarding the Office’s financial statements for recent fiscal years.

Funds used by the Office are categorized as government funds and fiduciary funds. The general fund of the Office, as shown herein, is a combined fund comprised of moneys which are unrestricted and available to finance the legally authorized activities of the Office not financed by restricted funds and moneys which are restricted to specific types of programs or purposes. General fund revenues shown thereon are derived from such sources as taxes, aid from other government agencies, charges for current services and other revenue.

The financial statements included herein were prepared by the Office using information from the Annual Financial Reports which are prepared by the Deputy Superintendent Business Services for the Office and audited by independent certified public accountants each year. The Santa Cruz County Superintendent of Schools audited financial statements for the year ended June 30, 2025 are attached as APPENDIX D.

### **Office Budgets**

The fiscal year of the Office begins on the first day of July of each year and ends on the 30th day of June of the following year. The Office adopts on or before July 1 of each year a fiscal line-item budget setting forth expenditures in priority sequence so that appropriations during the fiscal year can be adjusted if revenues do not meet projections.

The Office is required by provisions of the California Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed the revenues plus the carry-over fund balance from the previous year.

California Assembly Bill 1200 (“AB 1200”), effective January 1, 1992, tightened the budget development process and interim financial reporting for school districts, enhancing the authority of the county schools superintendents’ offices and establishing guidelines for emergency State aid apportionments. Many provisions affect the Office’s operations directly, while others create a foundation from which outside authorities (primarily state and county school officials) may impose actions on the Office. Under the provisions of AB 1200, the county superintendent of schools is required to submit two reports, including certifications, during the fiscal year to the county board of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent fiscal year. The county board of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any county office of education that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any county office of education that will be unable to meet its financial obligations for the remainder of the fiscal year or subsequent fiscal year. A qualified certification is assigned to any county office of education that may not meet its financial obligations for the current fiscal year or two subsequent fiscal years. Each certification is based on then-current projections.

Within the last five years, the Santa Cruz County Superintendent of Schools has filed positive certifications for the Office within the meaning of Section 1246(l) of the Education Code for each of its interim reports.

***County School Service Fund Budget.*** The Office's adopted budgets for fiscal years 2021-22 through 2025-26, audited actuals for fiscal years 2021-22 through 2024-25, and the Second Interim Budget Report for fiscal year 2025-26, are set forth on the following page.

[Remainder of page intentionally left blank.]

**SANTA CRUZ COUNTY OFFICE OF EDUCATION  
COUNTY SCHOOL SERVICE FUND BUDGETING**

	Adopted Budget 2021-22 <sup>1</sup>	Audited Actuals 2021-22 <sup>2</sup>	Adopted Budget 2022-23 <sup>1</sup>	Audited Actuals 2022-23 <sup>2</sup>	Adopted Budget 2023-24 <sup>1</sup>	Audited Actuals 2023-24 <sup>2</sup>	Adopted Budget 2024-25 <sup>1</sup>	Audited Actuals 2024-25	Adopted Budget 2025-26 <sup>1</sup>	Second Interim Report 2025-26 <sup>3</sup>
<b>REVENUES</b>										
LCFF Sources	\$29,513,248	\$29,633,183	\$28,928,775	\$33,241,430	\$44,755,542	\$38,240,954	\$36,980,128	\$39,725,638	\$37,357,362	\$39,577,802
Federal	6,000,167	5,022,988	7,612,195	6,012,866	7,281,151	5,347,278	1,686,475	4,568,813	6,139,449	6,408,074
Other State	9,687,099	9,788,833	9,999,286	9,292,475	6,685,414	12,866,279	3,500,000	13,226,338	18,303,007	18,220,847
Other Local	7,183,949	9,649,872	10,406,706	12,532,916	13,984,931	16,912,277	13,882,014	20,723,598	12,414,550	14,013,004
<b>Total Revenues</b>	<b>52,384,463</b>	<b>54,094,876</b>	<b>56,946,962</b>	<b>61,079,687</b>	<b>61,707,038</b>	<b>73,366,788</b>	<b>68,661,271</b>	<b>78,244,387</b>	<b>74,214,369</b>	<b>78,219,727</b>
<b>EXPENDITURES</b>										
Current										
Certificated Salaries	12,207,115	11,963,856	13,153,374	12,912,921	14,155,320	13,986,567	14,873,530	14,446,048	15,163,652	16,101,941
Classified Salaries	13,504,936	12,843,010	15,235,143	14,365,514	16,880,235	16,648,974	17,802,087	17,457,684	19,695,915	19,008,754
Employee Benefits	15,802,052	14,640,357	17,010,150	15,673,534	18,908,829	17,815,037	20,491,028	18,766,824	22,019,221	21,399,619
Books and Supplies	1,964,376	1,151,978	1,937,279	1,870,981	2,581,224	1,731,099	2,478,438	1,964,758	2,998,320	3,035,421
Services, Other										
Operating Expenses	7,354,750	6,692,180	9,583,429	7,613,615	9,911,700	8,935,859	11,728,123	11,054	15,796,389	17,286,294
Other Outgo	4,251,797	188,935	(140,883)	252,603	97,548	321,653	--	168,032	--	4,410,305
Capital outlay	219,500	829,629	485,120	286,037	250,000	324,212	260,276	622,045	222,000	705,583
Pass Through	--	--	--	--	--	--	3,500,000	--	4,000,000	--
Indirect Costs	--	--	--	--	--	--	(120,967)	--	(158,681)	(177,520)
Debt Service – Principal	380,413	380,413	392,587	392,587	405,150	57,314	--	134,635	--	--
Debt Service – Interest	244,343	244,343	232,169	232,169	--	--	--	--	--	--
<b>Total Expenditures</b>	<b>55,929,282</b>	<b>48,934,701</b>	<b>57,888,323</b>	<b>53,999,961</b>	<b>63,190,006</b>	<b>59,820,715</b>	<b>71,012,514</b>	<b>64,614,794</b>	<b>79,736,816</b>	<b>81,770,400</b>
<b>Excess (Deficiency) Of Revenues Over (Under) Expenditures</b>	<b>(3,544,819)</b>	<b>5,160,175</b>	<b>(941,361)</b>	<b>7,479,726</b>	<b>(1,482,968)</b>	<b>13,546,073</b>	<b>(2,351,243)</b>	<b>13,629,593</b>	<b>(5,522,446)</b>	<b>(3,550,673)</b>
<b>OTHER FINANCING SOURCES (USES)</b>										
Transfers in	--	--	--	360,626	--	--	--	4,410,968	--	--
Proceeds from leases				118,405	--	--	--	467,716	1,230,000	109,221
Transfers out	(19,000)	(15,000)	--	(2,279,057)	(60,850)	(8,451,196)	(1,281,540)	(1,256,031)	--	--
Other	--	(3,472,653)	(4,500,000)	(3,318,821)	(4,500,000)	(3,529,293)	--	(4,280,598)	--	--
<b>Total Other Financing         Sources/(Uses)</b>	<b>(19,000)</b>	<b>(3,487,653)</b>	<b>(4,500,000)</b>	<b>(5,118,847)</b>	<b>(4,560,850)</b>	<b>(11,980,489)</b>	<b>(1,281,540)</b>	<b>(927,945)</b>	<b>(1,230,000)</b>	<b>(109,221)</b>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources</b>	<b>(3,563,819)</b>	<b>1,672,522</b>	<b>(5,441,361)</b>	<b>2,360,879</b>	<b>(6,043,818)</b>	<b>1,565,584</b>	<b>(3,632,784)</b>	<b>12,701,648</b>	<b>(6,752,446)</b>	<b>(3,659,894)</b>
Fund Balance, July 1	\$35,527,125	\$35,527,125	\$37,199,647	\$37,199,647	\$39,560,526	\$39,560,526	\$35,117,288	\$41,126,110	\$36,566,935	\$48,746,822
Fund Balance, June 30	\$31,963,306	\$37,199,647	\$31,758,286	\$39,560,526	\$33,516,708	\$41,126,110	\$31,484,504	\$53,827,758	\$42,570,204	\$45,086,927

<sup>1</sup> From the adopted budgets of the Office for the stated fiscal year.

<sup>2</sup> From the audited financial statements of the Santa Cruz County Superintendent of Schools for the stated fiscal year.

<sup>3</sup> From the second interim report of the Office for the stated fiscal year.

Source: *The Office*.

**SANTA CRUZ COUNTY OFFICE OF EDUCATION  
COUNTY SCHOOL SERVICE FUND  
Statement of Revenues, Expenditures and Change in Fund Balances  
for Fiscal Years 2021-22 through 2024-25**

	2021-22 Audit	2022-23 Audit	2023-24 Audit	2024-25 Audit
<b>REVENUES</b>				
LCFF Sources	\$29,633,183	\$33,241,430	\$38,240,954	\$39,725,638
Federal Revenues	5,022,988	6,012,866	5,347,278	4,568,813
Other State Revenues	9,788,833	9,292,475	12,866,279	13,226,338
Other Local Revenues	<u>9,649,872</u>	<u>12,532,916</u>	<u>16,912,277</u>	<u>20,723,598</u>
<b>TOTAL REVENUES</b>	54,094,876	61,079,687	73,366,788	78,244,387
<b>EXPENDITURES</b>				
Instruction	17,403,333	18,228,552	21,017,260	21,511,724
Instruction-Related Activities				
Supervision of Instruction	7,654,032	8,378,498	10,952,239	9,780,419
Instructional Library, Media and Technology	774,963	966,702	1,144,607	1,127,629
School Site Administration	3,722,919	4,260,247	4,563,624	6,386,156
Pupil Services				
Food Services	--	--	--	98,248
All Other Pupil Services	5,172,597	5,971,917	6,474,814	7,871,368
Administration				
Data Processing	1,675,613	1,851,936	2,225,737	2,875,484
All Other Administration	6,122,734	6,667,626	6,943,387	7,373,505
Plant Services	3,407,111	3,987,793	4,644,087	5,223,313
Ancillary Services	18,631	25,713	26,436	25,108
Community Services	2,301,116	2,520,146	1,771,210	2,106,658
Facilities Acquisition and Construction	56,896	116,075	--	100,547
Debt Service – Principal	380,413	392,587	57,314	134,635
Debt Service – Interest	<u>244,343</u>	<u>232,169</u>	--	--
<b>TOTAL EXPENDITURES</b>	48,934,701	53,599,961	59,820,715	64,614,794
Excess (Deficiency) of Revenues Over Expenditures	5,160,175	7,479,726	13,546,073	13,629,593
<b>OTHER FINANCING SOURCES/USES</b>				
Transfers in	--	360,626	--	4,140,968
Proceeds from leases	--	118,405	--	467,716
Transfers out	(15,000)	(2,279,057)	(8,451,196)	(1,256,031)
Other uses	<u>(3,472,653)</u>	<u>(3,318,821)</u>	<u>(3,529,293)</u>	<u>(4,280,598)</u>
<b>NET FINANCING SOURCES (USES)</b>	(3,487,653)	(5,118,847)	(11,980,489)	(927,945)
<b>NET CHANGE IN FUND BALANCES</b>	1,672,522	2,360,879	1,565,584	12,701,648
Fund Balance at Beginning of Year	\$35,527,125	\$37,199,647	\$39,560,526	\$41,126,110
Fund Balance at End of Year	\$37,199,647	\$39,560,526	\$41,126,110	\$53,827,758

Source: *The Office.*

## State Funding of Education

**Local Control Funding Formula.** State Assembly Bill 97 (Stats. 2013, Chapter 47) (“AB 97”), enacted as part of the 2013-14 State Budget (defined below), as amended by Senate Bill 91 (“SB 91”) and other legislation since initial implementation, comprise the statutory framework of the Local Control Funding Formula (“LCFF”). The LCFF replaced the revenue limit funding system and many categorical programs. The LCFF distributes resources to schools through a guaranteed base funding grant (the “Base Grant”) per unit of average daily attendance (“ADA”). The average Base Grant per unit of ADA under the LCFF is more than the average revenue limit under the prior funding system. A Base Grant is assigned to each of four grade spans. Additional supplemental funding is made available based on the proportion of English language learners, low-income students and foster youth.

For fiscal year 2025-26, the LCFF provides to school districts, charter schools and county offices of education, a Target Base Grant for each Local Education Agency (“LEA”) equivalent to (a) \$11,323 per ADA for transitional kindergarten/kindergarten through grade 3; (b) \$10,411 per ADA for grades 4 through 6; (c) \$10,719 per ADA for grades 7 and 8; and (d) \$12,746 per ADA for grades 9 through 12. For fiscal year 2025-26, the LCFF also provides an adjusted add-on for Transitional Kindergarten (“TK”) equal to \$5,545.

Beginning in fiscal year 2013-14, and in each subsequent year, the Base Grants have been adjusted for cost-of-living increases by applying the implicit price deflator for government goods and services. With full implementation of the LCFF, the provision of a cost-of-living-adjustment (“COLA”) is now subject to appropriation for such adjustment in the annual State budget. For fiscal year 2023-24, an 8.22% COLA was included, however, the COLA for fiscal year 2024-25 was significantly lower, at 1.07%, and the COLA for fiscal year 2025-26 is 2.30%. See “– State Budget Measures – 2024-25 State Budget” and “– 2025-26 State Budget” for information regarding the COLA for fiscal year 2024-25 and for fiscal year 2025-26. The differences among Base Grants are linked to differentials in statewide average revenue limit rates by district type, and are intended to recognize the generally higher costs of education at higher grade levels.

The Base Grants for grades K-3 and 9-12 are subject to adjustments of 10.4% and 2.6%, respectively, to cover the costs of class size reduction in early grades and the provision of career technical education in high schools. Unless otherwise collectively bargained for, school districts serving students in grades K-3 must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site in order to continue receiving the adjustment to the K-3 Base Grant. Additional add-ons are also provided to school districts that received categorical block grant funding pursuant to the Targeted Instructional Improvement and Home-to-School Transportation programs during fiscal year 2012-13.

The State budget for fiscal year 2021-22 also implemented a plan to expand the LCFF to include TK to all four-year olds. This plan has been phased-in in cohorts of TK students over a four-year period, which will be complete in fiscal year 2025-26.

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The following table sets forth the historical ADA at second measurement period (“P-2 ADA”) and enrollment for fiscal years 2015-16 through 2024-25.

**SANTA CRUZ COUNTY OFFICE OF EDUCATION  
Historical ADA and Enrollment  
Fiscal Years 2015-16 through 2024-25**

Fiscal Year	P-2 ADA <sup>1</sup>	Enrollment
2015-16	874.95	834
2016-17	887.66	765
2017-18	834.15	794
2018-19	861.01	813
2019-20	1,005.29	890
2020-21	1,005.29	934
2021-22	720.56	817
2022-23	901.03	907
2023-24	860.80	857
2024-25	851.08	855

<sup>(1)</sup> The Office’s student programs can earn more than one ADA per fiscal year because they have a fixed divisor for the alternative education program. As such, there will be some fiscal years that ADA is higher than enrollment.

Source: *The Office*.

The following table sets forth the P-2 ADA, enrollment and the percentage of EL/LI enrollment for fiscal year 2024-25, as budgeted for fiscal year 2025-26 and projections for fiscal years 2026-27 and 2027-28.

**SANTA CRUZ COUNTY OFFICE OF EDUCATION  
ADA, English Language/Low Income Enrollment  
Fiscal Years 2024-25 through 2027-28**

Fiscal Year	ADA (9-12)	Total Enrollment	Unduplicated Count (as % of Total Enrollment)
2024-25	851	855	65.6
2025-26 <sup>1</sup>	896	846	67.8
2026-27 <sup>2</sup>	866	838	50.3
2027-28 <sup>2</sup>	850	829	50.2

<sup>(1)</sup> The Office’s student programs can earn more than one ADA per fiscal year because they have a fixed divisor for the alternative education program. As such, there will be some fiscal years that ADA is higher than enrollment.

<sup>(1)</sup> Budgeted.

<sup>(2)</sup> Projected.

Source: *The Office*.

The amounts shown in the table above are actual amounts and differ from ADA for funding purposes. Due to the COVID-19 pandemic and related State budget-implementing legislation, California school districts, other than certain charter school districts, were held harmless against any loss of ADA for purposes of calculating apportionment in the 2020-21 fiscal year, with ADA for purposes of calculation of state funding based on ADA for fiscal year 2019-20. Additionally, due to State-wide declining enrollment trends, additional hold harmless measures have been instituted to shelter school districts from large annual revenue losses. For fiscal year 2021-22, ADA for funding purposes was based on ADA in fiscal year 2019-20. The fiscal year 2022-23 budget for the State permitted school districts, on an on-going basis, to use the greater of the current year or prior year ADA or an average of the three prior years’ ADA to calculate LCFF funding. Due to the

declining enrollment trends, the Office calculates funded ADA based on the average of the prior three years' ADA. See "OFFICE FINANCIAL INFORMATION – State Budget Measures."

The sum of a school district's adjusted Base, Supplemental and Concentration Grants will be multiplied by such district's P-2 ADA for the current, prior year, or an average of the three prior years' ADA, whichever is greater (with certain adjustments applicable to small school districts). This funding amount, together with any applicable categorical block grant add-ons, will yield a district's total LCFF allocation. Generally, the amount of annual State apportionments received by a school district will amount to the difference between such total LCFF allocation and such district's share of applicable local property taxes. Most school districts receive a significant portion of their funding from such State apportionments. As a result, decreases in State revenues may significantly affect appropriations made by the State Legislature to school districts.

Certain school districts, known as "community-funded" districts (formerly, "basic aid" districts), have allocable local property tax collections that equal or exceed such districts' total LCFF allocation, and result in the receipt of no State apportionment aid. Community-funded school districts receive only special categorical funding, which is deemed to satisfy the "basic aid" requirement of \$120 per student per year guaranteed by Article IX, Section 6 of the State Constitution. The implication for community-funded districts is that the legislatively determined allocations to school districts, and other politically determined factors, are less significant in determining their primary funding sources. Rather, property tax growth and the local economy are the primary determinants.

Recent deportation efforts initiated by the current presidential administration pose a potential risk to school districts relying on revenue from the LCFF. LCFF districts rely heavily on student attendance and enrollment numbers, and for certain districts, Supplemental and Concentration Grant add-ons for serving a high percentage of EL and LI students, to secure funding. If undocumented students or students who have undocumented parents cease attending school or face deportation, districts may experience a decrease in funding. The Office cannot predict the potential changes to enrollment or attendance in response to the deportation efforts initiated by the presidential administration.

**Accountability.** The SBE has promulgated regulations regarding the expenditure of supplemental and concentration funding, including a requirement that school districts increase or improve services for EL/LI students in proportion to the increase in funds apportioned to such district on the basis of the number and concentration of such EL/LI students, as well as the conditions under which school districts can use supplemental or concentration funding on a school-wide or district-wide basis.

School districts are also required to adopt Local Control and Accountability Plans ("LCAPs") disclosing annual goals for all students, as well as certain numerically significant student subgroups, to be achieved in eight areas of State priority identified by the LCFF. LCAPs may also specify additional local priorities. LCAPs must specify the actions to be taken to achieve each goal, including actions to correct identified deficiencies with regard to areas of State priority. LCAPs, covering a three-year period, are required to be adopted annually. The SBE has developed and adopted a template LCAP for use by school districts.

**Support and Intervention.** The LCFF establishes a new system of support and intervention to assist school districts meet the performance expectations outlined in their respective LCAPs. School districts must adopt their LCAPs (or annual updates thereto) in tandem with their annual operating budgets, and not later than five days thereafter submit such LCAPs or updates to their respective county superintendents of schools. On or before August 15 of each year, a county superintendent may seek clarification regarding the contents of a district's LCAP (or annual update thereto), and the district is required to respond to such a request within 15 days. Within 15 days of receiving such a response, the county superintendent can submit non-binding recommendations for amending the LCAP or annual update, and such recommendations must be considered by the respective school district at a public hearing within 15 days. A district's LCAP or annual update must be approved by the county superintendent by October 8 of each year if the superintendent determines that (i) the

LCAP or annual update adheres to the State template, and (ii) the district's budgeted expenditures are sufficient to implement the actions and strategies outlined in the LCAP.

A school district is required to receive additional support if its respective LCAP or annual update thereto is not approved, if the district requests technical assistance from its respective county superintendent, or if the district does not improve student achievement across more than one State priority for one or more student subgroups. Such support can include a review of a district's strengths and weaknesses in the eight State priority areas, or the assignment of an academic expert to assist the district identify and implement programs designed to improve outcomes. Assistance may be provided by the California Collaborative for Educational Excellence, a state agency created by the LCFF and charged with assisting school districts achieve the goals set forth in their LCAPs. The SBE has developed rubrics to assess school district performance and the need for support and intervention.

The State Superintendent of Public Instruction (the "State Superintendent") is further authorized, with the approval of the SBE, to intervene in the management of persistently underperforming school districts. The State Superintendent may intervene directly or assign an academic trustee to act on his or her behalf. In so doing, the State Superintendent is authorized to (i) modify a district's LCAP, (ii) impose budget revisions designed to improve student outcomes, and (iii) stay or rescind actions of the local governing board that would prevent such district from improving student outcomes; provided, however, that the State Superintendent is not authorized to rescind an action required by a local collective bargaining agreement.

In the last five years, the Office has adopted its annual LCAP in compliance with the LCFF.

## **Revenue Sources**

The Office categorizes its general fund revenues into four sources: LCFF revenues, federal revenues, other state revenues and other local revenues. Each of these revenue sources is briefly described below.

***LCFF Sources.*** State funding under the LCFF consists of Base Grants and supplemental grants as described above. This category also includes local property taxes. See "– State Funding of Education – Local Control Funding Formula" above.

***Federal Revenues.*** The federal government provides funding for several programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as Every Child Succeeds.

On January 20, 2025, President Trump issued a series of executive orders, which include ensuring that federal funds are used in a manner approved by the current administration. In response to and in an effort to carry out such orders, on January 27, 2025, the White House Office of Management and Budget ("OMB") released its memorandum M-25-13, Temporary Pause of Agency Grant, Loan, and Other Financial Assistance Programs (the "OMB Memorandum"). The OMB Memorandum directed federal agencies to temporarily pause all activities related to obligation or disbursement of all federal financial assistance in order to review spending for consistency with the Trump Administration's policies, stating that the temporary pause was to become effective at 5:00 p.m. on January 28, 2025. The OMB Memorandum caused uncertainty as to whether certain Federal funding and grants would be paused.

Before the OMB Memorandum became effective, two separate lawsuits were filed in federal district courts in Rhode Island and the District of Columbia challenging the OMB Memorandum and seeking injunctions. On January 28, 2025, shortly before the OMB Memorandum became effective, a District of Columbia federal judge issued an emergency administrative stay through February 3, 2025, at which time a preliminary injunction hearing was set. On January 29, 2025, OMB rescinded the OMB Memorandum. Although the OMB Memorandum was rescinded, the executive orders are in effect and the matter is ongoing as spending reviews are ongoing. On January 31, 2025, a Rhode Island federal judge issued a temporary

restraining order on the pause. On February 3, 2025, the District of Columbia federal judge issued a temporary restraining order as well. On February 10, 2025, the Rhode Island federal judge granted a motion for a preliminary injunction and issued an Enforcement Order clarifying the scope of the temporary restraining order and ordering the Trump Administration to release federal funds and comply with the earlier order. The Trump Administration appealed the temporary restraining order to the U.S. Court of Appeals for the First Circuit. The Trump Administration’s request to stay the temporary restraining order pending appeal was denied. The U.S. Department of Education released a letter, dated February 14, 2025, notifying schools and colleges to eliminate diversity, equity, and inclusion programs and initiatives by the end of the month or risk losing federal funding.

On March 20, 2025, President Trump issued an executive order aimed at closing the United States Department of Education (“USDOE”) and directing the United States Secretary of Education to take steps to facilitate the closure. On May 22, 2025, a Massachusetts federal judge issued an injunction to block President Trump’s executive order to close the USDOE, stating that such closure action would take an act of Congress.

The Office cannot predict any action to be taken in carrying out the executive orders nor its effect on the Office’s federal funding or operations of the Office.

**Other State Revenues.** The Office receives some other State revenues. These other State revenues are primarily restricted revenues funding items such as the Special Education Master Plan, Economic Impact Aid, School Improvement Program, instructional materials, and various block grants.

The Office receives State aid from the California State Lottery (the “Lottery”), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Moreover, State Proposition 20 approved in March 2000 requires that 50% of the increase in Lottery revenues over 1997-98 levels must be restricted to use on instructional material.

**Other Local Revenues.** In addition to property taxes, the Office receives additional local revenues from items such as interest earnings, interagency services and other local sources.

The percentage of total general fund revenue for each source of revenue is shown in the following table for fiscal years 2021-22 through 2025-26.

**SANTA CRUZ COUNTY OFFICE OF EDUCATION**  
**Percentage of Revenue by Source<sup>(1)</sup>**  
**Fiscal Years 2021-22 through 2025-26**

Revenue Source	2021-22	2022-23	2023-24	2024-25	2025-26 <sup>(2)</sup>
LCFF sources	54.78%	54.42%	55.12%	50.77%	50.59%
Federal revenues	9.29	9.84	7.29	5.84	8.19
Other State revenues	17.89	15.21	17.54	16.90	23.29
Other local revenues	17.84	20.52	23.05	26.49	17.19

<sup>(1)</sup> Percentages may not total to 100% due to rounding.

<sup>(2)</sup> Budgeted per Second Interim Results.

Source: *The Office*.

## Long-Term Debt

A schedule of the Office’s changes in long-term debt for the year ended June 30, 2025 is shown below:

	Balance July 1, 2024	Increases	Decreases	Balance June 30, 2025	Balance Due In One Year
Certificates of participation	\$6,612,042	\$ --	\$(6,612,042)	\$ --	\$ --
Other leases	56,113	467,716	(134,635)	389,194	198,966
Compensated absences	<u>3,495,634</u>	<u>667,407</u>	<u>--</u>	<u>4,163,041</u>	<u>997,185</u>
Total	\$10,163,789	\$1,135,123	\$(6,746,677)	\$4,552,235	\$1,196,151

Source: *The Office*.

**Leases.** The Office has entered into various leases for real property in order to conduct its operations, including its educational programs. The aggregate rent payable under these leases in fiscal year 2024-25 was \$1,479,524.18.

## PROPERTY WITHIN SANTA CRUZ COUNTY

*The information provided in the tables below has been provided by California Municipal Statistics, Inc., an independent consulting firm. The Office has not independently verified this information and does not guarantee its accuracy.*

The information in this section describes property taxation, assessed valuation, and other measures of the tax base of the County. Though the Certificates are not payable directly from property taxes, a large portion of the Office’s funding under the LCFF is derived from property taxes.

### Assessed Valuations

The assessed valuation of property in the County is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization. Assessed valuations are reported at 100% of the full value of the property, as defined in Article XIII A of the California Constitution. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING OFFICE REVENUES” herein.

A State-reimbursed exemption currently provides a credit of \$7,000 of the full value of an owner-occupied dwelling for which application has been made to the County Assessor. The revenue estimated to be lost to local taxing agencies due to the exemption is reimbursed from State sources. Reimbursement is based upon total taxes due upon such exempt value and is not reduced by any amount for estimated or actual delinquencies.

In addition, certain classes of property such as churches, colleges, not-for-profit hospitals and charitable institutions are exempt from property taxation and do not appear on the tax rolls. No reimbursement is made by the State for such exemptions.

The following table presents assessed valuation in the Office since fiscal year 2016-17. The Office's total assessed valuation was \$65,450,155,566 for fiscal year 2025-26.

**SANTA CRUZ COUNTY OFFICE OF EDUCATION**  
**Summary of Assessed Valuations**  
**Fiscal Years 2016-17 Through 2025-26**

Fiscal Year	Local Secured	Utility	Unsecured	Total	Annual % Change
2016-17	\$39,916,482,927	\$279,315	\$876,809,414	\$41,172,861,771	--
2017-18	42,203,691,282	279,315	936,889,955	43,545,393,546	5.76%
2018-19	44,837,788,872	385,847	982,249,609	46,247,671,201	6.20
2019-20	47,193,049,716	385,847	1,021,495,990	48,641,510,323	5.17
2020-21	49,411,043,810	385,847	1,032,834,114	50,886,605,124	4.62
2021-22	51,167,425,927	385,847	1,035,947,483	52,712,627,678	3.59
2022-23	54,370,817,774	447,296	1,138,887,635	56,041,480,482	6.32
2023-24	57,230,988,479	447,296	1,291,488,388	59,098,472,757	5.45
2024-25	59,748,094,301	447,296	1,352,066,075	61,739,759,826	4.47
2025-26	63,374,106,864	260,296	1,360,822,292	65,450,155,566	6.01

Source: *California Municipal Statistics, Inc.*

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## Assessed Valuation by Land Use

The table below sets forth the assessed valuation of the taxable property within the County by land use for fiscal year 2025-26.

### SANTA CRUZ COUNTY OFFICE OF EDUCATION 2025-26 Assessed Valuation and Parcels by Land Use

	2025-26 <u>Assessed Valuation</u> <sup>(1)</sup>	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
<b>Non-Residential:</b>				
Agricultural/Rural/Forest	\$1,780,631,904	2.81%	6,650	6.66%
Commercial/Office	4,139,955,802	6.53	2,797	2.80
Vacant Commercial	310,606,131	0.49	364	0.36
Industrial	1,350,518,510	2.13	624	0.62
Vacant Industrial	44,292,404	0.07	85	0.09
Recreational	270,885,541	0.43	231	0.23
Government/Social/Institutional	256,695,721	0.41	2,739	2.74
Miscellaneous	<u>11,634,019</u>	<u>0.02</u>	<u>1,775</u>	<u>1.78</u>
Subtotal Non-Residential	\$8,165,220,032	12.88%	15,265	15.28%
<b>Residential:</b>				
Single Family Residence	\$43,203,324,212	68.17%	58,375	58.43%
Condominium/Townhouse	5,557,426,199	8.77	9,900	9.91
Mobile Home	525,763,315	0.83	3,613	3.62
Mobile Home Park	427,309,325	0.67	160	0.16
Hotel/Motel	696,670,609	1.10	187	0.19
2-4 Residential Units	2,630,374,590	4.15	3,673	3.68
5+ Residential Units/Apartments	1,824,671,837	2.88	741	0.74
Vacant Residential	<u>343,346,745</u>	<u>0.54</u>	<u>7,993</u>	<u>8.00</u>
Subtotal Residential	\$55,208,886,832	87.12%	84,642	84.72%
<b>Total</b>	<b>\$63,374,106,864</b>	<b>100.00%</b>	<b>99,907</b>	<b>100.00%</b>

<sup>(1)</sup> Local secured assessed valuation, excluding tax-exempt property.  
Source: *California Municipal Statistics, Inc.*

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## Largest Taxpayers

The table below sets forth the largest local secured taxpayers within the County in fiscal year 2025-26. Each taxpayer listed below is a name listed on the tax rolls. The Office cannot make any representation as to whether individual persons, corporations or other organizations are liable for tax payments with respect to multiple properties held in various names that in aggregate may be larger than is suggested by the table below.

### SANTA CRUZ COUNTY OFFICE OF EDUCATION 2025-26 Largest Total Secured Taxpayers

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2025-26 Assessed Valuation</u>	<u>% of Total<sup>(1)</sup></u>
1.	Santa Cruz Seaside Co.	Beach Concessions	\$ 127,295,457	0.20%
2.	Regency Hilltop LLC	Apartments	124,957,242	0.20
3.	MGP XI Capitola LLC	Shopping Center	124,248,877	0.20
4.	Anton Santa Cruz LLC	Apartments	77,496,227	0.12
5.	LHO Santa Cruz Hotel One LP	Hotel	67,141,301	0.11
6.	Rancho Del Mar Center LLC	Shopping Center	63,941,411	0.10
7.	1440 DevCo LLC	Conference Facility	59,102,543	0.09
8.	Cypress Point RE Investors LLC	Apartments	54,049,257	0.09
9.	Five55 Santa Cruz LLC	Apartments	53,580,600	0.08
10.	Pot Belly Beach Club	Recreational	52,747,688	0.08
11.	222 Columbia Street SC LLC	Apartments	48,059,987	0.08
12.	111 Jennings Drive LLC	Industrial	47,482,459	0.07
13.	La Bahia PropCo LLC	Hotel	46,934,685	0.07
14.	Safeway Inc.	Supermarkets	45,692,638	0.07
15.	Reliant - Seaside LP	Apartments	45,000,000	0.07
16.	TKG-StorageMart Partners Portfolio III	Public Storage	44,492,227	0.07
17.	Santa Cruz Shaffer Road Investors	Apartments	43,313,688	0.07
18.	BHOV Santa Cruz LLC	Hotel	42,112,480	0.07
19.	Golden Star MHP LP	Apartments	39,183,706	0.06
20.	Villa Santa Cruz Cooperative Inc.	Mobile Home Park	<u>38,291,353</u>	<u>0.06</u>
			\$1,245,123,826	1.96%

<sup>(1)</sup> 2025-26 local secured assessed valuation: \$63,374,106,864.  
Source: *California Municipal Statistics, Inc.*

The top 20 taxpayers on the secured roll for 2025-26 account for 1.96% of the secured assessed value in the County which is \$63,374,106,864. According to California Municipal Statistics, Inc., the largest secured taxpayer in the County for fiscal year 2025-26 was Santa Cruz Seaside Co. accounting for 0.20% of the total secured assessed value in the County. No other secured taxpayer accounted for more than 0.20% of the total secured assessed value in the County. The more property (by assessed value) owned by a single taxpayer, the more tax collections are exposed to weakness, if any, in such taxpayer's financial situation and ability or willingness to pay property taxes in a timely manner.

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## Tax Rates

The following table sets forth typical tax rates levied in Tax Rate Area 1-032 by the County within the Office for fiscal years 2021-22 through 2025-26:

### SANTA CRUZ COUNTY OFFICE OF EDUCATION Typical Tax Rate per \$100 Assessed Valuation (TRA 1-032)<sup>(1)</sup>

	<u>2021-22</u>	<u>2022-23</u>	<u>2023-24</u>	<u>2024-25</u>	<u>2025-26</u>
General Tax Rate	\$1.000000	\$1.000000	\$1.000000	\$1.000000	\$1.000000
City of Santa Cruz	0.004394	0.004187	0.004018	0.003806	0.003567
Santa Cruz City Elementary School District	0.037303	0.038891	0.036005	0.033638	0.060672
Santa Cruz City High School District	0.037056	0.037674	0.031551	0.035344	0.056826
Cabrillo Community College District	<u>0.023703</u>	<u>0.024048</u>	<u>0.024343</u>	<u>0.015332</u>	<u>0.018997</u>
Total Tax Rate	\$1.102456	\$1.104800	\$1.095917	\$1.088120	\$1.140062

<sup>(1)</sup> 2025-26 assessed valuation of TRA 1-032 is \$10,242,416,348 which is 15.82% of the Office's total assessed valuation.  
Source: *California Municipal Statistics, Inc.*

## The Teeter Plan

The Board of Supervisors of the County has approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan for the County, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the Office, for which the County acts as the tax-levying or tax-collecting agency.

