

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

137A



FROM: Don Kent, Treasurer/Tax Collector

SUBMITTAL DATE:
July 29, 2010

SUBJECT: Resolution No. 2010-228 – Desert Sands Unified School District Fiscal Year 2010-2011 Tax and Revenue Anticipation Notes (Vote on Separately)

RECOMMENDED MOTION: That your Honorable Board approve and adopt Resolution No. 2010-228 providing for the issuance and sale of Tax and Revenue Anticipation Notes for the Desert Sands Unified School District (the “District”) in a principal amount not to exceed \$15,000,000.

BACKGROUND: Government Code Section 53853 provides that a school district’s tax and revenue anticipation notes are to be issued by the Board of Supervisors of Riverside County when the Riverside County Superintendent of Schools has jurisdiction over that district. The Riverside County Superintendent of Schools has jurisdiction over the District, therefore the District has requested, by resolution, that the Board of Supervisors issue Desert Sands Unified School District Tax and Revenue Anticipation Notes on behalf of the District. The District requests the issuance of the Notes to fund its short-term operating cash requirements during the 2010-2011 fiscal year.

(Continued on page two)

Don Kent, Treasurer-Tax Collector

FINANCIAL DATA	Current F.Y. Total Cost:	\$ 0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ 0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ 0	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION:

APPROVE

BY:
Rob Rockwell

County Executive Office Signature

FORM APPROVED COUNTY COUNSEL
 BY: DALE A. GARDNER
 DATE: 7/29/10
 Departmental Concurrence
 Dept't Recomm.: Consent Policy
 Per Exec. Ofc.: Consent Policy

Prev. Agn. Ref.: | **District:** 4 | **Agenda Number:**

ATTACHMENTS FILED
WITH THE CLERK OF THE BOARD

3.81

Date: July 29, 2010
From: Treasurer-Tax Collector
Subject: Resolution No. 2010-228
Page 2

Resolution No. 2010-228 authorizes the issuance of Desert Sands Unified School District Tax and Revenue Anticipation Notes in a principal amount not to exceed \$15,000,000. The District has pledged certain of its unrestricted revenues to be received or accrued during fiscal year 2010-2011 for the repayment of the Notes.

When issued, the notes will represent a general obligation of the District. The Notes will not constitute an obligation of the County. No funds of the County are pledged to the repayment of the Notes.

The Office of County Counsel has reviewed Resolution No. 2010-228 and has approved it as to form.

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RESOLUTION NO. 2010-228

RESOLUTION OF THE BOARD OF SUPERVISORS OF RIVERSIDE
COUNTY PROVIDING FOR THE ISSUANCE OF DESERT SANDS
UNIFIED SCHOOL DISTRICT, RIVERSIDE COUNTY, STATE OF
CALIFORNIA, 2010-11 TAX AND REVENUE ANTICIPATION NOTES

1 BOARD OF SUPERVISORS,
2 RIVERSIDE COUNTY, STATE OF CALIFORNIA

3 RESOLUTION NO. 2010-228

4 RESOLUTION OF THE BOARD OF SUPERVISORS OF RIVERSIDE
5 COUNTY PROVIDING FOR THE ISSUANCE OF DESERT SANDS
6 UNIFIED SCHOOL DISTRICT, RIVERSIDE COUNTY, STATE OF
7 CALIFORNIA, 2010-11 TAX AND REVENUE ANTICIPATION NOTES

8 WHEREAS, pursuant to Section 53850 *et seq.* of the Government Code of the State
9 of California (the "Act") contained in Article 7.6 thereof, entitled "Temporary Borrowing"
10 that provides for temporary borrowing by certain local agencies, on or after the first day of
11 any fiscal year (being July 1), a school district may borrow money by issuing notes for any
12 purpose for which the school district is authorized to expend moneys, including but not
13 limited to current expenses, capital expenditures, and the discharge of any obligation or
14 indebtedness of the school district; and

15 WHEREAS, Section 53853 of the Act requires that such notes must be issued in the
16 name of the school district by the board of supervisors of the county, the county
17 superintendent of which has jurisdiction over the school district, as soon as possible
18 following the receipt of a resolution of the governing board of the school district requesting
19 the borrowing; and

20 WHEREAS, the County Superintendent of Riverside County (the "County") has
21 jurisdiction over the Desert Sands Unified School District (the "District"), and this Board of
22 Supervisors of the County (the "County Board") has received a resolution of the Board of
23 Education of the District (the "District Board"), being the governing board of the District,
24 dated July 20, 2010, entitled "RESOLUTION OF THE BOARD OF EDUCATION OF THE
25 DESERT SANDS UNIFIED SCHOOL DISTRICT AUTHORIZING THE ISSUANCE OF
26 2010-11 TAX AND REVENUE ANTICIPATION NOTES FOR SAID DISTRICT AND
27 REQUESTING THE BOARD OF SUPERVISORS OF RIVERSIDE COUNTY TO ISSUE
28 SAID NOTES" (the "District Resolution") which District Resolution requests the borrowing
of not exceeding Fifteen Million Dollars (\$15,000,000) at an interest rate not to exceed five
percent (5%), through the issuance by the County Board of 2010-11 Tax and Revenue
Anticipation Notes (the "Notes") in the name of the District; and

WHEREAS, such Notes are payable on such date that is not later than thirteen
months after the date of issue, and such Notes shall be payable only from the District's
revenue received in or accrued to the fiscal year 2010-11 in which the Notes issued; and

WHEREAS, pursuant to Section 53856 of the Act, the District may pledge any taxes,
income, revenue, cash receipts or other moneys deposited in inactive or term deposits (but
excepting certain moneys encumbered for a special purpose); and the District Resolution
specifies that certain unrestricted revenues that will be received by the District for the
General Fund of the District during or accrued to fiscal year 2010-11 shall be pledged for the
payment of the Notes; and

FORM APPROVED COUNTY COUNSEL
BY DALE A. GARDNER 7/26/10 DATE

1 WHEREAS, the Notes shall be a general obligation of the District, and to the extent
2 not paid from the taxes, income, revenue, cash receipts and other moneys of the District
3 pledged for the payment thereof shall be paid with interest thereon from any other moneys of
4 the District lawfully available therefor, as required by Section 53857 of the Act, and shall not
5 in any way be payable from County money; and

6 WHEREAS, the Notes shall be in denominations of \$5,000 or integral multiples
7 thereof, as permitted by Section 53854 of the Act; shall be issued on a date provided in the
8 Note Purchase Agreement (hereinafter referred to) therefore, as permitted by Section 53853
9 of the Act; and shall be in the form and executed in the manner prescribed in the District
10 Resolution and herein, as required by Section 53853 of the Act; and

11 WHEREAS, the District has found and determined that said \$15,000,000 maximum
12 principal amount of Notes to be issued by the County Board in fiscal year 2010-11, when
13 added to the interest payable thereon, does not exceed eighty-five percent (85%) of the
14 estimated amount of the uncollected taxes, income, revenue (including but not limited to
15 revenue from state and federal governments), cash receipts and other moneys of the District
16 which will be available for the payment of the Notes and interest thereon, as required by
17 Section 53858 of the Act; and

18 WHEREAS, the District has determined that the Notes will not be outstanding after a
19 period ending thirteen months after the date on which such Notes are issued as will be set
20 forth in the Note Purchase Agreement and will not be issued in an amount greater than the
21 maximum anticipated cumulative cash flow deficit to be financed by the anticipated tax or
22 other revenue sources for the period for which such taxes or other revenues are anticipated
23 and during which such Notes are outstanding, all as provided in Section 1.103-14(c) of the
24 Income Tax Regulations of the United States Treasury;

25 NOW, THEREFORE, the Board of Supervisors of Riverside County hereby resolves
26 as follows:

27 Section 1. Authorization of Issuance of Notes: Terms Thereof; Paying Agent.
28 As required by law, the County Board hereby authorizes the issuance, in the name of the
District, of an amount not-to-exceed \$15,000,000 principal amount of Notes under
Sections 53850 et seq. of the Act, designated "Desert Sands Unified School District,
Riverside County, State of California, 2010-11 Tax and Revenue Anticipation Notes" (the
"Notes"); to be numbered from 1 and (consecutively upward in order of issuance if more than
one Note is registered); to be in the denominations of \$5,000, or integral multiples thereof, as
determined by the Underwriter (defined herein); to be dated the date of delivery thereof; to
mature (without option of prior redemption) either within 364 days from said date of delivery
(or 359 days computed (on a 30-day month/360-day year basis), or if such date is not a day
on which banks in New York or California are open for business, on the last day such banks
are open for business prior to such date, or on some later date as set forth in the official
statement pertaining to the Notes (the "Official Statement"), but in no event later than
thirteen months after the date of issuance, (on a 30-day month/360-day year basis), as
described in the Official Statement; and unless otherwise provided for in the Note or in the
Official Statement and to bear interest, payable at the dates identified in the Official
Statement and at maturity and computed on a 30-day month/360-day year basis, at the rate or
rates determined at the time of sale thereof, but not in excess of that permitted by law. Both

1 the principal of and interest on the Notes shall be payable, only upon surrender thereof, in
2 lawful money of the United States of America at the designated corporate trust office of U.S.
3 Bank National Association, which is hereby designated to be the paying agent for the Notes
4 (the "Paying Agent"). For purposes of the Notes, the Paying Agent shall be deemed to be a
5 "fiscal agent" within the meaning of Section 53601 of the Government Code of the State of
6 California. This Board hereby approves the payment of the reasonable fees and expenses of
7 the Paying Agent as they shall become due and payable.

8 Section 2. Form of Notes. The Notes shall be issued in registered form, without
9 coupons, and shall be substantially in the form and substance set forth in Exhibit A attached
10 hereto and by reference incorporated herein, the blanks in said form to be filled in with
11 appropriate words and figures. The Notes may be initially registered in the name of "Cede &
12 Co." as nominee of The Depository Trust Company, and shall be evidenced by one note in
13 the full principal amount of the Notes. The Depository Trust Company, New York, New
14 York is hereby appointed depository for the Notes (the "Depository"). Registered ownership
15 may not thereafter be transferred except as set forth in Section 4 hereof. There shall be
16 simultaneously delivered with each Note, the legal opinion of Stradling Yocca Carlson &
17 Rauth, a Professional Corporation, respecting the validity of said Notes.

18 Section 3. Transfer and Exchange of Notes. Subject to the provisions of Section
19 4 hereof, the registration of any Note may, in accordance with its terms, be transferred, upon
20 the registration books kept by the Paying Agent for such purpose, by the person in whose
21 name it is registered, in person or by his or her duly authorized attorney, upon surrender of
22 such Note for cancellation, accompanied by delivery of a written instrument of transfer, duly
23 executed in a form approved by the Paying Agent.

24 Whenever any Note or Notes shall be surrendered for registration or transfer, the
25 Paying Agent shall execute and deliver a new Note or Notes, for a like aggregate principal
26 amount. The Paying Agent shall require the Note owner requesting such registration of
27 transfer to pay any tax or other governmental charge required to be paid with respect to such
28 transfer. The County may require the owner requesting such registration of transfer to pay
such additional reasonable charge as may be necessary to cover customary expenses incurred
and fees charged by the Paying Agent with respect to such registration of transfer. The
Paying Agent may treat the registered owner of any Note as the absolute owner thereof for all
purposes whatsoever in accordance with this resolution, and the Paying Agent shall not be
affected by any notice to the contrary.

Subject to the provisions of Section 4 hereof, Notes may be exchanged at the
designated corporate trust office of the Paying Agent for a like aggregate principal amount of
Notes in other authorized denominations. The Paying Agent shall require the payment by the
Note owner requesting such exchange of any tax or other governmental charge required to be
paid with respect to such exchange. The District may require the owner requesting such
exchange to pay such additional reasonable charge as may be necessary to cover customary
expenses incurred and fees charged by the Paying Agent or the District with respect to such
exchange.

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Section 4. Use of Depository.

(a) The Notes may be initially registered as provided in Section 2 hereof. Registered ownership of the Notes, or any portion thereof, may not thereafter be transferred except:

(i) To any successor of Cede & Co., as nominee of The Depository Trust Company, or its nominee, or to any substitute depository designated pursuant to clause (ii) of this Section 4 (a "substitute depository"); provided, that any successor of Cede & Co., as nominee of The Depository Trust Company or a substitute depository, shall be qualified under any applicable laws to provide the services proposed to be provided by it;

(ii) To any substitute depository not objected to by the Paying Agent, upon (1) the resignation of The Depository Trust Company or its successor (or any substitute depository or its successor) from its functions as depository, or (2) a determination by the District to substitute another depository for The Depository Trust Company (or its successor) because The Depository Trust Company or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided, that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(iii) To any person as provided below, upon (1) the resignation of The Depository Trust Company or its successor (or substitute depository or its successor) from its functions as depository, or (2) a determination by the District to remove The Depository Trust Company or its successor (or any substitute depository or its successor) from its functions as depository.

(b) In the case of any transfer pursuant to clause (i) or clause (ii) of subsection (a) of this Section 4, upon receipt of the outstanding Notes by the Paying Agent, together with a request of the District to the Paying Agent, a new Note shall be executed and delivered in the aggregate principal amount of the Notes registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such request of the County. In the case of any transfer pursuant to clause (iii) of subsection (a) of this Section 4, upon receipt of the outstanding Notes by the Paying Agent together with a request of the District to the Paying Agent, new Notes shall be executed and delivered in such denominations numbered in the manner determined by the Paying Agent and registered in the names of such persons as are requested in such a request of the District; provided, the Paying Agent shall not be required to deliver such new Notes within a period less than sixty (60) days from the date of receipt of such a request of the County. Thereafter, Notes shall be transferred pursuant to Section 3 hereof.

(c) The Paying Agent shall be entitled to treat the person in whose name any Note is registered as the owner thereof for all purposes of this resolution and any applicable laws, notwithstanding any notice to the contrary received by the Paying Agent or the District or the County; and the Paying Agent shall have no responsibility for transmitting payments to, communication with, notifying, or otherwise dealing with any beneficial owners

1 of the Notes and neither the District, the County nor the Paying Agent will have any
2 responsibility or obligations, legal or otherwise, to the beneficial owners or to any other
3 party, including The Depository Trust Company or its successor (or substitute depository or
its successor), except for the Owner of any Notes.

4 (d) So long as the outstanding Notes are registered in the name of Cede &
5 Co. or its registered assigns, the Paying Agent shall cooperate with Cede & Co., as sole
6 registered Owner, or its registered assigns in effecting payment of the principal of and
interest on the Notes by arranging for payment in such manner that funds for such payments
are properly identified and are made immediately available on the date they are due.

7 Section 5. Deposit and Investment of Note Proceeds. The moneys so borrowed
8 shall be deposited in the general fund of the District and shall be pledged to the payment of
9 the Notes to the extent sufficient Pledged Revenues (as defined below) and other legally
10 available Revenues are not deposited into the Repayment Fund (as defined below). The
11 District has covenanted that it will make no use of the proceeds of the Notes that would cause
12 the Notes to be "arbitrage bonds" under Section 148 of the Code; and, to that end, so long as
13 any of the Notes are outstanding, the District, and all of its officers having custody or control
14 of such proceeds, shall comply with all requirements of said section, including restrictions on
the use and investment of proceeds of the Notes and the rebate of a portion of investment
earnings on certain amounts, including proceeds of the Notes, if required, to the Federal
government, and of the Income Tax Regulations of the United States Treasury promulgated
thereunder or under any predecessor provisions, to the extent that such regulations are, at the
time, applicable and in effect, so that the Notes will not be "arbitrage bonds."

15 Section 6. Payment of Notes.

16 (a) Source of Payment. The principal amount of the Notes, together with
17 the interest thereon, shall be payable from taxes, income, revenue, cash receipts and other
18 moneys which are received by the District during fiscal year 2010-11 or are accrued to fiscal
19 year 2010-11 and which are available therefor. The Notes shall be a general obligation of the
20 District, and to the extent the Notes are not paid from the Pledged Revenues defined below,
21 the Notes shall be paid with interest thereon from any other moneys of the District lawfully
22 available therefor, as provided in the District Resolution and by law. Notwithstanding
23 anything to the contrary contained herein or in any document mentioned herein or related to
24 the Notes, the County shall not have any monetary liability hereunder or by reason hereof or
25 in connection with the transactions contemplated hereby and the Notes shall be payable
26 solely from the moneys of the District available therefor as set forth in this Section and in
27 Section 4 of the District Resolution. Further, the County shall have no responsibility for or
28 liability as a result of the use of the proceeds of the sale of the Notes.

(b) Pledged Revenues. Except as otherwise provided in the Notes or in
the Official Statement, as security for the payment of the principal of and interest on the
Notes, as provided in the District Resolution, the District has pledged an amount equal to
fifty percent (50%) of the principal amount of the Notes from the unrestricted revenues
received by the District in the month ending May 31, 2011; plus an amount equal to fifty
percent (50%) of the principal amount of the Notes from the unrestricted revenues received
by the District in the month ending June 30, 2011; plus an amount sufficient to pay interest
on the Notes through maturity and any deficiency in the amount required to be deposited

1 during any prior month, from unrestricted revenues received by the District in the month
2 ending June 30, 2011 (such pledged amounts being hereinafter called the "Pledged
3 Revenues"). The term "unrestricted revenues" shall mean taxes, income, revenue, cash
4 receipts, and other moneys of the District as provided in Section 53856 of the Act, which are
intended as receipts for the general fund of the District and which are generally available for
the payment of current expenses and other obligations of the District.

5 The principal of the Notes and the interest thereon shall be a first lien and charge
6 against and shall be payable from the first moneys received by the District from such Pledged
Revenues as provided by law.

7 In the event that there are insufficient unrestricted revenues received by the District to
8 permit the deposit into the Repayment Fund as hereinafter defined of the full amount of
9 Pledged Revenues to be deposited from unrestricted revenues in a month, then the amount of
any such deficiency shall be satisfied and made up from any other moneys of the District
lawfully available for repayment of the Notes and the interest thereon.

10 (c) Covenant Regarding Additional Short term Borrowing. The District
11 has covenanted and warranted that it will not request the County Treasurer-Tax Collector (the
12 "Treasurer-Tax Collector"), to make temporary transfers of funds in the custody of the
13 Treasurer-Tax Collector, to meet any obligations of the District during the 2010-2011 fiscal
year pursuant to the authority of Article XVI, Section 6 of the Constitution of the State of
California or any other legal authority.

14 (d) Deposit of Pledged Revenues in Repayment Fund. The Pledged
15 Revenues shall be held (in accordance with the District Resolution) in a special fund
16 designated as the "Desert Sands Unified School District, Riverside County, State of
17 California, 2010-11 Tax and Revenue Anticipation Notes Repayment Fund" (herein called
18 the "Repayment Fund") and applied as directed in this Resolution. Any moneys placed in the
19 Repayment Fund shall be for the benefit of the holders of the Notes, and until the Notes and
all interest thereon are paid or until provision has been made for the payment of the Notes at
maturity with interest to maturity, the moneys in the Repayment Fund shall be applied only
for the purposes for which the Repayment Fund is created.

20 (e) Disbursement and Investment of Moneys in Repayment Fund. From
21 the date this Resolution takes effect, all Pledged Revenues shall, when received, be deposited
22 in the Repayment Fund. After such date as the amount of Pledged Revenues deposited in the
23 Repayment Fund shall be sufficient to pay in full the principal of and interest on the Notes,
24 when due, any moneys in excess of such amount remaining in or accruing to the Repayment
Fund shall be transferred to the General Fund of the District upon the request of the District.
On the maturity date of the Notes, the moneys in the Repayment Fund shall be used to pay
the principal of and interest on the Notes and any excess remaining in the Repayment Fund
after payment of Notes shall be transferred to the District.

25 Moneys in the Repayment Fund shall be invested in accordance with the District
26 Resolution, at the request of the District in investment securities or other investments
27 permitted by applicable California law, as it is now in effect and as it may be amended,
28 modified or supplemented from time to time, including investments authorized by Section 12
hereof; to the extent that moneys invested or held by the County are subject to arbitrage

1 rebate, neither the County nor any officer or employee of the County shall assume hereunder
2 or under the provisions of any rebate certificate any duty or obligation to make the actual
3 calculations of arbitrage rebate liability of the District, or to pay any such rebate or any
4 penalties in regard thereto if the District miscalculates or fails to pay or cause such rebate or
5 such penalties to be paid.

6 Section 7. Execution of Notes. The Chairman of the Board of Supervisors is
7 hereby authorized to sign the Notes manually or by facsimile signature; the Treasurer-Tax
8 Collector to sign the notes manually, the Clerk of the Board (the "Clerk") to countersign the
9 Notes manually or by facsimile signature, provided that at least one of the foregoing shall
10 sign manually; the Clerk is hereby authorized to affix the seal of the County Board thereto by
11 facsimile impression thereof; and said officers are hereby authorized to cause the blank
12 spaces thereof to be filled in as may be appropriate. The County also authorizes the Paying
13 Agent to authenticate the Notes.

14 Section 8. Approval of Note Purchase Agreement. The Notes shall be sold at a
15 negotiated sale. The form of Note Purchase Agreement for the Notes by and among the
16 District, the County and RBC Capital Markets Corporation (the "Underwriter"), substantially
17 in the form presented to this meeting and on file with the Clerk of the County is hereby
18 approved. The Superintendent, the Assistant Superintendent, Business Services or the
19 Director of Fiscal Services or a designated deputy thereof by the District Resolution, and the
20 Treasurer-Tax Collector or the Treasurer-Tax Collector's designee are hereby authorized to
21 execute and deliver the Note Purchase Agreement, and the Superintendent, the Assistant
22 Superintendent, Business Services or the Director of Fiscal Services of the District and the
23 Treasurer-Tax Collector are each hereby authorized and requested to acknowledge such Note
24 Purchase Agreement, if necessary, such approval to be conclusively evidenced by his or her
25 execution and delivery thereof; provided, however, that the maximum interest rate on the
26 Notes shall not exceed five percent (5%) per annum and that the underwriter's discount shall
27 not exceed three tenths of one percent (0.3%) of the par amount of the Notes. The Treasurer-
28 Tax Collector or the Treasurer-Tax Collector's designee, in conjunction with the District's
Assistant Superintendent, Business Services, the Director of Fiscal Services or an authorized
deputy thereof are hereby further authorized to determine the maximum principal amount of
Notes to be specified in the Note Purchase Agreement, up to \$15,000,000 and to enter into
and execute the Note Purchase Agreement with the Underwriter, if the conditions set forth in
this Resolution are satisfied.