The Teeter Plan for the County is applicable to all tax levies for which the County acts as the tax-levying or tax-collecting agency, or for which the County Treasury is the legal depository of tax collections.

Under the Teeter Plan, the Office will receive 100% of its *ad valorem* property tax levied on the secured roll with respect to the Certificates irrespective of actual delinquencies in the collection of property taxes by the County.

The Teeter Plan of the County is to remain in effect unless the Board of Supervisors of the County orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences on July 1), the Board of Supervisors of the County receives a petition for its discontinuance joined in by a resolution adopted by at least two-thirds of the participating revenue districts in the County. In the event the Board of Supervisors of the County orders discontinuance of its Teeter Plan, only those secured property taxes actually collected would be allocated to political subdivisions (including the Office) for which the County acts as the tax-levying or tax-collecting agency. In addition, if the delinquency rate for all *ad valorem* property taxes levied within the Office exceeds 3%, the Board of Supervisors can terminate the Teeter Plan with respect to the Office. In the event that the Teeter Plan were terminated with regard to the secured tax roll, the amount of the levy of *ad valorem* property taxes would depend upon the collection of *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within the Office.

The Office is not aware of any petitions for the discontinuance of the Teeter Plan now pending in the County. There can be no assurance that the County will always maintain the Teeter Plan or will have sufficient funds available to distribute the full amount of the Office's share of property tax collections to the Office. The ability of the County to maintain the Teeter Plan may depend on its financial resources and may be affected by future property tax delinquencies. Property tax delinquencies may be impacted by economic and other factors beyond the Office's or the County's control, including the ability or willingness of property owners to pay property taxes during an economic recession or depression. An economic recession or

depression could be caused by many factors outside the control of the Office, including high interest rates, reduced consumer confidence, reduced real wages or reduced economic activity as a result of pandemics or natural or manmade disaster.

### **Direct and Overlapping Debt**

Numerous local agencies that provide public services overlap the Office's service area. These local agencies have outstanding debt in the form of general obligation, lease revenue and special assessment bonds. The following table shows the Office's estimated direct and overlapping bonded debt. The statement excludes self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations. The Office has not reviewed this table and there can be no assurance as to the accuracy of the information contained in the table; inquiries concerning the scope and methodology of procedures carried out to compile the information presented should be directed to California Municipal Statistics, Inc.

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The following table is a statement of the Office's direct and estimated overlapping bonded debt as of February 1, 2026:

### Direct and Overlapping Bonded Indebtedness

2025-26 Assessed Valuation: \$65,450,155,566

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 2/1/26</u>
Cabrillo Community College District General Obligation Bonds	96.395%	\$ 75,596,054
West Valley-Mission Community College District General Obligation Bonds	0.873	5,252,274
Aromas-San Juan Joint Unified School District General Obligation Bonds	1.333	744,175
Pajaro Valley Joint Unified School District General Obligation Bonds	94.043	212,827,447
San Lorenzo Unified School District General Obligation Bonds	100.000	79,966,818
Scotts Valley Unified School District General Obligation Bonds	100.000	52,775,000
Los Gatos-Saratoga Union High School District General Obligation Bonds	4.93	3,451,247
Santa Cruz High School District General Obligation Bonds	100.000	218,405,000
Bonny Dune Union School District	100.000	3,500,000
Live Oak School District General Obligation Bonds	100.000	19,078,000
Loma Prieta Joint Union School District General Obligation Bonds	78.704	7,802,076
Mountain School District General Obligation Bonds	100.000	2,220,000
Pacific School District General Obligation Bonds	100.000	2,670,455
Santa Cruz School District General Obligation Bonds	100.000	99,450,000
Soquel Union School District General Obligation Bonds	100.000	60,344,000
City of Santa Cruz General Obligation Bonds	100.000	2,205,000
Pajaro Valley Healthcare District General Obligation Bonds	100.000	53,350,000
Santa Cruz Libraries Facilities Community Facilities District No. 2016-1	100.000	52,330,000
City of Scotts Valley Community Facilities District No. 97-1	100.000	1,025,000
Santa Cruz County Community Facilities District No. 1	100.000	5,100,000
Santa Cruz County Assessment District No. 15-1	100.000	635,000
Santa Cruz County Reassessment District No. 2021-1	100.000	980,000
Santa Cruz County Community Services District No. 2 Assessment District No. 21-01	100.000	2,370,000
Pajaro Dunes Geo Hazard Abatement Assessment District	100.000	610,000
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$962,687,546</b>
<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>		
Santa Cruz County General Fund Obligations	100.000%	\$182,995,370
Santa Cruz County Pension Obligation Bonds	100.000	103,085,000
<b>Santa Cruz County Office of Education Certificates of Participation</b>	<b>100.000</b>	<b>0<sup>(1)</sup></b>
West Valley-Mission Community College District Certificates of Participation	0.873	22,000
Aromas-San Juan Joint Unified School District General Fund Obligations	1.333	37,502
Pajaro Valley Joint Unified School District Certificates of Participation	94.043	9,112,767
Scotts Valley Unified School District Certificates of Participation	100.000	2,215,000
Santa Cruz High School District Certificates of Participation	100.000	386,064
Live Oak School District Certificates of Participation	100.000	10,473,973
Soquel Union School District Certificates of Participation	100.000	3,740,602
City of Capitola Certificates of Participation	100.000	867,994
City of Santa Cruz Certificates of Participation	100.000	10,495,178
City of Scotts Valley Certificates of Participation	100.000	5,790,000
City of Watsonville General Fund Obligations	100.000	12,106,823
<b>TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT</b>		<b>\$341,328,273</b>
<u>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies):</u>		\$137,410,000
<b>COMBINED TOTAL DEBT</b>		<b>\$1,441,425,819<sup>(2)</sup></b>
<u>Ratios to 2025-26 Assessed Valuation:</u>		
Total Overlapping Tax and Assessment Debt.....	1.47%	
<b>Combined Direct Debt (\$0).....</b>	<b>0.00%</b>	
Combined Total Debt.....	2.20%	
<u>Ratio to Redevelopment Incremental Valuation (\$14,158,319,967):</u>		
Overlapping Tax Increment Debt.....	0.97%	

<sup>(1)</sup> Excludes Certificates to be sold.

<sup>(2)</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Source: California Municipal Statistics, Inc.

## SANTA CRUZ COUNTY POOLED INVESTMENT FUND

The following information concerning the Santa Cruz County Pooled Investment Fund has been provided by the Treasurer and has not been confirmed or verified by the Office. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

Under California law, the Office is required to pay all monies received from any source into the Santa Cruz County Treasury to be held on behalf of the Office. The Treasurer has authority to implement and oversee the investment of funds on deposit in commingled funds of the Treasury.

Decisions on the investment of funds in the Pooled Investment Fund are made by the Treasurer and his deputies 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 of California, and a more restrictive Investment Policy proposed by the Treasurer and adopted by the County Board of Supervisors on an annual basis. The Investment Policy is reviewed and approved annually by the County Board of Supervisors. The Treasurer's compliance with the Investment Policy is also audited annually by an independent certified public accountant. See APPENDIX E hereto for the Santa Cruz County Investment Policy Statement.

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**SANTA CRUZ COUNTY POOLED INVESTMENT FUND SUMMARY AS OF DECEMBER 31, 2025**

<u>Investments</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Book Value</u>	<u>% of Portfolio</u>	<u>YTM 360 Equiv.</u>	<u>YTM 365 Equiv.</u>	<u>Days to Maturity</u>	<u>Term</u>
US Treasury Notes/Bonds	\$ 680,000,000.00	\$ 675,551,336.85	\$ 672,703,958.52	39.96%	3.860	3.914	517	784
Federal Agency Issues – Coupon	140,000,000.00	139,898,400.00	140,000,000.00	8.32	3.811	3.864	852	1,271
Medium Term Notes	150,000,000.00	150,034,270.00	149,650,853.82	8.89	4.317	4.377	724	1,190
Negotiable CDs	220,000,000.00	220,197,380.00	220,000,000.00	13.07	4.073	4.129	155	258
Municipal Bonds	41,750,000.00	40,568,919.78	40,398,250.32	2.40	3.235	3.280	515	1,610
Local Agency Investment Fund (LAIF)	75,000,000.00	75,000,000.00	75,000,000.00	4.46	3.985	4.040	1	1
Treasury Discounts - Amortizing	65,000,000.00	64,240,750.00	64,237,985.83	3.82	3.703	3.754	124	234
Supranationals	70,000,000.00	70,509,965.00	70,000,000.00	4.16	4.507	4.569	1,247	1,819
Money Market Mutual Funds 02	<u>251,373,313.98</u>	<u>251,373,313.98</u>	<u>251,373,313.98</u>	<u>14.93</u>	<u>3.729</u>	<u>3.781</u>	<u>1</u>	<u>1</u>
<b>Total Investments</b>	\$1,693,123,313.98	\$1,687,374,335.61	\$1,683,364,362.47	100.00%	3.916	3.971	431	982
	<u>December 31 Month Ending</u>	<u>Fiscal Year To Date</u>						
<b>Total Earnings</b>								
Current Year	\$5,478,817.75	\$29,686,262.12						
<b>Average Daily Balance</b>	\$1,630,298,038.60	\$1,440,079,245.23						
<b>Effective Rate of Return</b>	3.96	4.09%						

Source: *The County*.

The Office has not made an independent investigation of the investments in the Pooled Investment Fund and has made no assessment of the current County Investment Policy. The value of the various investments in the Pooled Investment Fund will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Additionally, the County Treasurer, after a review by the Committee and approval by the Board may change the County Investment Policy at any time. Therefore, there can be no assurance that the values of the various investments in the Pooled Investment Fund will not vary significantly from the values described therein.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING OFFICE REVENUES**

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

Article XIII A of the State Constitution (“Article XIII A”) limits the amount of *ad valorem* taxes on real property to 1% of “full cash value” as determined by the County assessor. Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the 1975-76 bill under ‘full cash value,’ or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment,” subject to exemptions in certain circumstances of property transfer or reconstruction. Determined in this manner, the full cash value is also referred to as the “base year value.” The “full cash value” is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIII A has been amended to allow for temporary reductions of assessed value in instances where the fair market value of real property falls below the base year value. Proposition 8—approved by the voters in November of 1978—provides for the enrollment of the lesser of the base year value or the market value of real property, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a similar decline. In these instances, the market value is required to be reviewed annually until the market value exceeds the base year value. Reductions in assessed value could result in a corresponding increase in the annual tax rate levied by the County to pay debt service on outstanding general obligation bonds of the Office.

Article XIII A requires a vote of two-thirds of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. Article XIII A exempts from the 1% tax limitation any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, or (b) as the result of an amendment approved by State voters on June 3, 1986, on any bonded indebtedness approved by two-thirds or more of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (c) on bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the votes cast on the proposition, but only if certain accountability measures are included in the proposition. In addition, Article XIII A requires the approval of two-thirds or more of all members of the State Legislature to change any State taxes for the purpose of increasing tax revenues.

***Property Tax Base Transfer Constitutional Amendment.*** On November 3, 2020, voters in the State approved a constitutional amendment entitled Property Tax Transfers, Exemptions and Revenue for Wildfire Agencies and Counties Amendment. Proposition 19: (i) expands special rules that give property tax savings to homeowners that are over the age of 55, severely disabled, or whose property has been impacted by a natural disaster or contamination, when they buy a different home; (ii) narrows existing special rules for inherited properties; and (iii) broadens the scope of legal entity ownership changes that trigger reassessment of properties. The Office cannot make any assurance as to what effect the implementation of Proposition 19 will have on assessed valuation of real property in the Office.

## **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.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment not to exceed 2% 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.

Beginning in fiscal year 1981-82, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 of assessed value. All taxable property is now shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Both the United States Supreme Court and the California State Supreme Court have upheld the general validity of Article XIII A.

## **Unitary Property**

Some amount of property tax revenue of the Office is derived from utility property which is considered part of a utility system with components located in many taxing jurisdictions (“unitary property”). Under the State Constitution, such property is assessed by the State Board of Equalization as part of a “going concern” rather than as individual pieces of real or personal property. State-assessed unitary and certain other property is allocated to the County by SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the Office) according to statutory formulae generally based on the distribution of taxes in the prior year.

The California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The Office is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State’s methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the Office. Because the Office is not a community-funded district, taxes lost through any reduction in assessed valuation will be compensated by the State as equalization aid under the State’s school financing formula. See “OFFICE FINANCIAL INFORMATION – State Funding of Education” herein.

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

Article XIII B of the State Constitution (“Article XIII B”), as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. As amended, Article XIII B defines

(a) “change in the cost of living” with respect to school districts to mean the percentage change in California per capita income from the preceding year, and

(b) “change in population” with respect to a school district to mean the percentage change in the average daily attendance of the school district from the preceding fiscal year.

For fiscal years beginning on or after July 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986-87 fiscal year adjusted for the changes made from that fiscal year pursuant to the provisions of Article XIII B, as amended.

The appropriations of an entity of local government subject to Article XIII B limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain state subventions to that entity. “Proceeds of taxes” include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues.

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for certain debt service, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the Legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIII B includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years. However, if a school district’s revenues exceed its spending limit, such school district may in any fiscal year increase its appropriations limit to equal its spending by borrowing appropriations limit from the State.

Article XIII B also includes a requirement that 50% of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution. See “–Proposition 98” and “–Proposition 111” below.

### **Article XIII C and Article XIII D of the California Constitution**

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the “Right to Vote on Taxes Act.” Proposition 218 added to the California Constitution Articles XIII C and XIII D (respectively, “Article XIII C” and “Article XIII D”), which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the “Title and Summary” of Proposition 218 prepared by the California Attorney General, Proposition 218 limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Among other things, Article XIII C establishes that every tax is either a “general tax” (imposed for general governmental purposes) or a “special tax” (imposed for specific purposes), prohibits special purpose government agencies such as school districts and community college districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIII C further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-

thirds vote under Article XIII A, Section 4. Article XIII D deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIII C or XIII D will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The Office does not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic 1% *ad valorem* property tax levied and collected by the County pursuant to Article XIII A of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the Office, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the Office thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the Office.

### **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor’s burdens on, or benefits received from, the governmental activity.

### **Proposition 98**

On November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the “Classroom Instructional Improvement and Accountability Act” (the “Accountability Act”). Certain provisions of the Accountability Act have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changes State funding of public education below the university level and the operation of the State’s appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as “K-14 school districts”) at a level equal to the greater of (a) the same percentage of the State general fund revenues as the percentage appropriated to such districts in 1986-87, or (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period.

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit for the next year would automatically be increased by the amount of such transfer. These additional

moneys would enter the base funding calculation for K-14 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which could be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the Governor's Budget.

### **Proposition 111**

On June 5, 1990, the voters of California approved the Traffic Congestion Relief and Spending Limitation Act of 1990 ("Proposition 111"), which modified the State Constitution to alter the Article XIII B spending limit and the education funding provisions of Proposition 98. Proposition 111 took effect on July 1, 1990.

The most significant provisions of Proposition 111 are summarized as follows:

a. Annual Adjustments to Spending Limit. The annual adjustments to the Article XIII B spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.

b. Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIII B are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess is to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.

c. Exclusions from Spending Limit. Two exceptions were added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, there are excluded all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, there are excluded any increases in gasoline taxes above 1990 levels (then nine cents per gallon), sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

d. Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, is to be recalculated beginning in fiscal year 1990-91. It is based on the actual limit for fiscal year 1986-87, adjusted forward to 1990-91 as if Proposition 111 had been in effect.

e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured

as in Article XIII B by reference to per capita personal income) and enrollment (the “second test”). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an additional small adjustment factor. If the third test is used in any year, the difference between the third test and the second test will become a “credit” to schools which will be paid in future years when State general fund revenue growth exceeds personal income growth.

### **Proposition 39**

On November 7, 2000, California voters approved an amendment (commonly known as Proposition 39) to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendment may be changed only with another Statewide vote of the people. The statutory provisions could be changed by a majority vote of both houses of the Legislature and approval by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition are K-12 school districts, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property, and property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to buy or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement applies only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 placed certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate per \$100,000 of taxable property value projected to be levied as the result of any single election be no more than \$60 (for a unified school district), \$30 (for a high school or elementary school district), or \$25 (for a community college district), when assessed valuation is projected to increase in accordance with Article XIII A of the Constitution. These requirements are not part of Proposition 39 and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

### **Jarvis v. Connell**

On May 29, 2002, the California Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State of California (the “Controller”). The Court of Appeal held that either a final budget bill, an emergency appropriation, a self-executing authorization pursuant to state statutes (such as continuing appropriations) or the California Constitution or a federal mandate is necessary for the Controller to disburse funds. The foregoing requirement could apply to amounts budgeted by the Office as being received from the State. To the extent the holding in such case would apply to State payments reflected in the Office’s budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of such payments to the Office if such required legislative action is delayed, unless the payments are self-executing authorizations or are subject to a federal mandate. On May 1, 2003, the California Supreme Court upheld the holding of the Court of Appeal, stating that the Controller is not authorized under State law to disburse funds prior to the enactment of a budget or other proper appropriation, but under federal law, the Controller is required, notwithstanding a budget

impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

### **Proposition 1A and Proposition 22**

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies and eliminates the State's authority to shift property taxes temporarily during a severe financial hardship of the State. In addition, Proposition 22 restricts the State's authority to use State fuel tax revenues to pay debt service on state transportation bonds, to borrow or change the distribution of state fuel tax revenues, and to use vehicle license fee revenues to reimburse local governments for state mandated costs. Proposition 22 impacts resources in the State's general fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to an analysis of Proposition 22 submitted by the Legislative Analyst's Office (the "LAO") on July 15, 2010, the expected reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 was expected to be approximately \$1 billion in fiscal year 2010-11, with an estimated immediate fiscal effect equal to approximately 1% of the State's total general fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's general fund costs by approximately \$1 billion annually for several decades.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all redevelopment agencies in California were dissolved as of February 1, 2012, and all net tax increment revenues, after payment of redevelopment bonds debt service and administrative costs, will be distributed to cities, counties, special districts and school districts. The Court also found that ABx1 27, a companion bill to ABx1 26, violated the California Constitution, as amended by Proposition 22. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling \$1.7 billion statewide. ABx1 26 was modified by Assembly Bill No. 1484 (Chapter 26, Statutes of 2011-12), which, together with ABx1 26, is referred to herein as the "Dissolution Act." The Dissolution Act provides that all rights, powers, duties and obligations of a redevelopment agency that have not been repealed, restricted or revised pursuant to ABx1 26 will be vested in a successor agency, generally the county or city that authorized the creation of the redevelopment agency (each, a "Successor Agency"). All property tax revenues that would have been allocated to such redevelopment agency will be allocated to the Successor Agency, to be used for the payment of pass-through payments to local taxing entities and to any other "enforceable obligations" (as defined in the Dissolution Act), as well to pay certain administrative costs. The Dissolution Act defines "enforceable obligations" to include bonds, loans, legally requirement payments, judgments or settlements, legal binding and enforceable obligations, and certain other obligations. Tax revenues in excess of such amounts, if any, will be distributed to local taxing entities in the same proportions as other tax revenues.

The Office can make no representations as to the extent to which its property tax apportionments may be offset by the future receipt of pass through tax increment revenues, or any other surplus property tax revenues pursuant to the Dissolution Act.

### **Proposition 30**

On November 6, 2012, voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as “Proposition 30”), which temporarily increased the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposed an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposed an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax was levied at a rate of 0.25% of the sales price of the property purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending January 1, 2019, Proposition 30 increased the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$500,000 but less than \$600,001 for joint filers and over \$340,000 but less than \$408,001 for head-of-household filers), (ii) 2% for taxable income over \$300,000 but less than \$500,001 for single filers (over \$600,000 but less than \$1,000,001 for joint filers and over \$408,000 but less than \$680,001 for head-of-household filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$1,000,000 for joint filers and over \$680,000 for head-of-household filers).

The revenues generated from the temporary tax increases were included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING OFFICE REVENUES – Proposition 98” and “— Proposition 111” herein. From an accounting perspective, the revenues generated from the temporary tax increases were deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the “EPA”). Pursuant to Proposition 30, funds in the EPA were and will be allocated quarterly, with 89% of such funds provided to schools districts and 11% provided to community college districts. The funds are distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than \$200 per unit of ADA and no community college district will receive less than \$100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that, the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

### **Proposition 55**

At the November 8, 2016 general election, the voters in the State approved the Tax Extension of Education and Healthcare Initiative (“Proposition 55”) which extends the increase in personal income tax on high-income taxpayers imposed under Proposition 30 until 2030. Proposition 55 did not extend the sales and use tax increases imposed under Proposition 30 which expired in the end of 2016.

### **Proposition 2 (Facilities)**

***K-12 School Facilities.*** The State school facilities bond approved by voters on November 5, 2024 (the “2024 State School Facilities Bond”) includes \$3.3 billion for the new construction of K-12 facilities and an additional \$4 billion for the modernization of existing K-12 facilities. Up to \$10 million of the allocation for new constructions will be reserved for small school districts with an enrollment of fewer than 2,501 students. Of the \$4 billion assigned for modernization of existing K-12 facilities, up to \$115 million will be

allocated for the repairment of lead in water at school facilities. Generally, K-12 school districts will be required to pay for 50% of the new construction costs and 40% of the modernization costs with local revenues. However, some districts that have lower assessed property values and meet certain other socio-economic criteria will be required to pay as low as 45% and 35% of new construction costs and modernization costs, respectively. In addition, a total of \$1.2 billion will be available for the modernization and new construction of charter school facilities (\$600 million) and technical education facilities (\$600 million). The State will award funds to technical education and charter school through an application process, and charter schools must be deemed financially sound before project approval.

***Community College Facilities.*** The 2024 State School Facilities Bond includes \$1.5 billion for community college district facility projects, including buying land, constructing new buildings, modernizing existing buildings, and purchasing equipment.

## **Proposition 2**

Proposition 2, a legislatively referred Constitutional amendment approved by the voters in November, 2014 (“Proposition 2”), changed the way in which the State pays off existing debts, funds its reserves and draws from those reserves in times of economic slowdowns, as well as requires that reserves be set aside for schools and community colleges under certain circumstances. In addition, as a result of the passage of Proposition 2, new rules for school district reserves were implemented.

Under Proposition 2, the State is required annually to deposit 1.5% of general fund revenues into the Budget Stabilization Account (“BSA”). From fiscal year 2015-16 through 2029-30, under Proposition 2, one half of the amount required to be deposited to the BSA must be applied to the payment of debts for pension and retiree benefits and specified debts to local governments and certain other State accounts. In years when capital gains tax revenues exceed 8% of general fund revenues, a portion of such excess capital gains tax revenue is also required to be applied to the pay down of State debt. Deposits to the BSA are required until the amount on hand in the BSA reaches 10% of general fund revenues. Once the maximum has been reached, the required deposit amount may be applied to other expenditures.

In the event the Governor were to declare a budget emergency, Proposition 2 would permit a smaller deposit to the BSA. A budget emergency may be called if there is a natural disaster such as an earthquake or flood or general fund revenues reach a certain minimum level. Withdrawals from the BSA, under Proposition 2, are permitted upon a majority vote of the legislature only when the Governor has declared a budget emergency. If a budget emergency is called for two straight years in a row, in the second budget emergency year, the entire amount on hand might be withdrawn.

***Public School System Stabilization Account.*** In the event capital gains tax revenues collected by the State in any given fiscal year exceed 8% of general fund revenues, a portion of such excess is required to be deposited into the State’s public school system stabilization account (“PSSSA”) which serves as a reserve account for school funding in years when the State budget is smaller. See “STATE OF CALIFORNIA FISCAL ISSUES – State Budget Measures – 2025-26 State Budget” herein for information regarding the deposit of funds to the PSSSA in fiscal years 2023-24 and 2024-25.

***SB 858 and SB 751.*** State regulations require school districts to budget a reserve for economic uncertainties. The recommended minimum amounts vary from 1% to 5% of total expenditures and other financing uses, depending on the school district's ADA. SB 858, adopted in June 2014, imposed limitations relating to ending fund balances for school districts. Beginning in 2015–16, a school district that proposes to adopt or revise a budget that includes an ending fund balance that is two to three times higher than the state’s minimum recommended reserve for economic uncertainties must substantiate the need for the higher balance. SB 751, which was adopted in October 2017 and amended Section 42127.01 of the Education Code, placed certain restrictions on the amount of a school district’s ending fund balances if a certain amount of funds is available in the PSSSA. In a fiscal year in which the amount of moneys in the PSSSA is equal to or exceeds

3% of the combined total of general fund revenues appropriated for school districts for that fiscal year (see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING REVENUES – Proposition 98”), a school district’s adopted or revised budget may not contain an assigned or unassigned ending fund balance higher than 10% of expenditures and other financing uses. A county superintendent could waive the prohibition, pursuant to specified conditions, for up to two consecutive years within a three-year period. SB 751 does not apply to school districts with an ADA of less than 2,501 students and community-funded school districts.

If the cap is triggered, unless exempted, a school district would be required to increase expenditures in order to bring its ending fund balance down to the maximum level. The PSSSA appears to be intended to provide a substitute for local reserves in the event of a future economic downturn.

The Office is advised by the State to maintain a reserve for economic uncertainties at least equal to 3.00% of general fund expenditures and other financing uses. On June 30, 2025, the Office had available reserves of approximately \$3,615,519, or 4.43% of general fund expenditures and other financing uses. The Office is unable to predict what the effect on its budget will be following implementation of these new rules. It is anticipated that if the cap is triggered, it will materially change the Office’s current policies on reserves.

### **Future Initiatives**

Article XIII A, Article XIII B, Article XIII C and Article XIII D of the California Constitution and Propositions 26, 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State’s initiative process. From time-to-time other initiative measures could be adopted further affecting Office revenues or the Office’s ability to expend revenues. The nature and impact of these measures cannot be anticipated by the Office.

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## STATE OF CALIFORNIA FISCAL ISSUES

### State Budget Measures

*The following information concerning the State's budgets has been obtained from publicly available information which the Office believes to be reliable; however, the Office does not guaranty the accuracy or completeness of this information and has not independently verified such information.*

**2025-26 State Budget.** On June 27, 2025, Governor Newsom signed the fiscal year 2025-26 budget for the State ("2025-26 State Budget"), subsequent to the State Legislature passing several pieces of legislation comprising the 2025-26 State Budget bill, including Senate Bill 101 and Assembly Bill 102. The 2025-26 State Budget addresses a projected \$11.8 billion shortfall through spending cuts, borrowing, and other solutions. The 2025-26 State Budget includes statutory changes to address the State's housing affordability challenges and facilitate housing and infrastructure production. Because the 2025-26 State Budget was approved in late June 2025, it does not reflect the impact of the cuts in federal spending included in the federal omnibus tax and spending bill signed in early July 2025.

The 2025-26 State Budget projects approximately \$215.7 billion in general fund revenues with a prior year balance of \$35.1 billion for total resources of approximately \$250.9 billion, and \$228.4 billion in expenditures for fiscal year 2025-26. For fiscal year 2024-25, the 2025-26 State Budget estimates \$268.7 billion in total resources and \$233.6 billion in expenditures. The 2025-26 State Budget contains total reserves of approximately \$15.7 billion, including \$11.2 billion in the Proposition 98 Rainy Day Fund ("Rainy Day Fund") and \$4.5 billion in the reserve for economic uncertainty. The 2025-26 State Budget maintains the withdrawal of the \$8.4 billion balance in the PSSSA in fiscal year 2023-24 and includes the scheduled \$7.1 billion BSA withdrawal in fiscal year 2025-26 included in the fiscal year 2024-25 budget for the State ("2024-25 State Budget"). See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING REVENUES – Proposition 2" herein for more information regarding school district reserves.

The 2025-26 State Budget provides total TK-12 funding of \$137.6 billion (\$80.5 billion general fund and \$57.1 billion from other funds) and includes per pupil funding of over \$25,000 per student. Revised estimates of General Fund revenues in the 2025-26 State Budget result in adjusted Proposition 98 Guarantee amounts of \$98.5 billion in fiscal year 2023-24, \$119.9 billion in fiscal year 2024-25, and \$114.6 billion in fiscal year 2025-26, an increase of approximately \$3.9 billion over the three-year period relative to the 2024-25 State Budget. The 2025-26 State Budget also shifts \$232.9 million in Proposition 98 resources from community colleges to TK-12 schools to implement the expansion of transitional kindergarten.

The LCFF under the 2025-26 State Budget receives a COLA of 2.3%. To fully fund the LCFF, approximately \$405.3 million of the \$8.4 billion withdrawal from the PSSSA will support LCFF costs in fiscal year 2025-26. While the 2025-26 State Budget fully repays budgetary deferrals of \$246.6 million from fiscal year 2024-25, \$1.9 billion in LCFF funding is deferred from June 2026 to July 2026 in order to maintain the level of fiscal year 2025-26 principal apportionments.

Additional significant provisions of the 2025-26 State Budget relating to TK-12 education include the following:

- *Transitional Kindergarten* — \$2.1 billion Proposition 98 funds (inclusive of all prior years' investments) to support the full implementation of universal TK; and an additional \$1.2 billion ongoing Proposition 98 funds to support lowering the average student-to-adult ratio from 12:1 to 10:1 in every TK classroom.
- *Expanded Learning Opportunities Program* — \$515.1 million for the full implementation of the program by increasing the number of elementary schools that offer universal access to all those in

school districts with at least 55% unduplicated students and \$10.4 million to increase the minimum grant amount from \$50,000 to \$100,000 per school district.

- *Literary Instruction* — \$480 million to support literacy instruction, including one-time Proposition 98 funds to expand the existing Literacy Coaches and Reading Specialists Grant Program and to support evidence-based professional learning for elementary school educators.
- *Teacher Preparation and Professional Development* — \$300 million one-time Proposition 98 funds to establish the Student Teacher Stipend Program, providing \$10,000 grants to teacher candidates beginning in the 2026-27 school year, and available through the 2028-29 school year; \$70 million one-time Proposition 98 funds to increase funding for high-quality teacher residency programs; and \$30 million one-time Proposition 98 funds to extend the timeline of the existing National Board Certification Incentive Program to support National Board Certified teachers to teach in high poverty schools.
- *Student Support and Professional Development Discretionary Block Grant* — \$1.7 billion one-time Proposition 98 funds for the Student Support and Professional Development Discretionary Block Grant to provide school districts with additional discretionary fiscal support in recognition of rising costs and to fund statewide priorities.
- *State Preschool* — \$19.3 million Proposition 98 funds and \$10.2 million non-Proposition 98 funds for the California State Preschool Program to support the cost of care.
- *Learning Recovery Emergency Block Grant* — \$378.6 million one-time Proposition 98 funds to support the Learning Recovery Emergency Block Grant to establish learning recovery initiatives through the 2027-28 school year.
- *Career Technical Education* — \$150 million one-time Proposition 98 funds for career technical education and career pathways programming, subject to pending legislation.
- *Universal School Meals Support Grant* — \$145 million one-time Proposition 98 funds for specialized kitchen equipment, infrastructure, training, and procurement of sustainably grown food to support schools in providing more freshly prepared meals; \$10 million one-time Proposition 98 funds to recruit and retain school food service workers; and \$5 million one-time Proposition 98 funds for a study of ultra-processed foods offered in California school meals.
- *Summer Electronic Benefits Transfer (SUN Bucks)* — \$21.9 million in additional ongoing Proposition 98 funds to support the SUN Bucks Program, which provides nutrition funding to eligible students during the summer months. These funds will provide the match to an equal amount of federal funds to support the program.
- *Children and Youth Behavioral Health Initiative Grants* — \$20 million one-time Proposition 98 funds to support the implementation of the Children and Youth Behavioral Health Initiative's all-payer fee schedule.
- *Secondary School Redesign Pilot Program* — \$10 million one-time Proposition 98 funds for the California Collaborative of Educational Excellence to administer a pilot program to redesign middle and high schools to better serve the needs of all students and increase student outcomes.
- *English Language Proficiency Screener for TK Students* — \$10 million one-time Proposition 98 funds for the statewide use of English language proficiency of a list of one or more screeners to support multilingual learners in TK.

- *TK Multilingual Learner Supplementary Funding* — \$7.5 million one-time Proposition 98 funds to mitigate reductions in potential LCFE apportionment funding resulting from the recent exemption of TK students from the English language proficiency assessment.

**Proposed 2026-27 State Budget.** The proposed budget for fiscal year 2026-27 for the State (“Proposed 2026-27 State Budget”) was released by the Governor on January 9, 2026. The Proposed 2026-27 State Budget forecast reflects general fund revenues that are higher by more than \$42 billion for the period from fiscal year 2024-25 through fiscal year 2026-27, than projected at the 2024-25 State Budget. The increase is driven by higher cash receipts, higher stock market levels, and an improved economic outlook. At the same time, constitutional funding requirements, the need for an adequate discretionary budget reserve, and higher program costs exceed the level of increased revenues, resulting in a projected shortfall of \$2.9 billion. As a result, the Proposed 2026-27 State Budget focuses on implementation of previous investments and does not include new significant spending proposals.

While the Proposed 2026-27 State Budget is balanced in fiscal year 2026-27, with a discretionary reserve of \$4.5 billion, it projects a deficit of roughly \$22 billion in fiscal year 2027-28 and shortfalls in the two years following. Over the last two fiscal years, the State has withdrawn approximately \$12.2 billion from the BSA and suspended deposits into the BSA for fiscal years 2024-25 and 2025-26. Consistent with these actions, the Proposed 2026-27 State Budget suspends a \$2.8 billion “true-up” deposit into the BSA in fiscal year 2025-26. However, the Proposed 2026-27 State Budget reflects a BSA deposit in fiscal year 2026-27 of approximately \$3 billion and a minor “true-up” for fiscal year 2024-25. Accounting for these actions, the BSA balance in fiscal year 2026-27 is \$14.4 billion, an increase compared to the 2025-26 State Budget level of \$11.2 billion. In addition, the Proposed 2026-27 State Budget includes \$4.5 billion in the reserve for economic uncertainties and \$4.1 billion in the Rainy Day Fund, bringing the combined amount of reserves in fiscal year 2026-27 to roughly \$23 billion.