29 Section 9. Authorization of Preliminary Official Statement and Official
30 Statement. Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond and
31 Disclosure Counsel, are hereby authorized to prepare a Preliminary Official Statement and an
32 Official Statement relating to the Notes, to be used in connection with the offering and sale of
33 the Notes.

34 Section 10. Delivery of Notes. The proper officers of the County Board are
35 hereby authorized and directed to deliver the Notes to the Underwriter in accordance
36 herewith and with the Note Purchase Agreement. All actions heretofore taken by the officers
37 and agents of the County Board with respect to the sale and issuance of the Notes are hereby
38 approved, confirmed and ratified, and the officers of the County Board are hereby authorized
and directed, for and in the name and on behalf of the County Board, to do any and all things
and take any and all actions and execute and deliver any and all certificates, agreements and

1 other documents which they, or any of them, may deem necessary or advisable in order to
2 consummate the lawful issuance and delivery of the Notes in accordance with this Resolution
and resolution heretofore adopted by the and District Board.

3 Section 11. Further Actions Authorized. It is hereby covenanted that the County,
4 and its appropriate officials, have duly taken all proceedings necessary to be taken by them,
and will take any additional proceedings necessary to be taken by them, for the levy,
5 collection and enforcement of the secured property taxes pledged under the District
Resolution in accordance with the law and for carrying out the provisions of the District
6 Resolution and of this Resolution.

7 Section 12. Investment of Note Proceeds. Notwithstanding anything to the
8 contrary contained herein, the proceeds of the Notes shall be pledged to the payment of the
Notes in the event and to the extent sufficient Pledged Revenues of the District and other
9 legally available revenues are not deposited into the Repayment Fund. In addition to
investments in the Treasurer-Tax Collector's Investment Pool, pursuant to Section 53601(1)
10 of the Government Code of the State of California, the following are hereby designated as
additional authorized investments for the proceeds of the Notes and the Repayment Fund: (i)
11 a guaranteed investment contract with a financial institution or insurance company which has
or its guarantor has at the date of execution thereof one or more outstanding issues of
12 unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated not
lower than the second highest rating category (without regard to subcategories) by Standard
13 & Poor's Ratings Services and Moody's Investors Service (in which case, the District Board
has authorized the Superintendent, the Assistant Superintendent, Business Services or the
14 Director of Fiscal Services of the District to execute a certificate of indemnity holding the
Treasurer-Tax Collector and the County, its officers, employees and servants harmless and
15 indemnifying them from any costs, liabilities, claims or damages, including but not limited to
attorneys' fees, caused by or arising from the investment of the funds in such an instrument,
16 or, alternatively, a written agreement to pay for any costs, liabilities, claims or damages,
including but not limited to attorneys' fees, to the Treasurer-Tax Collector, the County, its
17 officers, employees and servants, caused by or arising from the investment of the funds in
such an instrument); or (ii) the Local Agency Investment Fund (LAIF) administered by the
18 State of California.

19
20 Section 13. Other Actions. Officers of the Board and County officials and staff
are hereby authorized and directed, jointly and severally, to do any and all things and to
21 execute and deliver any and all documents which they may deem necessary or advisable in
order to proceed with the issuance of the Notes and otherwise carry out, give effect to and
22 comply with the terms and intent of this Resolution. Such actions heretofore taken by such
officers, officials and staff are hereby ratified, confirmed and approved.

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24 Section 14. Recitals. All the recitals in this Resolution above are true and correct
and this County Board so finds, determines and represents.

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Section 15. Effective Date. This Resolution shall take effect immediately upon its passage.

The foregoing resolution was adopted by the Board of Supervisors of the County of Riverside on August 10, 2010.

COUNTY OF RIVERSIDE

By: _____
Chairman

ATTEST:

Clerk of the Board of Supervisors

EXHIBIT A
FORM OF NOTE

REGISTERED
No. 1

REGISTERED
\$ _____

DESERT SANDS UNIFIED SCHOOL DISTRICT
RIVERSIDE COUNTY
STATE OF CALIFORNIA

2010-11 TAX AND REVENUE ANTICIPATION NOTE

<u>Rate of Interest:</u>	<u>Note Date:</u>	<u>Maturity Date:</u>	<u>CUSIP:</u>
_____%	_____, 2010	_____, 2011	_____

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

FOR VALUE RECEIVED, the Desert Sands Unified School District (the "District"), Riverside County, State of California, acknowledges itself indebted to and promises to pay the Registered Owner identified above, or registered assigns, at the designated corporate trust office of U.S. Bank National Association (the "Paying Agent"), the Principal Amount specified above in lawful money of the United States of America, on the Maturity Date specified above, together with interest thereon at the Rate of Interest per annum set forth above (computed on the basis of a 360-day year of twelve 30-day months), in like lawful money of the United States of America from the Note Date specified above until payment in full of said principal sum. Both the principal of and interest on this Note shall be payable only upon surrender of this Note as the same shall fall due; provided, however, no interest shall be payable for any period after maturity during which the Registered Owner fails to properly present this Note for payment.

It is hereby certified, recited and declared that this Note is one of an authorized issue of Notes in the aggregate principal amount of _____ Dollars (\$ _____) all of like date, tenor and effect, made, executed and given pursuant to and by authority of a resolution of the Board of Supervisors of Riverside County (the "County") duly passed and adopted on August 10, 2010 and a Resolution of the Board of Education of the District duly passed and adopted on July 20, 2010 under and by authority of Article 7.6 (commencing with Section 53850) of Chapter 4, Part 1, Division 2, Title 5, California Government Code, and that all acts, conditions and things required to exist, happen and be performed precedent to and in the issuance of this Note have existed, happened and been performed in regular and

due time, form and manner as required by law, and that this Note, together with all other indebtedness and obligations of the District, does not exceed any limit prescribed by the Constitution or statutes of the State of California.

The principal amount of the Notes, together with the interest thereon, shall be payable from taxes, income, revenue, cash receipts and other moneys that are received or accrued by the District during fiscal year 2010-11. As security for the payment of the principal of and interest on the Notes the District has pledged an amount equal to fifty percent (50%) of the principal amount of the Notes from the unrestricted revenues received by the District in the month ending May 31, 2011; and an amount equal to fifty percent (50%) of the principal amount of the Notes from the unrestricted revenues received by the District in the month ending June 30, 2011; plus an amount sufficient to pay interest on the Notes through maturity and any deficiency in the amount required to be deposited during any prior month, from the unrestricted revenues of the District to be received in the month ending June 30, 2011 (such pledged amounts being hereinafter called the "Pledged Revenues"); and the principal of the Notes and the interest thereon shall constitute a first lien and charge thereon and shall be payable from the Pledged Revenues, and to the extent not so paid shall be paid from any other moneys of the District lawfully available therefor. The Note represents an obligation of the District and not an obligation of the County; no funds of the County are pledged to the repayment of the Note.

This Note is transferable by the Registered Owner hereof in person or by his or her attorney duly authorized in writing at the designated corporate trust office of the Paying Agent, but only in the manner, subject to the limitations and upon payment of the charges provided in the Resolution, and upon surrender and cancellation of this Note except that this Note shall not be transferred or exchanged later than the 15th day prior to the maturity date hereof. Upon such transfer a new Note or Notes of authorized denominations and for the same aggregate principal amount will be issued to the transferees in exchange herefor.

The County, the District and the Paying Agent may deem and treat the Registered Owner hereof as the absolute owner hereof for the purpose of receiving payment of or on account of principal hereof and interest due hereon and for all other purposes, and neither the County, District nor the Paying Agent shall be affected by any notice to the contrary.

Unless this certificate is presented by an authorized representative of The Depository Trust Company to the issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or such other name as requested by an authorized representative of The Depository Trust Company and any payment is made to Cede & Co., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL since the registered owner hereof, Cede & Co. has an interest herein.

IN WITNESS WHEREOF, Riverside County has caused this Desert Sands Unified School District, Riverside County, State of California, 2010-11 Tax and Revenue Anticipation Note to be executed by the Chairman of its Board of Supervisors and by the Clerk of its Board of Supervisors by facsimile signature and countersigned by the Treasurer-Tax Collector by manual signature and has caused a facsimile of its official seal to be printed hereon this ___ day of September, 2010.

RIVERSIDE COUNTY

By: _____ [Facsimile Signature]
Chairman of the Board of Supervisors

By: _____ [Manual Signature]
Treasurer-Tax Collector

Countersigned

By: _____ [Signature]
Clerk of the Board of Supervisors

CERTIFICATE OF AUTHENTICATION

This note is one of the notes described in the Resolution referred to herein which has been authenticated and registered on _____, 2010

U.S. BANK NATIONAL ASSOCIATION, *as
Paying Agent*

Authorized Officer

LEGAL OPINION

I HEREBY CERTIFY that the following is a true and correct copy of the legal opinion upon the Notes therein described that was provided by Stradling Yocca Carlson & Rauth, a Professional Corporation, and was dated as of the date of delivery of and payment for said Notes.

[Facsimile Signature]

Superintendent, Desert Sands Unified
School District

ASSIGNMENT

For value received the undersigned do(es) hereby sell, assign and transfer unto the _____ within-mentioned registered Note and hereby irrevocably constitute(s) and appoint(s) _____ attorney, to transfer the same on the books of the Paying Agent with full power of substitution in the premises.

Dated: _____

Signature Guaranteed by:

NOTE: Signature(s) must be guaranteed by an eligible guarantor institution.

NOTE: The signature to the assignment must correspond to the name as it appears upon the face of this Note in every particular, without any alteration or change whatsoever.

§ _____
**DESERT SANDS UNIFIED SCHOOL DISTRICT
COUNTY OF RIVERSIDE
STATE OF CALIFORNIA
2010-11 TAX AND REVENUE ANTICIPATION NOTES**

NOTE PURCHASE AGREEMENT

August __, 2010

Board of Supervisors
County of Riverside
4080 Lemon Street, 4th Floor
Riverside, California 92501

Board of Education
Desert Sands Unified School District
47-950 Dune Palms Road
La Quinta, California 92253

Ladies and Gentlemen:

The undersigned, RBC Capital Markets Corporation (the "Underwriter"), acting on its own behalf and not acting as fiduciary or agent for you, offers to enter into this Note Purchase Agreement (the "Note Purchase Agreement") with the County of Riverside (the "County") and Desert Sands Unified School District (the "District"), which, upon your acceptance hereof, will be binding upon the County, the District and the Underwriter. By execution of this Note Purchase Agreement, the County and the District acknowledge the terms hereof and recognize that they will be bound by certain of the provisions hereof, and to the extent binding thereupon, acknowledge and agree to such terms. This offer is made subject to the written acceptance of this Note Purchase Agreement by the County and the District and delivery of such acceptance to us at or prior to 11:59 P.M., California Time, on the date hereof.

1. **Purchase and Sale of the Notes.** Upon the terms and conditions and in reliance upon the representations, warranties and agreements herein set forth, the Underwriter hereby agrees to purchase from the County for reoffering to the public, and the County hereby agrees to sell to the Underwriter for such purpose, all (but not less than all) of \$_____ in aggregate principal amount of the District's 2010-11 Tax and Revenue Anticipation Notes (the "Notes"). The Notes shall bear interest at the rate of ____ % per annum with the yield to maturity of _____ % and shall mature on _____ 2011. The Notes shall otherwise be as described in, and shall be issued and secured pursuant to the provisions of the Resolution of the District adopted on Julb 20, 2010 (the "District Resolution"), pursuant to the Resolution of the County adopted on August [8], 2010 (the "County Resolution" and collectively with the District Resolution, the "Resolutions"), the Official Statement dated of even date herewith and Sections 53850 through 53858, inclusive, of the California Government Code (the "Act"). Inasmuch as this purchase and sale represents a negotiated transaction, the County and the District understand, and hereby confirm, that the Underwriter is not acting as a

fiduciary of the County or the District, but rather is acting solely in its capacity as Underwriter, for its own account. The Underwriter has been duly authorized to execute this Note Purchase Agreement and to act hereunder.

The Underwriter shall purchase the Notes at a price of \$ _____ (consisting of the aggregate principal amount of the Notes of \$ _____, plus original issue premium of \$ _____, less an Underwriter's discount of \$ _____). The original issue premium deposited by the Underwriter U.S. Bank National Association, as fiscal agent (the "Fiscal Agent") shall be applied to pay a portion of the costs of issuance of the Notes as provided below. If, after payment of all costs of issuance, any amount deposited by the Underwriter with the Fiscal Agent has not been expended, such amount shall be paid by the Underwriter or the Fiscal Agent to the County for deposit into the District's Debt Service Fund. In the event the amount deposited in the costs of issuance account is insufficient to pay costs of issuance, any shortfall shall be paid by the District.

2. **The Notes.** The Notes shall be dated as of their date of delivery and shall mature on _____, 2011. Principal of and interest on the Notes shall be payable at maturity. The Paying Agent for the Notes, as designated by the County Resolution, shall be U.S. Bank National Association, acting on behalf of the Treasurer and Tax Collector of the County (the "Paying Agent").

The Notes shall be executed and delivered under and in accordance with the provisions of this Note Purchase Agreement and the Resolutions, as the Resolutions may be modified hereby. The Notes shall be in book-entry form, shall bear CUSIP numbers, shall be in fully registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"); the Notes shall be in authorized denominations of \$5,000 each or any integral multiple thereof. The Notes shall be delivered to DTC at least one business day prior to the Closing.

3. **Use of Documents.** The County and the District hereby authorize the Underwriter to use, in connection with the offering and sale of the Notes, this Note Purchase Agreement, the Official Statement, the District Resolution, the County Resolution, and all information contained herein and therein and all of the documents, certificates or statements furnished by the County or the District to the Underwriter in connection with the transactions contemplated by this Note Purchase Agreement.

4. **Public Offering of the Notes.** The Underwriter agrees to make a *bona fide* public offering of all the Notes at the initial public offering price or yield to be set forth on the cover page of the Official Statement (defined below) and may subsequently change such offering price without any requirement of prior notice. The Underwriter may offer and sell Notes to certain dealers (including dealers depositing Notes into investment trusts) and others at prices lower than the public offering prices stated in the Official Statement.

5. **Official Statement.** The District has caused to be drafted and consents to the use of a Preliminary Official Statement (the "Preliminary Official Statement"), including the cover page and Appendices thereto, relating to the Notes. The District represents that it deems the Preliminary Official Statement to be final as of its date, except for either revision or addition of the offering price, interest rate, yield to maturity, selling compensation, aggregate principal amount, principal amount, delivery date, rating(s) and other terms of the Notes which depend upon the foregoing as provided in and pursuant to Rule 15c2-12 of the Securities and Exchange Commission under the Securities and Exchange Act of 1934, as amended (the "Rule"). The Preliminary Official

Statement has been prepared for use by the Underwriter in connection with the public offering, sale and distribution of the Notes.

The District hereby authorizes the preparation of a final Official Statement respecting the Notes following the execution hereof (the "Official Statement") and the District hereby authorizes the use thereof by the Underwriter in connection with the public offering and sale of the Notes. The District shall provide, or cause to be provided, to the Underwriter as soon as practicable after the date of the District's acceptance of this Agreement (but, in any event, not later than seven business days after the execution hereof, and in sufficient time to accompany any confirmation of a sale of Notes) copies of the Official Statement, which is complete as of the date of its delivery to the Underwriter, in such reasonable quantities as the Underwriter shall request in order to comply with Section (b)(4) of the Rule and the rules of the Municipal Securities Rulemaking Board.

The Underwriter agrees that prior to the time the final Official Statement relating to the Notes is available, the Underwriter will send to any potential purchaser of the Notes, upon the request of such potential purchaser, a copy of the Preliminary Official Statement. Such Preliminary Official Statement shall be sent by first class mail or electronic distribution (or other equally prompt means) not later than the first business day following the date upon which each such request is received.

During the period ending on the 25th day after the End of the Underwriting Period (as defined below) (or such other period as may be agreed to by the District and the Underwriter), the District (i) shall not supplement or amend the Official Statement or cause the Official Statement to be supplemented or amended without the prior written consent of the Underwriter and (ii) shall notify the Underwriter promptly if any event shall occur, or information comes to the attention of the District, that is reasonably likely to cause the Official Statement (whether or not previously supplemented or amended) to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. If, in the opinion of the Underwriter, such event requires the preparation and distribution of a supplement or amendment to the Official Statement, the District shall prepare and furnish to the Underwriter, at the District's expense, such number of copies of the supplement or amendment to the Official Statement, in form and substance mutually agreed upon by the District and the Underwriter, as the Underwriter may reasonably request. If such notification shall be given subsequent to the Closing, the District also shall furnish, or cause to be furnished, such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably deem necessary to evidence the truth and accuracy of any such supplement or amendment to the Official Statement.

For purposes of this Purchase Agreement:

- (1) the "End of the Underwriting Period" is used as defined in Rule 15c2-12 and shall occur on the later of (a) the date of Closing or (b) when the Underwriters no longer retain an unsold balance of the Notes; unless otherwise advised in writing by the Underwriter on or prior to the Closing Date, or otherwise agreed to by the District, the Underwriter and the County, the District may assume that the End of the Underwriting Period is the Closing Date, and
- (2) the "new issue disclosure period" is used as defined in MSRB Rule G-32 and shall end on the 25th day after the Closing Date.

6. **Closing.** At 9:00 a.m., California Time, on _____, 2010, or at such other time or on such other date as shall have been mutually agreed upon by the District, the County and the Underwriter (the "Closing"), the County will deliver to the Underwriter, at the offices of DTC, or at such other place as the parties may mutually agree upon, the Notes in book-entry form, duly executed and registered as provided in paragraph 2 above, and such other documents hereinafter mentioned shall be delivered by the District or the County as applicable at such place as the parties may mutually agree upon; and the Underwriter will accept such delivery and pay the purchase price thereof in immediately available funds by wire transfer to an account or accounts within the United States designated by the County. The Underwriter will deposit original issue premium with the Fiscal Agent, who shall pay or provide for payment of the costs of issuance of the Notes.

7. **Representations, Warranties and Agreements of the District.** The District hereby represents, warrants and agrees with the Underwriter that:

A. The District is a unified school district duly organized and validly existing under the laws of the State of California, with the full legal right, power and authority to (i) request the County to issue the Notes pursuant to the Act; (ii) enter into, execute and deliver this Note Purchase Agreement and the Continuing Disclosure Certificate appended to the Official Statement (the "Continuing Disclosure Certificate"); and (iii) to adopt the District Resolution.

B. (i) At or prior to the Closing, the District will have taken all action required to be taken by it to authorize the issuance and delivery of the Notes; (ii) the District has the legal right, power and authority to enter into this Note Purchase Agreement, to adopt the District Resolution, to perform its obligations under each such document or instrument, and to carry out and effectuate the transactions contemplated by this Note Purchase Agreement and the District Resolution; (iii) the execution and delivery or adoption of, and the performance by the District of the obligations contained in the Notes, the Continuing Disclosure Certificate, the District Resolution and this Note Purchase Agreement (collectively, the "District Documents") have been duly authorized and such authorization shall be in full force and effect at the time of the Closing; (iv) the District Documents constitute the valid and legally binding obligations of the District; enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws and to principles of equity relating to or affecting the enforcement of creditors' rights; and (v) the District has duly authorized the consummation by it of all transactions contemplated by this Note Purchase Agreement and by the Official Statement.

C. No consent, approval, authorization, order, filing, registration, qualification, election or referendum, of or by any person, organization, court or governmental agency or public body whatsoever is required in connection with the issuance, delivery or sale of the Notes or the consummation of the other transactions effected or contemplated herein or hereby, except for such actions may be to qualify the Notes for offer and sale under the Blue Sky or other securities laws and regulations of such states and jurisdictions of the United States and the Underwriter may reasonably request, or which have not been taken or obtained; provided, however, that the District shall not be required to subject itself to service of process in any jurisdiction in which it is not so subject as of the date hereof.

D. The District has complied with the requirements of the Internal Revenue Code of 1986, as amended, applicable to the Notes.

E. To the best knowledge of the District, the issuance of the Notes, and the execution, delivery and performance of the District Documents, and the compliance with the provisions thereof and hereof do not conflict with or constitute on the part of the District a violation of or default under, the Constitution of the State of California or any existing law, charter, ordinance, regulation, decree, order or resolution and do not conflict with or result in a violation or breach of, or constitute a default under, any agreement, indenture, mortgage, lease or other instrument to which the District is a party or by which it is bound or to which it is subject.

F. As of the time of acceptance hereof no action, suit, hearing or investigation is pending or, to the best knowledge of the District, threatened: (i) in any way affecting the existence of the District or in any way challenging the respective powers of the several offices or the titles of the officials of the District to such offices; or (ii) seeking to restrain or enjoin the sale, issuance or delivery of the Notes, the application of the proceeds of the sale of the Notes, or the collection of revenues or assets of the District available to pay the principal of and interest on the Notes, or in any way contesting or affecting the validity or enforceability of the Notes, this Note Purchase Agreement or the District Resolution or contesting the powers of the District or its authority with respect to the Notes, this Note Purchase Agreement or the District Resolution; or (iii) in which a final adverse decision could (a) materially adversely affect the operations of the District or the consummation of the transactions contemplated by this Note Purchase Agreement or the District Resolution, (b) declare this Note Purchase Agreement to be invalid or unenforceable in whole or in material part, or (c) adversely affect the exclusion of the interest paid on the Notes from gross income for federal income tax purposes or the exemption of such interest from California personal income taxation.

G. Between the date hereof and the Closing without the prior written consent of the Underwriter, neither the District nor the County in the name and on behalf of the District, will have issued in the name and on behalf of the District any bonds, notes or other obligations for borrowed money except for such borrowings as may be described in or contemplated by the Official Statement.

H. Any certificates signed by any officer of the District and delivered to the Underwriter shall be deemed a representation and warranty by the District to the Underwriter, but not by the person signing the same, as to the statements made therein.