The Proposed 2026-27 State Budget states that federal policy changes, including House of Representatives (H.R.) 1 of 2025 (“H.R. 1”), which included changes for Health and Human Services programs, are projected to result in costs of \$1.4 billion general fund resources fiscal year 2026-27. Of this amount, \$1.1 billion in additional costs are in Medi-Cal. In addition, H.R. 1 will add nearly \$300 million in costs to CalFresh, the state’s Supplemental Nutrition Assistance Program providing food purchase assistance for adequate nutrition to more than 3 million State households.

The Proposed 2026-27 State Budget proposes spending of \$348.9 billion in total State funds, consisting of approximately \$248.3 billion from the General Fund, \$93.7 billion from special funds, and \$6.9 billion from bond funds. The Proposed 2026-27 State Budget includes total funding of \$149.1 billion (\$88.7 billion General Fund and \$60.4 billion other funds) for all TK-12 education programs. TK-12 per pupil funding totals \$20,427 general funds, a 74.6% increase over fiscal year 2018-19, and \$27,418 per pupil when accounting for all funding sources, a 60.8% increase over fiscal year 2018-19. Both per pupil amounts are the highest level ever for California schools.

Certain budgeted programs and adjustments for K-12 education set forth in the Proposed 2026-27 State Budget include the following:

- **Proposition 98.** The Proposed 2026-27 State Budget reflects Proposition 98 funding levels of \$123.8 billion in fiscal year 2024-25, \$121.4 billion in fiscal year 2025-26, and \$125.5 billion in fiscal year 2026-27, representing an increase of approximately \$21.7 billion relative to the 2024-25 State Budget. At the beginning of the three-year budget window, the Proposition 98 Guarantee had an outstanding maintenance factor balance of \$8.3 billion. At the 2024-25 State Budget, there was a projected mandatory maintenance factor payment of \$5.5 billion in fiscal year 2024-25. Revised Proposition 98 factors have increased that payment amount in the Proposed 2026-27 State Budget to \$7.8 billion. No other mandatory payments are projected in fiscal years 2025-26 or 2026-27, leaving a \$584.6 million maintenance factor balance at the end of fiscal year 2026-27. The 2024-25 State Budget created \$1.9

billion in settle-up in fiscal year 2024-25. The Proposed 2026-27 State Budget proposes to fully repay the settle-up balance in fiscal year 2024-25. Additionally, the Proposed 2026-27 State Budget proposes creating \$5.6 billion in settle-up in fiscal year 2025-26. This means that the funded level of the Proposition 98 Guarantee in fiscal year 2025-26 is \$115.9 billion, instead of the calculated amount of \$121.4 billion. This is intended to mitigate the risk of potentially appropriating more resources to the Proposition 98 Guarantee than are ultimately available in the final calculation for fiscal year 2025-26. The Proposition 98 Guarantee continues to be in a Test 1 for fiscal years 2024-25, 2025-26, and 2026-27.

- Proposition 98 Rainy Day Fund. As a result of adjustments in capital gains revenues in the Proposed 2026-27 State Budget, a deposit of \$3.8 billion is required in fiscal year 2024-25, eliminating the mandatory withdrawal in fiscal year 2025-26 and replacing it with a mandatory deposit of \$424.3 million, and requiring a mandatory withdrawal of \$407.1 million in fiscal year 2026-27. Additionally, the Proposed 2026-27 State Budget proposes a discretionary deposit of \$240 million in fiscal year 2025-26, further increasing the Proposition 98 safety net. At the end of the three-year budget window, the total balance in the Proposition 98 Rainy Day Fund is \$4.1 billion. There is a cap of 10% on school district reserves in fiscal years immediately succeeding those in which the balance in the Rainy Day Fund is equal to or greater than 3% of the total TK-12 share of the Proposition 98 Guarantee. The balance in the Rainy Day Fund triggers school district reserve caps in fiscal years 2025-26 and 2026-27.
- Local Control Funding Formula. The Proposed 2026-27 State Budget includes an LCFF cost-of-living adjustment of 2.41%. The cost-of-living adjustment, when combined with population growth adjustments, increases discretionary funding for LEAs by approximately \$2 billion. Additionally, budgetary deferrals of \$1.9 billion for TK-12 education are fully repaid in fiscal year 2026-27. The Proposed 2026-27 Budget also includes an ongoing increase of \$30.7 million Proposition 98 General Fund to provide a 20% increase in LCFF funding for Necessary Small Schools, which is the funding formula for the smallest schools in the state.
- State Education Governance. The Proposed 2026-27 State Budget proposes to implement the 2002 “California’s Master Plan for Education” recommendation to amend the Education Code to move oversight authority of the management of the California Department of Education and support of LEAs under the SBE. The Proposed 2026-27 State Budget further proposes to provide the State Superintendent the ability to strengthen coordination and alignment among the bodies setting policy from early childhood through postsecondary education.
- Community Schools. The Proposed 2026-27 State Budget proposes \$1 billion ongoing Proposition 98 general fund resources to expand the community school model to more school sites that have large concentrations of students from low-income families, English learners, and youth in foster care. To date approximately 2,500 schools in California have received community schools grants through the California Community Schools Partnership Program; this new funding would provide ongoing resources for these grantees and expand access to the model to thousands of additional high-need schools.
- Special Education. The Proposed 2026-27 State Budget proposes an increase of \$509 million ongoing Proposition 98 general fund resources to increase special education base rates. This additional funding will allow for full equalization of special education rates across the state, meaning that all LEAs will now receive the same rate per pupil for state special education funding.
- Master Plan for Career Education: TK-12 Education. The Proposed 2026-27 State Budget proposes: (1) \$100 million one-time Proposition 98 general fund resources to increase access to college and career pathways for high school students, including expanding access to dual enrollment and dual credit opportunities, and (2) including prioritizing creation and expansion of dual enrollment and

pathways programs with funds allocated through the \$2.8 billion Student Support and Discretionary Block Grant.

- Before, After and Summer School. The Proposed 2026-27 State Budget proposes \$62.4 million ongoing Proposition 98 general fund resources to provide a guaranteed \$1,800 per pupil for Tier 2 LEAs, stabilizing the existing variable Tier 2 rate. With this increase, total ongoing program funding is \$4.7 billion Proposition 98 general fund resources.
- Teacher Preparation. The Proposed 2026-27 State Budget includes \$250 million one-time Proposition 98 general fund resources to continue educator residency programs through 2029-30. California has invested \$620 million in residency programs over the last five years; these funds will be fully awarded by the end of fiscal year 2025-26.
- Student Support and Professional Development Discretionary Block Grant. The Proposed 2026-27 State Budget proposes \$2.8 billion one-time Proposition 98 general fund resources to provide LEAs with additional fiscal support to manage attendance and enrollment declines, including those caused by federal government immigration actions, and address rising costs. The funds will also support implementation of statewide priorities including: including: (1) professional development for teachers on the English Language Arts/English Language Development (ELA/ELD) Framework and the Literacy Roadmap, with a focus on strategies to support literacy for English learners; (2) professional development for teachers on the Mathematics Framework; (3) teacher recruitment and retention strategies; (4) professional development for TK teachers and site administrators on the principles and guidelines of developmentally appropriate TK instruction; and (5) career pathways and dual enrollment expansion efforts consistent with the Master Plan for Career Education.
- Charter School Accountability. The Proposed 2026-27 State Budget proposes new requirements for charter schools to ensure that public funds are properly utilized, address fraud and malfeasance, and improve accountability and oversight. It also provides for the use of verified data in the charter school renewal process until June 30, 2028.
- School Facilities. The recently approved Kindergarten through Grade 12 Schools and Local Community College Public Education Facilities Modernization, Repair, and Safety Bond Act of 2024 (Proposition 2) authorizes a total of \$8.5 billion in state General Obligation bonds for TK-12 schools to be allocated through the School Facility Program. These funds are allocated across several key areas: \$4 billion for modernization projects, \$3.3 billion for new construction, \$600 million for charter schools, and \$600 million for career technical education projects. The Proposed 2026-27 State Budget continues to allocate \$1.5 billion Proposition 2 bond funds to support school construction projects in fiscal year 2026-27, similar to amounts allocated in prior years.

Additional budgeted programs and adjustments for K-12 education set forth in the Proposed 2026-27 State Budget include the following:

- Learning Recovery Emergency Block Grant. The Proposed 2026-27 State Budget provides \$757.3 million in one-time Proposition 98 general fund resources to support the Learning Recovery Emergency Block Grant, which supports LEAs in establishing learning recovery initiatives through the 2027-28 school year. This investment is expected to be the final payment to this program, which has received multi-year investments totaling \$7.2 billion in past budgets to support schools in learning recovery efforts related to the COVID-19 Pandemic.

- Home-to-School Transportation. The Proposed 2026-27 State Budget includes \$322 million one-time and \$239.2 million ongoing Proposition 98 general fund to reflect higher costs in the Home-to-School Transportation Program.
- Cost-of-Living Adjustments. The Proposed 2026-27 State Budget proposes \$228.2 million ongoing Proposition 98 general fund resources to reflect a 2.41% COLA for specified categorical programs and the LCFF Equity Multiplier. The specified categorical programs include Special Education, Child Nutrition, State Preschool, Foster Youth Services Coordinating Program, Mandates Block Grant, Adults in Correctional Facilities Program, Charter School Facility Grant Program, American Indian Education Centers, and the American Indian Early Childhood Education Program.
- Kitchen Infrastructure and Training. The Proposed 2026-27 State Budget proposes \$100 million one-time Proposition 98 general fund for specialized kitchen equipment, infrastructure, and training to support schools in providing more freshly prepared meals made with locally grown ingredients.
- Reading Difficulties Risk Screening. The Proposed 2026-27 State Budget proposes \$40 million one-time Proposition 98 general fund resources to support continued implementation of student reading difficulties screenings.
- L.A. County School Wildfire Recovery. The Proposed 2026-27 State Budget proposes \$22.9 million one-time Proposition 98 general fund resources to support LEAs that are continuing to recover from the January 2025 Los Angeles County wildfires.
- Universal and Targeted Assistance. The Proposed 2026-27 State Budget proposes \$13.3 million additional ongoing Proposition 98 general fund resources, for a total of \$131.9 million, for county offices of education to provide universal and targeted support to school districts and charter schools, including those eligible for differentiated assistance.
- Fiscal Crisis and Management Assistance Team (FCMAT). The Proposed 2026-27 State Budget proposes \$994,000 in additional ongoing Proposition 98 general fund resources to support increased FCMAT workload.
- California School Information System (CSIS). \$966,000 in additional ongoing Proposition 98 general fund resources to support increased CSIS costs.
- Curriculum-Embedded Performance Tasks for Science. The Proposed 2026-27 State Budget proposes \$890,000 ongoing Proposition 98 general fund resources to maintain performance task resources at the Los Angeles County Office of Education in support of inquiry-based science instruction and the state's Next Generation Science Standards.
- K-12 High Speed Network. The Proposed 2026-27 State Budget proposes \$629,000 in additional ongoing Proposition 98 general fund resources to support the K-12 High Speed Network program.
- County Offices of Education LCFF. The Proposed 2026-27 State Budget proposes an ongoing decrease of \$15.6 million Proposition 98 general fund resources to reflect ADA changes applicable to the county office of education LCFF, and a 2.41% COLA adjustment.
- School Nutrition Programs. The Proposed 2026-27 State Budget proposes an ongoing decrease of \$67.9 million Proposition 98 general fund resources to support the Universal School Meals program, reflecting a reduction in fiscal year 2025-26 estimates compared to the 2025-26 State Budget projections and an increase in meal reimbursement rates.

- Local Property Tax Adjustments. The Proposed 2026-27 State Budget proposes a decrease of \$18 million Proposition 98 general fund resources for school districts and county offices of education in fiscal year 2025-26, and a decrease of \$1.4 billion ongoing Proposition 98 general fund resources for school districts and county offices of education in fiscal year 2026-27, resulting from increased offsetting property taxes.

**Future Actions.** The State has in past years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will, in the future, take further measures which would, in turn, adversely affect the Office. Further State actions taken to address any budgetary difficulties could have the effect of reducing Office support indirectly, and the Office is unable to predict the nature, extent or effect of such reductions. See also “- COVID-19 Outbreak and its Economic Impact” for a discussion of COVID-19 and its impact on the State economy.

The Office cannot predict the extent to which the State will encounter budgetary difficulties and what budget actions will be taken to resolve those difficulties in future fiscal years. The Office also cannot predict the impact future State Budgets will have on Office finances and operations or what actions the State Legislature and the Governor may take to respond to changing State revenues and expenditures. Current and future State Budgets will be affected by national and State economic conditions and other factors which the Office cannot control.

Certain actions or results could produce a significant shortfall of revenue and cash, and could consequently impair the State’s ability to fund schools.

#### **CONTINUING DISCLOSURE**

The Office has covenanted for the benefit of the Owners of the Certificates to provide certain financial information and operating data relating to the Office (the “Annual Report”) by not later than 9 months following the end of the Office’s fiscal year (currently ending June 30), which date would be March 31, commencing with the report for the 2025-26 fiscal year, which would be due on March 31, 2027, and to provide notices of the occurrence of certain enumerated events. The Office has entered into a Continuing Disclosure Agreement (“Continuing Disclosure Agreement”) for the benefit of the Owners of the Certificates. The Annual Report and each notice of enumerated events will be filed by the Office with the Electronic Municipal Markets Access system (“EMMA”) of the Municipal Securities Rulemaking Board (the “MSRB”), or any other repository then recognized by the Securities and Exchange Commission. The specific nature of the information to be contained in the Annual Report or the notices of enumerated events is set forth in “APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT” hereto. These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Rule”).

Within the last five years, the Office has not had any continuing disclosure obligations. The Office has engaged Dale Scott & Co., Inc. to act as Dissemination Agent with respect to the undertaking to be entered into with respect to the Certificates and to assist the Office with compliance with its current and future continuing disclosure obligations.

#### **TAX MATTERS**

The delivery of the Certificates is subject to delivery of the opinion of Special Counsel, to the effect that interest with respect to the Certificates for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Certificates (the “Code”), of the owners thereof pursuant to section 103 of the Code, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The delivery of the Certificates is also subject to

the delivery of the opinion of Special Counsel, based upon existing provisions of the laws of the State of California, that interest with respect to the Certificates is exempt from personal income taxes of the State of California. The form of Special Counsel's anticipated opinion respecting the Certificates is included in APPENDIX C. The statutes, regulations, rulings, and court decisions on which such opinion will be based are subject to change.

In rendering the foregoing opinions, Special Counsel will rely upon the representations and certifications of the Office made in a certificate (the "Tax Certificate") of even date with the initial delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance with the provisions of the Resolution by the Office subsequent to the issuance of the Certificates. The Tax Certificate contains covenants by the Office with respect to, among other matters, the use of the proceeds of the Certificates and the facilities and equipment financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, if required, the calculation and payment to the United States Treasury of any "arbitrage profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants could cause interest with respect to the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

Except as described above, Special Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest with respect to, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Special Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Office described above. No ruling has been sought from the Internal Revenue Service ("IRS") or the State of California with respect to the matters addressed in the opinion of Special Counsel, and Special Counsel's opinion is not binding on the IRS or the State of California. The IRS has an ongoing program of auditing the tax status of the interest on municipal obligations. If an audit of the Certificates is commenced, under current procedures, the IRS is likely to treat the Office as the "taxpayer," and the Owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest with respect to the Certificates, the Office may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

#### ***Tax Accounting Treatment of Discount and Premium on Certain of the Certificates***

The initial public offering price of certain of the Certificates (the "Discount Certificates") may be less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificate. The tax rules requiring inclusion in income annually by the holder of a debt instrument having original issue discount of the daily portion of original issue discount for each day during a taxable year in which such holder held such debt instrument is inapplicable to

the Certificates. A portion of such original issue discount, allocable to the holding period of such Discount Certificate by the initial purchaser, will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, and will be added to the holder's basis in the Discount Certificate, for federal income tax purposes, on the same terms and conditions as those for other interest with respect to the Certificates described above under "TAX MATTERS." Such interest is considered to be accrued in accordance with the constant-yield-to-maturity method over the life of a Discount Certificate taking into account the semiannual compounding of accrued interest at the yield to maturity on such Discount Certificate, and generally will be allocated to an original purchaser in a different amount from the amount of the payment denominated as interest actually received by the original purchaser during the tax year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial Owner prior to maturity, the amount realized by such Owner in excess of the basis of such Discount Certificate in the hands of such Owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

Owners of Discount Certificates should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Certificate and with respect to the state and local tax consequences of owning Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial offering price of certain Certificates (the "Premium Certificates"), may be greater than the amount payable on such certificates at maturity. An amount equal to the difference between the initial public offering price of a Premium Certificate (assuming that a substantial amount of the Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Certificates. The basis for federal income tax purposes of a Premium Certificate in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Certificates should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Certificates for federal income purposes and with respect to the state and local tax consequences of owning Premium Certificates.

***Form of Special Counsel Opinion.*** The form of the proposed opinion of Special Counsel relating to the Certificates is attached to this Official Statement as APPENDIX C.

## **CERTAIN LEGAL MATTERS**

Dannis Woliver Kelley, Long Beach, California, Special Counsel, will render an opinion with respect to the Certificates substantially in the form attached hereto as APPENDIX C. Copies of such approving opinion will be available at the time of delivery of the Certificates. Certain matters will also be passed on for

the Office by Dannis Woliver Kelley, as Disclosure Counsel. Dannis Woliver Kelley expresses no opinion to the Owners of the Certificates as to the accuracy, completeness or fairness of this Official Statement.

### **ABSENCE OF MATERIAL LITIGATION**

At the time of delivery of and payment for the Certificates, the Office and the Corporation will each certify that there is no action, suit, litigation, inquiry or investigation before or by any court, governmental agency, public board or body served, or to the best knowledge of the Office or the Corporation threatened, against the Office or the Corporation in any material respect affecting the existence of the Office or the Corporation or the titles of their officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Certificates or the payment of Lease Payments or challenging, directly or indirectly, the validity or enforceability of the proceedings to have the Office lease the Property to the Corporation and lease it back from the Corporation, or the validity or enforceability of the Trust Agreement, the Lease, the Assignment Agreement or the Site Lease.

The Office does have claims pending against it. The aggregate amount of the uninsured liabilities of the Office which may result from all claims will not, in the opinion of the Office, materially affect the Office's finances or impair its ability to make Lease Payments under the Lease.

### **BANK QUALIFICATION**

The Office has designated the Certificates as "qualified tax-exempt obligations," thereby allowing certain financial institutions that are holders of such qualified tax-exempt obligations to deduct a portion of such institution's interest expense allocable to such qualified tax-exempt obligations, all as determined in accordance with Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

### **RATING**

S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P") has assigned its underlying municipal bond rating of "AA-" to the Certificates. Such rating reflects only the view of S&P and an explanation of the significance of such rating may be obtained as follows: S&P at Municipal Finance Department, 55 Water Street, New York, New York 10041, tel. (212) 208-8000. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

Generally, rating agencies base their ratings on information and materials furnished to them (which may include information and material from the Office which is not included in this Official Statement) and on investigations, studies and assumptions by the rating agencies.

### **UNDERWRITING**

The Certificates were purchased by Raymond James & Associates (the "Purchaser") pursuant to a Certificate Purchase Agreement, dated \_\_\_\_\_, 2026 (the "Purchase Agreement"), between the Purchaser and the Office, at a purchase price of \$\_\_\_\_\_ (consisting of the principal amount of the Certificates, plus [a/an] [net] original issue premium of \$\_\_\_\_\_ and less an underwriter's discount of \$\_\_\_\_\_). The Purchase Agreement provided that all Certificates would be purchased if any were purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters by Special Counsel and certain other conditions. The Purchaser has represented to the Office that the Certificates have been reoffered to the public at the price or yields stated on the inside cover page hereof.

## **MUNICIPAL ADVISOR**

Dale Scott & Co., Inc. has acted as Municipal Advisor to the Office in conjunction with the execution and delivery of the Certificates. The Municipal Advisor has assisted in matters related to the planning, structuring, execution, and delivery of the Certificates. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the Certificates. The Municipal Advisor has not audited, authenticated, or otherwise independently verified the information set forth in this Official Statement, or any other related information available, with respect to accuracy and completeness of disclosure of such information. Because of this limited participation, the Municipal Advisor makes no guaranty, warranty, or other representation with respect to the accuracy or completeness of this Official Statement, or any other matter related to this Official Statement.

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**ADDITIONAL INFORMATION**

The references herein to the Lease, the Site Lease, the Trust Agreement and the Assignment Agreement are brief outlines of certain provisions thereof. Such outlines do not purport to be complete and for full and complete statements of such provisions reference is made to said documents. Copies of the documents mentioned under this heading are available for inspection at the Office and following delivery of the Certificates will be on file at the Principal Office of the Trustee in Los Angeles, California.

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive. Reference is made to such documents and reports for full and complete statements of the content thereof.

Any statement in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Office and the purchasers or Owners of any of the Certificates.

The execution and delivery of this Official Statement has been duly authorized by the Office.

SANTA CRUZ COUNTY OFFICE OF EDUCATION

By: \_\_\_\_\_  
County Superintendent of Schools

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## APPENDIX A

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following is a brief summary of certain provisions of the legal documents related to the Certificates which are not described in the Official Statement to which this Appendix is attached. This summary is not intended to be definitive and is qualified in its entirety by reference to the Lease, the Trust Agreement, the Assignment Agreement, and the Site Lease for the complete terms thereof. Copies of the Lease, the Trust Agreement, the Assignment Agreement and the Site Lease are available upon request from the Office.*

### DEFINITIONS

The following are summaries of definitions of certain terms used in this Summary of Principal Legal Documents. All capitalized terms not defined herein or elsewhere in the Official Statement have the meanings set forth in the Lease or the Trust Agreement.

“Additional Certificates” means certificates of participation authorized by a supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

“Additional Payments” means such amounts as will be required for the payment of all administrative costs of the Corporation relating to the Property or the Certificates, including without limitation all expenses, compensation and indemnification of the Trustee payable by the Office under the Trust Agreement, taxes of any sort whatsoever payable by the Corporation as a result of its ownership of the Property or undertaking of the transactions contemplated in the Lease or in the Trust Agreement, fees of auditors, accountants, attorneys or engineers, and all other necessary administrative costs of the Corporation or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates or of the Trust Agreement, or to indemnify the Corporation, the Trustee and their respective employees, officers, agents and directors.

“Assignment Agreement” means the Assignment Agreement related to the Certificates, dated on even date with the Lease and the Trust Agreement, by and between the Trustee and the Corporation, and any duly authorized and executed amendments thereto.

“Business Day” means any day other than (i) a Saturday or Sunday, or (ii) a day on which banking institutions in the State of New York or the State of California are authorized or required by law or executive order to remain closed.

“Certificate” or “Certificates” means the Santa Cruz County Office of Education Certificates of Participation (2026 Capital Projects) (Bank Qualified), executed and delivered by the Trustee pursuant to the Trust Agreement.

“Certificate Payment Date” means April 1 and October 1 of each year commencing October 1, 2026.

“Closing Date” means the date on which the Certificates, duly executed by the Trustee, are delivered to the Purchaser thereof.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate dated as of the Closing Date, executed by the Office.

“Corporation” means the California School Boards Association, Incorporated, a nonprofit public benefit corporation organized under the laws of the state, its successors and assigns.

“Corporation Representative” means the President or Secretary of the Corporation, or any other person authorized to act on behalf of the Corporation under or with respect to the Lease.

“Defeasance Securities” means the securities described in paragraph A of the definition of “Permitted Investments.”

“Delivery Cost Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Delivery Cost Requisition” means a written requisition substantially in the form attached to the Trust Agreement.

“Delivery Costs” means and further includes all items of expense directly or indirectly payable by or reimbursable to the Office or the Corporation relating to the financing of the Project from the proceeds of the Certificates, including, but not limited to: filing and recording costs; settlement costs; printing costs; word processing costs; reproduction and binding costs; initial fees and charges of the Trustee, including its first annual administration fee and the fees of its counsel; financing and other professional consultant fees; costs of rating agencies and costs of providing information to such rating agencies; any computer and other expenses incurred in connection with the Certificates; fees for execution, transportation and safekeeping of the Certificates; and charges and fees in connection with the foregoing.

“Depository” means the securities depository acting as Depository pursuant to the Trust Agreement, initially The Depository Trust Company, or such other securities depositories as the Office may designate in writing to the Trustee.

“Office Representative” means the Superintendent and the Assistant Superintendent, Business Services, of the Office or any other person authorized by the Superintendent of the Office to act on behalf of the Office with respect to the Lease or the Trust Agreement.

“DTC” means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the Certificates.

“Event of Default” means an event of default under the Lease.

“Fiscal Year” means the fiscal year of the Office commencing July 1 and ending June 30 of the next year.

“Interest Component” means the portion of the Lease Payments designated in Exhibit A to the Lease.

“Lease” means the Lease Agreement related to the Certificates, dated as of May 1, 2026, by and between the Office and the Corporation, and any duly authorized and executed amendments thereto.

“Lease Payment” means any payment required to be paid by the Office to the Corporation pursuant to the Lease.

“Lease Payment Deposit Date” means the 15th day next preceding the respective Certificate Payment Date (or if such day is not a Business Day, the next succeeding Business Day).

“Lease Payment Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Lease Year” means the period extending from May 1 of each calendar year to April 30 of the subsequent calendar year; provided that the first Lease Year shall commence on the Closing Date and end on April 30, 2027.

“Lessor” means the Corporation.

“Moody’s” means Moody’s Investors Service or any successors or assigns thereto.

“Net Proceeds” means any remaining proceeds of any insurance, performance bonds, or taking by eminent domain or condemnation, paid with respect to the Property after payment therefrom of any expenses (including attorneys’ fees) incurred in the collection thereof.

“Net Proceeds Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Office” means the Santa Cruz County Office of Education, a county office of education organized and existing under the laws and Constitution of the State, and its successors and assigns.

“Outstanding” when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

A. Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

B. Certificates for the payment or prepayment of which funds or Defeasance Securities, together with interest earned thereon, in the necessary amount shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

C. Certificates in lieu of or in exchange for which other Certificates shall have been executed and delivered by the Trustee pursuant to the Trust Agreement.

“Owner” or “Certificate Owner” or “Owner of a Certificate”, or any similar term, when used with respect to a Certificate means the person in whose name such Certificate is registered on the registration books maintained by the Trustee.

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry certificates as securities depository.

“Permitted Encumbrances” means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, or which the Office may, pursuant to provisions of the Trust Agreement, permit to remain unpaid; (ii) the Assignment Agreement; (iii) the Lease; (iv) the Site Lease; (v) any contested right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law to the extent permitted under the Trust Agreement; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which the Office certifies will not materially impair the use of the Property by the Office; and (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease and to which the Office certifies in writing do not affect the intended use of the Property or impair the security granted to the Trustee for the benefit of the owners of the Certificates by the Trust Agreement and the Assignment Agreement and to which the Corporation consents to in writing.

“Permitted Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

A. For all purposes, including defeasance investments, any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

1. Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America (“United States Treasury Obligations”);
2. Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America;
3. Obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America; or
4. Evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

B. For all purposes other than defeasance investments, any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

1. Federal Housing Administration debentures.
2. The following listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:
  - (a) Federal Home Loan Mortgage Corporation (FHLMC)
  - (b) Participation certificates (but not including stripped mortgage securities which are purchased at prices exceeding their principal amounts)
    - (1) Senior Debt obligations
  - (c) Farm Credit Banks (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
  - (d) Consolidated system-wide bonds and notes
  - (e) Federal Home Loan Banks (FHL Banks)
  - (f) Consolidated debt obligations
  - (g) Federal National Mortgage Association (FNMA)
    - (1) Senior debt obligations

- (2) Mortgage-backed securities (but not including stripped mortgage securities which are purchased at prices exceeding their principal amounts)
3. Unsecured certificates of deposit (including those placed by a third party pursuant to an agreement between the Trustee and the Corporation), time deposits, trust accounts, trust funds, interest bearing deposits, overnight bank deposits, interest bearing money market accounts, bank deposit products and bankers' acceptances (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated "A-1+" or better at the time of investment by S&P and "Prime-1" at the time of investment by Moody's, which may include the Trustee and its affiliates.
4. Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation (FDIC), in banks which have capital and surplus of at least \$15 million.
5. Commercial paper (having original maturities of not more than 270 days) rated at the time of purchase "A-1+" by S&P and "Prime-1" by Moody's.
6. Money market mutual funds rated at the time of investment "AAm" or "AAm-G" by S&P, or better, and if rated by Moody's rated "Aa2" or better, including mutual funds for which the Trustee, its parent company, if any, or any affiliates or subsidiaries of the Trustee provide investment advising or other management services or serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that: (i) the Trustee or an affiliate of the Trustee receives and retains a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise; (ii) the Trustee collects fees for services rendered, which fees are separate from the fees received from such funds; and (iii) services performed for such funds may at times duplicate those provided to such funds by the Trustee or an affiliate of the Trustee.
7. Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated at the time of investment "A3" by Moody's and "A-" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.
8. Direct general short-term obligations of any state agency or subdivision or agency thereof described in (vii) above and at the time of investment rated "A-1+" by S&P and "MIG-1" by Moody's.
9. Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (vii) above and rated at the time of investment "AA-" or better by S&P and "Aa3" or better by Moody's.
10. Pre-refunded municipal obligations rated at the time of investment in the highest rating category then assigned to the United States of America by S&P and Moody's meeting the following requirements:
  - (a) (1) such municipal obligations are not subject to redemption prior to maturity or (2) the trustee for such municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of such municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

- (b) such municipal obligations are secured by cash or United States Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;
- (c) the principal of and interest on the United States Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on such municipal obligations (“Verification”);
- (d) the cash or United States Treasury Obligations serving as security for such municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;
- (e) no substitution of a United States Treasury Obligation shall be permitted except with another United States Treasury Obligation and upon delivery of a new Verification; and
- (f) the cash or United States Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

11. Repurchase agreements entered into with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at the time of investment at least “A-” by S&P and “A3” by Moody’s including the Trustee and any of its affiliates; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at the time of investment at least “A-” by S&P and “A3” by Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated at the time of investment at least “A-” by S&P and “A3” by Moody’s (each an “Eligible Provider”), provided that:

- (a) (i) permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers), and (ii) collateral levels must be at least 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA’s, and 104% of the total principal when the collateral type is FNMA and FHLMC (“Eligible Collateral”);
- (b) the trustee or a third party acting solely as agent therefore or for the Office (the “Custodian”) has possession of the collateral or the collateral has been transferred to the Custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books) and such collateral shall be marked to market;
- (c) the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the Trustee and the Office setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;
- (d) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Custodian has a

perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof; and

- (e) the repurchase agreement shall provide that if during its term the provider's rating at the time of investment by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must notify the Office and Trustee within five (5) days of receipt of such notice. Within ten (10) days of receipt of such notice, the provider shall either: (i) post Eligible Collateral, or (ii) assign the agreement to an Eligible Provider. If the provider does not perform a remedy within ten (10) business days, the provider shall, at the direction of the Trustee repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the Office or the Trustee.

12. Investment agreements with a domestic or foreign bank or corporation, the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is at the time of investment rated at least "AA-" by S&P and "Aa3" by Moody's, each of which shall be an Eligible Provider, provided that:

- (a) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service;
- (b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice; the Office and the Trustee agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;
- (c) the provider shall send monthly reports to the Trustee and the Office setting forth the balance the Office or Trustee has invested with the provider and the amounts and dates of interest accrued and paid by the provider;
- (d) the investment agreement shall state that is an unconditional and general obligation of the provider, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;
- (e) the Office and the Trustee shall receive an opinion of domestic counsel to the provider that such investment agreement is legal, valid, binding and enforceable against the provider in accordance with its terms;
- (f) the Office and the Trustee shall receive an opinion of foreign counsel to the provider (if applicable) that: (1) the investment agreement has been duly authorized, executed and delivered by the provider and constitutes the legal, valid and binding obligation of the provider, enforceable against the provider in accordance with its terms; (2) the choice of law of the state set forth in the investment agreement is valid under that country's laws and a court in such country would uphold such choice of law; and (3) any judgment rendered by a court in the United States would be recognized and enforceable in such country;

- (g) the investment agreement shall provide that if during its term:
  - (1) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade, either: (i) post Eligible Collateral with the Office, the Trustee or a third party acting solely as agent therefore (the "Custodian") free and clear of any third party liens or claims; (ii) assign the agreement to an Eligible Provider; or (iii) repay the principal of and accrued but unpaid interest on the investment;
  - (2) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", the provider must, at the direction of the Office or the Trustee, within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Office or Trustee;
- (h) in the event the provider is required to collateralize, permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers) and collateral levels must be 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral"). In addition, the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the Trustee and the Office setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;
- (i) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;
- (j) the investment agreement must provide that if during its term: (i) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Office or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Office or Trustee, as appropriate, and (ii) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc., the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Office or Trustee, as appropriate; and

13. Deposits in the Local Agency Investment Fund of the California State Treasurer, to the extent the Trustee is authorized to register such investments in its name.

"Prepayment" means any payment made by the Office pursuant to the Lease as a prepayment of Lease Payments.

“Prepayment Fund” means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

“Principal Office” means the principal corporate trust office of the Trustee in Los Angeles, or such other address as the Trustee may inform the Office, or the principal office of any successor trustee except that with respect to presentation of Certificates for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

“Project” means the Project, as defined in the Lease, and as described in the front part of this Official Statement.

“Project Cost Requisition” means a written requisition substantially in the form attached to the Trust Agreement.

“Project Costs” means, with respect to any item or portion of the Project, the contract price paid or to be paid therefor upon acquisition, construction, procurement or improvement thereof, in accordance with a purchase order or contract therefor. Project Costs include, but are not limited to, the administrative, engineering, legal, financial and other costs incurred by the Office and the Corporation in connection with the acquisition, construction, procurement, remodeling or improvement of the Project, all applicable sales taxes and other charges resulting from such construction, procurement, remodeling or improvement of the Project.

“Project Fund” means the fund by that name established and held by the County pursuant to the Trust Agreement.

“Property” means the Property, as defined in the Lease, and as described in the front part of this Official Statement.

“Purchaser” means each purchaser of the Certificates of a series on the Closing Date, which purchasers are described in the Official Statement under the caption “UNDERWRITING.”

“Record Date” means the close of business on the fifteenth day of the month preceding each Certificate Payment Date, whether or not such fifteenth day is a Business Day.

“S&P” means S&P Global Ratings or any successors or assigns thereto.