I. With respect to any certificates by the District pursuant to Section 42131 of the Education Code of the State, the District has not received, and for the next reporting period does not expect to receive, a qualified or negative classification from the County Superintendent of Schools.

J. In accordance with the requirements of the Rule, the District will enter into the Continuing Disclosure Certificate, upon or prior to the sale of the Notes, in which the District will undertake, for the benefit of the Owners of the Notes, to provide certain information as set forth therein. The District is not in default with respect to any continuing disclosure obligation it may have incurred prior to the date hereof in

connection with the delivery or issuance of any debt instruments, bonds, notes or lease-purchase obligations.

K. The District will furnish such information and execute such instruments and take such action in cooperation with the Underwriter as the Underwriter may reasonably request in order to qualify the Notes for offering and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions in the United States as the Underwriter may designate and determine the eligibility of the Notes for investment under the laws of such states and other jurisdictions and to continue such qualifications in effect so long as may be required for the distribution of the Notes (provided, however, that the District will not be required to qualify as a foreign corporation or to file any general or special consent to service of process under the laws of any jurisdiction).

L. The financial statements of, and other financial information regarding, the District contained in the Official Statement fairly represent the financial position and operating results of the District as of the dates and for the periods set forth therein. Prior to the Closing, there will have been no adverse change of a material nature in such financial position, results of operation or condition, financial or otherwise, of the District. The District is not a party to any litigation or other proceeding pending, or, to its knowledge, threatened which, if decided adversely to the District, would have a materially adverse effect on the financial condition of the District.

8. **Representations by the County.** The County represents and warrants to the Underwriter that:

A. The County has the power under the Constitution and laws of the State to issue the Notes in the name and on behalf of the District.

B. (i) At or prior to the Closing, the County will have taken all actions required to be taken by it in order to authorize the issuance and delivery of the Notes; (ii) the County has full legal right, power and authority to enter into this Note Purchase Agreement, to adopt the County Resolution, to issue and deliver the Notes to the Underwriter on behalf of the District and to perform its obligations under each such document or instrument, and to carry out and effectuate the transactions contemplated by this Note Purchase Agreement and the Resolutions; (iii) the execution and delivery or adoption of, and the performance by the County of its obligations contained in the Notes, the County Resolution and this Note Purchase Agreement have been duly authorized, and such authorization shall be in full force and effect as at the Closing; (iv) this Note Purchase Agreement constitutes a valid and legally binding obligation of the County, enforceable against the County in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws and to principles of equity relating to or affecting the enforcement of creditors' rights; and (v) the County has duly authorized the consummation by it of all transactions contemplated by this Note Purchase Agreement.

C. As of the time of acceptance hereof, to the best knowledge of the County, no action, suit, hearing or investigation is pending or, to the best knowledge of the County, threatened against the County: (i) in any way affecting the existence of the County or in

any way challenging the respective powers of the several offices or the titles of the officials of the County to such offices; or (ii) seeking to restrain or enjoin the sale, issuance or delivery of any of the Notes, the application of the proceeds of the sale of the Notes, or the collection of revenues or assets of the District pledged or to be pledged or available to pay the principal of and interest on the Notes, or in any way contesting or affecting the validity or enforceability of the Notes, this Note Purchase Agreement or the County Resolution or contesting the powers of the County or its authority with respect to the Notes, this Note Purchase Agreement or the County Resolution; or (iii) in which a final adverse decision would (a) declare this Note Purchase Agreement to be invalid or unenforceable in whole or in material part, or (b) adversely affect the exclusion of the interest paid on the Notes from gross income for federal income tax purposes or the exemption of such interest from California personal income taxation.

D. Between the date hereof and the Closing, without the prior written consent of the Underwriter, the County will not have issued in the name and on behalf of the District any bonds, notes or other obligations for borrowed money except for such borrowings as may be described in or contemplated by the Official Statement.

E. Any certificates signed by an officer of the County and delivered to the Underwriter shall be deemed a representation and warranty by the County to the Underwriter, but not by the person signing the same, as to the statements made therein.

9. **Underwriters Representations, Warranties and Agreements.** The Underwriter represents, warrants to and agrees with the District that, as of the date hereof and as of the Closing Date:

A. The execution and delivery hereof and the consummation of the transactions contemplated hereby does not and will not violate any of the prohibitions set forth in Rule G-37 promulgated by the Municipal Securities Rulemaking Board (the "MSRB");

B. All reports required to be submitted to the MSRB under Rule G-37 have been and will be submitted to the MSRB;

C. The Underwriter has not paid or agreed to pay, nor will it pay or agree to pay, any entity, company, firm, or person, other than a bona fide officer, agent or employee working for the Underwriter, any compensation, fee, gift or other consideration contingent upon or resulting from the award of or entering into this Purchase Agreement; and

10. **Conditions to Closing.** The Underwriter has entered into this Note Purchase Agreement in reliance upon the representations, warranties and covenants of the District and the County contained herein and the performance by the District and the County of their respective obligations hereunder, and in reliance upon the representations, warranties and agreements to be contained in the documents and instruments to be delivered at the date of Closing. Accordingly, the Underwriter's obligations under this Note Purchase Agreement to purchase, to accept delivery of and to pay for the Notes are and shall be conditioned upon the performance by the District and the County, respectively, of their obligations to be performed hereunder and under such documents and instruments at or prior to the Closing, and shall also be subject at the option of the Underwriter, to the following

further conditions, including the delivery by the District and the County of such documents and instruments as are enumerated herein, in form and substance satisfactory to the Underwriter :

A. The representations and warranties of the District and the County contained herein shall be true, complete and correct in all material respects at the date hereof and at and as of the Closing, as if made at and as of the Closing, and the statements made in all certificates and other documents delivered to the Underwriter at the Closing pursuant hereto shall be true, complete and correct in all material respects on the date of the Closing; and the District shall be in compliance with each of the agreements made by it in this Note Purchase Agreement;

B. At the time of the Closing, (i) the Official Statement, this Note Purchase Agreement, the Resolutions and the Notes shall be in full force and effect and shall not have been amended, modified or supplemented except as may have been agreed to in writing by the Underwriter; (ii) all actions under the Act which, in the opinion of Bond Counsel, shall be necessary in connection with the transactions contemplated hereby, shall have been duly taken and shall be in full force and effect; and (iii) the District shall perform or have performed all of its obligations required under or specified in the Resolutions, this Note Purchase Agreement or the Official Statement to be performed at or prior to the Closing;

C. No decision, ruling or finding shall have been entered by any court or governmental authority since the date of this Note Purchase Agreement (and not reversed on appeal or otherwise set aside), or to the best knowledge of the District or the County, pending or threatened, which has any of the effects described in Section 7.F. or 8.C. hereof, or contesting in any way the completeness or accuracy of the Official Statement;

D. The District shall not have failed to pay principal or interest when due on any of its outstanding obligations for borrowed money;

E. All steps to be taken and all instruments and other documents to be executed, and all other legal matters in connection with the transactions contemplated by this Note Purchase Agreement shall be reasonably satisfactory in legal form and effect to the Underwriter;

F. Between the date hereof and the Closing, the market price for the Notes, or the market for or marketability of the Notes at the initial offering prices set forth in the Official Statement, or the ability of the Underwriter to enforce contracts for the sale of the Notes, shall not have been materially adversely affected in the reasonable professional judgment of the Underwriter (evidenced by a written notice to the District and the County terminating the obligation of the Underwriter to accept delivery of and pay for the Notes) by reason of any of the following:

- (1) legislation enacted by the Congress of the United States, or passed by either House of the Congress, or favorably reported for passage to either House of the Congress by any Committee of such House to which such legislation has been referred for consideration, or by the legislature of the State of California (the "State"), or introduced in the Congress or recommended for passage by the

President of the United States, or a decision rendered by a court of the United States or the State or by the United States Tax Court, or an order, regulation (final, temporary or proposed) or official statement issued or made:

- (i) by or on behalf of the United States Treasury Department, or by or on behalf of the Internal Revenue Service or other federal or State authority, which would have the purpose or effect of changing, directly or indirectly, the federal income tax consequences or State tax consequences of interest on obligations of the general character of the Notes in the hands of the holders thereof;" or
 - (ii) by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction over the subject matter thereof, to the effect that the Notes, or obligations of the general character of the Notes, including any and all underlying arrangements, are not exempt from registration under the Securities Act of 1933, as amended;
- (2) the declaration of war or engagement in or material escalation of major military hostilities by the United States or the occurrence of any other national or international emergency or calamity or crisis relating to the effective operation of the government or the financial community in the United States;
 - (3) the declaration of a general banking moratorium by federal, New York or State authorities having jurisdiction, or the general suspension of trading on any national securities exchange or fixing of minimum or maximum prices for trading or maximum ranges for prices for securities on any national securities exchange, whether by virtue of a determination by that exchange or by order of the Securities and Exchange Commission or any other governmental authority having jurisdiction;
 - (4) the imposition by the New York Stock Exchange, other national securities exchange, or any governmental authority, of any material restrictions not now in force with respect to the Notes, or obligations of the general character of the Notes, or securities generally, or the material increase of any such restrictions now in force, including those relating to the extension of credit by, or the charge to the net capital requirements of, underwriters;
 - (5) an order, decree or injunction of any court of competent jurisdiction, or order, regulation or official statement by the Securities and Exchange Commission, or any other governmental agency having jurisdiction over the subject matter thereof, issued or made to the effect that the issuance, offering or sale of obligations of the general character of the Notes, or the issuance, offering or sale of the Notes, as contemplated hereby or by the Official Statement, is or would be in violation of the Federal securities laws, as amended and then in effect;
 - (6) any event's occurring, or information's becoming known which, in the reasonable judgment of the Underwriter, makes untrue in any material adverse

respect any statement or information set forth in the Official Statement, or results in an omission to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

(7) there shall have occurred since the date of this Note Purchase Agreement any materially adverse change in the affairs or financial condition of the District;

(8) the State of California Department of Corporations, Securities Regulation Division, Blue Sky or securities commission, or other governmental agency or body of the State of California, shall have withheld registration, exemption or clearance of the offering of the Notes as described herein, or issued a stop order or similar ruling relating thereto;

(9) any amendment shall have been made to the federal or State Constitution or action by any federal or State court, legislative body, regulatory body, or other authority materially adversely affecting the tax status of the District, its property, income securities (or interest thereon) or the validity or enforceability of the levy of taxes to pay principal of and interest on the Notes;

(10) the purchase of and payment for the Notes by the Underwriter, or the resale of the Notes by the Underwriter, on the terms and conditions herein provided shall be prohibited by any applicable law, governmental authority, board, agency or commission; or

(11) there shall have occurred or any notice shall have been given of any intended review, downgrading, suspension, withdrawal, or negative change in credit watch status by any national rating service to any of the District's obligations or any rating of the Insurer.