“Site Lease” means the Site Lease related to the Certificates, dated the date of the Trust Agreement and Lease, by and between the Corporation and the Office, and any duly authorized and executed amendments thereto.

“Special Counsel” means Dannis Woliver Kelley, or any other attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions and acceptable to the Office.

“State” means the State of California.

“Tax Certificate” means the Tax Certificate dated as of the Closing Date, concerning matters pertaining to the use and investment of proceeds of the Certificates.

“Term” means the time during which the Lease is in effect, as provided in the Lease, as further described under the caption “THE LEASE AGREEMENT — Term of the Lease” herein.

“Trustee” means U.S. Bank and Trust Company, National Association, a national banking association duly organized and existing under the laws of the United States of America, and any successor trustee.

“Trust Agreement” means the Trust Agreement, related to the Certificates, dated on even date with the Assignment Agreement and the Lease, by and among the Trustee, the Corporation and the Office, and any duly authorized and executed amendment thereto.

## THE LEASE AGREEMENT

### **Lease; Interests in the Property**

Pursuant to the terms of the Lease, the Corporation agrees to lease the Property to the Office and the Office agrees to lease the Property from the Corporation. During the Term of the Lease, the Corporation will hold a leasehold interest in the Property under the Site Lease. Upon the expiration of the Term of the Lease, the leasehold interest of the Corporation in the Property under the Site Lease and all right, title and interest of the Corporation in and to the Property will transfer to and vest in the Office.

### **Term of the Lease**

The Term of the Lease will commence as of the date of its execution and ends on April 1, 20\_\_, unless extended pursuant to the Lease, or terminated prior thereto upon the earliest of any of the following events: (a) a default by the Office and the Corporation’s election to terminate the Lease; (b) the payment by the Office of all Lease Payments and any Additional Payments required by the Lease; or (c) the deposit of funds or Defeasance Securities with the Trustee in amounts sufficient to pay all Lease Payments as will become due.

### **Lease Payments**

The Office agrees to pay to the Corporation, its successors and assigns, as annual rental for the use and possession of the Property, Lease Payments in such semiannual amounts as are sufficient in both time and amount to pay when due the annual principal and interest represented by the Certificates. Lease Payments will be due and payable on the fifteenth day of the month (or if such date is not a Business Day, the next succeeding Business Day) immediately preceding the respective Certificate Payment Date. Certain amounts held in the Lease Payment Fund on any Lease Payment Date are credited towards the Lease Payment then due and payable. The Office must make all Lease Payments and Additional Payments when due notwithstanding any dispute between the Corporation and the Office, including a dispute as to the failure of any portion of the Property to perform the task for which it is leased, and cannot withhold any Lease Payment pending the final resolution of such dispute. Any Lease Payment in default continues as an obligation of the Office until fully paid, with interest, to the extent permitted by law, from the date such amount was originally payable at the rate equal to the original interest rate payable with respect to each Certificate then outstanding. The Corporation and the Office have agreed and determined that the total rental under the Lease represents the fair rental value of the Property. The Office covenants to take such action as may be necessary to include and maintain all Lease Payments and Additional Payments in its annual budgets (to the extent the amounts of such Additional Payments are known to the Office at the time its annual budget is proposed) and to provide the Trustee annually with a certificate to this effect. Pursuant to the Assignment Agreement, the Corporation has assigned its right to receive and to collect Lease Payments and Prepayments to the Trustee in trust for the benefit of the Owners of the Certificates. (See “THE ASSIGNMENT AGREEMENT” herein.)

### **Abatement of Lease Payments in Event of Loss of Use**

Lease Payments will be paid in consideration of the right of possession and the continued quiet use and enjoyment of the Property during each period for which such Lease Payments are to be paid. The obligation of the Office to pay Lease Payments and Additional Payments will be abated, in whole or in part, during any period in which, by reason of damage, destruction, interference due to title defect or taking by eminent domain or

condemnation with respect to any portion of the Property, there is substantial interference with the Office's right to the use and possession of such portion of the Property by the Office. The amount of such abatement will be determined by the Office such that the resulting Lease Payments and Additional Payments represent fair consideration for the use and possession of the portion of the Property not damaged, destroyed, interfered with or taken. Such abatement will commence with such damage, destruction, interference or taking and end with the substantial completion of the replacement or work or repair; provided, however, that during abatement, available moneys on deposit in the Lease Payment Fund, as well as other special sources of money, including the proceeds of rental interruption or use and occupancy insurance, will be applied to pay the Lease Payments.

### **Maintenance, Utilities, Taxes and Assessments**

The Office is responsible for all repair and maintenance of the Property throughout the Term of the Lease. The Office must pay for or otherwise arrange for the payment of the cost of the repair and replacement of any portion of the Property resulting from ordinary wear and tear or want of care on the part of the Office or any sublessee thereof. The Office will also pay all taxes and assessments, including but not limited to utility charges, charged to the Corporation or the Office or levied, assessed or charged against any portion of the Property or the respective interests or estates therein. The Office is obligated to pay special assessments or governmental charges only to the extent they are required to be paid during the Term of the Lease.

### **No Liens**

Except for Permitted Encumbrances, the Office will not permit any mechanic's or other lien to be established or remain against the Property for labor or materials furnished in connection with any additions, modifications or improvements made by the Office; provided that if any such lien is established and the Office must first notify or cause to be notified the Corporation of the Office's intention to do so, the Office may in good faith contest any lien filed or established against the Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and must provide the Corporation with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Trustee as assignee of the Corporation.

### **Disclaimers**

The Corporation makes no warranty or representation, either express or implied, as to the value, design, condition, merchantability or fitness for any particular purpose or fitness for the use contemplated by the Office of the Property or any portion thereof.

### **Insurance**

The Office must maintain or cause to be maintained the following insurance:

**Public Liability and Property Damage.** The Office must maintain or caused to be maintained, throughout the Term of the Lease, a standard comprehensive general public liability and property damage insurance policy or policies in protection of the Office and the Corporation, their directors, officers, agents and employees. Said policy or policies must 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 use or operation of any Office property or portion thereof. Said policy or policies will 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 the amount of \$150,000 (subject to a deductible clause of not to exceed \$75,000) for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy covering all such risks in an amount equal to the liability limits set forth in the Lease. Such liability insurance, including the deductible, may be maintained as part of or in conjunction with any other

insurance coverage carried by the Office, and, subject to the provisions of the Lease, may be maintained in the form of self-insurance by the Office.

**Workers' Compensation.** The Office must maintain workers' compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure its employees against liability for compensation under the Workers' Compensation Insurance and Safety Act now in force in the State, or any act subsequently enacted as an amendment or supplement thereto (with provision for self-insurance of no more than \$1,000,000).

**Casualty and Theft.** The Office must maintain, throughout the Term of the Lease, insurance against loss or damage to any item or portion of the Property caused by fire and lightning, with extended coverage and theft, vandalism and malicious mischief insurance. Such extended coverage insurance must, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards normally covered by such insurance. Such insurance will be maintained in an amount (except that such insurance may be subject to deductible clauses of not to exceed \$50,000 for any one loss) not less than the greater of (i) the replacement cost of the Property and (ii) the aggregate principal amount of the Certificates at the time Outstanding. Such insurance may be maintained as part of or in conjunction with any other insurance carried or required to be carried by the Office, and, subject to the provisions of the Lease, may be maintained in the form of self-insurance by the Office.

**Rental Interruption or Use and Occupancy.** The Office must maintain rental income or use and occupancy insurance in an amount not less than the maximum remaining scheduled Lease Payments in any future 24-month period, to insure against loss of rental income from the Property caused by perils covered by the insurance described in the Lease. Such rental interruption or use and occupancy insurance shall name the Trustee as loss payee. Such insurance may be maintained as part of or in conjunction with any other rental income insurance carried by the Office.

**Title Insurance.** The Office must obtain and, throughout the Term of the Lease, maintain or cause to be maintained title insurance on the Property, in the form of an CLTA title policy, in an amount equal to the aggregate principal amount of the Certificates Outstanding, issued by a company of recognized standing, duly authorized to issue the same, payable to the Trustee for the benefit of the Owners subject only to Permitted Encumbrances. Said policy shall insure (a) the Corporation's ground leasehold estate in the Property under the Site Lease, and (b) the Office's leasehold estate under the Lease in the Property, subject only to Permitted Encumbrances. The Net Proceeds of such insurance shall be applied as provided in the Lease. The Trustee shall be provided with a title insurance policy in an amount equal to principal amount of the Certificates.

#### **Addition, Substitution or Release of the Property**

The Office has the right to add or substitute alternate real property for any portion of the Property described in the Lease or to release a portion of the Property from the lien of the Lease by providing the Trustee with a supplement to the Lease substantially in the form attached to the Lease and satisfying the conditions set forth below. All costs and expenses incurred in connection with such substitution or release will be borne by the Office. Notwithstanding any such substitution, there will be no reduction in or abatement of the Lease Payments due from the Office as a result of such substitution. No addition or substitution will be permitted unless: (1) any added substituted property is free from any liens, other than Permitted Encumbrances, as certified by the Office in a certificate delivered to the Trustee; (2) the Office provides prior written notice thereof to each rating agency then rating the Certificates; (3) the Office delivers a certificate to the Office and the Trustee setting forth its findings that the real property remaining after such addition, substitution or release (a) has a fair rental value in each Fiscal Year during the remaining Term greater than or equal to the Lease Payments due in such Fiscal Year such that the Lease Payments payable by the Office pursuant to the Lease will not be reduced, and (b) has an equivalent or greater useful life as the Property to be released, and (c) that the useful life of the substituted real Property exceeds the remaining Term; (4) with respect to substitution, the Office obtains or causes to be obtained an CLTA title insurance policy (with Western Regional exceptions) with endorsement so

as to be payable to the Trustee for the benefit of the Owners (such policy will comply with the Lease, will be in a form satisfactory to the Corporation, will be in the amount equal to the principal component of Lease Payments attributable to the substituted real property, and will insure the leasehold interest or the site leasehold interest of the Corporation or the Office, as applicable, to the substituted real property); (5) the Office provides the Corporation and the Trustee with an opinion of Special Counsel that such addition, substitution or release does not cause, in and of itself, the Interest Component evidenced by the Certificates to be included in gross income for federal income tax purposes; (6) the Office will give, or cause to be given, any notice of the occurrence of such substitution or release required to be given pursuant to the Continuing Disclosure Certificate; (7) upon any addition, substitution or release, the Office, the Corporation and the Trustee will execute and the Office will record with the office of the County Recorder, County of Yolo, California, any document necessary to reconvey to the Office the portion of the Property being released and to include the added or substituted real property and/or improvements thereon as all or a portion of the Property; and (8) the Office will certify to the Trustee that any substituted real property is of approximately the same degree of essentiality to the Office as the portion of the Property being released.

### **Assignment and Subleasing**

Except as provided in the Lease, the Trust Agreement and the Assignment Agreement, the Corporation will not assign the Lease to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained therein and any assignment in contravention thereof shall be void. The Office may sublease all or any portion of the Property, so long as such sublease does not, in the opinion of Special Counsel, adversely affect (1) the exemption from State personal income tax or the exclusion from gross income for federal income tax of the Interest Component evidenced by the Certificates, or (2) affect the validity of the Lease, subject to all of the following conditions: (a) the Lease and the obligation of the Office to make Lease Payments under the Lease will remain obligations of the Office; (b) the Office will, within 30 days after the delivery thereof, furnish or cause to be furnished to the Corporation and the Trustee and S&P, a true and complete copy of such sublease; and (c) any sublease of the Property by the Office shall expressly provide that such sublease is subject to all rights of the Corporation under the Lease Agreement, including, the right to re-enter and re-let the Property or terminate the Lease Agreement in the event of a default by the Office.

### **Events of Default and Remedies**

**Events of Default Defined.** The following constitute “events of default” under the Lease (each, an “Event of Default”) and the terms “events of default” and “default” will mean, whenever they are used in the Lease, any one or more of the following events:

(i) Failure by the Office to pay any Lease Payment required to be paid under the Lease by the corresponding Lease Payment Date.

(ii) Failure by the Office to observe and perform any warranty, covenant, condition or agreement contained in the Lease or in the Trust Agreement or in the Site Lease, other than the default described in (i) above, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the Office by the Corporation and the Trustee or the Owners of not less than 20% in aggregate principal amount of the Certificates then Outstanding, provided, however, that if the failure stated in the notice cannot be corrected within the applicable period, the Corporation or such Owners, as the case may be, will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Office within the applicable period and diligently pursued until the default is corrected, except that such grace period shall not exceed 60 days.

(iii) Filing by the Office of a case in bankruptcy, or the subjection of any right or interest of the Office under the Lease to any execution, garnishment or attachment, or adjudication of the Office as a bankrupt, or assignment by the Office for the benefit of creditors, or the entry by the Office into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a

petition applicable to the Office in any proceedings instituted under the provisions of the federal bankruptcy code, as amended, or under any similar act which may be enacted in the future.

**Remedies.** Whenever any Event of Default described above will have happened and be continuing, the Corporation may exercise any and all remedies available pursuant to law or granted pursuant to the Lease as described below. The Corporation has no right under any circumstances, however, to accelerate the Lease Payments or otherwise declare any Lease Payments not then in default to be immediately due and payable. After the occurrence of an Event of Default under the Lease the Office will surrender possession of the Property to the Corporation if requested to do so by the Corporation, the Trustee or the Certificate Owners, in accordance with the provisions of the Lease.

**No Termination: Repossession and Re-Lease on Behalf of Office.** In the event the Corporation does not elect to terminate the Lease, the Corporation may, with the consent of the Office, repossess the Property, and re-lease it for the account of the Office, in which event the Office's obligation will continue to accrue from year to year in accordance with such Lease and the Office will continue to receive the value of the use of the Property to the Lease from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the Office will remain the same as prior to such default; to pay Lease Payments and Additional Payments whether the Corporation re-enters or not. The Office agrees to and will remain liable for the payment of all Lease Payments and Additional Payments and the performance of all conditions contained in such Lease, and to reimburse the Corporation for any deficiency arising out of the re-leasing of the Property, or, in the event that the Corporation is unable to re-lease the Property, then for the full amount of all Lease Payments and Additional Payments to the end of the Lease Term, but said Lease Payments and Additional Payments and/or deficiency will be payable only at the same time and in the same manner as provided above for the payment of Lease Payments and Additional Payments under the Lease, notwithstanding such repossession by the Corporation, or any suit brought by the Corporation for repossession of the Property, or the exercise of any other remedy by the Corporation.

The Office irrevocably appoints the Corporation its agent and attorney-in-fact for purposes of repossessing or re-leasing the Property in the event of default. In addition, the Office exempts and agrees to save harmless the Corporation from any cost, loss or damage arising from or occasioned by any such repossession and re-leasing of the Property. The Office waives all claims for damages caused by the Corporation in repossessing the Property as provided in the Lease and all claims for damage that may result from the destruction of or injury to the Property, and all claims for damages to or loss of any property belonging to the Office that may be in or upon the Property.

**Termination: Repossession and Re-Lease.** In the event of the termination of the Lease by the Corporation at its option and in the manner provided by the Lease on account of default by the Office (and notwithstanding any repossession of the Property by the Corporation in any manner whatsoever or the re-leasing of the Property), the Office nevertheless agrees to pay to the Corporation all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease in the case of payment of Lease Payments and Additional Payments. Any proceeds of the re-lease or other disposition of the Property by the Corporation will be deposited into the Lease Payment Fund and be applied in accordance with the provisions of the Trust Agreement. Any surplus received by the Trustee, as assignee of the Corporation, from such re-leasing over total Lease Payments and Additional Payments that would have been due under the Lease and the fees, expenses and costs of the Trustee as assignee of the Corporation on re-leasing the Property will be remitted to the Office. Neither notice to pay rent or to deliver up possession of the Property given pursuant to law nor any proceeding taken by the Corporation to recover possession of the Property will of itself operate to terminate the Lease, and no termination of the Lease on account of default by the Office will be or become effective by operation of law, or otherwise, unless and until the Corporation will have given written notice to the Office of the election on the part of the Corporation to terminate the Lease. The Office covenants and agrees that no surrender of the Property for the remainder of the Term of the Lease or any termination of the Lease will be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation

by such written notice. No such termination will be effected either by operation of law or act of the parties to the Lease, except only in the manner in the Lease expressly provided.

The re-leasing of the Property shall be subject to the opinion of Special Counsel that such re-leasing will not cause the Interest Component evidenced by the Certificates to be subject to State personal income tax or adversely affect the exclusion of such Interest Component from gross income for federal income tax purposes.

In the event the Corporation does not elect to terminate the Lease in the manner provided therein or to exercise its right to re-enter and re-lease, the Corporation may collect each installment of Lease Payments as the same become due and enforce any other terms or provisions of the Lease to be kept or performed by the Office, regardless of whether or not the Office has abandoned the Property.

The Office's rights and remedies are assigned to the Trustee and are exercisable by the Trustee and the Owners of the Certificates as provided in the Trust Agreement. (See "THE ASSIGNMENT AGREEMENT" herein.)

### THE TRUST AGREEMENT

#### **Additional Certificates**

Subsequent to the execution and delivery by the Trustee of the Certificates, the Trustee will, upon written request or requests of the Office Representative and of the Corporation Representative, execute and deliver from time to time one or more series of Additional Certificates in such aggregate principal amount as may be set forth in such written request or requests, provided that there shall have been compliance with all of the following conditions, which are conditions precedent to the preparation, execution and delivery of such Additional Certificates:

(a) The parties to the Trust Agreement shall have executed a supplemental agreement setting forth the terms and provisions of such Additional Certificates, including the establishment of such funds and accounts, separate and apart from the funds and accounts established under the Trust Agreement for the Certificates executed and delivered on the Closing Date, as shall be necessary or appropriate;

(b) The principal and interest payable with respect to such Additional Certificates and any premium payable upon prepayment of such Additional Certificates will be payable only on Certificate Payment Dates applicable to the Certificates;

(c) The Lease will have been amended by the parties thereto if necessary to (i) increase or adjust the Lease Payments due and payable on each Lease Payment Deposit Date to an amount sufficient to pay the principal, premium (if any) and interest payable with respect to all Outstanding Certificates, including all Additional Certificates as and when the same mature or become due and payable (except to the extent such principal, premium and interest may be payable out of moneys on deposit with the Trustee in accordance with the Trust Agreement), (ii) if appropriate, amend the definition of "Property" to include as part of the Property all or any portion of additions, betterments, extensions, improvements or replacements, or such other real or personal property (whether or not located upon the Property as such Property is constituted as of the date of the Trust Agreement), to be financed, acquired or constructed by the preparation, execution and delivery of such Additional Certificates, and (iii) make such other revisions to the Lease as are necessitated by the execution and delivery of such Additional Certificates (provided, however, that such other revisions shall not prejudice the rights of the Owners of Outstanding Certificates as granted them under the terms of the Trust Agreement);

(d) The Office and the Corporation will have determined that the Lease Payments to be paid by the Office (including those evidenced by the Additional Certificates) do not exceed the fair rental value of the Property pursuant to the Lease.

(e) There will have been delivered to the Trustee a counterpart of the amendments required by the Trust Agreement;

(f) The Trustee will have received a certificate of the Corporation Representative that there exists on the part of the Corporation no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default);

(g) The Trustee will have received a certificate of the Office Representative that (i) there exists on the part of the Office no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) and (ii) the Lease Payments as increased or adjusted do not exceed in any year the fair rental value of the Property (as such term is defined in the amended Lease);

(h) The Trustee will have received an opinion of Special Counsel substantially to the effect that (i) said supplemental agreement and said amendments to the Lease comply in all respects with the requirements of the Trust Agreement, (ii) said supplemental agreement and said amendments to the Lease have been duly authorized, executed and delivered by each of the respective parties thereto (provided that said opinion of Special Counsel, in rendering the opinions set forth in the Trust Agreement, shall be entitled to rely upon one or more other opinions of counsel, including counsel to any of the respective parties to said supplemental agreement or said amendments to the Lease), and (iii) assuming that no Event of Default has occurred and is continuing, the Trust Agreement, as amended by said supplemental agreement, and the Lease, as amended by the respective amendments thereto, constitute the legal, valid and binding obligations of the respective parties thereto, enforceable against said parties in accordance with their respective terms (except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, debt adjustment or other laws affecting creditors' rights generally, and except to the extent that enforcement thereof may be limited by general principles of equity, regardless of whether enforcement is sought in a legal or equitable proceeding);

(i) The Office will have provided each rating agency then rating the Certificates written notice of the proposed execution and delivery of such Additional Certificates at the addresses indicated in the Trust Agreement and will receive a rating confirmation that the current rating or ratings of the Outstanding Certificates will not be reduced, withdrawn or suspended as a result of the execution and delivery of such Additional Certificates from each rating agency then rating the Certificates.

(j) There will have been delivered to the Trustee an endorsement to or reissuance of the title insurance policy delivered under the Lease providing that the insured amount is at least equal to the aggregate principal amount of all of the Certificates and Additional Certificates outstanding upon the execution and delivery of such Additional Certificates;

(k) Such other conditions will have been satisfied, and such other instruments will have been duly executed and delivered to the Trustee (with a copy to each rating agency then rating the Certificates), as the Office or the Corporation shall have reasonably requested.

Upon delivery to the Trustee of the foregoing instruments, the Trustee will cause to be executed and delivered Additional Certificates representing the aggregate principal amount specified in such supplemental agreement, and such Additional Certificates shall be equally and ratably secured with all Certificates, including any Additional Certificates, theretofore prepared, executed and delivered, all without preference, priority or distinction (other than with respect to maturity, payment, prepayment or sinking fund payment (if any)) of any one Certificate, including Additional Certificates, over any other; provided, however, that no provision of the Trust Agreement shall require the Office to consent to or otherwise permit the preparation, execution and delivery of Additional Certificates, it being understood and agreed that any such consent or other action of the Office to permit the preparation, execution and delivery of Additional Certificates, or lack thereof, shall be in the sole discretion of the Office.

## **The Trustee**

**Indemnification.** The Office shall, to the extent permitted by law, indemnify and save the Trustee and its officers, directors, agents, representatives and employees harmless from and against all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of: (i) the use, maintenance, condition or management of, or from any work or thing done on, the Property or the Project by the Office; (ii) any breach or default on the part of the Office in the performance of any of its obligations under the Trust Agreement and any other agreement made and entered into for purposes of the Property or the Project; (iii) any act of negligence of the Office or of any of its agents, contractors, servants, employees or licensees with respect to the Property or the Project; (iv) any act of negligence of any assignee of, or purchaser from, the Office or of any of its or their agents, contractors, servants, employees or licensees with respect to the Property or the Project; (v) the construction or acquisition of the Project or the expenditure of Project Costs; (vi) the exercise and performance by the Trustee of its powers and duties under the Trust Agreement, the Lease, the Site Lease, the Assignment Agreement or any related document; (vii) the sale of the Certificates and the carrying out of any of the transactions contemplated by the Certificates or this Agreement; (viii) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made in light of the circumstances in which they were made, not misleading in any official statement or other disclosure document utilized in connection with the sale of the Certificates; or (ix) the acceptance of administration of the trust or trusts under the Trust Agreement, including the costs and expenses of defending itself against any claim (whether asserted by the Office, the Corporation, any Holder or any other person) or liability in connection with the exercise or performance of any of its powers or duties under the Trust Agreement. The indemnification set forth in the Trust Agreement shall extend to the Trustee's officers, directors, agents, representatives, employees, successors and assigns. No indemnification will be made under this Section or elsewhere in the Trust Agreement or other agreements for willful misconduct or negligence by the Trustee, its officers, agents, employees, successors or assigns. The Office's obligations under the Trust Agreement shall remain valid and binding notwithstanding maturity and payment of the Certificates, or the resignation or removal of the Trustee.

**Removal.** So long as there is no Event of Default, the Office, may remove the Trustee upon 30 days written notice initially appointed, and any successor thereto, and may appoint a successor or successors thereto.

**Resignation.** The Trustee may, upon prior written notice to the Office and the Corporation, resign; provided that such resignation will not take effect until the successor Trustee is appointed. Upon receiving such notice of resignation, the Office will promptly appoint a successor Trustee. In the event the Office does not name a successor Trustee within 30 days of receipt of notice of the Trustee's resignation, then the Trustee may petition a court of suitable jurisdiction to seek the immediate appointment of a successor Trustee.

**Successor.** Any successor Trustee will be a bank, association, corporation or trust company meeting the qualifications as set forth in the Trust Agreement. Any resignation or removal of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee. Upon such acceptance, the successor Trustee will mail notice thereof to the Owners at their respective addresses set forth on the Certificate registration books.

## **Funds; Pledge**

The Trust Agreement creates (1) a Project Fund; (2) a Delivery Cost Fund, (3) a Prepayment Fund, (4) a Lease Payment Fund, (5) a Net Proceeds Fund, and (6) a Rebate Fund, each to be held in trust by the Trustee.

**The Project Fund.** The moneys in the Project Fund will be expended for Project Costs. The County will disburse moneys in the Project Fund from time to time to pay Project Costs directly or to reimburse the Office for payment of Project Costs, upon receipt by the County of a Project Cost Requisition signed by the Office Representative. The Trustee will be absolutely protected in making any disbursement from the Project Fund in reliance upon a Project Cost Requisition signed by the Office Representative. Each such Project Cost Requisition will be sufficient evidence to the County of the facts stated therein and the County will have no duty to confirm the accuracy of such facts.

Notwithstanding the foregoing, upon the occurrence of an Event of Default or an event which with notice or lapse of time would constitute an Event of Default, amounts on deposit in the Project Fund will not be disbursed, but shall instead be applied to the payment of debt service or redemption of the Certificates.

**The Delivery Cost Fund.** The moneys in the Delivery Cost Fund will be used and withdrawn by the Trustee from time to time to pay the Delivery Costs upon submission of a Delivery Cost Requisition of the Office stating (a) the person to whom payment is to be made, (b) the amount to be paid, (c) the purpose for which the obligation was incurred, (d) that such payment is a proper charge against the Delivery Cost Fund, and (e) that such amounts have not been the subject of a prior Delivery Cost Requisition. On the earlier of (i) the date which is 90 days after the Closing Date, or (ii) the date of receipt by the Trustee of a Delivery Cost Requisition therefor, all amounts (if any) remaining in the Delivery Cost Fund will be withdrawn therefrom by the Trustee and transferred to the Lease Payment Fund. Thereafter, the Delivery Cost Fund will be closed.

**The Prepayment Fund.** Moneys to be used for prepayment of the Certificates will be deposited into the Prepayment Fund and used solely for the purpose of prepaying the Certificates in advance of their maturity on the date designated for prepayment and upon presentation and surrender of such Certificates to the Trustee. Any funds remaining in the Prepayment Fund after prepayment and payment of all Certificates Outstanding with respect to such Prepayment Fund, including payment of any applicable fees and expenses to the Trustee and any other Additional Payments payable under the Lease, or provision made thereof satisfactory to the Trustee, will be withdrawn by the Trustee and remitted to the Office.

**The Lease Payment Fund.** Lease Payments and any proceeds from the re-letting or any other distribution of the Property pursuant to the Lease will be deposited in or credited to the Lease Payment Fund.

Amounts in the Lease Payment Fund must be used solely for the purpose of paying the principal and interest evidenced by the Certificates as the same become due and payable in accordance with the Trust Agreement, subject to the requirement that certain investment earnings may be transferred to the Rebate Fund as provided in the Trust Agreement, as follows: on each Certificate Payment Date, the Trustee first will set aside an amount sufficient to pay the interest evidenced by the Certificates becoming due and payable on such date, and mail such amount to the Owners; and second will set aside an amount sufficient to pay the principal evidenced by the Certificates becoming due and payable on such Certificate Payment Date.

Any funds remaining in the Lease Payment Fund after payment of all Certificates Outstanding, including accrued interest and payment of any applicable fees, expenses or other amounts to the Trustee pursuant to the Trust Agreement and any other Additional Payments due under the Lease, or provision made therefor satisfactory to the Trustee, and provision for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, will be withdrawn by the Trustee and remitted to the Office.

**The Net Proceeds Fund.** Any Net Proceeds received by the Office in the event of any accident, destruction, theft or taking by eminent domain or condemnation with respect to the Property must be transferred to the Trustee and deposited by the Trustee in the Net Proceeds Fund.

The Trustee will disburse Net Proceeds for replacement or repair of the Property as provided in the Lease, or transfer such proceeds to the Prepayment Fund upon notification of the Office Representative as provided in the Lease for prepayment of all or part of the Certificates. Any balance of the Net Proceeds remaining in the Net Proceeds Fund after replacement or repair has been completed shall be disbursed to the Office. Any amounts remaining in the Net Proceeds Fund after payment or provision for payment of all Certificates, including provision for all amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, shall be paid to the Office as provided in the Trust Agreement.

Proceeds of any policy of title insurance received by the Trustee with respect to the Property shall be applied and disbursed by the Trustee upon the Written Request of the Office as follows:

(i) If the Office determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Lease Payments and Additional Payments payable by the Office under the Lease (such determination to be certified by the Office in writing), such proceeds shall be remitted to the Office and used for any lawful purpose thereof; or

(ii) If the Office determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement of Lease Payments and Additional Payments payable by the Office under the Lease, then the Trustee will immediately deposit such proceeds in the Prepayment Fund and such proceeds shall be applied to the prepayment of Certificates.

**Security Interest in Moneys and Funds.** The Corporation and the Office, as their interests may appear, grant to the Trustee for the benefit of the Owners, and the Trustee for all amounts owing to it, a lien on and a security interest in all moneys in the funds held by the Trustee under the Trust Agreement (excepting only the Rebate Fund and any moneys to be deposited into the Rebate Fund), including without limitation, the Lease Payment Fund, the Prepayment Fund and the Net Proceeds Fund, and all such moneys will be held by the Trustee in trust and applied to the respective purposes specified in the Trust Agreement and in the Lease.

**Pledge of Lease Payments and Proceeds.** The Lease Payments and any proceeds from the re-letting or any other disposition of the Property pursuant to the Lease (the "Lease Proceeds") are irrevocably pledged to and will be used for the punctual payment of the interest and principal represented by the Certificates, the payment of all amounts owing to the Trustee, and except for as permitted under the Trust Agreement with respect to Additional Certificates, the Lease Payments and Lease Proceeds will not be used for any other purpose while any of the Certificates remain Outstanding. This pledge will constitute a first lien on the Lease Payments and Lease Proceeds in accordance with the terms of the Trust Agreement.

#### **Rebate Fund**

Absent an opinion of Special Counsel that the exclusion from gross income for federal income tax purposes of the Interest Component evidenced by the Certificates will not be adversely affected, the Office shall cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Trust Agreement and the Tax Certificate. All amounts at any time on deposit in the Rebate Fund shall be held by the Trustee in trust, to the extent required to satisfy the requirement to make rebate payments to the United States (the "Rebate Requirement") pursuant to Section 148 of the Code and the Treasury Regulations promulgated thereunder (the "Treasury Regulations"). Such amounts shall be free and clear of any lien under this Trust Agreement and shall be governed by the Trust Agreement and by the Tax Certificate executed by the Office. The Trustee shall be deemed conclusively to have complied with the Rebate Requirement and the Tax Certificate if it follows the directions of the Office, and shall have no independent responsibility to, or liability resulting from its failure to, enforce compliance by the Office with the Rebate Requirement.

#### **Moneys in Funds; Investment**

**Held in Trust.** The moneys and investments held by the Trustee under the Trust Agreement are irrevocably held in trust for the benefit of the Owners and, in the case of the Rebate Fund, for payment as required to the United States Treasury, and for the purposes specified in the Trust Agreement, and such moneys, and any income or interest earned thereon, will be expended only as provided in the Trust Agreement, and will not be subject to levy or attachment or lien by or for the benefit of any creditor of the Corporation, the Trustee or the Office, or any of them.

**Investment.** Moneys held by the Trustee under the Trust Agreement will be invested and reinvested on maturity by the Trustee pursuant to the Trust Agreement. The Trustee will report any such investments to the Office on a monthly basis in its regular statements. Such investments and reinvestments will be made giving full consideration for the time at which funds are required to be available based upon information supplied by the Office. Investments purchased with funds on deposit in the Lease Payment Fund and Prepayment Fund will

mature not later than the Certificate Payment Date or prepayment date, as appropriate, immediately succeeding the investment. Notwithstanding anything to the contrary contained in the Trust Agreement, investments purchased should have an average aggregate weighted term to maturity of not greater than five years unless invested as permitted in the Trust Agreement pursuant to which funds may be withdrawn, without penalty, to make payments. Any income, profit or loss on the investment of moneys held by the Trustee under the Trust Agreement will be credited to the respective fund for which it is held, except as otherwise provided in the Trust Agreement.

### **Amendments Permitted**

**With Consent.** The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time, with notice to any rating agency then rating the Certificates, by a supplemental agreement or amendment thereto which will become effective when the written consents of the Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided below, will be filed with the Trustee. No such modification or amendment will (1) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, or diminish the security afforded by the Insurance Policy without the prior written consent of the Owner of such Certificate; or (2) reduce the percentage of Owners whose consent is required for the execution of any amendment of the Trust Agreement or supplement thereto without the prior written consent of the Owners of all Certificates then Outstanding; or (3) modify any of the rights or obligations of the Trustee without its written assent thereto; or (4) amend the section of the Trust Agreement pertaining to amendments without the prior written consent of the Owners of all Certificates then outstanding. The Trustee will have the right to require such opinions of counsel as it deems necessary concerning (i) the lack of material adverse effect of the amendment on Owners; and (ii) that such amendment is authorized or permitted under the terms of the Trust Agreement (and, if applicable, the Lease) and complies with the provisions of the Trust Agreement. Any such supplemental agreement or amendment will become effective as provided in the Trust Agreement.

**Without Consent.** The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement or amendments thereto, with notice to any rating agency then rating the Certificates, but without the consent of any such Owners, but only to the extent permitted by law and only: (1) to add to the covenants and agreements of the Office and the Corporation under the Trust Agreement; (2) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or in the Lease; (3) to make necessary or desirable amendments to the Trust Agreement or the Lease that, in the Opinion of Counsel, do not materially adversely affect the interests of Owners; (4) to substitute the Property, or a portion thereof, in accordance with the Lease; (5) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the Interest Component evidenced by the Certificates; (6) to add to the rights of the Trustee; (7) to maintain the rating or ratings assigned to the Certificates; or (8) to provide for the execution and delivery of Additional Certificates in accordance with the Trust Agreement. No such modification or amendment, however, will modify any of the rights or obligations of the Trustee without its written assent thereto. Any such supplemental agreement will become effective upon execution and delivery by the parties thereto.

### **Limitation of Liability**

**Limited Liability of the Office.** Except for the payment of Lease Payments, Additional Payments and Prepayments when due in accordance with the Lease and the performance of the other covenants and agreements of the Office contained in the Trust Agreement and in the Lease, the Office will have no obligation or liability to any of the other parties or to the Owners with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee.

**No Liability of the Office or Corporation for Trustee Performance.** Except as expressly provided in the Trust Agreement, neither the Office nor the Corporation will have any obligation or liability to any other parties or to the Owners with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

**Limited Liability of Trustee.** The Trustee will have no obligation or responsibility for providing information to the Owners concerning the investment character of the Certificates.

The Trustee makes no representations as to the validity or sufficiency of the Certificates, will incur no responsibility in respect thereof, other than in connection with the duties or obligations in the Trust Agreement or in the Certificates assigned to or imposed upon it. The Trustee will not be responsible for the sufficiency or enforceability of the Lease, Site Lease or Assignment Agreement. The Trustee will not be liable for the sufficiency or collection of any Lease Payments or other moneys required to be paid to it under the Lease (except as provided in the Trust Agreement), its right to receive moneys pursuant to said Lease, or the value of or title to the Property.

The Trustee will have no obligation or liability to any of the other parties or the Owners with respect to the Trust Agreement or failure or refusal of any other party to perform any covenant or agreement made by any of them under the Trust Agreement or the Lease, but will be responsible solely for the performance of the duties and obligations expressly imposed upon it under the Trust Agreement.

The recitals of facts, covenants and agreements in the Trust Agreement and in the Certificates will be taken as statements, covenants and agreements of the Office or the Corporation (as the case may be), and the Trustee assumes no responsibility for the correctness of the same.

#### **Events of Default and Remedies**

**Remedies.** If an Event of Default happens, then, and in each and every such case during the continuance of such Event of Default, the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease; provided, however, that notwithstanding anything in the Trust Agreement or in the Lease to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE MATURITIES OF THE CERTIFICATES OR OTHERWISE TO DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE.

**Application of Funds.** All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or of the Lease, will be deposited into the Lease Payment Fund and be applied by the Trustee after payment of all amounts due and payable under the Trust Agreement and of the Lease in the following order upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid —

*First, Costs and Expenses:* to the payment of the costs, fees and expenses of the Trustee and then of the Owners in declaring such Event of Default and in performing its duties under the Trust Agreement, including reasonable compensation to its or their agents, attorneys and counsel;

*Second, Interest:* to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installment, and, if the amount available will not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

*Third, Principal:* to the payment to the persons entitled thereto of the unpaid principal with respect to any Certificates which will have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest on the overdue principal and interest at a rate equal to the

rate paid with respect to the Certificates and, if the amount available will not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference.

## **Defeasance**

If and when any Outstanding Certificates will be paid and discharged in any one or more of the following ways —

(1) **Payment or Prepayment:** by well and truly paying or causing to be paid the principal of and interest and prepayment premiums (if any) with respect to such Certificates Outstanding, as and when the same become due and payable;

(2) **Cash:** if prior to maturity and having given at least thirty (30) days' prior written notice of prepayment by depositing with the Trustee, in trust, concurrent with the giving of such notice, an amount of cash which (together with cash then on deposit in the Lease Payment Fund together with the interest to accrue thereon, in the event of payment or provision for payment of all Outstanding Certificates) is sufficient to pay such Certificates Outstanding, including all principal and interest and premium, if any; or

(3) **Defeasance Securities:** by irrevocably depositing with the Trustee, in trust, Defeasance Securities together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon (and, in the event of payment or provision for payment of all Outstanding Certificates, moneys then on deposit in the Lease Payment Fund together with the interest to accrue thereon), be fully sufficient to pay and discharge such Certificates (including all principal and interest represented thereby and prepayment premiums if any) at or before their maturity date;

and all other amounts due under the Trust Agreement have been paid in full, then, notwithstanding that any Certificates will not have been surrendered for payment, all obligations of the Corporation, the Trustee and the Office with respect to such Certificates will cease and terminate, except only the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the Office from funds deposited pursuant to paragraphs (2) and (3) above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (2) and (3) above, the Certificates will continue to represent direct and proportionate interests of the Owners thereof in the Lease Payments under the Lease.

Prior to any defeasance becoming effective under the Trust Agreement, the Office will cause to be delivered at least five business days prior to any defeasance becoming effective (i) an executed copy of a report, addressed to the Trustee and the Office, in form and substance acceptable to the Office of a nationally recognized firm of certified public accountants, verifying that the Defeasance Securities and cash, if any, satisfy the requirements described above; (ii) a copy of the escrow deposit agreement entered into in connection with such defeasance; and (iii) a copy of an Opinion of Special Counsel, dated the date of such defeasance and addressed to the Trustee and the Office in form and substance acceptable to the Trustee and the Office, to the effect that such Certificates are no longer Outstanding under the Trust Agreement.

Notwithstanding the foregoing, if the defeasance is given effect by means of a cash deposit only, the escrow deposit agreement referenced above shall not be required, though the other requirements described above shall still apply.

Any funds held by the Trustee, at the time of payment or provision for payment of all Outstanding Certificates pursuant to one of the procedures described in the Trust Agreement, which are not required for the

payment to be made to Owners, will be paid over to the Office, after the payment of any amounts due to the Trustee pursuant to the Trust Agreement, and any other Additional Payments due under the Lease.

#### THE ASSIGNMENT AGREEMENT

The Assignment Agreement provides for the transfer, assignment and setting over by the Corporation to the Trustee, for the benefit of the Owners of Certificates, all of the Corporation's rights under the Lease (excepting only the Corporation's rights to recover attorneys' fees and expenses in the event the Corporation is a non-defaulting party to a Lease after a default), including, without limitation: (1) the right to receive and collect all of the Lease Payments, Additional Payments, Prepayments from the Office under the Lease; (2) the right to receive and collect any proceeds of any insurance maintained pursuant to the Lease, or any condemnation award rendered with respect to the Property or any lease of the Property in the event of a default by the Office under the Lease; (3) the right to take all actions and give all consents under the Lease; (4) the right to exercise such rights and remedies conferred on the Corporation under the Lease as may be necessary or convenient (a) to enforce payment of the Lease Payments, Additional Payments, Prepayments and any other amounts required to be deposited in the Lease Payment Fund, the Prepayment Fund, the Net Proceeds Fund or any other fund established under the Trust Agreement, or (b) otherwise to protect the interests of the Corporation in the event of a default by the Office under the Lease; and (5) the right of the Corporation be paid its fees and expenses for re-leasing the Property upon events of default under the Lease. The Trustee accepts such assignment for the benefit of the Owners of the Certificates, subject to the provisions of the Trust Agreement.

#### THE SITE LEASE

Pursuant to the Site Lease, the Office, as lessor, leases to the Corporation, as lessee, right, title and interest in the Property. The term of the Site Lease will commence as of the date of the Lease to the Site Lease and will remain in effect until the expiration of the term of such Lease. The Property will be simultaneously leased back to the Office under the Lease, and title will remain in the Office.

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## APPENDIX B

### ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY

*The following information has been obtained from 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 Office or the Underwriter. The following information concerning the County is included only for the purpose of supplying general information regarding the area served by the Office. The Certificates are not a debt of the County.*

#### Introduction

**Santa Cruz County.** The County, one of nine counties which comprise the greater San Francisco Bay Area, covers an area of over 15.8 square miles and 3.1 square miles is water. Santa Cruz County is on the northern edge of Monterey Bay and is a popular tourist destination with its beaches. The principal industries of Santa Cruz are agriculture, tourism, education (UC Santa Cruz) and high technology. Santa Cruz County is a center of the organic agriculture movement, and many specialty products. Major transportation routes in the county include highway State Routes 1 and 17. Santa Cruz County is also home to a municipal airport, Amtrak services, and Greyhound bus lines. The City of Santa Cruz is the County seat.

#### Population

The following table shows historical population statistics from 2021 through 2025 for the cities in the County, and the County.

#### POPULATION ESTIMATES<sup>(1)</sup> Cities of Santa Cruz County and the County Total Calendar Years 2021 through 2025

Area	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
Capitola	10,091	9,692	9,698	9,704	9,670
Santa Cruz	57,094	62,811	63,071	62,861	62,972
Scotts Valley	12,274	11,944	11,906	11,836	11,831
Watsonville	52,176	51,053	50,845	50,860	51,101
Balance Of County	134,533	129,081	128,730	128,193	128,136
Incorporated	<u>131,635</u>	<u>135,500</u>	<u>135,520</u>	<u>135,261</u>	<u>135,574</u>
<b>County Total</b>	<b>266,168</b>	<b>264,581</b>	264,250	<b>263,454</b>	<b>263,710</b>

<sup>(1)</sup> Population estimates for January 1<sup>st</sup> for the counties and cities.

Source: *California State Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2021-2025, with 2020 Census Benchmark.* Sacramento, California, May 2025.

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## Employment

The County, State and United States civilian labor force figures are shown in the following table for the years 2020 through 2024.

### LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT<sup>(1)</sup> Santa Cruz County, California, And United States Calendar Years 2020 through 2024

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate <sup>(2)</sup>
<b>2020</b>				
Santa Cruz County	135,700	122,700	13,000	9.6%
California	18,958,600	17,037,000	1,921,600	10.1
United States	160,742,000	147,795,000	12,947,000	8.1
<b>2021</b>				
Santa Cruz County	133,000	124,000	8,900	6.7%
California	18,956,600	17,568,700	1,387,800	7.3
United States	161,204,000	152,581,000	8,623,000	5.3
<b>2022</b>				
Santa Cruz County	133,900	127,500	6,400	4.8%
California	19,169,300	18,348,900	820,400	4.3
United States	164,287,000	158,291,000	5,996,000	3.6
<b>2023</b>				
Santa Cruz County	135,100	127,700	7,500	5.5%
California	19,308,300	18,388,300	920,000	4.8
United States	167,116,000	161,037,000	6,080,000	3.6
<b>2024</b>				
Santa Cruz County	136,100	128,000	8,100	5.9%
California	19,644,100	18,600,900	1,046,100	5.3
United States	168,106,000	161,346,000	6,761,000	4.0

<sup>(1)</sup> The unemployment rate is calculated using unrounded data. Data may not add due to rounding.

<sup>(2)</sup> Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Source: *California State Employment Development Department, and U.S. Bureau of Labor Statistics.*

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## Industry

Service providing, educational and health services are the largest employers in the County followed by professional and business services. The table below shows the estimated employment by industry group for 2020 through 2024.

**EMPLOYMENT BY INDUSTRY<sup>(1)</sup>**  
**Santa Cruz County**  
**Calendar Years 2020 through 2024**

Industry	2020	2021	2022	2023	2024
Total Farm	8,000	7,200	7,100	6,900	7,400
Total Nonfarm	93,900	96,500	99,400	99,700	100,100
Goods Producing	11,300	12,200	13,000	13,000	13,300
Manufacturing	6,800	7,500	7,900	7,900	8,200
Service Providing	82,600	84,300	86,400	86,700	86,700
Wholesale Trade	3,300	3,300	3,500	3,200	2,900
Retail Trade	10,800	11,000	11,000	10,800	10,600
Transportation, Warehousing, Utl.	1,700	2,000	2,200	2,100	2,100
Information	600	600	700	700	700
Financial Activities	3,200	3,200	3,300	3,300	3,400
Professional Business and Services	10,400	10,600	10,700	9,900	9,500
Private Education and Health	17,100	17,200	17,700	18,600	19,400
Leisure and Hospitality	10,300	11,800	14,000	14,400	14,400
Other Services	4,400	4,300	4,700	4,700	4,700
Government	21,100	20,200	18,800	19,100	19,100
Total	101,900	103,700	106,400	106,600	107,500

<sup>(1)</sup> Data not seasonally adjusted; Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Source: *State of California Employment Development Department Labor Market Information Division*, Industry Employment and Labor Force by Annual Average, March 2024 Benchmark. Sacramento, California, May 2025.

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## Major Employers

The County has a diverse mix of major employers representing industries ranging from agriculture and government to health services. The following table lists the County’s major employers.

### MAJOR EMPLOYERS Santa Cruz County Calendar Year of 2025

Employer	Location	Industry
Allied Universal	Soquel	Security Systems
Ameri-Kleen	Watsonville	Services NEC
Anita's Housekeeping Referral	Capitola	House Cleaning
Audiology Associates	Soquel	Clinics
Cabrillo Sesnon House 1	Aptos	Caterers
Creekside Farms Inc	Watsonville	Farms
Dominican Hospital	Santa Cruz	Hospitals
First Alarm	Aptos	Burglar Alarm Systems (whls)
Granite Construction Co	Watsonville	General Contractors
Granite Construction Inc	Watsonville	Construction-Building Contractors
Graniterock	Watsonville	Asphalt & Asphalt Products
Larse Farms Inc	Watsonville	Fruits & Vegetables-Growers & Shippers
Monterey Mushrooms LLC	Watsonville	Mushrooms
Operations Department	Santa Cruz	Transit Lines
Plantronics Inc	Santa Cruz	Telephone & Telegraph Apparatus (mfrs)
Safeway	Soquel	Grocers-Retail
Salud Para La Gente	Watsonville	Clinics
Santa Cruz County Sheriff	Santa Cruz	Government Offices-County
Santa Cruz Governmental Ctr	Santa Cruz	Government Offices-County
Santa Cruz Health Ctr	Santa Cruz	Clinics
Santa Cruz Metro	Santa Cruz	Bus Lines
Source Naturals	Scotts Valley	Vitamin Products-Manufacturers
University of CA Santa Cruz	Santa Cruz	Schools-Universities & Colleges Academic
Watsonville City Sewer Dept	Watsonville	City Government-Regulation & Admin
Whiting Properties LLC	Santa Cruz	Real Estate Management

Source: California Employment Development Department, extracted from the America's Labor Market Information System (ALMIS) Employer Database, 2026 1<sup>st</sup> Edition.

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## Income

The following tables show the personal income and per capita personal income for the County, the State of California and the United States from 2019 through 2023.

### PERSONAL INCOME Santa Cruz County, State of California, and United States Calendar Years 2019 through 2023 (in thousands)

Year	Santa Cruz County	California	United States
2019	\$18,960,307	\$2,539,747,399	\$18,349,584,000
2020	20,888,945	2,769,103,047	19,600,945,000
2021	23,007,425	3,009,556,560	21,403,979,000
2022	22,005,209	3,003,826,087	22,077,232,000
2023	23,168,187	3,166,135,354	23,380,262,000

Source: *U.S. Bureau of Economic Analysis*, SAINC1 State annual personal income summary: personal income, population, per capita personal income and CAINC1 County and MSA personal income summary: personal income, population, per capita personal income (accessed Thursday, January 29, 2026).

### PER CAPITA PERSONAL INCOME<sup>(1)</sup> Santa Cruz County, State of California, and United States Calendar Years 2019 through 2023

Year	Santa Cruz County	California	United States
2019	\$69,402	\$64,219	\$55,566
2020	77,231	70,098	59,153
2021	88,329	76,882	64,460
2022	83,277	76,941	66,244
2023	88,581	81,255	69,810

<sup>(1)</sup> Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).

Source: *U.S. Department of Commerce, Bureau of Economic Analysis*.

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## Commercial Activity

A summary of historic taxable sales in the County from 2020 through 2024 (the most recent annual data available) is shown in the following tables.

### VALUATION OF TAXABLE TRANSACTIONS Santa Cruz County Fiscal Years 2020 through 2024

Year	Retail and Food Permits	Retail and Food Taxable Transactions	Total Permits	Total Outlets Taxable Transactions
2020	6,397	\$2,988,563,526	11,095	\$3,965,759,547
2021	5,566	3,433,758,812	9,801	4,575,986,078
2022	5,587	3,592,319,157	10,007	4,846,272,318
2023	5,264	3,627,341,068	9,524	4,866,535,909
2024	5,188	3,618,873,438	9,439	4,897,596,297

*Source:* California Department of Tax and Fee Administration.

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**APPENDIX C**

**PROPOSED FORM OF OPINION OF SPECIAL COUNSEL**

[closing date]

Board of Education  
Santa Cruz County Office of Education  
400 Encinal Street  
Santa Cruz, California

Re:     \$ \_\_\_\_\_ Certificates of Participation (2026 Capital Projects) (Bank Qualified)  
          Evidencing the Fractional Interests of the Owners thereof in Lease Payments to be Made by  
          Santa Cruz County Office of Education

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the Santa Cruz County Office of Education (the "Office") in connection with the authorization, execution and delivery by the Office of that certain Lease Agreement, dated as of May 1, 2026 (the "Lease"), by and between the California School Boards Association Finance Corporation (the "Corporation") and the Office. We have also reviewed that certain Trust Agreement, dated as of May 1, 2026 (the "Trust Agreement"), by and among U.S. Bank Trust Company, National Association, as trustee (the "Trustee"), the Corporation and the Office. All capitalized terms used herein shall have the meaning given them in the Trust Agreement unless otherwise defined.

Pursuant to the Trust Agreement, the Trustee will execute and deliver the \$ \_\_\_\_\_ Certificates of Participation (2026 Capital Projects) (the "Certificates") evidencing undivided proportionate interests of the owners of the Certificates in lease payments (the "Lease Payments") to be made by the Office pursuant to the Lease. Pursuant to that certain Assignment Agreement, dated as of May 1, 2026 (the "Assignment Agreement"), the Corporation has assigned to the Trustee the Corporation's right to receive Lease Payments and certain other amounts paid by the Office under the Lease.

The Certificates are dated their date of delivery. The Certificates mature on the dates and in the amounts set forth in the Trust Agreement. Interest due with respect to the Certificates is payable on the dates and at the rates per annum set forth in the Trust Agreement. The Certificates are registered Certificates in the form set forth in the Trust Agreement and are subject to optional and extraordinary prepayment prior to maturity in the manner and upon the terms set forth in the Trust Agreement.

In rendering the opinions set forth below, we have examined certified copies of the proceedings of the Office and the Corporation, and other information submitted to us relative to the execution and delivery of the Certificates. We have examined originals, or copies identified to our satisfaction as being true copies, of the Trust Agreement, the Lease, the Site Lease, dated as of May 1, 2026 (the "Site Lease"), by and between the Corporation and the Office, the Tax Certificate relating to the Certificates, the resolutions of the Office and the Corporation adopted with respect to the Certificates, and such other documents, agreements, opinions and matters as we have considered necessary or appropriate under the circumstances to render the opinions set forth herein.

We have assumed the genuineness of all documents and signatures presented to us, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies. We have

not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions referred to in the preceding paragraph of this opinion. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Lease and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause the interest due with respect to the Certificates to be included in gross income for federal income tax purposes.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

- (1) The Office is duly organized and legally existing under the laws of the State of California.
- (2) The obligation of the Office to pay Lease Payments in accordance with the terms of the Lease is a legal, valid and binding obligation payable from the funds of the Office lawfully available therefor, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against school districts in the State of California. The obligation of the Office to make Lease Payments under the Lease does not constitute a debt of the Office, the State of California or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and does not constitute a pledge of the faith and credit or taxing power of the Office, the State of California or any political subdivision thereof.
- (3) The Lease, the Site Lease and the Trust Agreement have been duly authorized, executed and delivered by the Office and constitute valid and legally binding agreements of the Office enforceable against the Office in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against school districts in the State of California, except that we express no opinion as to any provisions in the Lease or the Trust Agreement with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.
- (4) Interest with respect to the Certificates is excluded from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended.
- (5) Interest with respect to the Certificates is exempt from personal income taxes of the State of California.

Ownership of tax-exempt obligations such as the Certificates may result in collateral tax consequences. The nature and extent of these other tax consequences will depend upon the particular tax status of the owner of the Certificates or such owner's other items of income or deduction. We express no opinion with respect to any federal, state, or local tax consequences, under present law or any proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Our opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of results.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreement, the Tax Certificate executed by the Office and other documents related to the Certificates may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of the portion of each Certificate constituting interest if any such change occurs or action is taken or omitted upon advice or approval of counsel other than Dannis Woliver Kelley.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Lease, the Site Lease and the Assignment Agreement or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement as Special Counsel terminates upon the execution and delivery of the Certificates.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Preliminary Official Statement relating to the Certificates or other offering material relating to the Certificates and expressly disclaim any duty to advise the owners of the Certificates with respect to matters contained in the Preliminary Official Statement.

Respectfully submitted,

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**APPENDIX D**

**SANTA CRUZ COUNTY SUPERINTENDENT OF SCHOOLS  
AUDITED FINANCIAL STATEMENTS  
FOR FISCAL YEAR ENDED JUNE 30, 2025**

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Financial Statements  
June 30, 2025

# Santa Cruz County Superintendent of Schools

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## Independent Auditor's Report

To the Governing Board  
Santa Cruz County Superintendent of Schools  
Santa Cruz, California

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Cruz County Superintendent of Schools (the County), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Santa Cruz County Superintendent of Schools, as of June 30, 2025, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### *Adoption of New Accounting Standard*

As discussed in Note 15 to the financial statements, the County has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences* for the year ended June 30, 2025. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2024, to restate beginning net position. Our opinions are not modified with respect to this matter.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the County's net OPEB liability and related ratios, schedule of the County's proportionate share of the net OPEB liability – MPP program, schedule of the County's proportionate share of the net pension liability - CalSTRS, schedule of the County's proportionate share of the net pension liability - CalPERS, schedule of the County's contributions - CalSTRS, and schedule of the County's contributions - CalPERS be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, combining non-major governmental fund financial statements, and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Expenditures of Federal Awards, combining non-major governmental fund financial statements, and other supplementary information listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Information***

Management is responsible for the other information included in the financial statements. The other information comprises the Local Education Agency Organization Structure but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2026 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fresno, California  
March 9, 2026



## Introduction

This section of Santa Cruz County Superintendent of Schools (the County) annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended on June 30, 2025 with comparative information for the year ended June 30, 2024. Please read it in conjunction with the County's financial statements, which immediately follow this section.

## Financial Highlights

- Total net position was \$46,999,454 on June 30, 2025.
- Overall revenues for the County were \$92,347,242 while expenditures were \$82,234,729.
- The total long-term obligations other than OPEB and pension were \$4,552,235, which primarily includes \$4,163,041 compensated absences (implementation of GASB 101).

## Overview of Financial Statements

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, and required supplementary information. These sections together provide a comprehensive overview of the Santa Cruz County Superintendent of Schools. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position using the economic resources measurement focus and accrual basis of accounting.
- **Fund financial statements** focus on reporting the individual parts of the County operations in more detail. The fund financial statements include statements for two categories of activities: governmental and fiduciary.
  - **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending. The statements are prepared using the current financial resources measurement focus and modified accrual basis of accounting.
  - **Fiduciary fund** statements provide information about the financial relationships in which the County acts solely as a trustee or agent for the benefit of others, to whom the resources belong. The statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements.

### Government-Wide Statements

The government-wide statements report information about the County as a whole, using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources.

All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid.

The two government-wide statements report the County's net position and how it has changed. Net position – the difference between the assets and deferred outflows of resources, and liabilities and deferred inflows of resources – is one way to measure the County's financial health or position. Over time, increases or decreases in the County's net position are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the County, one needs to consider additional non-financial factors such as changes in enrollment, changes in the property tax base, changes in program funding by the Federal and State governments, and condition of facilities.

The government-wide financial statements of the County include government activities. Most of the County's basic services are included here, such as regular education, food service, maintenance, and general administration. Property taxes, interest income, user fees, federal, state, and local grants finance most of these activities.

### Fund Financial Statements

The fund financial statements provide more detailed information about the County's most significant funds, not the County as a whole. Funds are accounting devices that the County uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Board of Education establishes other funds to control and manage money for particular purposes or to show that the County is meeting legal responsibilities for using certain revenues. The County has two kinds of funds:

Governmental funds - Most of the County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps in the determination of whether there are more, or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the reconciliation schedules of the government funds statement that explains the relationship (or differences) between them.

Fiduciary fund - The County is the custodian for assets that belong to the Michael Watkins Scholarship Fund. The County is responsible to distribute the scholarships as directed by a committee of community members outside the County's employ. The County's fiduciary fund reports custodial activities in a separate statement of fiduciary net position. We exclude these activities from the County-wide financial statements because the County cannot use the assets to finance its operations.

**Financial Analysis of the Entity as A Whole**

**Net Position**

The County's net position was \$46,999,454 for the fiscal year ended June 30, 2025. Of this amount, \$6,604,341 was unrestricted. Restricted net position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use net position for day-to-day operations. Our analysis below, in summary form, focuses on the net position (Table 1) and change in net position (Table 2) of the County's governmental activities.

**Table 1**

	Governmental Activities	
	2025	2024*
Assets		
Current and other assets	\$ 74,516,176	\$ 69,619,535
Capital assets	21,104,422	21,147,849
Total assets	<u>95,620,598</u>	<u>90,767,384</u>
Deferred Outflows of Resources	<u>17,205,750</u>	<u>19,136,620</u>
Liabilities		
Current liabilities	13,005,930	12,424,231
Long-term liabilities	47,486,078	52,279,561
Total liabilities	<u>60,492,008</u>	<u>64,703,792</u>
Deferred Inflows of Resources	<u>5,334,886</u>	<u>5,293,054</u>
Net Position		
Net investment in capital assets	20,715,228	14,479,694
Restricted	19,679,885	10,827,879
Unrestricted	6,604,341	14,599,585
Total net position	<u>\$ 46,999,454</u>	<u>\$ 39,907,158</u>

\* Amounts have not been restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

The \$46,999,454 in total net position of governmental activities represents the accumulated results of all past years’ operations. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased by \$7,995,244.

**Changes in Net Position**

The results of this year’s operations for the County as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

**Table 2**

	Governmental Activities	
	2025	2024*
<b>Revenues</b>		
Program revenues		
Charges for services and sales	\$ 7,987,143	\$ 8,434,443
Operating grants and contributions	29,210,005	29,101,840
Capital grants and contributions	15,640	29,083
General revenues		
Federal and State aid not restricted	29,837,163	27,917,475
Property taxes and other taxes	18,550,700	17,370,544
Other general revenues	6,746,591	3,604,060
Total revenues	<u>92,347,242</u>	<u>86,457,445</u>
<b>Expenses</b>		
Instruction-related	41,374,662	40,252,895
Pupil services	7,877,333	6,626,446
Administration	10,798,699	9,586,013
Plant services	5,723,944	4,751,364
All other services	16,460,091	16,866,612
Total expenses	<u>82,234,729</u>	<u>78,083,330</u>
Change in net position	<u>\$ 10,112,513</u>	<u>\$ 8,374,115</u>

\* The expenses for the year ended June 30, 2024, were not restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

**Governmental Activities**

As reported in the *Statement of Activities*, the cost of all of our governmental activities this year was \$82,234,729. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$18,550,700 because the cost was paid by those who benefited from the programs of \$7,987,143 or by other governments and organizations who subsidized certain programs with grants and contributions of \$29,210,005 and capital grants and contributions of \$15,640. We paid for the remaining “public benefit” portion of our governmental activities with \$36,583,754 in Federal and State funds, and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost and net cost of each of the County’s largest functions: instruction-related including, special instruction programs and other instructional programs, pupil services, administration, plant services, and all other services. As discussed above, net cost shows the financial burden that was placed on the County’s taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**Table 3**

	Total Cost of Services		Net Cost of Services	
	2025	2024*	2025	2024*
Instruction-related	\$ 41,374,662	\$ 40,252,895	\$ (22,855,234)	\$ (21,726,970)
Pupil services	7,877,333	6,626,446	(2,989,491)	(2,395,681)
Administration	10,798,699	9,586,013	(8,987,238)	(7,804,873)
Plant services	5,723,944	4,751,364	(4,508,095)	(3,094,461)
All other services	16,460,091	16,866,612	(5,681,883)	(5,495,979)
<b>Total</b>	<b>\$ 82,234,729</b>	<b>\$ 78,083,330</b>	<b>\$ (45,021,941)</b>	<b>\$ (40,517,964)</b>

\* The expenses for the year ended June 30, 2024, were not restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

**Financial Analysis of the County’s Funds**

The positive financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance (modified accrual reporting method) of \$56,722,509.

**Table 4**

Governmental Fund	Balances and Activity			June 30, 2025
	July 1, 2024	Revenues and Other Financing Sources	Expenditures and Other Financing Uses	
General	\$ 41,126,110	\$ 82,853,071	\$ 70,151,423	\$ 53,827,758
Charter Schools	1,828,670	3,650,137	3,524,859	1,953,948
Special Education Pass-Through	197,149	8,755,130	8,478,715	473,564
Child Development	197,580	1,685,304	1,635,585	247,299
Cafeteria	88,189	104,972	166,386	26,775
County School Facilities	662,844	37,577	557,685	142,736
Special Reserve Fund for Capital				
Outlay Projects	3,347,654	1,629,478	4,926,703	50,429
Debt Service	6,560,590	186,201	6,746,791	-
<b>Total</b>	<b>\$ 54,008,786</b>	<b>\$ 98,901,870</b>	<b>\$ 96,188,147</b>	<b>\$ 56,722,509</b>

**General Fund Budgetary Highlights**

Over the course of the year, the County revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 12, 2025. (A schedule showing the County’s original and final budget amounts compared with amounts actually paid and received is provided in our annual report.)

**Capital Assets and Long-Term Liabilities**

**Capital Assets**

On June 30, 2025, the County had invested \$21,104,422 (net of depreciation and amortization expenses) in a broad range of capital assets and right-to-use leased assets, including land, buildings, and furniture and equipment, and right-to-use leased assets, (see Table 5 below). This year's additions included four cargo vans, two Chrysler Pacificas and completed Switch Redundancy & Distribution and 400 Encinal Parking Lot Improvements projects. More detailed information about the County's capital assets is presented in the notes to the financial statements.

**Table 5**

	Governmental Activities	
	2025	2024
Land and construction in progress	\$ 4,064,003	\$ 4,230,406
Buildings and improvements	15,375,472	15,947,379
Equipment	1,277,872	915,795
Right-to-use leased assets	387,075	54,269
<b>Total</b>	<b>\$ 21,104,422</b>	<b>\$ 21,147,849</b>

**Long-Term Liabilities**

At year end, the County had \$47,486,078 in long-term liabilities, which consisted of net pension liability, net OPEB liability (MPP), compensated absences, and lease agreements as shown in Table 6. More detailed information about the County's debt is presented in the notes to the financial statements.

**Table 6**

	Governmental Activities	
	2025	2024*
Long-Term Liabilities		
Leaseback financing (funding of COPS)	\$ -	\$ 6,612,042
Other leases	389,194	56,113
Compensated absences	4,163,041	475,417
Net OPEB liability (MPP)	78,515	88,865
Aggregate net pension liability	42,855,328	45,047,124
<b>Total</b>	<b>\$ 47,486,078</b>	<b>\$ 52,279,561</b>

\* Amounts have not been restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

The County reported deferred outflows of resources from pension activities of \$15,070,166, and deferred inflows of resources from pension activities of \$3,996,153, which along with the aggregate net pension liability of \$42,855,328, had a negative impact on the County's net position of \$31,781,315.

**Significant Accomplishments of Fiscal Year 2024 - 2025 are Noted Below:**

**Project ASCEND:**

The COE and partners launched Project ASCEND, a countywide diversion and intervention model providing restorative, trauma-informed alternatives to incarceration for youth referred for non-violent offenses. Developed with law enforcement, education, and community partners, ASCEND strengthens early intervention through rapid engagement, coordinated case management, restorative practices, and competency-building supports. Modeled on Watsonville's proven diversion program, ASCEND positions the county to divert most eligible youth into services while reducing recidivism and aligning responses across agencies.

**Wellness Centers:**

The COE supported the opening of the first three comprehensive high-school Wellness Centers at Scotts Valley, Harbor, and Soquel High Schools, marking the initial phase of a countywide system designed to integrate prevention, early intervention, and coordinated care. Built on a three-tiered model and supported through statewide behavioral-health investments, these centers expand access to mental-health supports, normalize help-seeking, and offer a consistent structure for campus-based services. Implementation of the School-Linked Multi-Payer Fee Schedule and development of a Wellness Coach workforce further strengthened sustainable, school-embedded behavioral-health capacity.

**Family Engagement:**

Countywide family-engagement systems expanded through professional learning, coordinated district support, and targeted efforts to serve multilingual, newcomer, and mixed-status families. The COE established an Immigrant Community Support Plan, delivered rights-based and trauma-informed training, and created clear protocols for responding to immigration-related inquiries. In partnership with community organizations, the COE launched SusDerechos.info, a multilingual resource hub offering legal information, emergency-preparedness materials, and guidance for families. These efforts enhanced staff readiness, improved access to accurate information, and reinforced schools as safe and welcoming environments.

**Student Leadership:**

The COE's Youth Led Leadership Alliance broadened its reach across seven student-led groups and received the prestigious CSBA Golden Bell Award and United Way Partner of the Year for its countywide impact. Students advanced initiatives in environmental action, arts-based civic engagement, multilingual representation, mental-health awareness, and LGBTQ+ visibility. The Student Trustee Academy completed its fourth year, preparing youth for governance roles and strengthening student participation in district and county decision-making.

**Math Initiative:**

Organized by the COE, Santa Cruz County Math Initiative completed the first year of a three-year countywide effort to improve math instruction and student outcomes. More than 140 educators from 14 districts and charters collaborated on data analysis, application of the 2023 Math Framework, and shared strategies to support equitable, high-quality math learning. This work established a unified network of math leaders and set the foundation for strengthened instructional coherence and student engagement in the years ahead

**Educator Development:**

Educator pipelines expanded through the New Teacher Project, ed.PATH, and new regional partnerships. The New Teacher Project provided intensive induction support to early-career educators, while ed.PATH launched a local SJSU special-education credential cohort and increased financial and navigational supports for classified staff and community members entering the teaching profession. Additional networks, including the Science Educators' Network and arts-education pathways supported by Proposition 28, advanced targeted professional learning and helped strengthen long-term workforce capacity across the county.

**Economic Factors and Next Year's Budgets**

The Santa Cruz COE will continue its practice of budgeting conservatively, always ensuring that COLA calculations are softer than the projections, and that expenditure assumptions are as all-inclusive as possible. This strategy has enabled the COE to build adequate reserves and position itself for uncertainty. Faced with major impacts resulting from Federal funding shifts, this approach has served the COE well in navigating this period of significant instability. The COE is committed to continuing to make strategic changes to programs and pursue grant funding to be able to offer programs that were previously funded under categorical programs, in particular those that relied on Federal funding. These changes have enabled the Santa Cruz COE to offer compensation that allows it to continue to attract highly qualified teachers and staff by continuing to be competitive in the market.