G. At or prior to the date of the Closing, the Underwriter shall receive copies of the following documents, in each case dated as of the Closing Date and satisfactory in form and substance to the Underwriter:

(1) An approving opinion of Bond Counsel, addressed to the County and the District to the effect that the interest on the Notes is excludable from gross income for federal income tax purposes;

(2) A reliance letter from Bond Counsel to the effect that the Underwriter may rely upon the approving opinion described in E(1) above;

(3) An opinion of Disclosure Counsel in form and substance satisfactory to the Underwriter;

(4) A supplemental opinion from Bond Counsel, addressed to the Underwriter and the District, to the effect that:

(a) this Note Purchase Agreement has been duly authorized, executed and delivered by the District and the County and, assuming due authorization, execution and delivery by the Underwriter, is a legally valid and

binding agreement of the District and the County, enforceable in accordance with its terms, except as such enforcement may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies, and is subject to general principles of equity (regardless of whether such enforcement is considered in equity or at law); and

(b) the statements contained in the Official Statement in the sections entitled: "INTRODUCTION," "THE NOTES" and "TAX MATTERS," insofar as such statements purport to summarize certain provisions of the Notes, the District Resolution and the County Resolution and the tax status for Federal and State income tax purposes, present a fair and accurate summary of such documents, such tax status and the matters discussed therein;

(5) A certificate signed by an appropriate official of the District to the effect that (i) such official is authorized to execute this Note Purchase Agreement, (ii) the representations, agreements and warranties of the District herein are true and correct in all material respects as of the date of Closing, (iii) the District has complied with all the terms of the District Resolution and this Note Purchase Agreement to be complied with by the District prior to or concurrently with the Closing and such documents are in full force and effect, (iv) such official has reviewed the Official Statement and on such basis certifies that the Official Statement does not contain any untrue statements of a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, and (v) the Notes being delivered on the date of the Closing to the Underwriter under this Note Purchase Agreement substantially conform to the descriptions thereof contained in the Resolutions;

(6) A tax certificate of the District in form satisfactory to Bond Counsel;

(7) Evidence satisfactory to the Underwriter that the Notes shall have been rated "___" by Standard & Poor's ("S&P") and "___" by Moody's Investors Service ("Moody's") (or such other equivalent rating as such rating agency may give) and that such ratings have not been revoked or downgraded;

(8) A certificate, together with fully executed copies of the District Resolution, of the Secretary of the District Board of Education to the effect that:

(i) such copies are true and correct copies of the District Resolution; and

(ii) that the District Resolution was duly adopted and has not been modified, amended, rescinded or revoked and is in full force and effect on the date of the Closing.

(9) An opinion of Counsel to the District, to the effect that there is no action, suit, proceed inquiry or investigation, at law or in equity, before or by any court or public body, pending or, to his knowledge, threatened against the District contesting in any way the completeness or accuracy of the Official Statement,

the issuance of the Notes by the County on behalf of the District or the due adoption of the District Resolution;

(10) An opinion of County Counsel, addressed to the County, to the District and the Underwriter, respecting the due adoption of the County Resolution, in form and substance reasonably satisfactory to the Underwriter;

(11) A certificate, together with fully executed copies of the County Resolution, of the Clerk of the County Board of Supervisors to the effect that:

(a) such copy is a true and correct copy of the County Resolution;
and

(b) that the County Resolution was duly adopted;

(12) A "deemed final" certificate of the appropriate official of the District with respect to the Preliminary Official Statement in accordance with the Rule;

(13) The Continuing Disclosure Certificate, signed by an appropriate official of the District;

(14) A certificate of the Paying Agent, signed by a duly authorized officer of the Paying Agent, and in form and substance satisfactory to the Underwriter, to the effect that, to the best of such officer's knowledge, no litigation is pending or threatened (either in state or federal courts) (A) seeking to restrain or enjoin the delivery by the Paying Agent of any of the Notes, or (B) in any way contesting or affecting any authority of the Paying Agent for the delivery of the Notes or the validity or enforceability of the Notes or any agreement with the Paying Agent;

(15) An opinion of counsel to the Underwriter in form and substance satisfactory to the Underwriter; and

(16) Such additional legal opinions, certificates, proceedings, instruments, and other documents as the Underwriter may reasonably request in order to evidence compliance (i) by the District with legal requirements, (ii) the truth and accuracy, as of the time of Closing, of the representations of the District herein contained and of the Official Statement, and (iii) the due performance or satisfaction by the District at or prior to such time of all agreements then to be performed and all conditions then to be satisfied by the District.

H. Notwithstanding anything to the contrary herein contained, if for any reason whatsoever, forms of the Notes shall not have been delivered by the District to the Underwriter for checking prior to the close of business, California Time, on September __, 2010, then the obligation to purchase Notes hereunder shall terminate and be of no further force or effect except with respect to the obligations of the District and the Underwriter under Section 13 hereof.

If the County or the District shall be unable to satisfy the conditions to the Underwriter's obligations contained in this Note Purchase Agreement or if the Underwriter's

obligations shall be terminated for any reason permitted by this Note Purchase Agreement, this Note Purchase Agreement may be cancelled by the Underwriter at, or at any time prior to, the time of Closing. Notice of such cancellation shall be given to the County and the District in writing or by telephone or teletype, confirmed in writing. Notwithstanding any provision herein to the contrary, the performance of any and all obligations of the District hereunder and the performance of any and all conditions contained herein for the benefit of the Underwriter may be waived by the Underwriter in writing at its sole discretion.

11. **Conditions to Obligations of the County and the District.** The performance by the County and the District of their respective obligations under this Note Purchase Agreement is conditioned upon (i) the performance by the Underwriter of its obligations hereunder; and (ii) receipt by the County and the District and by the Underwriter of opinions and certificates being delivered at the Closing by persons and entities other than themselves.

12. **Expenses.** The Notes are being sold with an original issue premium in order to provide funds to pay costs of issuance thereof, as described in Section 1 above. The District shall pay any expenses incident to the performance of its obligations hereunder from the proceeds of the Notes, including but not limited to the following: (i) the fees and disbursements of Bond Counsel and Disclosure Counsel; (ii) the cost of the preparation, printing and delivery of the Notes; (iii) the fees for ratings, including all expenses related to obtaining such ratings and closing expenses; (iv) the cost of the printing and distribution of the Official Statement; (v) the fees of the Paying Agent and the fees of the Fiscal Agent to pay costs of issuance and (vi) all other fees and expenses incident to the issuance and sale of Notes, but only to the extent that original issue premium deposited by the Underwriter with the Fiscal Agent proves insufficient to pay the same. If, after payment of all costs of issuance set forth above, any amount deposited by the Underwriter with the Fiscal Agent has not been expended, such amount shall be paid by the Underwriter or the Fiscal Agent to the District for deposit into the District's Debt Service Fund. Any expenses owing following the depletion of said amount shall be for the account of the District. The Underwriter shall pay its out-of-pocket expenses, other than travel incurred in connection with obtaining ratings, and the fees and expenses of its counsel.

13. **Notices.** Any notice or other communication to be given under this Note Purchase Agreement (other than the acceptance hereof as specified in the first paragraph hereof may be given by delivering the same in writing, if to the County, the County Treasurer, County of Riverside, 4080 Lemon Street, 4th Floor, Riverside, California 92502; if to the District, to the Deputy Superintendent of Desert Sands Unified School District, 47-950 Dune Palms Road, La Quinta, California 92253, or if to the Underwriter, to RBC Capital Markets Corporation, 777 South Figueroa Street, Suite 850, Los Angeles, California 90017, Attn: Roderick A. Carter.

14. **Parties In Interest; Survival of Representations and Warranties.** This Note Purchase Agreement when accepted by County and the District in writing as heretofore specified shall constitute the entire agreement among the County, the District and the Underwriter. This Note Purchase Agreement is made solely for the benefit of the County, the District and the Underwriter (including the successors or assigns of the Underwriter). No person shall acquire or have any rights hereunder or by virtue hereof. All the representations, warranties and agreements of the County or the District in this Note Purchase Agreement shall survive regardless of (a) any investigation of any statement in respect thereof made by or on behalf of the Underwriter, (b) delivery of and payment by the Underwriter for the Notes hereunder, and (c) any termination of this Note Purchase Agreement.

15. **Execution in Counterparts.** This Note Purchase Agreement may be executed in several counterparts, each of which shall be regarded as an original and all of which shall constitute but one and the same document.

[Remainder of this page intentionally left blank.]

16. **Applicable Law.** This Note Purchase Agreement shall be interpreted, governed and enforced in accordance with the law of the State of California applicable to contracts made and performed in such State.

Very truly yours,

RBC CAPITAL MARKETS CORPORATION

By _____
Roderick A. Carter
Managing Director

The foregoing is hereby agreed to and accepted as of the date first above written:

DESERT SANDS UNIFIED SCHOOL DISTRICT

By _____
Cindy McDaniel
Assistant Superintendent, Business Services

COUNTY OF RIVERSIDE, CALIFORNIA

By _____
Don Kent
Treasurer-Tax Collector

Approved as to form:
COUNTY COUNSEL

By _____
Deputy County Counsel

Time: _____ a.m./p.m. Pacific Daylight Time on
September, 2010

RESOLUTION NO. 08/2010-2011

RESOLUTION OF THE BOARD OF EDUCATION OF THE DESERT SANDS
UNIFIED SCHOOL DISTRICT AUTHORIZING THE ISSUANCE OF 2010-11
TAX AND REVENUE ANTICIPATION NOTES FOR SAID DISTRICT AND
REQUESTING THE BOARD OF SUPERVISORS OF THE COUNTY OF
RIVERSIDE TO ISSUE SAID NOTES

WHEREAS, pursuant to Sections 53850 *et seq.* of the Government Code of the State of California (the "Act") contained in Article 7.6 thereof, entitled "Temporary Borrowing" that provides for temporary borrowing by certain local agencies on or after the first day of any fiscal year (being July 1), the Board of Education of Desert Sands Unified School District (the "District") may borrow money by issuing notes for any purpose for which the District is authorized to use and expend moneys, including but not limited to current expenses, capital expenditures, investment and reinvestment and the discharge of any obligation or indebtedness of the District; and

WHEREAS, Section 53853 of the Act provides that such notes must be issued in the name of the District by the Board of Supervisors (the "County Board") of Riverside County (the "County"), the County Superintendent of which has jurisdiction over the District, as soon as possible following the receipt of a resolution of the governing board of the District requesting the borrowing; and

WHEREAS, the County Superintendent of the County has jurisdiction over the District, and this Board of Education (the "District Board"), being the governing board of the District, hereby requests the borrowing of not-to-exceed Fifteen Million Dollars (\$15,000,000) at an interest rate not to exceed the maximum rate allowed by law, through the issuance by the County Board of 2010-11 Tax and Revenue Anticipation Notes (the "Notes") in the name of the District to be sold by negotiated sale; and

WHEREAS, such Notes are payable no later than thirteen months after their date of delivery which is the maturity date during the fiscal year succeeding the fiscal year 2010-11 in which such Notes were issued, and such Notes shall be payable only from revenue received in or accrued to the fiscal year 2010-11 in which the Notes were issued; and

WHEREAS, pursuant to Section 53856 of the Act, the District may pledge any taxes, income, revenue, cash receipts or other moneys, including moneys deposited in inactive or term deposits (but excepting certain moneys encumbered for a special purpose); and this Resolution specifies that certain unrestricted revenues which will be received by the District for the General Fund of the District during or accrued to fiscal year 2010-11 are pledged for the payment of the Notes; and

WHEREAS, the Notes shall be a general obligation of the District, and to the extent not paid from the taxes, income, revenue, cash receipts and other moneys of the District pledged for the payment thereof shall be paid with interest therein from any other moneys of the District lawfully available therefor, as required by Section 53857 of the Act; and