County wide enrollment continues to decline, thereby impacting the calculation of revenue for the Santa Cruz COE. The COE's programs, however, remain strong and are in some instances seeing increased enrollment in both the Career Advancement Charter as well as Alternative Education.

**Contacting the County's Financial Management**

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Rebecca Olker, Interim Deputy Superintendent, Deputy Superintendent, Business Services, at (831) 466-5601.

Santa Cruz County Superintendent of Schools

Statement of Net Position

June 30, 2025

	Governmental Activities
<b>Assets</b>	
Deposits and investments	\$ 61,527,224
Receivables	8,192,567
Prepaid expense	8,648
Other current assets - other postemployment benefits plan asset	4,787,737
Capital assets not depreciated or amortized	4,064,003
Capital assets, net of accumulated depreciation and amortization	17,040,419
Total assets	95,620,598
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to OPEB	2,135,584
Deferred outflows of resources related to pensions	15,070,166
Total deferred outflows of resources	17,205,750
<b>Liabilities</b>	
Accounts payable	11,442,038
Unearned revenue	1,563,892
Long-term liabilities	
Long-term liabilities other than OPEB and pensions due within one year	1,196,151
Long-term liabilities other than OPEB and pensions due in more than one year	3,356,084
Net other postemployment benefits liability (OPEB) - MPP	78,515
Aggregate net pension liabilities	42,855,328
Total liabilities	60,492,008
<b>Deferred Inflows of Resources</b>	
Deferred inflows of resources related to OPEB	1,338,733
Deferred inflows of resources related to pensions	3,996,153
Total deferred inflows of resources	5,334,886
<b>Net Position</b>	
Net investment in capital assets	20,715,228
Restricted for	
Capital projects	141,420
Educational programs	19,512,394
Child nutrition	26,071
Unrestricted	6,604,341
Total net position	\$ 46,999,454

Santa Cruz County Superintendent of Schools

Statement of Activities  
Year Ended June 30, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities</b>					
Instruction	\$ 23,352,494	\$ 777,029	\$ 9,833,936	\$ 15,640	\$ (12,725,889)
Instruction-related activities					
Supervision of instruction	10,192,102	2,420,247	2,901,303	-	(4,870,552)
Instructional library, media, and technology	1,086,213	7,726	2,597	-	(1,075,890)
School site administration	6,743,853	609,329	1,951,621	-	(4,182,903)
Pupil services					
Food services	166,386	-	147,380	-	(19,006)
All other pupil services	7,710,947	1,213,168	3,527,294	-	(2,970,485)
Administration					
Data processing	2,814,904	6,945	10,737	-	(2,797,222)
All other administration	7,983,795	340,602	1,453,177	-	(6,190,016)
Plant services	5,723,944	844,776	371,073	-	(4,508,095)
Ancillary services	25,108	11,613	3,904	-	(9,591)
Community services	3,596,362	841,172	2,507,580	-	(247,610)
Interest on long-term liabilities	79,308	-	-	-	(79,308)
Other outgo	12,759,313	914,536	6,499,403	-	(5,345,374)
Total governmental activities	<u>\$ 82,234,729</u>	<u>\$ 7,987,143</u>	<u>\$ 29,210,005</u>	<u>\$ 15,640</u>	<u>(45,021,941)</u>
<b>General Revenues and Subventions</b>					
Property taxes, levied for general purposes					17,252,201
Taxes levied for other specific purposes					1,298,499
Federal and State aid not restricted to specific purposes					29,837,163
Interest, investment earnings and fair value adjustments					4,586,916
Miscellaneous					2,159,675
Subtotal, general revenues and subventions					<u>55,134,454</u>
Change in Net Position					<u>10,112,513</u>
Net Position - Beginning, as previously reported					39,907,158
Adjustments (Note 15)					<u>(3,020,217)</u>
Net Position - Beginning, as restated					<u>36,886,941</u>
Net Position - Ending					<u>\$ 46,999,454</u>

Santa Cruz County Superintendent of Schools

Balance Sheet – Governmental Funds

June 30, 2025

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Deposits and investments	\$ 52,825,338	\$ 544,043	\$ 8,157,843	\$ 61,527,224
Receivables	5,544,450	1,958,500	689,617	8,192,567
Due from other funds	4,612,199	-	37,225	4,649,424
Prepaid expenditures	8,573	-	75	8,648
<b>Total assets</b>	<b>\$ 62,990,560</b>	<b>\$ 2,502,543</b>	<b>\$ 8,884,760</b>	<b>\$ 74,377,863</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 8,479,519	\$ 1,946,163	\$ 1,016,356	\$ 11,442,038
Due to other funds	38,588	82,816	4,528,020	4,649,424
Unearned revenue	644,695	-	919,197	1,563,892
<b>Total liabilities</b>	<b>9,162,802</b>	<b>2,028,979</b>	<b>6,463,573</b>	<b>17,655,354</b>
<b>Fund Balances</b>				
Nonspendable	525,807	-	1,391	527,198
Restricted	18,669,032	473,564	537,289	19,679,885
Committed	1,385,964	-	-	1,385,964
Assigned	29,631,436	-	1,882,507	31,513,943
Unassigned	3,615,519	-	-	3,615,519
<b>Total fund balances</b>	<b>53,827,758</b>	<b>473,564</b>	<b>2,421,187</b>	<b>56,722,509</b>
<b>Total liabilities and fund balances</b>	<b>\$ 62,990,560</b>	<b>\$ 2,502,543</b>	<b>\$ 8,884,760</b>	<b>\$ 74,377,863</b>

Santa Cruz County Superintendent of Schools  
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
June 30, 2025

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Total Fund Balance - Governmental Funds		\$ 56,722,509
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 38,533,206	
Accumulated depreciation and amortization is	<u>(17,428,784)</u>	
Net capital assets		21,104,422
Deferred outflows of resources represent a consumption of net position in a future period and is not reported in the governmental funds. Deferred outflows of resources amounted to and related to		
Other postemployment benefits (OPEB)	2,135,584	
Net pension liability	<u>15,070,166</u>	
Total deferred outflows of resources to pensions		17,205,750
Deferred inflows of resources represent an acquisition of net position that applies to a future period and is not reported in the governmental funds. Deferred inflows of resources amount to and related to		
Other postemployment benefits (OPEB)	(1,338,733)	
Net pension liability	<u>(3,996,153)</u>	
Total deferred inflows of resources to pensions		(5,334,886)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		
		(42,855,328)
The County's OPEB net plan asset (liability) is not due and payable in the current period, and is not reported as a liability in the funds.		
		4,709,222
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of		
Other leases	(389,194)	
Compensated absences	<u>(4,163,041)</u>	
Total long-term liabilities		<u>(4,552,235)</u>
Total net position - governmental activities		<u><u>\$ 46,999,454</u></u>

Santa Cruz County Superintendent of Schools  
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds  
Year Ended June 30, 2025

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Local Control Funding Formula (LCFF)	\$ 39,725,638	\$ -	\$ 2,708,246	\$ 42,433,884
Federal sources	4,568,813	4,050,616	561,153	9,180,582
Other State sources	13,226,338	4,482,509	1,399,634	19,108,481
Other local sources	20,723,598	222,005	1,368,605	22,314,208
Total revenues	<u>78,244,387</u>	<u>8,755,130</u>	<u>6,037,638</u>	<u>93,037,155</u>
<b>Expenditures</b>				
<b>Current</b>				
Instruction	21,511,724	-	2,032,303	23,544,027
Instruction-related activities				
Supervision of instruction	9,780,419	-	704,143	10,484,562
Instructional library, media, and technology	1,127,629	-	7,685	1,135,314
School site administration	6,386,156	-	537,519	6,923,675
Pupil services				
Food services	98,248	-	166,386	264,634
All other pupil services	7,871,368	-	34,340	7,905,708
Administration				
Data processing	2,875,484	-	-	2,875,484
All other administration	7,373,505	-	317,250	7,690,755
Plant services	5,223,313	-	919,509	6,142,822
Ancillary services	25,108	-	-	25,108
Community services	2,106,658	-	1,527,204	3,633,862
Facility acquisition and construction	100,547	-	479,352	579,899
Debt service				
Principal	134,635	-	6,612,042	6,746,677
Interest and other	-	-	79,308	79,308
Total expenditures	<u>64,614,794</u>	<u>-</u>	<u>13,417,041</u>	<u>78,031,835</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>13,629,593</u>	<u>8,755,130</u>	<u>(7,379,403)</u>	<u>15,005,320</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	4,140,968	-	1,256,031	5,396,999
Proceeds from leases	467,716	-	-	467,716
Transfers out	(1,256,031)	-	(4,140,968)	(5,396,999)
Other uses, payment to other agencies	(4,280,598)	(8,478,715)	-	(12,759,313)
Net Financing Sources (Uses)	<u>(927,945)</u>	<u>(8,478,715)</u>	<u>(2,884,937)</u>	<u>(12,291,597)</u>
Net Change in Fund Balances	12,701,648	276,415	(10,264,340)	2,713,723
Fund Balance - Beginning	41,126,110	197,149	12,685,527	54,008,786
Fund Balance - Ending	<u>\$ 53,827,758</u>	<u>\$ 473,564</u>	<u>\$ 2,421,187</u>	<u>\$ 56,722,509</u>

## Santa Cruz County Superintendent of Schools

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2025

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Total Net Change in Fund Balances - Governmental Funds		\$ 2,713,723
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because		
<p>Capital outlay to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation and amortization expense in the Statement of Activities.</p> <p>This is the amount by which depreciation and amortization expense exceeds capital outlay in the period.</p>		
Depreciation and amortization expense	\$ (1,586,479)	
Capital outlay	<u>1,543,052</u>	
Net expense adjustment		(43,427)
<p>Right-to-use leased assets acquired this year were financed with leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the leases are not revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.</p>		
		(467,716)
<p>In the Statement of Activities, certain operating expenses, such as compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This amount is the difference between compensated absences earned and used.</p>		
		(667,407)
<p>In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows/inflows of resources and net pension liability during the year.</p>		
		1,027,645
<p>In the governmental funds, OPEB costs are based on benefit payments made for OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows/inflows of resources and net OPEB liability/net plan asset during the year.</p>		
		803,018

## Santa Cruz County Superintendent of Schools

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2025

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Payments of principal on long-term liabilities is an expenditure in the governmental funds, but reduce long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.

Leaseback financing	6,612,042
Other leases	<u>134,635</u>
Change in net position of governmental activities	<u><u>\$ 10,112,513</u></u>

Santa Cruz County Superintendent of Schools  
Statement of Net Position – Fiduciary Fund  
June 30, 2025

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	<u>Custodial Funds</u>
Assets	
Deposits and investments	<u>\$ 2,177</u>
Liabilities	
Total liabilities	<u>\$ -</u>
Net Position	
Restricted for individuals, organizations, and other governments	<u>\$ 2,177</u>

Santa Cruz County Superintendent of Schools  
Statement of Changes in Net Position – Fiduciary Funds  
Year Ended June 30, 2025

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	Custodial Funds
Revenues	
Other local sources	\$ -
Expenditures	
Scholarships awarded	-
Net change in fiduciary net position	-
Net Position - Beginning	2,177
Net Position - Ending	\$ 2,177

**Note 1 - Summary of Significant Accounting Policies****Financial Reporting Entity**

The Santa Cruz County Office of Education (the County) was organized circa 1861 under the laws of the State of California. The County operates under a locally elected seven-member Board and provides educational services to grades K-12 as mandated by the State and/or Federal agencies or local agreements. The County is the administrative unit for one Special Educational Local Plan Area (SELPA) and operates special education classes at nine school sites within the county of Santa Cruz. The County coordinates the Career Technical Education Program, operates Alternative Education programs at nineteen school sites around the county, including four court programs and nineteen community school programs. In addition, the County oversees two charter schools, and offers Medical and Dental Assisting programs for adults wishing to continue their education.

A reporting entity is comprised of the primary government and other organizations that are included to ensure the financial statements are not misleading. The primary government of the County consists of all funds, departments, boards, and agencies that are not legally separate from the County. The County determined that there are no potential component units that meet the criteria for inclusion within the reporting entity.

**Other Related Entities**

**Charter Schools** The County is the chartering agency for the Pacific Collegiate Charter School (the charter school), a public benefit corporation organized under the Internal Revenue Code Section 501(c)(3). As the chartering agency, County has certain oversight responsibilities to ensure that the charter school is in compliance with applicable charter school laws and regulations. However, the County is not liable for the debts or obligations of the charter school. The Pacific Collegiate Charter School's financial activity is presented in a separate report provided by the Pacific Collegiate Charter School.

The County has an approved charter for Santa Cruz County Career Advancement Charter School pursuant to *Education Code* Section 47605. The Santa Cruz County Career Advancement Charter School is operated by the County, and its financial activities are presented in the Charter School special revenue Fund. The Charter School is not considered a component unit of the County.

**Basis of Presentation - Fund Accounting**

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The County's funds are grouped into two broad fund categories: governmental and fiduciary.

**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the County's major and non-major governmental funds:

### Major Governmental Funds

**County School Service Fund** The County School Service Fund is the chief operating fund for the County. It is used to account for the ordinary operations of the County. All transactions except those accounted for in another fund are accounted for in this fund.

Three funds currently defined as special revenue funds in the *California State Accounting Manual (CSAM)* do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 11, Adult Education Fund, Fund 14, Deferred Maintenance Fund, and Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as an extension of the County School Service Fund, and accordingly have been combined with the County School Service Fund for presentation in these audited financial statements.

As a result, the County School Service Fund reflects an increase in fund balance of \$5,080,935.

**Special Education Pass-Through Fund** A Special Education Pass-Through Fund, a special revenue fund, was established in 2011-12. This fund is used by the Administrative Unit (County) of a multi-Agency Special Education Local Plan Area (SELPA) to account for Special Education revenue passed through to other member districts.

### Non-Major Governmental Funds

**Special Revenue Funds** The Special Revenue Funds are established to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

- **Charter School Fund** The Charter School Fund may be used by authorizing county offices and districts to account separately for the operating activities of county office-operated charter schools that would otherwise be reported in the authorizing county's General Fund.
- **Child Development Fund** The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

- **Cafeteria Fund** The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the County's food service program (*Education Code* Sections 38091 and 38100).

**Capital Project Funds** The Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

- **County School Facilities Fund** The County School Facilities Fund, a capital project fund, is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State School Facilities Fund (Proposition 1D), or the 2016 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070.10 et seq.).
- **Special Reserve Fund for Capital Outlay Projects** The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

**Debt Service Funds** The Debt Service funds are used to account for the accumulation of resources for and the payment of principal and interest on general long-term liabilities.

- **Debt Service Fund** The Debt Service Fund is used for the accumulation of resources for and the retirement of principal and interest on general long-term liabilities.

**Fiduciary Funds** Fiduciary funds are the County's custodial funds which are used to hold a scholarship available to Santa Cruz County Superintendent of Schools students that are awarded to the students by a committee of persons outside of the County's employees and administration.

#### **Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is basically the same approach used in private sector financial statements but differs from the manner in which governmental fund financial statements are prepared.

The government-wide *statement of activities* presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and exclude fiduciary activity. Direct expenses are those that are specifically associated with a service, program, or department and are therefore, clearly identifiable to a particular function. The County does not allocate indirect expenses to functions in the Statement of Activities, except for depreciation and amortization of capital assets. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that

are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the County. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints placed on net position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation. Net position restricted for other activities results from special revenue funds and the restrictions on their use.

**Fund Financial Statements** Fund financial statements report detailed information about the County. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major governmental funds are aggregated and presented in a single column.

**Governmental Funds** All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

**Fiduciary Funds** Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the County.

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. The County considers revenues to be available if they are collected within one year after year-end, except for property taxes, which are considered available if collected within 60 days. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the County receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Unearned Revenue** Unearned revenue arises when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period or when resources are received by the County prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County has a legal claim to the resources, the liability for unearned revenue is removed from the financial statements and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

**Expenses/Expenditures** On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on long-term liabilities, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide financial statements.

### **Investments**

Investments held at June 30, 2025, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in County investment pools are determined by the program sponsor.

The County’s investment in the county treasury is measured at fair value on a recurring basis, which is determined by the fair value per share of the underlying portfolio determined by the program sponsor. Positions in this investment pool are not required to be categorized within the fair value hierarchy.

### **Prepaid Expenditures (Expenses)**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**Capital Assets, Depreciation, and Amortization**

Capital assets are long-lived assets of the County. The County maintains a capitalization threshold of \$5,000. The County does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized but are expensed as incurred.

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide Statement of Net Position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: land improvements, 5 years; buildings and improvements, 25 years; furniture and equipment, 5-8 years. Land is not depreciated.

The County records impairments of capital assets when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances in existence at the time of the determination. No impairments were recorded during the year ended June 30, 2025

Right-to-use leased assets are recognized at the lease commencement date and represent the County's right-to-use an underlying asset for the lease term. Right-to-use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the leased asset into service. Right-to-use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from two to two and a half years.

**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the government-wide statement of net position.

**Compensated Absences**

Compensated absences are accrued as a liability as the benefits are earned for leave balances that are more likely than not to be used for compensated leave or settled through cash or noncash means. The entire compensated absence liability is reported on the government-wide Statement of Net Position. For governmental funds, a liability for compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, only the portion of accumulated sick leave that is more likely than not to be used by the employee for paid leave is recognized as a liability in the District's financial statements. Credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive 0.004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time. The portion of sick leave that is more likely than not to be settled through conversion to service credit for employee retirement plans is not included in the District's liability for compensated absences.

### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term liabilities are reported in the government-wide. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as liabilities of the governmental funds.

However, compensated absences will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Certificates of participation, leases, and other long-term liabilities are recognized as liabilities in the governmental fund financial statements when due.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense until then. The County reports deferred outflows of resources for pension related items, and for OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The County reports deferred inflows of resources for pension related items, and for OPEB related items.

### **Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

**Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the County Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the County Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the County Plan and the MPP. For this purpose, the County Plan and the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. The total OPEB liability attributable to the governmental activities will be paid primarily by the County School Service Fund.

**Lease Liabilities**

Lease liabilities represent the County's obligation to make lease payments arising from the lease. The County recognizes a lease liability in the government-wide financial statements. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments is discounted based on a borrowing rate determined by the County.

**Subscription Liabilities**

Subscription liabilities represent the County's obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of the subscription payments is discounted based on a borrowing rate determined by the County.

**Fund Balances - Governmental Funds**

As of June 30, 2025, fund balances of the governmental funds are classified as follows:

**Nonspendable** - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

**Restricted** - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

**Committed** - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the County. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

**Assigned** - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the County's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

**Unassigned** - all other spendable amounts.

### **Spending Order Policy**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the County considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the County considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

### **Minimum Fund Balance**

The governing board adopted a minimum fund balance policy for the County School Service Fund in order to protect the local educational agency against revenue shortfalls or unpredicted one-time expenditures. The policy requires a reserve for economic uncertainties (includes Fund 17 – Special Reserve Fund for Other Than Capital Outlay Projects) of amounts equal to no less than 5% of County School Service Fund expenditures and other financing uses.

### **Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position related to net of investment in capital assets consists of capital assets, net of accumulated depreciation and amortization, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The County has no related debt outstanding as of June 30, 2025. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Office or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The County first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. The government-wide financial statements report \$19,679,885 of restricted net position.

### **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

**Estimates**

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Property Tax**

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Cruz bills and collects the taxes on behalf of the County. Local property tax revenues are recorded when received.

**Adoption of New Accounting Standard**

**Implementation of GASB Statement No. 101**

As of June 30, 2025, the County adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. The effect of the implementation of this standard on beginning net position is disclosed in Note 15.

**Note 2 - Deposits and Investments**

**Summary of Deposits and Investments**

Deposits and investments as of June 30, 2025, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 61,527,224
Fiduciary funds	<u>2,177</u>
Total deposits and investments	<u><u>\$ 61,529,401</u></u>

Deposits and investments as of June 30, 2025, consist of the following:

Cash on hand and in banks	\$ 30,606
Investments	<u>61,498,795</u>
Total deposits and investments	<u><u>\$ 61,529,401</u></u>

**Policies and Practices**

The County is authorized under California *Government Code* to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

**Investment in County Treasury** - The County is considered to be an involuntary participant in an external investment pool as the County is required to deposit all receipts and collections of monies with their county treasurer (*Education Code* Section 41001). The fair value of the County’s investment in the Pool is reported in the accounting financial statements at amounts based upon the County’s pro-rata share of the fair value provided by the county treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the county treasurer, which is recorded on the amortized cost basis.

**General Authorizations**

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The County has a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The County manages its exposure to interest rate risk by investing in the county pool and/or having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The County maintains an investment of \$61,498,795 in the Santa Cruz County Treasury Investment Pool that has an average weighted maturity of 429 days.

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County’s investments in the County Treasury Investment Pool and California Employer’s Retirement Trust are not required to be rated, nor have they been rated as of June 30, 2025.

**Note 3 - Receivables**

Receivables at June 30, 2025, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total
Federal Government				
Categorical aid	\$ 1,648,450	\$ 100,499	\$ 362,077	\$ 2,111,026
State Government				
LCFF apportionment	-	-	106,582	106,582
State grants and entitlements	1,757,884	1,858,001	74,844	3,690,729
Local Sources	2,138,116	-	146,114	2,284,230
	<u>\$ 5,544,450</u>	<u>\$ 1,958,500</u>	<u>\$ 689,617</u>	<u>\$ 8,192,567</u>

**Note 4 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2025, was as follows:

	Balance July 1, 2024	Additions	Deductions	Balance June 30, 2025
<b>Governmental Activities</b>				
Capital assets not being depreciated or amortized				
Land	\$ 4,026,778	\$ -	\$ -	\$ 4,026,778
Construction in progress	203,628	-	(166,403)	37,225
Total capital assets not being depreciated or amortized	4,230,406	-	(166,403)	4,064,003
Capital assets being depreciated and amortized				
Land improvements	62,422	669,587	-	732,009
Buildings and improvements	29,775,557	-	-	29,775,557
Furniture and equipment	2,921,769	572,152	-	3,493,921
Right-to-use leased buildings and improvements	118,405	467,716	(118,405)	467,716
Total capital assets being depreciated and amortized	32,878,153	1,709,455	(118,405)	34,469,203
Total capital assets	37,108,559	1,709,455	(284,808)	38,533,206
Accumulated depreciation and amortization				
Land improvements	(61,095)	(10,316)	-	(71,411)
Buildings and improvements	(13,829,505)	(1,231,178)	-	(15,060,683)
Furniture and equipment	(2,005,974)	(210,075)	-	(2,216,049)
Right-to-use leased buildings and improvements	(64,136)	(134,910)	118,405	(80,641)
Total accumulated depreciation and amortization	(15,960,710)	(1,586,479)	118,405	(17,428,784)
Net depreciable and amortizable capital assets	16,917,443	122,976	-	17,040,419
Governmental activities capital assets, net	\$ 21,147,849	\$ 122,976	\$ (166,403)	\$ 21,104,422

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2025

Depreciation and amortization expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 874,158
Instructional library, media, and technology	42,207
Data processing	2,663
All other administration	450,059
Plant services	<u>217,392</u>
Total depreciation and amortization expense - governmental activities	<u><u>\$ 1,586,479</u></u>

**Note 5 - Interfund Transactions**

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable at June 30, 2025, between major and non-major governmental funds are as follows:

Funds	Due from Other Funds	Due to Other Funds
Major Governmental Funds		
County School Service	\$ 4,612,199	\$ 38,588
Special Education Pass-Through	-	82,816
Non-Major Governmental Funds		
Charter Schools	-	260,697
Child Development	-	61,657
County School Facilities	37,225	-
Special Reserve Fund for Capital Outlay Projects	<u>-</u>	<u>4,205,666</u>
Total	<u><u>\$ 4,649,424</u></u>	<u><u>\$ 4,649,424</u></u>

All balances resulted from the time lag between that date (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2025

**Operating Transfers**

Interfund transfers for the year ended June 30, 2025, consisted of the following:

The Debt Service Non-Major Governmental Fund transferred to the County School Service Fund to return excess contribution for COP debt service payments.	\$ 55,441
The Special Reserve Non-Major Governmental Fund for Capital Outlay Projects transferred to the County School Service Fund to keep capital projects separate for tracking purposes.	4,085,527
The County School Service Fund transferred to the Special Reserve Non-Major Governmental Fund for Capital Outlay Projects for tenant improvements and potential purchase of a new facility.	<u>1,256,031</u>
Total	<u><u>\$ 5,396,999</u></u>

**Note 6 - Accounts Payable**

Accounts payable at June 30, 2025, consisted of the following:

	County School Service Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total
Vendor payables	\$ 4,897,811	\$ 1,946,163	\$ 855,894	\$ 7,699,868
LCFF apportionment	2,557,347	-	-	2,557,347
Salaries and benefits	<u>1,024,361</u>	<u>-</u>	<u>160,462</u>	<u>1,184,823</u>
Total	<u><u>\$ 8,479,519</u></u>	<u><u>\$ 1,946,163</u></u>	<u><u>\$ 1,016,356</u></u>	<u><u>\$ 11,442,038</u></u>

**Note 7 - Unearned Revenue**

Unearned revenue at June 30, 2025, consists of the following:

	County School Service Fund	Non-Major Governmental Funds	Total
Federal financial assistance	\$ 107,083	\$ 118,030	\$ 225,113
State categorical aid	326,707	801,167	1,127,874
Other local	<u>210,905</u>	<u>-</u>	<u>210,905</u>
Total	<u><u>\$ 644,695</u></u>	<u><u>\$ 919,197</u></u>	<u><u>\$ 1,563,892</u></u>

**Note 8 - Long-Term Obligations Other than OPEB and Pensions**

**Summary**

The changes in the County's long-term obligations other than OPEB and pensions during the year consisted of the following:

	Balance July 1, 2024, as Restated	Additions	Deductions	Balance June 30, 2025	Due in One Year
Long-Term Liabilities					
Leaseback financing	\$ 6,612,042	\$ -	\$ (6,612,042)	\$ -	\$ -
Other leases	56,113	467,716	(134,635)	389,194	198,966
Compensated absences	3,495,634	667,407	-	4,163,041	997,185
<b>Total</b>	<b>\$ 10,163,789</b>	<b>\$ 1,135,123</b>	<b>\$ (6,746,677)</b>	<b>\$ 4,552,235</b>	<b>\$ 1,196,151</b>

The change in compensated absences is presented as a net change.

Payments on the leaseback financing arrangement is paid by the General Fund with contributions being made to the Debt Service Fund. The other leases are paid by the fund using the right-to-use leased asset.

**Leaseback Financing**

In May 2007, the Santa Cruz County Office of Education entered into a leaseback agreement with the Public Property Financing Corporation of California to fund the debt service related to certificates of participation issued by the Corporation in the amount of \$11,605,000 with interest rates ranging from 3.60 to 4.62%. During June 2016, the certificates of participation were refinanced in the amount of \$9,510,983 with interest rates of 3.175%. Interest with respect to the Certificates will be payable semiannually on each June 1 and December 1, commencing December 15, 2016, and maturing on June 15, 2037. As of June 30, 2025, there was no outstanding principal balance.

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2025

**Leases**

The County has entered into agreements to lease various facilities. The County’s liability for lease agreements is summarized below:

Lease	Leases Outstanding July 1, 2024	Addition	Payments	Leases Outstanding June 30, 2025
Cabrillo College - Oasis	\$ 56,113	\$ -	\$ (56,113)	\$ -
W. Beach Street	-	467,716	(78,522)	389,194
Total	<u>\$ 56,113</u>	<u>\$ 467,716</u>	<u>\$ (134,635)</u>	<u>\$ 389,194</u>

**Cabrillo College - Oasis**

The County has entered into an agreement to lease several rooms (351, 353, 354, 357, 358, 359, and 360) in Building 350 on the Aptos campus, approximately 2,947 square feet. The lease began June 1, 2023 and ends May 31, 2025. Under the terms of the lease the County will make monthly payments of \$4,787 (from June 1, 2022 to May 31, 2023) and payments of \$4,978 (from June 1, 2023 to May 31, 2024) increasing 4.0 percent on June 1, 2024, to monthly payments of \$5,178. The annual interest rate charged to the lease is 3.0 percent. At June 30, 2025, the lease liability has been paid off, the lease expired and the right-to-use leased asset has been removed from the County’s capital assets.

**W. Beach Street**

The County has entered into an agreement to lease property at W. Beach Street. The lease began February 1, 2025 and ends June 30, 2027. Under the terms of the lease the County will make monthly payments of \$16,987.50, increasing to \$22,987.50 once construction of additional space is completed. The annual interest rate charged to the lease is 4.50 percent. At June 30, 2025, the County recognized right-to-use leased asset of \$467,716 and a total lease liability of \$389,194 related to the lease agreement. During the fiscal year, the County recorded \$80,641 in amortization expense and \$78,522 in principal and \$6,416 in interest payments for the right-to-use property.

The remaining principal and interest payment requirements for the lease obligation debt as of June 30, 2025, are as follows:

Year Ending June 30,	Principal	Interest	Total
2026	\$ 190,228	\$ 13,622	\$ 203,850
2027	198,966	4,883	203,849
Total	<u>\$ 389,194</u>	<u>\$ 18,505</u>	<u>\$ 407,699</u>

**Note 9 - Other Post Employment Benefit (OPEB) Plan Asset/Liability**

For the fiscal year ended June 30, 2025, the County reported net OPEB plan asset/liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense for the following plans:

OPEB Plan	Net OPEB (Asset) Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
County Plan	\$ (4,787,737)	\$ 2,135,584	\$ 1,338,733	\$ 454,329
Medicare Premium Payment (MPP) Program	<u>78,515</u>	<u>-</u>	<u>-</u>	<u>(10,350)</u>
Total	<u>\$ (4,709,222)</u>	<u>\$ 2,135,584</u>	<u>\$ 1,338,733</u>	<u>\$ 443,979</u>

The details of each plan are as follows:

**County Plan**

**Plan Administration**

The County’s Postemployment Benefits Plan (the Plan) is administered by the California Public Employees’ Retirement System (CalPERS). The Plan is an agent multi-employer plan defined benefit plan. CalPERS administers the Plan through the California Employer’s Retiree Benefit Trust (CERBT). Audited financial statements can be found at [www.calpers.ca.gov](http://www.calpers.ca.gov).

**Plan Membership**

At June 30, 2023, the valuation date, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	61
Active employees	<u>272</u>
Total	<u><u>333</u></u>

**Benefits Provided**

The Plan provides medical, dental and vision insurance benefits (no vision benefits for classified) to eligible retirees and their dependents (no dependent coverage for Classified [includes Confidential] unless hired prior to July 1, 1999). One year of benefits for 2 years of service but not beyond age 65 for Certificated (if hired prior to July 1, 1999, Classified not limited to age 65 and Management receives lifetime coverage). Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan capped at HMO rate. The County’s governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

**Contributions**

The contribution requirements of the Plan members and the County are established and may be amended by the County, the Santa Cruz County Education Association/CTA/NEA (SCCEA/CTA/NEA), the local California School Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the County, SCCEA/CTA/NEA, CSEA, and the unrepresented groups. The County contributed \$1,246,997 to the Plan for fiscal year 2023-2024, and \$805,114 was used for premium payments.

**Investment**

**Investment Policy**

The Plan’s policy in regard to the allocation of invested assets is established and may be amended by the governing board by a majority vote of its members. It is the policy of the County to pursue an investment strategy that reduces risks through the prudent diversification for the portfolio across a broad selection of distinct asset classes. The Plan’s investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocation over short time spans. The following was the governing board’s adopted asset allocation policy as of June 30, 2025:

<u>Asset Class</u>	<u>Target Allocation</u>
All Equities	49%
All Fixed Income	23%
Treasury Inflation Protected Securities	5%
US Real Estate	20%
All Commodities	3%

**Net OPEB Plan Asset of the County**

The County’s net OPEB plan asset of \$4,787,737 was measured as of June 30, 2024 based on applying certain roll-forward procedures to the June 30, 2023 valuation. The components of the net OPEB plan asset of the County at June 30, 2024, were as follows:

Total OPEB liability	\$ 9,125,593
Plan fiduciary net position	<u>(13,913,330)</u>
Net OPEB plan asset	<u>\$ (4,787,737)</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>152.46%</u>

**Actuarial Assumptions**

The total OPEB plan asset in the June 30, 2024, actuarial measurement was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	2.75%, average, including inflation
Investment rate of return	6.75%, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00% for 2024

Mortality rates were based on the 2020 CalSTRS Mortality Table for certificated employees and the 2021 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reeducation. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actuarial assumptions used in the June 30, 2023, valuation relating to retirement and turnover were based on STRS 2020 and PERS 2021 retirement and turnover rate tables.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2023, (see the discussion of the Plan’s investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
All Equities	7.2500%
All Fixed Income	4.2500%
Treasury Inflation Protected Securities	3.0000%
US Real Estate	7.2500%
All Commodities	7.2500%

**Discount Rate**

The discount rate used to measure the total OPEB net plan asset was 6.75%. The projection of cash flows used to determine the discount rate assumed that the County contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Changes in the Net OPEB Plan Asset/Liability**

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Asset (a) - (b)
Balance, June 30, 2023	\$ 8,877,840	\$ 12,064,358	\$ (3,186,518)
Service cost	352,451	-	352,451
Interest	587,778	1,411,214	(823,436)
Administrative expenses	-	(4,125)	4,125
Employer contributions to trust*	-	1,246,997	(1,246,997)
Benefit payments from trust*	(805,114)	(805,114)	-
Experience (gains)/losses	112,638	-	112,638
Net change in total OPEB liability	247,753	1,848,972	(1,601,219)
Balance, June 30, 2024	\$ 9,125,593	\$ 13,913,330	\$ (4,787,737)

\* Includes \$71,345 due to implied rate subsidy

Changes in Benefit Terms - There were no changes in the benefit terms since the previous measurement.

Changes of Assumptions - There were no changes in assumptions since the previous measurement.

**Sensitivity of the Net OPEB Asset to Changes in the Discount Rate**

The following presents the net OPEB plan asset of the County, as well as what the County's net OPEB plan asset would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net OPEB Plan Asset
1% decrease (5.75%)	\$ (4,032,373)
Current discount rate (6.75%)	(4,787,737)
1% increase (7.75%)	(5,465,188)

**Sensitivity of the Net OPEB Asset to Changes in the Healthcare Cost Trend Rate**

The following presents the net OPEB plan asset of the County, as well as what the County’s net OPEB plan asset would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rate:

<u>Healthcare Cost Trend Rate</u>	<u>Net OPEB Plan Asset</u>
1% decrease (3.0%)	\$ (5,744,818)
Current healthcare cost trend rate (4.0%)	(4,787,737)
1% increase (5.0%)	(3,668,197)

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2025, the County recognized OPEB expense of \$454,329 and the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
OPEB contributions subsequent to measurement date	\$ 931,454	\$ -
Differences between expected and actual experience	1,037,657	1,033,423
Changes of assumptions	22,645	305,310
Net difference between projected and actual earnings on OPEB plan investments	<u>143,828</u>	<u>-</u>
Total	<u>\$ 2,135,584</u>	<u>\$ 1,338,733</u>

The deferred outflows of resources related to OPEB resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB plan asset in the subsequent fiscal year.

The deferred outflows of resources and deferred inflows of resources related to the differences between expected and actual experience in the measurement of the total OPEB plan (asset) liability and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The deferred outflows of resources and deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows of resources and deferred inflows of resources will be recognized as OPEB expense as follows:

Year Ended June 30,	Deferred Outflows of Resources
2026	\$ 142,690
2027	555,501
2028	29,036
2029	39,245
2030	154,687
Thereafter	282,971
	<hr/>
Total	\$ 1,204,130
	<hr/> <hr/>

  

Year Ended June 30,	Deferred Inflows of Resources
2026	\$ 151,153
2027	151,153
2028	151,153
2029	151,153
2030	151,153
Thereafter	582,968
	<hr/>
Total	\$ 1,338,733
	<hr/> <hr/>

**Medicare Premium Payment (MPP) Program**

**Plan Description**

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers’ Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers’ Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2023, annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <https://www.calstrs.com/forms-publications>.

### **Benefits Provided**

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly County benefit payments. In accordance with California *Education Code* Section 25930, contributions that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

### **Net OPEB Liability and OPEB Expense**

At June 30, 2025, the County reported a liability of \$78,515 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2024, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2023. The County's proportion of the net OPEB liability was based on a projection of the County's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The County's proportionate share for the measurement period June 30, 2024 and June 30, 2023, respectively, was 0.0295% and 0.0293%, resulting in a net increase in the proportionate share of 0.0002%.

For the year ended June 30, 2025, the County recognized OPEB expense of \$(10,350).

**Actuarial Methods and Assumptions**

The June 30, 2024 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2023, and rolling forward the total OPEB liability to June 30, 2024, using the assumptions listed in the following table:

Measurement Date	June 30, 2024	June 30, 2023
Valuation Date	June 30, 2023	June 30, 2022
Experience Study	July 1, 2007 through June 30, 2022	July 1, 2015 through June 30, 2018
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.93%	3.65%
Medicare Part A Premium Cost Trend Rate	5.00%	4.50%
Medicare Part B Premium Cost Trend Rate	6.50%	5.40%

For the valuation as of June 30, 2023, CalSTRS uses a generational mortality assumption, which is based off generational mortality tables that reflect expected future improvements in mortality and includes a base table and a projection table. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among members. The projection table reflects the expected annual reduction in mortality rates at each age. The current mortality assumption uses a base year of 2023, and projected improvement is based on the MP–2021 Ultimate Projection Scale.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members’ age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 154 or an average of 0.12% of the potentially eligible population (132,333).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2024, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

**Discount Rate**

As the MPP Program is funded on a pay-as-you-go basis, the OPEB plan’s fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, the MPP Program used the Bond Buyer’s 20-Bond GO Index from Bondbuyer.com as of June 30, 2024, as the discount rate, which was applied to all periods of projected benefit payments to measure the total OPEB liability. The discount rate as of June 30, 2024, was 3.93%, which is an increase of 0.28% from 3.65% as of June 30, 2023.

**Sensitivity of the County’s Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate**

The following presents the County’s proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net OPEB Liability</u>
1% decrease (2.93%)	\$ 84,716
Current discount rate (3.93%)	78,515
1% increase (4.93%)	73,063

**Sensitivity of the County’s Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates**

The following presents the County’s proportionate share of the net OPEB liability calculated using the current Medicare costs trend rates, as well as what the net OPEB liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

<u>Medicare Costs Trend Rates</u>	<u>Net OPEB Liability</u>
1% decrease (4.00% Part A and 5.50% Part B)	\$ 72,736
Current Medicare costs trend rates (5.00% Part A and 6.50% Part B)	78,515
1% increase (6.00% Part A and 7.50% Part B)	84,967

**Note 10 - Fund Balance**

Fund balances are composed of the following elements:

	General Fund	Special Education Pass-Through Fund	Non-Major Governmental Funds	Total
<b>Nonspendable</b>				
Prepaid expenditures	\$ 8,573	\$ -	\$ -	\$ 8,573
Fair market value adjustment	517,234	-	1,391	518,625
Total nonspendable	<u>525,807</u>	<u>-</u>	<u>1,391</u>	<u>527,198</u>
<b>Restricted</b>				
Legally restricted programs	18,648,605	473,564	135,171	19,257,340
Child development programs	-	-	234,627	234,627
Adult education programs	20,427	-	-	20,427
Capital projects	-	-	141,420	141,420
Child nutrition	-	-	26,071	26,071
Total restricted	<u>18,669,032</u>	<u>473,564</u>	<u>537,289</u>	<u>19,679,885</u>
<b>Committed</b>				
Deferred maintenance program	1,385,964	-	-	1,385,964
<b>Assigned</b>				
MAA program	1,049,521	-	-	1,049,521
Differentiated assistance	801,470	-	-	801,470
Mandated cost program	2,549,708	-	-	2,549,708
Safety program	75,581	-	-	75,581
SMAA administration	3,163,799	-	-	3,163,799
Alternative education	5,221,484	-	-	5,221,484
Special projects	200,000	-	-	200,000
Education and administrative operations	15,505,540	-	-	15,505,540
Lottery	1,005,306	-	-	1,005,306
Career advancement charter-LCFF base	-	-	1,592,930	1,592,930
Career advancement charter-3% reserve	-	-	105,746	105,746
Career advancement charter-lottery	-	-	94,232	94,232
Child development MAA	-	-	2,480	2,480
Fair market value adjustment	54,456	-	87,119	141,575
Adult education	4,571	-	-	4,571
Total assigned	<u>29,631,436</u>	<u>-</u>	<u>1,882,507</u>	<u>31,513,943</u>
<b>Unassigned</b>				
Reserve for economic uncertainties	3,615,519	-	-	3,615,519
Total	<u>\$ 53,827,758</u>	<u>\$ 473,564</u>	<u>\$ 2,421,187</u>	<u>\$ 56,722,509</u>

**Note 11 - Risk Management**

**Property and Liability**

The County is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2025, the County was a member in and procured coverage through the Southern Peninsula Region Property and Liability Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

**Workers' Compensation**

For fiscal year 2024-2025, the County was a member in and procured coverage through the Santa Cruz-San Benito County Schools Insurance Group, a workers' compensation insurance purchasing pool. The intent of the Santa Cruz-San Benito County Schools Insurance Group is to achieve the benefit of a reduced premium for the County by virtue of its grouping and representation with other participants in the Santa Cruz-San Benito County Schools Insurance Group. The workers' compensation experience of the participating entities is calculated as one experience and a common premium rate is applied to all entities in the Santa Cruz-San Benito County Schools Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participants' individual performance is compared to the overall savings. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the Santa Cruz-San Benito County Schools Insurance Group.

**Note 12 - Employee Retirement Systems**

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2025 the County reported net pension liabilities, deferred outflows of resources, deferred, inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	\$ 13,561,599	\$ 6,170,870	\$ 3,029,566	\$ 1,556,499
CalPERS	29,293,729	8,899,296	966,587	4,790,209
Total	\$ 42,855,328	\$ 15,070,166	\$ 3,996,153	\$ 6,346,708

The details of each plan are as follows:

### **California State Teachers' Retirement System (CalSTRS)**

#### **Plan Description**

The County contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2023 annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <https://www.calstrs.com/forms-publications>.

#### **Benefits Provided**

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0% of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and non-employer contributing entity to the STRP.

The County contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

The STRP provisions and benefits in effect at June 30, 2025, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	10.205%
Required employer contribution rate	19.10%	19.10%
Required state contribution rate	10.828%	10.828%

**Contributions**

Required member, County and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1% of applicable member earnings phased over a seven-year period. The contribution rates for each plan for the year ended June 30, 2025, are presented above and the County's total contributions were \$2,726,219.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2025, the County reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the County. The amount recognized by the County as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the County were as follows:

Total net pension liability, including State share	
Proportionate share of net pension liability	\$ 13,561,599
State's proportionate share of the net pension liability	<u>6,222,108</u>
<b>Total</b>	<b><u><u>\$ 19,783,707</u></u></b>

The net pension liability was measured as of June 30, 2024. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating member districts, county offices of education and the State, actuarially determined. The County's proportionate share for the measurement period June 30, 2024 and June 30, 2023, respectively was 0.0202% and 0.0198%, resulting in a net increase in the proportionate share of 0.0004%.

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2025

For the year ended June 30, 2025, the County recognized pension expense of \$1,556,499. In addition, County recognized pension expense and revenue of \$566,450 for support provided by the State. At June 30, 2025, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 2,726,219	\$ -
Change in proportion and differences between contributions made and County's proportionate share of contributions	1,851,295	1,455,596
Differences between projected and actual earnings on pension plan investments	-	54,720
Differences between expected and actual experience in the measurement of the total pension liability	1,533,991	593,040
Changes of assumptions	59,365	926,210
	\$ 6,170,870	\$ 3,029,566
Total		

The deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ (909,131)
2027	1,094,932
2028	(89,333)
2029	(151,188)
	\$ (54,720)
Total	

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ 164,315
2027	57,140
2028	(10,833)
2029	(62,969)
2030	349,185
Thereafter	(27,033)
Total	<u>\$ 469,805</u>

**Actuarial Methods and Assumptions**

Total pension liability for STRP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2023 and rolling forward the total pension liability to June 30, 2024. The financial reporting actuarial valuation as of June 30, 2023, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2023
Measurement date	June 30, 2024
Experience study	July 1, 2007 through June 30, 2022
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which is based off generational mortality tables that reflect expected future improvements in mortality and includes a base table and a projection table. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among our members. The projection table reflects the expected annual reduction in mortality rates at each age. The current mortality assumption uses a base year of 2023, and projected improvement is based on the MP-2021 Ultimate Projection Scale.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant as an input to the process. The actuarial investment rate of return assumption was adopted by the board in January 2024 in

conjunction with the most recent experience study. For each current and future valuation, CalSTRS’ independent consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. The assumed asset allocation and best estimates of the expected rates of return for each major asset class for the year ended June 30, 2024, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Public equity	38%	5.25%
Real estate	15%	4.05%
Private equity	14%	6.75%
Fixed income	14%	2.45%
Risk mitigating strategies	10%	2.25%
Inflation sensitive	7%	3.65%
Cash/liquidity	2%	0.05%

**Discount Rate**

The discount rate used to measure the total pension liability was 7.10%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return of 7.10% and assume that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the County’s proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 24,121,647
Current discount rate (7.10%)	13,561,599
1% increase (8.10%)	4,743,521

**California Public Employees Retirement System (CalPERS)**

**Plan Description**

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees’ Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees’ Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2023 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at <https://www.calpers.ca.gov/page/forms-publications>.

**Benefits Provided**

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor and the member’s final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member’s beneficiary if the member dies while actively employed. An employee’s eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2025, are summarized as follows:

	<u>School Employer Pool (CalPERS)</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	8.00%
Required employer contribution rate	27.050%	27.050%

**Contributions**

Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The County is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2025, are presented above and the total County contributions were \$4,648,134.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

As of June 30, 2025, the County reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$29,293,729. The net pension liability was measured as of June 30, 2024. The County’s proportion of the net pension liability was based on a projection of the County’s long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and county offices of education, actuarially determined. The County’s proportionate share of the proportionate share for the measurement period June 30, 2024 and June 30, 2023, respectively, was 0.0820% and 0.0828%, resulting in a net decrease in the proportionate share of 0.0008%.

For the year ended June 30, 2025, the County recognized pension expense of \$4,790,209. At June 30, 2025, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,648,134	\$ -
Change in proportion and differences between contributions made and County’s proportionate share of contributions	9,930	756,934
Differences between projected and actual earnings on pension plan investments	1,137,892	-
Differences between expected and actual experience in the measurement of the total pension liability	2,455,850	209,653
Changes of assumptions	647,490	-
Total	\$ 8,899,296	\$ 966,587

The deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

Santa Cruz County Superintendent of Schools

Notes to Financial Statements

June 30, 2025

The deferred outflows and deferred inflows of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ (9,809)
2027	1,769,163
2028	(261,417)
2029	(360,045)
Total	\$ 1,137,892

The deferred outflows of resources and deferred inflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2026	\$ 1,080,462
2027	614,584
2028	451,637
2029	-
Total	\$ 2,146,683

**Actuarial Methods and Assumptions**

Total pension liability for the SEP was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2023, and rolling forward the total pension liability to June 30, 2024. The financial reporting actuarial valuation as of June 30, 2023, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2023
Measurement date	June 30, 2024
Experience study	July 1, 1997 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	6.90%
Investment rate of return	6.90%
Consumer price inflation	2.30%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP-2020 published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account long-term market return expectations as well as the expected pension fund cash flows. Projected returns for all asset classes are estimated and, combined with risk estimates, are used to project compound (geometric) returns over the long term. The discount rate used to discount liabilities was informed by the long-term projected portfolio return. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity - cap-weighted	30%	4.54%
Global equity non-cap-weighted	12%	3.84%
Private equity	13%	7.28%
Treasury	5%	0.27%
Mortgage-backed securities	5%	0.50%
Investment grade corporates	10%	1.56%
High yield	5%	2.27%
Emerging market debt	5%	2.48%
Private debt	5%	3.57%
Real assets	15%	3.21%
Leverage	(5%)	(0.59%)

**Discount Rate**

The discount rate used to measure the total pension liability was 6.90%. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, SEP’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on SEP investments was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the County’s proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

<u>Discount Rate</u>	<u>Net Pension Liability</u>
1% decrease (5.90%)	\$ 43,516,079
Current discount rate (6.90%)	29,293,729
1% increase (7.90%)	17,544,936

**Social Security**

As established by Federal law, all public sector employees who are not members of their employer’s existing retirement system (CalSTRS or CalPERS) must be covered by Social Security or an alternative plan. Contributions made by the County and an employee vest immediately. The County contributes 6.2% of an employee’s gross earnings. An employee is required to contribute 6.2% of his or her gross earnings to the pension plan.

**On Behalf Payments**

The State of California makes contributions to CalSTRS on behalf of the County. These payments consist of State County School Service Fund contributions to CalSTRS in the amount of \$1,256,363 (10.828% of the second previous annual payroll). Contributions are no longer appropriated in the annual Budget Act for the legislatively mandated benefits to CalPERS. Therefore, there is no on-behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the budgeted amounts reported in the County School Service Fund - Budgetary Comparison Schedule.

**Note 13 - Commitments and Contingencies****Grants**

The County received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the County School Service Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the County at June 30, 2025.

**Litigation**

The County is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of The County at June 30, 2025.

**Note 14 - Participation in Public Entity Risk Pools and Joint Power Authorities**

The County is a member of the Santa Cruz County Schools' Health Insurance Group (SCCSHIG), Santa Cruz-San Benito County Schools' Insurance Group (SIG), and the Southern Peninsula Region Property and Liability Insurance Group (SPRIG) public entity risk pools and the North Santa Cruz County Special Education Local Plan Area joint powers authorities (JPA's). The County pays an annual premium to the applicable entity for its health, workers' compensation, and property liability coverage. The relationships between the County, the pools, and the JPA's are such that they are not component units of the County for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the County are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2025, the County made payments of \$684,727, \$623,346, and \$138,311 to Santa Cruz County Schools Health Insurance Group, Santa Cruz-San Benito County Schools' Insurance Group, and Southern Peninsula Region Property and Liability Insurance Group (including re-insurance through SAFER), respectively for dental and vision, workers' compensation, and property liability coverage.

**Note 15 - Restatement**

**Change in Accounting Principle**

As of June 30, 2025, the County adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. Therefore, compensated absences increased by \$3,020,217, as of July 1, 2024. The effect of this change in accounting principle is described in the table below.

	<u>Governmental Activities</u>
Beginning, as previously reported on July 1, 2024	\$ 39,907,158
Change in accounting principle	<u>(3,020,217)</u>
Net Position - Beginning, as Restated on July 1, 2024	<u><u>\$ 36,886,941</u></u>

Required Supplementary Information  
June 30, 2025

# Santa Cruz County Superintendent of Schools

Santa Cruz County Superintendent of Schools  
Budgetary Comparison Schedule – County School Service Fund  
Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
<b>Revenues</b>				
Local Control Funding Formula	\$ 36,980,128	\$ 38,462,075	\$ 39,725,638	\$ 1,263,563
Federal sources	5,186,475	7,780,815	4,568,813	(3,212,002)
Other State sources	13,882,014	18,948,618	13,226,338	(5,722,280)
Other local sources	12,612,654	16,489,963	20,723,598	4,233,635
Total revenues <sup>1</sup>	<u>68,661,271</u>	<u>81,681,471</u>	<u>78,244,387</u>	<u>(3,437,084)</u>
<b>Expenditures</b>				
<b>Current</b>				
Certificated salaries	14,873,530	14,795,365	14,446,048	349,317
Classified salaries	17,802,087	17,765,130	17,457,684	307,446
Employee benefits	20,491,028	19,574,276	18,766,824	807,452
Books and supplies	2,478,438	2,559,433	1,964,758	594,675
Services and operating expenditures	11,728,123	14,639,366	11,054,768	3,584,598
Other outgo	(120,967)	(150,950)	168,032	(318,982)
Capital outlay	260,276	682,841	622,045	60,796
Debt service				
Debt service - principal	-	-	134,635	(134,635)
Total expenditures <sup>1</sup>	<u>67,512,515</u>	<u>69,865,461</u>	<u>64,614,794</u>	<u>5,250,667</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,148,756</u>	<u>11,816,010</u>	<u>13,629,593</u>	<u>1,813,583</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	55,441	4,140,968	4,085,527
Proceeds from leases	-	-	467,716	467,716
Transfers out	(1,281,540)	(1,587,583)	(1,256,031)	331,552
Other uses, payments to other agencies	(3,500,000)	(4,280,598)	(4,280,598)	-
Net financing sources (uses)	<u>(4,781,540)</u>	<u>(5,812,740)</u>	<u>(927,945)</u>	<u>4,884,795</u>
Net Change in Fund Balances	(3,632,784)	6,003,270	12,701,648	6,698,378
Fund Balance - Beginning	41,126,110	41,126,110	41,126,110	-
Fund Balance - Ending	<u>\$ 37,493,326</u>	<u>\$ 47,129,380</u>	<u>\$ 53,827,758</u>	<u>\$ 6,698,378</u>

<sup>1</sup> Due to the consolidation of Fund 11, Adult Education Fund; Fund 14, Deferred Maintenance Fund; and Fund 17, Special Reserve Fund for Other than Capital Outlay Projects, for reporting purposes into the County School Service Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, but are not in the original and final County School Service Fund budgets.

Santa Cruz County Superintendent of Schools  
 Budgetary Comparison Schedule – Special Education Pass-Through Fund  
 Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final		Final to Actual
Revenues				
Federal sources	\$ 4,046,766	\$ 4,094,661	\$ 4,050,616	\$ (44,045)
Other State sources	3,995,542	3,684,958	4,482,509	797,551
Other local sources	60,000	221,074	222,005	931
Total revenues	<u>8,102,308</u>	<u>8,000,693</u>	<u>8,755,130</u>	<u>754,437</u>
Other Financing Uses				
Other uses, payment to other agencies	<u>(8,042,308)</u>	<u>(7,725,209)</u>	<u>(8,478,715)</u>	<u>(753,506)</u>
Net Change in Fund Balances	60,000	275,484	276,415	931
Fund Balance - Beginning	<u>197,149</u>	<u>197,149</u>	<u>197,149</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ 257,149</u></u>	<u><u>\$ 472,633</u></u>	<u><u>\$ 473,564</u></u>	<u><u>\$ 931</u></u>

Santa Cruz County Superintendent of Schools  
Schedule of Changes in the County's Net OPEB Liability and Related Ratios  
Year Ended June 30, 2025

	2025	2024	2023	2022
Total OPEB Liability				
Service cost	\$ 352,451	\$ 348,506	\$ 339,179	\$ 486,669
Interest	587,768	653,524	644,464	688,629
Benefit payments	(805,114)	(795,799)	(1,011,983)	(933,545)
Expected benefit payments from employer	-	-	-	-
Actual minus expected benefit payments	-	-	-	-
Experience (gains)/losses	112,638	(861,850)	104,960	(461,816)
Changes in assumption	-	(374,700)	-	32,601
Net change in total OPEB liability	247,743	(1,030,319)	76,620	(187,462)
Total OPEB Liability - Beginning	8,877,850	9,908,169	9,831,549	10,019,011
Total OPEB Liability - Ending (a)	<u>\$ 9,125,593</u>	<u>\$ 8,877,850</u>	<u>\$ 9,908,169</u>	<u>\$ 9,831,549</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 1,246,997	\$ 1,141,359	\$ 1,174,543	\$ 1,336,559
Interest	1,411,204	799,846	(1,780,310)	-
Net investment income	-	-	-	2,736,582
Benefit payments	(805,114)	(795,799)	(1,011,983)	(933,545)
Actual minus expected benefit payments	-	-	-	-
Administrative expense	(4,125)	(3,346)	(3,295)	(3,739)
Other	-	-	-	-
Net change in plan fiduciary net position	1,848,962	1,142,060	(1,621,045)	3,135,857
Plan Fiduciary Net Position - Beginning	12,064,368	10,922,308	12,543,353	9,407,496
Plan Fiduciary Net Position - Ending (b)	<u>\$ 13,913,330</u>	<u>\$ 12,064,368</u>	<u>\$ 10,922,308</u>	<u>\$ 12,543,353</u>
Net OPEB (Asset)/Liability - Ending (a) - (b)	<u>\$ (4,787,737)</u>	<u>\$ (3,186,518)</u>	<u>\$ (1,014,139)</u>	<u>\$ (2,711,804)</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB (Asset)/Liability	152.46%	135.89%	110.24%	127.58%
Covered Payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Net OPEB (Asset)/Liability as a Percentage of Covered Payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Measurement Date	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021

<sup>1</sup> The County Office's OPEB Plan is administered through a trust, however, contributions are not made based on a measure of pay, therefore, no measure of payroll is presented

*Note:* In the future, as data becomes available, ten years of information will be presented.

Santa Cruz County Superintendent of Schools  
Schedule of Changes in the County's Net OPEB Liability and Related Ratios  
Year Ended June 30, 2025

	2021	2020	2019	2018
Total OPEB Liability				
Service cost	\$ 473,644	\$ 403,067	\$ 392,279	\$ 381,780
Interest	668,053	550,815	521,490	491,261
Benefit payments	-	(664,019)	(502,479)	(457,838)
Expected benefit payments from employer	(841,587)	(109,099)	-	-
Actual minus expected benefit payments	-	218,198	56,926	-
Experience (gains)/losses	(17,380)	1,392,603	-	-
Changes in assumption	-	-	-	-
Net change in total OPEB liability	282,730	1,791,565	468,216	415,203
Total OPEB Liability - Beginning	9,736,281	7,944,716	7,476,500	7,061,297
Total OPEB Liability - Ending (a)	<u>\$ 10,019,011</u>	<u>\$ 9,736,281</u>	<u>\$ 7,944,716</u>	<u>\$ 7,476,500</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 858,815	\$ 873,118	\$ 595,554	\$ 557,838
Interest	-	-	-	-
Net investment income	335,208	563,364	601,237	740,457
Benefit payments	(841,587)	(773,118)	(502,479)	(457,838)
Actual minus expected benefit payments	-	-	56,926	-
Administrative expense	(4,600)	-	-	-
Other	-	-	7,330	-
Net change in plan fiduciary net position	347,836	663,364	758,568	840,457
Plan Fiduciary Net Position - Beginning	9,059,660	8,396,296	7,637,728	6,797,271
Plan Fiduciary Net Position - Ending (b)	<u>\$ 9,407,496</u>	<u>\$ 9,059,660</u>	<u>\$ 8,396,296</u>	<u>\$ 7,637,728</u>
Net OPEB (Asset)/Liability - Ending (a) - (b)	<u>\$ 611,515</u>	<u>\$ 676,621</u>	<u>\$ (451,580)</u>	<u>\$ (161,228)</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB (Asset)/Liability	93.90%	93.05%	105.68%	102.16%
Covered Payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Net OPEB (Asset)/Liability as a Percentage of Covered Payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

<sup>1</sup> The County Office's OPEB Plan is administered through a trust, however, contributions are not made based on a measure of pay, therefore, no measure of payroll is presented

*Note:* In the future, as data becomes available, ten years of information will be presented.

Santa Cruz County Superintendent of Schools  
Schedule of the County's Proportionate Share of the Net OPEB Liability – MPP Program  
Year Ended June 30, 2025

Year ended June 30,	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Proportion of the net OPEB liability	0.0295%	0.0293%	0.0273%	0.0320%
Proportionate share of the net OPEB liability	\$ 78,515	\$ 88,865	\$ 89,888	\$ 127,613
Covered payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Plan fiduciary net position as a percentage of the total OPEB liability	(1.02%)	(0.96%)	(0.94%)	(0.80%)
Measurement Date	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021

<sup>1</sup> As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

*Note:* In the future, as data becomes available, ten years of information will be presented.

Santa Cruz County Superintendent of Schools  
Schedule of the County's Proportionate Share of the Net OPEB Liability – MPP Program  
Year Ended June 30, 2025

Year ended June 30,	2021	2020	2019	2018
Proportion of the net OPEB liability	0.0342%	0.0333%	0.0332%	0.0332%
Proportionate share of the net OPEB liability	\$ 144,851	\$ 124,556	\$ 120,821	\$ 127,684
Covered payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Proportionate share of the net OPEB liability as a percentage of it's covered payroll	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>	N/A <sup>1</sup>
Plan fiduciary net position as a percentage of the total OPEB liability	(0.71%)	(0.81%)	(0.40%)	0.01%
Measurement Date	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017

<sup>1</sup> As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

*Note:* In the future, as data becomes available, ten years of information will be presented.

Santa Cruz County Superintendent of Schools  
Schedule of the County's Proportionate Share of the Net Pension Liability - CalSTRS  
Year Ended June 30, 2025

CalSTRS	2025	2024	2023	2022	2021
Proportion of the net pension liability	0.0202%	0.0198%	0.0182%	0.0213%	0.0196%
Proportionate share of the net pension liability	\$ 13,561,599	\$ 15,079,649	\$ 12,633,989	\$ 9,686,133	\$ 19,009,830
State's proportionate share of the net pension liability	6,222,108	7,225,084	6,327,052	4,873,687	9,799,570
Total	\$ 19,783,707	\$ 22,304,733	\$ 18,961,041	\$ 14,559,820	\$ 28,809,400
Covered payroll	\$ 13,202,073	\$ 11,994,178	\$ 11,477,949	\$ 10,934,000	\$ 8,859,790
Proportionate share of the net pension liability as a percentage of its covered payroll	102.72%	125.72%	110.07%	88.59%	214.56%
Plan fiduciary net position as a percentage of the total pension liability	84%	81%	81%	87%	72%
Measurement Date	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020
	2020	2019	2018	2017	2016
Proportion of the net pension liability	0.0189%	0.0176%	0.0168%	0.0169%	0.0213%
Proportionate share of the net pension liability	\$ 17,076,252	\$ 16,162,680	\$ 15,503,260	\$ 13,672,572	\$ 14,359,551
State's proportionate share of the net pension liability	9,316,235	9,253,890	9,171,598	7,783,552	7,594,619
Total	\$ 26,392,487	\$ 25,416,570	\$ 24,674,858	\$ 21,456,124	\$ 21,954,170
Covered payroll	\$ 10,404,233	\$ 9,561,423	\$ 8,958,810	\$ 8,863,027	\$ 9,494,981
Proportionate share of the net pension liability as a percentage of its covered payroll	164.13%	169.04%	173.05%	154.27%	151.23%
Plan fiduciary net position as a percentage of the total pension liability	73%	71%	69%	70%	74%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015

Santa Cruz County Superintendent of Schools  
Schedule of the County's Proportionate Share of the Net Pension Liability - CalPERS  
Year Ended June 30, 2025

CalPERS	2025	2024	2023	2022	2021
Proportion of the net pension liability	0.0820%	0.0828%	0.0855%	0.0852%	0.0834%
Proportionate share of the net pension liability	\$ 29,293,729	\$ 29,967,475	\$ 29,407,177	\$ 17,322,306	\$ 25,594,009
Covered payroll	\$ 15,520,982	\$ 13,707,000	\$ 12,578,577	\$ 11,755,039	\$ 11,507,241
Proportionate share of the net pension liability as a percentage of its covered payroll	188.74%	218.63%	233.79%	147.36%	222.42%
Plan fiduciary net position as a percentage of the total pension liability	72%	70%	70%	81%	70%
Measurement Date	June 30, 2024	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2020
	2020	2019	2018	2017	2016
Proportion of the net pension liability	0.0827%	0.0815%	0.0799%	0.0760%	0.0800%
Proportionate share of the net pension liability	\$ 24,098,441	\$ 21,727,160	\$ 19,067,848	\$ 15,009,890	\$ 11,794,608
Covered payroll	\$ 11,072,255	\$ 10,403,962	\$ 9,686,705	\$ 8,789,783	\$ 8,800,872
Proportionate share of the net pension liability as a percentage of its covered payroll	217.65%	208.84%	196.85%	170.77%	134.02%
Plan fiduciary net position as a percentage of the total pension liability	70%	71%	72%	74%	79%
Measurement Date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015

Santa Cruz County Superintendent of Schools  
Schedule of the County's Contributions - CalSTRS  
Year Ended June 30, 2025

<b>CalSTRS</b>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contractually required contribution	\$ 2,726,219	\$ 2,521,596	\$ 2,290,888	\$ 1,942,069	\$ 1,765,841
Less contributions in relation to the contractually required contribution	<u>2,726,219</u>	<u>2,521,596</u>	<u>2,290,888</u>	<u>1,942,069</u>	<u>1,765,841</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 14,273,398</u>	<u>\$ 13,202,073</u>	<u>\$ 11,994,178</u>	<u>\$ 11,477,949</u>	<u>\$ 10,934,000</u>
Contributions as a percentage of covered payroll	<u>19.10%</u>	<u>19.10%</u>	<u>19.10%</u>	<u>16.92%</u>	<u>16.15%</u>
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 1,515,024	\$ 1,690,102	\$ 1,363,011	\$ 1,112,652	\$ 918,955
Less contributions in relation to the contractually required contribution	<u>1,515,024</u>	<u>1,690,102</u>	<u>1,363,011</u>	<u>1,112,652</u>	<u>918,955</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 8,859,790</u>	<u>\$ 10,404,233</u>	<u>\$ 9,561,423</u>	<u>\$ 8,958,810</u>	<u>\$ 8,863,027</u>
Contributions as a percentage of covered payroll	<u>17.10%</u>	<u>16.24%</u>	<u>14.43%</u>	<u>12.42%</u>	<u>10.73%</u>

Santa Cruz County Superintendent of Schools  
Schedule of the County's Contributions - CalPERS  
Year Ended June 30, 2025

CalPERS	2025	2024	2023	2022	2021
Contractually required contribution	\$ 4,648,134	\$ 4,140,998	\$ 3,477,466	\$ 2,881,752	\$ 2,433,293
Less contributions in relation to the contractually required contribution	<u>4,648,134</u>	<u>4,140,998</u>	<u>3,477,466</u>	<u>2,881,752</u>	<u>2,433,293</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 17,183,490</u>	<u>\$ 15,520,982</u>	<u>\$ 13,707,000</u>	<u>\$ 12,578,577</u>	<u>\$ 11,755,039</u>
Contributions as a percentage of covered payroll	<u>27.050%</u>	<u>26.680%</u>	<u>25.370%</u>	<u>22.910%</u>	<u>20.700%</u>
	2020	2019	2018	2017	2016
Contractually required contribution	\$ 2,269,228	\$ 1,996,656	\$ 1,611,481	\$ 1,343,511	\$ 1,037,482
Less contributions in relation to the contractually required contribution	<u>2,269,228</u>	<u>1,996,656</u>	<u>1,611,481</u>	<u>1,343,511</u>	<u>1,037,482</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	<u>\$ 11,507,241</u>	<u>\$ 11,072,255</u>	<u>\$ 10,403,962</u>	<u>\$ 9,686,705</u>	<u>\$ 8,789,783</u>
Contributions as a percentage of covered payroll	<u>19.720%</u>	<u>18.030%</u>	<u>15.490%</u>	<u>13.870%</u>	<u>11.800%</u>

**Note 1 - Purpose of Schedules**

**Budgetary Comparison Schedule**

The County employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This schedule presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

At June 30, 2025, the County’s Special Education Pass-Through Fund exceeded the budgeted amount in total as follows:

Fund	Expenditures and Other Uses		
	Budget	Actual	Excess
Special Education Pass-Through	\$ 7,725,209	\$ 8,478,715	\$ (753,506)

**Schedule of Changes in the County’s Net OPEB Plan Asset/Liability and Related Ratios**

This schedule presents information on the County’s changes in the net OPEB plan asset/liability, including beginning and ending balances, the plan’s fiduciary net position, and the net OPEB plan asset/liability. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in benefit terms since the previous measurement.
- *Changes of Assumptions* – There were no changes in assumptions since the previous measurement.

**Schedule of the County’s Proportionate Share of the Net OPEB Liability - MPP Program**

This schedule presents information on the County’s proportionate share of the net OPEB Liability - MPP Program and the plan fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

- *Changes in Benefit Terms* – There were no changes in the benefit terms since the previous valuation.

- *Changes of Assumptions* – The plan rate of investment return assumption was changed from 3.65% to 3.93% since the previous valuation. The Medicare Part A premium cost trend rate assumption was changed from 4.50% to 5.00%, while the Medicare Part B premium cost trend rate assumption was changed from 5.40% to 6.50% since the previous valuation.

#### **Schedule of the County's Proportionate Share of the Net Pension Liability**

This schedule presents information on the County's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the County.

- *Changes in Benefit Terms* – There were no changes in benefit terms for the CalSTRS or CalPERS plans since the previous valuations.
- *Changes of Assumptions* – There were no changes in economic assumptions for the CalSTRS or CalPERS plans since the previous valuations.