WHEREAS, the Notes shall be in denominations of \$5,000, or integral multiples thereof, as permitted by Section 53854 of the Act; shall be issued on a date to be designated and shall be in the form and executed in the manner prescribed in this Resolution, all as permitted and required by Section 53853 of the Act; and

WHEREAS, the District Board has found and determined that said \$15,000,000 maximum principal amount of Notes to be issued in the name of the District by the County Board in fiscal year 2010-11, when added to the interest payable thereon, does not exceed eighty-five percent (85%) of the estimated amount of the uncollected taxes, income, revenue (including but not limited to revenue from state and federal governments), cash receipts and other moneys of the District which will be available for the payment of the Notes and interest thereon, as required by Section 53858 of the Act; and

WHEREAS, the Notes will not be issued in an amount greater than the maximum anticipated cumulative cash flow deficit to be financed by the anticipated tax or other revenue sources for the period for which such taxes or other revenues are anticipated and during which such notes are outstanding, all as provided in Section 1.103-14(c) of the Income Tax Regulations of the United States Treasuries; and

NOW, THEREFORE, the Board of Education of the Desert Sands Unified School District hereby resolves as follows:

Section 1. Authorization of Issuance of Notes; Terms Thereof; Paying Agent. The District Board hereby requests the County Board to issue in the name of the District, an amount not-to-exceed \$15,000,000 principal amount of Notes under Sections 53850 *et seq.* of the Act, designated "Desert Sands Unified School District, Riverside County, State of California, 2010-11 Tax and Revenue Anticipation Notes" (the "Notes"); to be numbered from 1 consecutively upward in order of issuance; to be in the denominations of \$5,000, or integral multiples thereof, as determined by the Underwriter (defined herein); to be dated the date of delivery thereof; to mature (without option of prior redemption) either within 364 days from said date of delivery (or 359 days computed (on a 30-day month/360-day year basis), or if such date is not a day on which banks in New York or California are open for business, on the last day such banks are open for business prior to such date, or some later date as set forth in the official statement pertaining to the Notes (the "Official Statement"), but in no event later than thirteen months after the date of issuance, (on a 30-day month/360-day year basis), as described in the Official Statement; and unless otherwise provided for in the Note or the Official Statement, to bear interest, payable on or before the twelve month anniversary following the date of issuance and/or at maturity and computed on a 30-day month/360-day year basis, at the rate or rates determined at the time of sale thereof, but not in excess of the maximum rate allowed by law per annum. Both the principal of and interest on the Notes shall be payable, only upon surrender thereof, in lawful money of the United States of America at the office of the Treasurer-Tax Collector of Riverside County, which is hereby designated to be the paying agent for the Notes (in such capacity, the "Paying Agent"). The Treasurer-Tax Collector of Riverside County is authorized to contract with any third party to perform the services of Paying Agent hereunder. This Board hereby approves the payment of the reasonable fees and expenses of the Paying Agent as they shall become due and payable.

Section 2. Form of Notes. The Notes shall be issued in registered form and shall be substantially in the form set forth in Exhibit A attached hereto and by reference incorporated herein, the blanks in said form to be filled in with appropriate words and figures. The Notes shall be initially registered in the name of "Cede & Co." as nominee of The Depository Trust Company, and shall be evidenced by one note in the full principal amount of the Notes. The Depository Trust Company, New York, New York is hereby appointed depository for the Notes. Registered ownership may not thereafter be transferred except as set forth in Section 4 hereof. There shall be attached to each Note, the legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, respecting the

validity of said Notes and, immediately preceding such legal opinion, a certificate executed with the facsimile signature of the Chairman of the County Board (the "Chairman"), said certificate to be in substantially the following form:

I HEREBY CERTIFY that the following is a true and correct copy of the legal opinion regarding the Notes therein described that was provided by Stradling Yocca Carlson & Rauth, a Professional Corporation and was dated as of the date of delivery of and payment for said Notes.

[Facsimile Signature]

Chairman of the Board of Supervisors

Section 3. Deposit of Note Proceeds: No Arbitrage. The moneys so borrowed shall be deposited in the General Fund of the District. The District hereby covenants that it will make no use of the proceeds of the Notes that would cause the Notes to be "arbitrage bonds" under Section 148 of the Code; and, to that end, so long as any of the Notes are outstanding, the District, and all of its officers having custody or control of such proceeds, shall comply with all requirements of said section, including restrictions on the use and investment of proceeds of the Notes and the rebate of a portion of investment earnings on certain amounts, including proceeds of the Notes, if required, to the Federal government, and of the Income Tax Regulations of the United States Treasury promulgated thereunder or under any predecessor provisions, to the extent that such regulations are, at the time, applicable and in effect, so that the Notes will not be "arbitrage bonds."

Section 4. Payment of Notes.

(A) Source of Payment. The principal amount of the Notes, together with the interest thereon, shall be payable from taxes, income, revenue, cash receipts and other moneys which are received by the District during fiscal year 2010-11 or which are accrued to fiscal year 2010-11 regardless of when received and which are available therefor. The Notes shall be a general obligation of the District, and to the extent the Notes are not paid from the Pledged Revenues defined below, the Notes shall be paid with interest thereon from any other moneys of the District lawfully available therefor, as provided herein and by law.

(B) Pledged Revenues. Unless otherwise provided for in the Note or in the Official Statement, as security for the payment of the principal of and interest on the Notes, the District hereby pledges an amount equal to fifty percent (50%) of the principal amount of the Notes from the unrestricted revenues received by the District in the month ending May 31, 2011; an amount equal to fifty percent (50%) of the principal amount of the Notes from unrestricted revenues received by the District in the month ending June 30, 2011; and an amount sufficient to pay interest on the Notes through maturity and any deficiency in the amount required to be deposited during any prior month, from unrestricted revenues received by the District in the month ending June 30, 2011 (such pledged amounts being hereinafter called the "Pledged Revenues"). The term "unrestricted revenues" shall mean taxes, income, revenue, cash receipts, and other money of the District as provided in Section 53856 of the Act, which are intended as receipts for the general fund of the District and which are generally available for the payment of current expenses and other obligations of the District.

The principal of the Notes and the interest thereon shall be a first lien and charge against and shall be payable from the first moneys received by the District from such Pledged Revenues, as provided by law.

In the event that there are insufficient unrestricted revenues received by the District to permit the deposit into the Repayment Fund, as hereinafter defined, of the full amount of Pledged Revenues to be deposited from unrestricted revenues in a month, then the amount of any deficiency shall be satisfied and made up from any other moneys of the District lawfully available for repayment of the Notes and the interest thereon.

(C) Covenant Regarding Additional Short-term Borrowing. The District hereby covenants and warrants that it will not request the County Treasurer-Tax Collector (the "Treasurer-Tax Collector") to make temporary transfers of funds in the custody of the Treasurer-Tax Collector meet any obligations of the District during the 2010-11 fiscal year pursuant to the authority of Article XVI, Section 6 of the Constitution of the State of California or any other legal authority.

(D) Deposit of Pledged Revenues in Repayment Fund. The Pledged Revenues shall be held by the Paying Agent in a special fund designated as the "Desert Sands Unified School District, Riverside County, State of California, 2010-11 Tax and Revenue Anticipation Notes Repayment Fund" (herein called the "Repayment Fund") and applied as directed in this Resolution. The District, in consultation with the Treasurer-Tax Collector, shall direct the moneys in the Repayment Fund to be invested, as provided in Section 4(E) of this Resolution. Any moneys accounted for in the Repayment Fund shall be for the benefit of the holders of the Notes, and until the Notes and all interest thereon are paid or until provision has been made for the payment of the Notes at maturity with interest to maturity, the moneys in the Repayment Fund shall be applied only for the purposes for which the Repayment Fund is created.

(E) Disbursement and Investment of Moneys in Repayment Fund. From the date this Resolution takes effect, all Pledged Revenues shall, when received, be accounted for in the Repayment Fund. After such date as the amount of Pledged Revenues accounted for in the Repayment Fund shall be sufficient to pay in full the principal of and interest on the Notes, when due, any moneys in excess of such amount remaining in or accruing to the Repayment Fund shall be transferred to the general fund of the District upon the request of the District. On the maturity date of the Notes, the moneys in the Repayment Fund shall be used, to the extent necessary, to pay the principal of and interest on the Notes.

Moneys accounted for in the Repayment Fund, to the greatest extent possible, shall be invested at the request of the District in either investment securities by the Treasurer-Tax Collector (or independent fiscal agent), or otherwise as permitted by applicable California law and Section 9 hereof, as it is now in effect and as it may be amended, modified or supplemented from time to time including the investments authorized in this Resolution; provided that no such investments shall have a maturity date later than the maturity date of the Notes.

Section 5. Execution of Notes. The District hereby requests the Chairman of the County Board of Supervisors to sign the Notes manually or by facsimile signature; the Treasurer-Tax Collector to sign the Notes manually; the Clerk of the County Board (the "Clerk") to countersign the Notes manually or by facsimile signature, provided that at least one of the foregoing shall sign manually; the Clerk to affix the seal of the County thereto by facsimile impression thereof; and said

officers to cause the blank spaces thereof to be filled in as may be appropriate. The District also authorizes the Paying Agent to authenticate the Notes.

Section 6. Appointment of Underwriter and Bond Counsel; Authorization of Preliminary Official Statement, Official Statement. RBC Capital Markets Corporation (the "Underwriter") is hereby designated the Underwriter in connection with the issuance of the Notes. Stradling Yocca Carlson & Rauth, a Professional Corporation, is hereby designated as bond and disclosure counsel to the District in connection with the issuance of the Notes. Disclosure counsel to the District is hereby authorized to prepare a Preliminary Official Statement and an Official Statement relating to the Notes, to be used in connection with the offering and sale of the Notes. The form of the Preliminary Official Statement presented to this meeting and on file with the Secretary to the Board is hereby approved and each of the Superintendent, the Assistant Superintendent, Business Services and the Director of Fiscal Services are authorized to execute and deliver the Preliminary Official Statement to the underwriter. The Superintendent, the Assistant Superintendent, Business Services, the Director of Fiscal Services, or the Superintendent's designee, each alone, are hereby authorized and requested to execute and deliver the Official Statement; such execution shall conclusively evidence the District's approval of such Official Statement. The Superintendent, the Assistant Superintendent, Business Services, the Director of Fiscal Services, or the Superintendent's designee, each alone, are also authorized to deem "final" pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934 the Preliminary Official Statement prior to its distribution.

Section 7. Approval of Note Purchase Agreement. The Notes shall be sold at a negotiated sale. The form of Note Purchase Agreement for the Notes by and among the District, the County and the Underwriter for the Notes, substantially in the form presented to this meeting and on file with the Secretary to the Board is hereby approved. The Superintendent, the Assistant Superintendent, Business Services, the Director of Fiscal Services or a designated deputy thereof is hereby authorized to execute and deliver the Note Purchase Agreement, and the Superintendent, the Assistant Superintendent, Business Services or the Director of Fiscal Services of the District are each hereby authorized and requested to acknowledge such Note Purchase Agreement, if necessary, such approval to be conclusively evidenced by his or her execution and delivery thereof; provided, however, that the maximum interest rate on the Notes shall not exceed five percent (5%) per annum and that the underwriter's discount shall not exceed three tenths of one percent (0.3%) of the par amount of the Notes. The Superintendent, the Assistant Superintendent, Business Services, the Director of Fiscal Services or an authorized deputy thereof is hereby further authorized to determine the maximum principal amount of Notes to be specified in the Note Purchase Agreement, up to \$15,000,000 and to enter into and execute the Note Purchase Agreement with the Underwriter, if the conditions set forth in this Resolution are satisfied.