#### **Schedule of the County's Contributions**

This schedule presents information on the County's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution.

Supplementary Information  
June 30, 2025

# Santa Cruz County Superintendent of Schools

Santa Cruz County Superintendent of Schools  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2025

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Education				
Passed Through California Department of Education (CDE):				
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	\$ 316,540	\$ -
Title I, Part D, Subpart 2, Local Delinquent Programs	84.010	14357	182,497	-
Title I, Comprehensive Support for Improvement for LEAs	84.010	15438	348,766	-
Title I, Comprehensive Support for Improvement for COEs	84.010	15439	143,794	-
Subtotal Title I (84.010)			991,597	-
COVID-19, Elementary and Secondary School Emergency Relief Fund (ESSER III)	84.425U	15559	211,053	-
COVID-19, Elementary and Secondary School Emergency Relief Fund (ESSER III), Learning Loss	84.425U	10155	40,783	-
Subtotal (84.425)			251,836	-
Title II, Supporting Effective Instruction State Grants - Teacher Quality	84.367	14341	26,048	-
Title IV, Part A, Student Support and Academic Enrichment Program	84.424	15396	39,525	-
Title IX McKinney-Vento Homeless Children Assistance Grants	84.196	14332	111,530	-
Passed Through North Santa Cruz County SELPA:				
Special Education IDEA Cluster (IDEA)				
IDEA Basic Local Assistance Entitlement	84.027	13379	4,369,970	3,946,268
IDEA Mental Health Services, Part B	84.027A	15197	13,999	-
Subtotal (84.027)			4,383,969	3,946,268

Santa Cruz County Superintendent of Schools

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2025

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
IDEA Preschool Grants, Part B, Section 619	84.173	13430	104,348	104,348
IDEA Preschool Staff Development	84.173A	13431	349	-
Subtotal (84.173)			104,697	104,348
Subtotal Special Education Cluster			4,488,666	4,050,616
Special Education - Grants for Infants and Families IDEA Early Intervention Grants	84.181	23761	102,304	-
Passed Through California Department of Rehabilitation (DOR): State Vocational Rehabilitation Services Program - We Can Work	84.126A	[1]	109,098	-
Total U.S Department of Education			6,120,604	4,050,616
U.S. Department of Health and Human Services				
Foster Care - Title IV-E	93.658	N/A	197,599	-
Community Funded Projects	93.493	N/A	546,167	-
Passed Through California Department Education: Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	15759	840,335	-
Passed Through California Department of Health Services: California Overdose Prevention Network State Opioid Response IV	93.788	JE73CDQUAPA7	36,364	-

[1] Pass-Through Entity Identifying Number not available

Santa Cruz County Superintendent of Schools

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2025

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
Passed Through California Department of Social Services:				
Child Care and Development Fund (CCDF) Cluster				
Child Care and Development Block Grant - Local Planning Council	93.575	13946	118,059	-
Child Care Initiative	93.575	10163	52,526	-
Child Care and Development Block Grant - Federal Resource and Referral	93.575	10163	39,553	-
Child Care and Development Block Grant - Quality Improvement Activities	93.575	15534	167,842	-
Subtotal CCDF Cluster			<u>377,980</u>	-
Total U.S Department of Health and Human Services			<u>1,998,445</u>	-
U.S. Department of Labor				
Passed Through California Department of Education (CDE):				
WIOA Cluster				
WIA/WIOA Youth Activities	17.259	10055	711,220	-
Total U.S Department of Labor			<u>711,220</u>	-
U.S. Department of Commerce				
Marine Sanctuary Program - Every Classroom a Green Classroom	11.429	N/A	95,336	-
Total U.S Department of Commerce			<u>95,336</u>	-

[1] Pass-Through Entity Identifying Number not available

**Santa Cruz County Superintendent of Schools**  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2025

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Federal Expenditures	Amounts Passed Through to Subrecipients
U.S. Department of Agriculture				
Passed Through California Department of Education (CDE):				
Child Nutrition Cluster				
National School Lunch Program - Section 4	10.555	13523	9,330	-
National School Lunch Program - Section 11	10.555	13524	40,491	-
Subtotal (10.555)			49,821	-
School Breakfast Program - Basic Breakfast				
School Breakfast Program - Needy Breakfast	10.553	13525	4,802	-
School Breakfast Program - Needy Breakfast	10.553	13526	20,295	-
Subtotal (10.553)			25,097	-
Subtotal Child Nutrition Cluster			74,918	-
Total U.S Department of Agriculture			74,918	-
Total Federal Financial Assistance			\$ 9,000,523	\$ 4,050,616

Santa Cruz County Superintendent of Schools

Schedule of Average Daily Attendance

Year Ended June 30, 2025

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary School ADA		
Probation referred, on probation or parole, expelled	<u>10.30</u>	<u>9.78</u>
Total elementary school ADA	<u>10.30</u>	<u>9.78</u>
High School ADA		
Juvenile halls, homes and camps	22.75	22.93
Probation referred, on probation or parole, expelled	<u>818.03</u>	<u>836.03</u>
Total high school ADA	<u>840.78</u>	<u>858.96</u>
Total ADA	<u>851.08</u>	<u>868.74</u>
Santa Cruz County Career Advancement Charter School		
Regular ADA, All Non-Classroom Based Ninth through twelfth	<u>206.58</u>	<u>207.58</u>

Santa Cruz County Superintendent of Schools

Schedule of Instructional Time

Year Ended June 30, 2025

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Santa Cruz County Career Advancement Charter School, All Nonclassroom Based

<u>Grade Level</u>	<u>Number of Actual Days</u>	<u>Status</u>
Grades 9 - 12		
Grade 9	180	Complied
Grade 10	180	Complied
Grade 11	180	Complied
Grade 12	180	Complied

Santa Cruz County Superintendent of Schools  
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
Year Ended June 30, 2025

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There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2025.

Santa Cruz County Superintendent of Schools

Schedule of Financial Trends and Analysis

Year Ended June 30, 2025

	(Budget) 2026 <sup>1</sup>	2025	2024 <sup>1</sup>	2023 <sup>1</sup>
County School Service Fund <sup>3</sup>				
Revenues	\$ 74,214,370	\$ 78,244,387	\$ 73,485,288	\$ 61,079,687
Other sources and transfers in	-	4,608,684	-	479,031
<b>Total Revenues and Other Sources</b>	<b>74,214,370</b>	<b>82,853,071</b>	<b>73,485,288</b>	<b>61,558,718</b>
Expenditures	79,736,816	64,614,794	59,820,715	53,599,961
Other uses and transfers out	1,230,000	5,536,629	12,098,989	5,597,878
<b>Total Expenditures and Other Uses</b>	<b>80,966,816</b>	<b>70,151,423</b>	<b>71,919,704</b>	<b>59,197,839</b>
Increase/(Decrease) in Fund Balance	(6,752,446)	12,701,648	1,565,584	2,360,879
Ending Fund Balance	<u>\$ 47,075,312</u>	<u>\$ 53,827,758</u>	<u>\$ 41,126,110</u>	<u>\$ 39,560,526</u>
Available Reserves <sup>2</sup>	<u>\$ 3,765,519</u>	<u>\$ 3,615,519</u>	<u>\$ 3,371,125</u>	<u>\$ 3,104,802</u>
Available Reserves as a Percentage of Total Outgo	<u>5%</u>	<u>5%</u>	<u>5%</u>	<u>5%</u>
Long-Term Liabilities <sup>5</sup>	<u>Not Available</u>	<u>\$ 47,486,078</u>	<u>\$ 52,279,561</u>	<u>\$ 49,805,762</u>
Average Daily Attendance at Annual <sup>4</sup>	<u>965</u>	<u>869</u>	<u>881</u>	<u>939</u>

The County School Service Fund balance has increased by \$14,267,232 over the past two years. The fiscal year 2025-2026 budget projects a decrease of \$6,752,446 (12.5%). For a county office of education this size, the State recommends available reserves of at least three percent of total County School Service Fund expenditures, transfers out, and other uses (total outgo).

The County has incurred operating surpluses in each of the past three years but anticipates incurring an operating deficit during the 2025-2026 fiscal year. Total long-term liabilities have decreased by \$2,319,684 over the past two years, primarily due to the County paying off the outstanding certificates of participation liability.

Average daily attendance has decreased by 70 over the past two years. An increase of 96 ADA is anticipated during fiscal year 2025-2026.

<sup>1</sup> Financial information for 2026, 2024, and 2023 are included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the County School Service Fund and the Special Reserve Fund for Other than Capital Outlay Projects.

<sup>3</sup> County School Service Fund amounts include activity related to the consolidation of the Adult Education Fund, the Deferred Maintenance Fund, and the Special Reserve Fund for Other than Capital Outlay as required by GASB Statement No. 54.

<sup>4</sup> Annual ADA excludes county operated Special Education programs and charter school ADA.

<sup>5</sup> Amounts have not been restated for the effects of the implementation of GASB Statement No. 101 for comparative purposes. See Note 15 for further information.

Santa Cruz County Superintendent of Schools

Schedule of Charter Schools

Year Ended June 30, 2025

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Name of Charter School	Charter Number	Included in Audit Report
Pacific Collegiate School	0210	No
Santa Cruz County Career Advancement Charter School	1904	Yes

Santa Cruz County Superintendent of Schools  
Combining Balance Sheet – Non-Major Governmental Funds  
June 30, 2025

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
<b>Assets</b>							
Deposits and investments	\$ 2,379,501	\$ 940,156	\$ 64,926	\$ 121,414	\$ 4,651,846	\$ -	\$ 8,157,843
Receivables	312,807	360,706	16,104	-	-	-	689,617
Due from other funds	-	-	-	37,225	-	-	37,225
Prepaid expenditures	75	-	-	-	-	-	75
<b>Total assets</b>	<b><u>\$ 2,692,383</u></b>	<b><u>\$ 1,300,862</u></b>	<b><u>\$ 81,030</u></b>	<b><u>\$ 158,639</u></b>	<b><u>\$ 4,651,846</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 8,884,760</u></b>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable	\$ 359,708	\$ 190,739	\$ 54,255	\$ 15,903	\$ 395,751	-	\$ 1,016,356
Due to other funds	260,697	61,657	-	-	4,205,666	-	4,528,020
Unearned revenue	118,030	801,167	-	-	-	-	919,197
<b>Total liabilities</b>	<b><u>738,435</u></b>	<b><u>1,053,563</u></b>	<b><u>54,255</u></b>	<b><u>15,903</u></b>	<b><u>4,601,417</u></b>	<b><u>-</u></b>	<b><u>6,463,573</u></b>
<b>Fund Balances</b>							
Nonspendable	75	-	-	1,316	-	-	1,391
Restricted	135,171	234,627	26,071	141,420	-	-	537,289
Assigned	1,818,702	12,672	704	-	50,429	-	1,882,507
<b>Total fund balances</b>	<b><u>1,953,948</u></b>	<b><u>247,299</u></b>	<b><u>26,775</u></b>	<b><u>142,736</u></b>	<b><u>50,429</u></b>	<b><u>-</u></b>	<b><u>2,421,187</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 2,692,383</u></b>	<b><u>\$ 1,300,862</u></b>	<b><u>\$ 81,030</u></b>	<b><u>\$ 158,639</u></b>	<b><u>\$ 4,651,846</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 8,884,760</u></b>

Santa Cruz County Superintendent of Schools

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds  
Year Ended June 30, 2025

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
<b>Revenues</b>							
Local Control Funding Formula	\$ 2,708,246	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,708,246
Federal sources	178,196	308,039	74,918	-	-	-	561,153
Other State sources	330,663	1,044,624	24,347	-	-	-	1,399,634
Other local sources	433,032	332,641	5,707	37,577	373,447	186,201	1,368,605
Total revenues	<u>3,650,137</u>	<u>1,685,304</u>	<u>104,972</u>	<u>37,577</u>	<u>373,447</u>	<u>186,201</u>	<u>6,037,638</u>
<b>Expenditures</b>							
<b>Current</b>							
Instruction	2,032,303	-	-	-	-	-	2,032,303
Instruction-related activities							
Supervision of instruction	704,143	-	-	-	-	-	704,143
Instructional library, media, and technology	7,685	-	-	-	-	-	7,685
School site administration	537,519	-	-	-	-	-	537,519
Pupil services							
Food services	-	-	166,386	-	-	-	166,386
All other pupil services	34,340	-	-	-	-	-	34,340
Administration							
All other administration	208,869	108,381	-	-	-	-	317,250
Plant services	-	-	-	392,571	526,938	-	919,509
Community services	-	1,527,204	-	-	-	-	1,527,204
Facility acquisition and construction	-	-	-	165,114	314,238	-	479,352
Debt service							
Principal	-	-	-	-	-	6,612,042	6,612,042
Interest and other	-	-	-	-	-	79,308	79,308
Total expenditures	<u>3,524,859</u>	<u>1,635,585</u>	<u>166,386</u>	<u>557,685</u>	<u>841,176</u>	<u>6,691,350</u>	<u>13,417,041</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>125,278</u>	<u>49,719</u>	<u>(61,414)</u>	<u>(520,108)</u>	<u>(467,729)</u>	<u>(6,505,149)</u>	<u>(7,379,403)</u>

Santa Cruz County Superintendent of Schools  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds  
Year Ended June 30, 2025

	Charter School Fund	Child Development Fund	Cafeteria Fund	County School Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Debt Service Fund	Total Non-Major Governmental Funds
Other Financing Sources (Uses)							
Transfers in	-	-	-	-	1,256,031	-	1,256,031
Transfers out	-	-	-	-	(4,085,527)	(55,441)	(4,140,968)
Net Financing Sources (Uses)	-	-	-	-	(2,829,496)	(55,441)	(2,884,937)
Net Change in Fund Balances	125,278	49,719	(61,414)	(520,108)	(3,297,225)	(6,560,590)	(10,264,340)
Fund Balance - Beginning	1,828,670	197,580	88,189	662,844	3,347,654	6,560,590	12,685,527
Fund Balance - Ending	<u>\$ 1,953,948</u>	<u>\$ 247,299</u>	<u>\$ 26,775</u>	<u>\$ 142,736</u>	<u>\$ 50,429</u>	<u>\$ -</u>	<u>\$ 2,421,187</u>

**Note 1 - Purpose of Schedules****Schedule of Expenditures of Federal Awards (SEFA)**Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the schedule) includes the federal award activity of the County under programs of the federal government for the year ended June 30, 2025. The information is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Santa Cruz County Superintendent of Schools, it is not intended to and does not present the net position, changes in net position or fund balances of Santa Cruz County Superintendent of Schools.

Summary of Significant Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting, except for subrecipient expenditures, which are reported on the cash basis. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Indirect Cost Rate

The County has not elected to use the de minimis cost rate.

**Schedule of Average Daily Attendance (ADA)**

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the County. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

**Schedule of Instructional Time**

The County has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the County and whether the County complied with the provisions of *Education Code* Sections 46200 through 46207.

County offices of education must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 47612.5, presented for the County sponsored dependent charter school.

**Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

**Schedule of Financial Trends and Analysis**

This schedule discloses the County's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the County's ability to continue as a going concern for a reasonable period of time.

**Schedule of Charter Schools**

This schedule lists all charter schools chartered by the Santa Cruz County Superintendent of Schools and displays information for each charter school on whether or not the charter school is included in the County's audit.

**Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances**

These schedules are included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

Other Information  
June 30, 2025

# Santa Cruz County Superintendent of Schools

**Organization**

Santa Cruz County is comprised of ten school districts and the County Office of Education. Within Santa Cruz County, there are thirty-five elementary schools, thirteen middle schools, nine special education sites (run by the County, PVUSD has special education classrooms at all three school levels), eight high schools, two continuation schools, one community school, nineteen Alternative Education sites and fourteen charter schools. The County is also the administrative agency for one Special Education Local Plan Area (SELPA) and coordinates the Career Technical Education Partnership for four school districts.

**Governing Board**

Member	Office	Term Expires
Abel Sanchez	President	2026
Edward Estrada	Vice President	2028
Ed Acosta	Member	2028
Bruce Van Allen	Member	2026
Greg Larson	Member	2028
Sue Roth	Member	2026
Rachel Williams	Member	2028

**Administration**

Name	Title
Faris Sabbah	Superintendent
Liann Reyes	Deputy Superintendent, Business Services
Marcia Russell	Associate Superintendent, Educational Services
Vacant	Deputy Superintendent of Schools

Independent Auditor's Reports  
June 30, 2025

**Santa Cruz County Superintendent of  
Schools**



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

To the Governing Board  
Santa Cruz County Superintendent of Schools  
Santa Cruz, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Santa Cruz County Superintendent of Schools (the County), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements and have issued our report thereon dated March 9, 2026.

***Adoption of New Accounting Standard***

As discussed in Note 15 to the financial statements, the County has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences* for the year ended June 30, 2025. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2024, to restate beginning net position. Our opinions are not modified with respect to this matter.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the County’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County’s internal control. Accordingly, we do not express an opinion on the effectiveness of the County’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the County’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fresno, California  
March 9, 2026



**Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance**

To the Governing Board  
Santa Cruz County Superintendent of Schools  
Santa Cruz, California

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Santa Cruz County Superintendent of Schools’s (the County) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the County’s major federal programs for the year ended June 30, 2025. The County’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2025.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the County’s compliance with the compliance requirements referred to above.

### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the County's federal programs.

### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the County's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over*

*compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Fresno, California  
March 9, 2026



## **Independent Auditor's Report on State Compliance and on Internal Control Over Compliance**

To the Governing Board  
Santa Cruz County Superintendent of Schools  
Santa Cruz, California

### **Report on Compliance**

#### ***Opinion on State Compliance***

We have audited Santa Cruz County Superintendent of Schools's (the County) compliance with the requirements specified in the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, applicable to the County's state program requirements identified below for the year ended June 30, 2025.

In our opinion, the County complied, in all material respects, with the compliance requirements referred to above that are applicable to the laws and regulations of the state programs noted in the table below for the year ended June 30, 2025.

#### ***Basis for Opinion***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), and the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the County's compliance with the compliance requirements referred to above.

#### ***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the County's state programs.

**Auditor’s Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the County’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* will always detect a material noncompliance when it exists. The risk of not detecting a material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the County’s compliance with the requirements of the state programs as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the County’s compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the County’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, but not for the purpose of expressing an opinion on the effectiveness of the County’s internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine the County’s compliance with the state laws and regulations applicable to the following items:

2024-2025 K-12 Audit Guide Procedures	Procedures Performed
Local Education Agencies Other Than Charter Schools	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Independent Study	Yes
Continuation Education	Not Applicable
Instructional Time	Not Applicable
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Not Applicable
Classroom Teacher Salaries	Not Applicable
Early Retirement Incentive	Not Applicable
GANN Limit Calculation	Yes

2024-2025 K-12 Audit Guide Procedures	Procedures Performed
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	Not Applicable
K-3 Grade Span Adjustment	Not Applicable
Apprenticeship: Related and Supplemental Instruction	Not Applicable
Comprehensive School Safety Plan	Yes
District of Choice	Not Applicable
Home to School Transportation Reimbursement	Not Applicable
School Districts, County Offices of Education, and Charter Schools	
Proposition 28 Arts and Music in Schools	Yes
After/Before School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study - Course Based	Not Applicable
Immunizations	Yes
Educator Effectiveness	Yes
Expanded Learning Opportunities Grant (ELO-G)	Not Applicable
Career Technical Education Incentive Grant	Yes
Expanded Learning Opportunities Program	Not Applicable
Transitional Kindergarten	Not Applicable
Kindergarten Continuance	Not Applicable
Charter Schools	
Attendance	Yes
Mode of Instruction	Not Applicable
Nonclassroom-Based Instruction/Independent Study	Yes
Determination of Funding for Nonclassroom-Based Instruction	Yes
Annual Instructional Minutes - Classroom Based	Not Applicable
Charter School Facility Grant Program	Not Applicable

The term “Not Applicable” is used above to mean either the County did not offer the program during the current fiscal year, the County did not participate in the program during the current fiscal year, or the program applies to a different type of local education agency.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance

requirement of a state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the *2024-2025 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fresno, California  
March 9, 2026

Schedule of Findings and Questioned Costs  
June 30, 2025

# Santa Cruz County Superintendent of Schools

**Financial Statements**

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major program	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516(a)	No

**Identification of major programs**

<u>Name of Federal Program or Cluster</u>	<u>Federal Financial Assistance Listing</u>
Special Education Cluster (IDEA)	84.024, 84.027A, 84.173, 84.173A
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243
Title I Programs	84.010
COVID-19, Elementary and Secondary School Emergency Relief (ESSER III)	84.425U
COVID-19, Elementary and Secondary School Emergency Relief (ESSER III), Learning Loss	84.425U
Dollar threshold used to distinguish between type A and type B programs	\$ 750,000
Auditee qualified as low-risk auditee?	No

**State Compliance**

Internal control over state compliance programs	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Other matters to be reported	No
Type of auditor's report issued on compliance for programs	Unmodified

None reported.

None reported.

None reported.

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's Schedule of Findings and Questioned Costs.

### **Federal Awards Findings**

**2024-001      50000**

#### **Federal Program Affected**

Program Name: Education Stabilization Funds  
Assistance Listing Number: 84.425  
Pass-Through Entity Number: 15547  
Pass-Through Entity: California Department of Education (CDE)  
Federal Agency: U.S. Department of Treasury  
Compliance Requirement: Reporting  
Type of Finding: Material Weakness in Controls over Compliance

#### **Criteria or Specific Requirements**

Local education agencies must comply with all reporting requirements that the Department of Education may reasonably require. Section 15011 of Division B of the Coronavirus Aid, Relief, and Economic Security (CARES) Act requires that a grantee submit annual reports. In addition, the Uniform Guidance, Section 200.303 Internal Controls, requires that the non-Federal entity must establish and maintain documentation of effective internal controls over Federal awards that provide reasonable assurance that awards are being managed in compliance with Federal statutes, regulations and the terms and conditions of the Federal award.

#### **Condition**

During our testing over reporting of the Education Stabilization Fund awards, we noted that the entity did complete the required annual reports on time. However, the entity did not use the most up to date general ledger reports that supported the prior year ending Schedule of Expenditures of Federal Awards (SEFA) amounts, which should have been the proper amounts reported on the annual expenditure reports. ESSER II, Resource 3212, reported expenditures of \$586,935, while the SEFA reported \$622,765.

#### **Cause**

The condition identified appears to have materialized due to the Business Services personnel not following their internal control policies and procedures of using the most up to date general ledger reports when preparing their annual expenditure reports.

**Effect**

The entity did not comply with the reporting requirements as specified by the California Department of Education, as well as the internal control requirements for Federal awards.

**Questioned Costs**

Since the correct expenditures were reported on the SEFA, and the annual expenditure reports were only off due to incorrect dates being used to run the general ledger reports, the likely questioned cost will be \$0.

**Context**

The entity did not comply with the reporting requirements as specified by the California Department of Education because of the incorrect date used to run reports.

**Repeat Finding**

No.

**Recommendation**

The entity should review their policies and procedures related to required reporting requirements of federal awards and ensure that general ledger reports being used are the most accurate and up to date reports.

**Current Status**

Implemented.

**State Compliance Findings**

**2024-002      10000 - Attendance Accounting and Reporting**

**Criteria**

According to the *2023-2024 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, prescribed in the California Code of Regulations and published by the Education Audit Appeals Panel, attendance reports must be amended for any change in ADA. [*Education Code* Sections 41341 (a)(1) and 14503 (a)]

**Condition**

During our audit of the Second Period (P-2) and Annual reports, we determined the reports did not use the correct divisors to determine ADA for the Santa Cruz County Career Advancement Charter School.

**Cause**

The differences were due to the charter using incorrect divisors to calculate the P-2 and Annual reports. The reports submitted to the CDE used 148 days for the P-2 divisor and 178 days for the annual divisor. The divisor should have been 150 days for the P-2 and 180 days for the Annual.

**Effect**

The charter will need to revise the P-2 and Annual reports submitted through the Principal Apportionment Data Collection (PADC) system. The revised P-2 will reduce charter ADA from 155.41 to 153.35. The revised Annual will reduced ADA from 161.86 to 160.05.

**Questioned Costs**

The estimated fiscal impact is approximately \$(26,994) for the revised P-2 and zero for the revised Annual. The estimate was calculated using the P-2 ADA adjustments above multiplied by the respective LCFF rate per ADA provided on the CDE 2023-2024 P-2 LCFF exhibit. For the annual reporting period ADA differences, no estimated impact was calculated as there were no programs funded on annual ADA at the Charter affected by this condition.

**Repeat Finding**

No

**Recommendation**

We recommend management evaluate the internal control structure over State compliance and consider changes as necessary that will ensure the correct preparation of the P-2 and Annual reports.

**Current Status**

Implemented.

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## APPENDIX E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered by the Santa Cruz County Office of Education (the “Office”) in connection with the execution and delivery of \$\_\_\_\_\_ of the Office’s Certificates of Participation (2026 Capital Projects) (Bank Qualified) (the “Certificates”). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of May 1, 2026, by and among the Office, U.S. Bank Trust Company, National Association, as trustee (the “Trustee”) and the California School Boards Association Finance Corporation (the “Corporation”). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Trust Agreement.

In consideration of the execution and delivery of the Certificates by the Office and the purchase of such Certificates by the Underwriter described below, the Office hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Office for the benefit of the Certificate holders and in order to assist the participating underwriter (the “Underwriter”) in complying with Rule 15c2-12(b)(5) (the “Rule”) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

SECTION 2. Additional Definitions. In addition to the above definitions and the definitions set forth in the Trust Agreement, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Office pursuant to, and as described in, Sections 4 and 5 of this Disclosure Agreement.

“Certificate holder” or “Holder” means any holder of the Certificates or any beneficial owner of the Certificates so long as they are immobilized with DTC.

“Dissemination Agent” shall mean any Dissemination Agent, or any alternate or successor Dissemination Agent, designated in writing by the Superintendent (or otherwise by the Office), which Agent has evidenced its acceptance in writing. The Dissemination Agent shall be Dale Scott & Co., Inc.

“Financial Obligation” shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Listed Event” means any of the events listed in Section 6 of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board, through its electronic municipal market access system, which can be found at <http://emma.msrb.org/>, or any repository of disclosure information that may be designated by the Securities and Exchange Commission for purposes of the Rule.

SECTION 3. CUSIP Numbers and Final Official Statement. The CUSIP Numbers for the Certificates have been assigned. The Final Official Statement relating to the Certificates is dated \_\_\_\_\_, 2026 (“Final Official Statement”).

SECTION 4. Provision of Annual Reports.

(a) The Office shall cause the Dissemination Agent, not later than 9 months after the end of the Office’s fiscal year (currently ending June 30), which date would be March 31, commencing with the report for the fiscal year ending June 30, 2026, which would be due on March 31, 2027, to

provide to the MSRB an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Agreement; provided that the audited financial statements of the Office may be submitted, when and if available, separately from the balance of the relevant Annual Report.

(b) If the Office is unable to provide to the MSRB an Annual Report by the date required in paragraph (a) above, the Office, in a timely manner, shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine the name and address of the MSRB each year prior to the date established hereunder for providing the Annual Report; and

(ii) if the Dissemination Agent is other than the Office or an official of the Office, the Dissemination Agent shall file a report with the Office certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 5. Content of Annual Report. The Office's Annual Report shall contain or incorporate by reference the following:

(a) Financial information including the general purpose financial statements of the Office for the preceding fiscal year, prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. If audited financial information is not available by the time the Annual Report is required to be filed pursuant to Section 4(a) hereof, the financial information included in the Annual Report may be unaudited, and the Office will provide audited financial information to the MSRB as soon as practical after it has been made available to the Office.

(b) Operating data, including the following information with respect to the Office's preceding fiscal year (to the extent not included in the audited financial statements described in paragraph (a) above):

(i) Average daily attendance; and

(ii) Adopted general fund budget for the current fiscal year.

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

SECTION 6. Reporting of Significant Events.

(a) The Office agrees to provide or cause to be provided to the MSRB, in readable PDF or other electronic format as prescribed by the MSRB, notice of the occurrence of any of the following events with respect to the Certificates not later than ten (10) Business Days after the occurrence of the event:

(i) Principal and interest payment delinquencies.

- (ii) Unscheduled draws on any debt service reserves reflecting financial difficulties.
- (iii) Unscheduled draws on any credit enhancements reflecting financial difficulties.
- (iv) Substitution of or failure to perform by any credit provider.
- (v) Adverse tax opinions with respect to the tax status of the Certificates or the issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB) with respect to the Certificates;
- (vi) Tender Offers;
- (vii) Defeasances;
- (viii) Rating changes;
- (ix) Bankruptcy, insolvency, receivership or similar event of the obligated person; or
- (x) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person which reflect financial difficulties.

(b) The Office shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if material, not later than ten (10) Business Days after the occurrence of the event:

- (i) Unless described in paragraph 6(a)(v) hereof, other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Certificates or other material events affecting the tax status of the Certificates;
- (ii) Modifications of rights to Certificate holders;
- (iii) Optional, unscheduled or contingent Certificate calls;
- (iv) Release, substitution or sale of property securing repayment of the securities;
- (v) Non-payment related defaults;
- (vi) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the 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;
- (vii) Appointment of a successor or additional Paying Agent or Trustee or the change of name of a Paying Agent or Trustee; and

(viii) Incurrence of a Financial Obligation of the obligated person or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders;

(c) The Office shall give, or cause to be given, in a timely manner, notice of a failure to provide the annual financial information on or before the date specified in Section 4 hereof, as provided in Section 4(b) hereof.

(d) Whenever the Office obtains knowledge of the occurrence of a Listed Event described in Section 6(a) hereof, or determines that knowledge of a Listed Event described in Section 6(b) hereof would be material under applicable federal securities laws, the Office shall within ten (10) Business Days of occurrence file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

SECTION 7. Termination of Reporting Obligation. The Office's obligations under this Disclosure Agreement shall terminate when the Office is no longer an obligated person with respect to the Certificates, as provided in the Rule, upon the defeasance, prior redemption or payment in full of all of the Certificates.

SECTION 8. Dissemination Agent. The Superintendent may, from time to time, appoint or engage an alternate or successor Dissemination Agent to assist in carrying out the Office's obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

The Dissemination Agent shall be entitled to the protections, limitations from liability, immunities and indemnities provided to the Trustee as set forth in the Trust Agreement which are incorporated by reference herein. The Dissemination Agent agrees to perform only those duties of the Dissemination Agent specifically set forth in the Agreement, and no implied duties, covenants or obligations shall be read into this Agreement against the Dissemination Agent.

The Dissemination Agent shall have no duty or obligation to review the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Office in a timely manner in a form suitable for filing. In accepting the appointment under this Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the registered holders or beneficial owners of the Certificates, the Office, or any other party or person.

The Dissemination Agent may consult with counsel of its choice and shall be protected in any action taken or not taken by it in accordance with the advice or opinion of such counsel. No provision of this Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent under this Agreement upon thirty days' written notice to the Office. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Agreement in accordance with its written fee schedule provided to the Office, as such fee schedule may be amended from time to time in writing. The Office agrees to indemnify and hold the Dissemination Agent harmless from and against any cost, claim, expense, cost or liability related to or arising from the acceptance of and performance of the duties of the Dissemination Agent hereunder, provided the Dissemination Agent shall not be indemnified to the extent of its willful misconduct or negligence. The obligations of the Office under this Section shall survive the termination or discharge of this Agreement and the Certificates.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the Office may amend this Disclosure Agreement under the following conditions, provided no amendment to this

Agreement shall be made that affects the rights, duties or obligations of the Dissemination Agent without its written consent:

(a) The amendment may be made only 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 the obligated person, or type of business conducted;

(b) This Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Holders, as determined either by parties unaffiliated with the Office or another obligated person (such as Special Counsel) or by the written approval of the Certificate holders; provided, that the Annual Report 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.

SECTION 10. Additional Information. If the Office chooses to include any information from any document or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Office shall have no obligation under this Disclosure Agreement to update such information or to include it in any future disclosure or notice of occurrence of a Listed Event.

Nothing in this Disclosure Agreement shall be deemed to prevent the Office from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement 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 Agreement.

SECTION 11. Default. The Office shall give notice to the MSRB of any failure to provide the Annual Report when the same is due hereunder, which notice shall be given prior to July 1 of that year. In the event of a failure of the Office to comply with any provision of this Disclosure Agreement, any Certificate holder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Office to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of default under the Trust Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Office to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Office, the Dissemination Agent, the Underwriter and Holders from time to time of the Certificates, and shall create no rights in any other person or entity.

SECTION 13. Governing Law. This Disclosure Agreement shall be governed by the laws of the State, applicable to contracts made and performed in such State.

Dated: \_\_\_\_\_, 2026

SANTA CRUZ COUNTY OFFICE OF EDUCATION

By: \_\_\_\_\_  
Superintendent

Acceptance of duties as Dissemination Agent:

DALE SCOTT & CO., INC.

By: \_\_\_\_\_

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Santa Cruz County Office of Education

Name of Issue: \$ \_\_\_\_\_ Santa Cruz County Office of Education Certificates of Participation  
(2026 Capital Projects) (Bank Qualified)

Date of Issuance: \_\_\_\_\_, 2026

NOTICE IS HEREBY GIVEN that the above-named Issuer has not provided an Annual Report with respect to the above-named Certificates as required by Section 4(a) of the Continuing Disclosure Agreement dated \_\_\_\_\_, 2026. The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

DALE SCOTT & CO., INC.

By: \_\_\_\_\_

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## APPENDIX F

### BOOK ENTRY ONLY SYSTEM

*The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Office believes to be reliable, but the Office takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Certificates, payment of principal, premium, if any, and interest with respect to the Certificates to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Certificates and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Reference made to [www.dtcc.com](http://www.dtcc.com) <http://www.dtcc.com/is> presented as a link for additional information regarding DTC and is not a part of this Official Statement.*

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates (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 in the aggregate principal amount of such maturity, and will be deposited with DTC.

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC is rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

3. Purchases of 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 Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

4. 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 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.

5. 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 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 prepayments, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of 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.

6. Prepayment notices shall be sent to DTC. If less than all of the Certificates within a maturity are being prepaid, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be prepaid.

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

8. Principal, prepayment price and interest payments on 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 Office or 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, the Trustee, or the Office, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, prepayment price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Office or 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.

9. A Certificate Owner shall give notice to elect to have its Certificates purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Certificates by causing the Direct Participant to transfer the Participant's interest in the Certificates, on DTC's records, to the Trustee. The requirement for physical delivery of Certificates in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Certificates are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Certificates to the Trustee's DTC account.

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

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

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