Section 8. Delivery of Notes. The proper officers of the County Board are hereby requested to deliver the Notes to the purchaser. All actions heretofore taken by the officers and agents of the District Board, including the Superintendent, the Assistant Superintendent, Business Services or the Director of Fiscal Services, or their designees, with respect to the Notes are hereby approved, confirmed and ratified, and the officers of the District Board, including the Superintendent, Assistant Superintendent, Business Services, the Director of Fiscal Services, or their designees, are hereby authorized and directed to do any and all things and take any and all actions which they, or any of them, may deem necessary or advisable in order to consummate the lawful issuance and delivery of the Notes in accordance with this Resolution and resolutions hereafter adopted by the County Board.

Section 9. Proceeds of Notes Conditionally Pledged; Investment of Note Proceeds; Authorization to Invest in LAIF. Notwithstanding anything to the contrary contained herein, the proceeds of the Notes shall be pledged to the payment of the Notes in the event and to the extent sufficient Pledged Revenues of the District and other legally available revenues are not deposited into the Repayment Fund. In addition to investments in the Treasurer-Tax Collector's Investment Pool, pursuant to Section 53601(1) of the Government Code of the State of California, in the sole discretion of the District, the following are hereby designated as additional authorized investments for the proceeds of the Notes and the Repayment Fund: (i) a guaranteed investment contract with a financial institution or insurance company which has or its guarantor has at the date of execution thereof one or more outstanding issues of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated not lower than the second highest rating category (without regard to subcategories) by Standard & Poor's Ratings Services and Moody's Investors Service (in which case, the District Board hereby authorizes the Superintendent, the Assistant Superintendent, Business Services or the Director of Fiscal Services of the District to execute a certificate of indemnity holding the Treasurer-Tax Collector and the County, its officers, employees and servants harmless and indemnifying them from any costs, liabilities, claims or damages, including but not limited to attorneys' fees, caused by or arising from the investment of the funds in such an instrument, or, alternatively, a written agreement to pay for any costs, liabilities, claims or damages, including but not limited to attorneys' fees, to the Treasurer-Tax Collector, the County, its officers, employees and servants, caused by or arising from the investment of the funds in such an instrument); or (ii) the Local Agency Investment Fund (LAIF) administered by the State of California.

Section 10. Continuing Disclosure. The District Board hereby covenants and agrees that it will comply with and carry out, and authorizes and directs the District Superintendent, the Assistant Superintendent, Business Services, the Director of Fiscal Services or the Superintendent's designee of each such person, to comply and carry out, all of the provisions of that certain Continuing Disclosure Certificate dated the date of issuance and delivery of the Notes, as originally executed and as it may be amended from time to time in accordance with the terms thereof (the "Continuing Disclosure Certificate"). Notwithstanding any other provision of this Resolution, failure of the District to comply with the Continuing Disclosure Certificate shall not be considered an event of default under this Resolution; however, any Noteholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Section. The preparation of a Continuing Disclosure Certificate is hereby approved. The District Superintendent, the Assistant Superintendent, Business Services, the Director of Fiscal Services, or the Superintendent's designee is hereby authorized and directed to execute and deliver to the purchaser of the Notes the Continuing Disclosure Certificate, with such changes therein as any such official may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 11. Transmittal of Resolution. The Superintendent or a designee of the District is hereby directed to send a certified copy of this Resolution to the County Board of Supervisors, the Treasurer-Tax Collector and the County Superintendent of Schools.

Section 12. Further Actions Authorized. (a) It is hereby covenanted that the District Board and its appropriate officials will cause the County, to take all proceedings necessary to be taken by them, and will take any additional proceedings necessary to be taken by them, for the levy, collection and enforcement of the secured property taxes pledged under this Resolution in accordance with the law and for carrying out the provisions of this Resolution.

(b) Notwithstanding any other provision herein, the provisions of this Resolution may be amended by the Note Purchase Agreement and the Official Statement.

PASSED AND ADOPTED by the Board of Education of the Desert Sands Unified School District this 20th day of July, 2010, by the following vote:

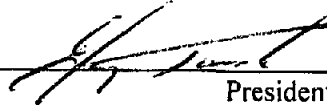
AYES: Koedyker, Griffith, Monica, Duran, Tomak

NOES: 0

ABSENT: 0

ABSTAIN: 0

By: _____



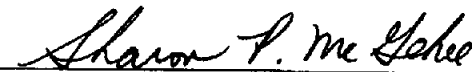
President

Board of Education

Desert Sands Unified School District

ATTEST:

By: _____



Secretary to the Board of Education
Desert Sands Unified School District

SECRETARY'S CERTIFICATE

I, Dr. Sharon McGehee, Secretary to the Board of Education of the Desert Sands Unified School District, Riverside County, California, hereby certify as follows:

The following is a full, true and correct copy of a resolution duly adopted at a regular meeting of the Board of Education of said District duly and regularly and legally held at the regular meeting place thereof on July 20, 2010, of which meeting all of the members of the Board of Education of said District had due notice and at which a quorum was present.

I have carefully compared the same with the original minutes of said meeting on file and of record in the Superintendent's office and the foregoing is a full, true and correct copy of the original regulation adopted at said meeting and entered in said minutes.

Said resolution has not been amended, modified or rescinded since the date of its adoption, and the same is now in full force and effect.

Dated: July 20, 2010

By: Sharon L. McGehee
Secretary to the Board of Education
Desert Sands Unified School District

NEW ISSUE FULL BOOK-ENTRY

RATING
Standard & Poor's: "___"
(See "Rating" herein)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California ("Bond Counsel"), under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel notes that, with respect to corporations, interest on the Notes is not included as an adjustment in the calculation of alternative minimum taxable income. In the further opinion of Bond Counsel, interest on the Notes is exempt from State of California personal income tax. See "TAX MATTERS" herein with respect to tax consequences relating to the Notes.

\$15,000,000*
DESERT SANDS UNIFIED SCHOOL DISTRICT
County of Riverside
State of California
2010-11 Tax and Revenue Anticipation Notes

Dated: Date of Delivery

Due: July __, 2011

The Desert Sands Unified School District 2010-11 Tax and Revenue Anticipation Notes are being issued to finance seasonal cash flow requirements for the fiscal year ending June 30, 2011. The Notes will be in denominations of \$5,000 or any integral multiple thereof and will be dated the date of their delivery. Principal of and interest on the Notes will be payable in lawful money of the United States of America by the District upon maturity at the office of the Treasurer-Tax Collector of the County or other such paying agent as the County or the District may appoint. The Notes will be issued in the aggregate principal amount of \$15,000,000. **The Notes will not be subject to redemption prior to maturity.** The Notes will be issued in fully registered form. When delivered, the Notes will be registered in the name of Cede & Co., as nominee for the Depository Trust Company (DTC), New York, New York, which will act as securities depository for the Notes. **Purchasers will not receive Notes representing their ownership interest in the Notes purchased.** Principal and interest on the Notes will be payable when due as described under "THE NOTES-Book-Entry Only System."

Interest Rate
____%

Priced to Yield
____%

As security for repayment of the Notes, the District has pledged to deposit into the Repayment Fund out of unrestricted revenues received by the District (i) during the period ending [January 31, 2011], 50% of the aggregate principal amount of the Notes and (ii) during the period ending [April 30, 2011], 50% of the aggregate principal amount of the Notes, plus an amount sufficient to pay interest on the Notes at maturity.

To the extent more fully described herein, the Notes are legal investments for commercial banks in California and are eligible to secure deposits of public moneys in California.

The Notes are offered when, as and if issued and received by the Underwriter, subject to the approval of legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel and Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Fulbright & Jaworski L.L.P. The Notes, in book-entry form, will be available through the facilities of the Depository Trust Company in New York, New York, on or about September __, 2010.

[RBC LOGO]

Dated: _____, 2010

* 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.

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Notes. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

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 a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy of completeness of such information.

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur.

The information set forth herein has been obtained from official sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the District or the Underwriter. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the District.

**DISTRICT OFFICIALS
DESERT SANDS UNIFIED SCHOOL DISTRICT
RIVERSIDE COUNTY, CALIFORNIA**

BOARD OF EDUCATION

Gary Tomak, President
Michael Duran, Vice President/Clerk
Donald B. Griffith, Member
Jim Koedyker, Member
Matt Monica, Member

SCHOOL DISTRICT STAFF

Dr. Sharon P. McGehee, Superintendent
Sherry Johnston, Assistant Superintendent, Personnel
Cindy McDaniel, Assistant Superintendent, Business Services
Kathleen Felci, Assistant Superintendent, Educational Services
Karen Stone, Director of Fiscal Services

PROFESSIONAL SERVICES

Underwriter

RBC Capital Markets Corporation,
Los Angeles, California

Bond and Disclosure Counsel

Stradling Yocca Carlson & Rauth,
San Francisco, California

Fiscal and Paying Agent

Don Kent,
Treasurer-Tax Collector
County of Riverside

TABLE OF CONTENTS

Page

INTRODUCTION	1
2010-11 SHORT-TERM BORROWING PROGRAM.....	1
THE NOTES	1
GENERAL PROVISIONS.....	1
BOOK-ENTRY ONLY SYSTEM	2
NOTE PAYMENTS.....	4
AUTHORITY FOR ISSUANCE	4
PURPOSE OF ISSUE.....	4
INVESTMENT OF NOTE PROCEEDS	4
SECURITY FOR AND SOURCES OF PAYMENT OF THE NOTES.....	4
SECURITY FOR THE NOTES	4
AVAILABLE SOURCES OF PAYMENT	5
LIMITATIONS ON NOTEHOLDER REMEDIES.....	6
FUNDING OF SCHOOL DISTRICTS IN CALIFORNIA.....	6
MAJOR REVENUES.....	6
STATE BUDGET MEASURES.....	7
CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES	18
ARTICLE XIII A OF THE CALIFORNIA CONSTITUTION	18
LEGISLATION IMPLEMENTING ARTICLE XIII A	19
UNITARY PROPERTY.....	19
ARTICLE XIII B OF THE CALIFORNIA CONSTITUTION.....	20
ARTICLE XIII C AND ARTICLE XIII D OF THE CALIFORNIA CONSTITUTION.....	21
PROPOSITIONS 98 AND 111	21
PROPOSITION 39	23
JARVIS V. CONNELL.....	23
PROPOSITION 1A	24
FUTURE INITIATIVES	24
DESERT SANDS UNIFIED SCHOOL DISTRICT	24
INTRODUCTION.....	24
GENERAL INFORMATION	24
AVERAGE DAILY ATTENDANCE AND ENROLLMENT.....	25
ASSESSED VALUATIONS	26
ASSESSED VALUATION AND PARCELS BY LAND USE	28
<i>AD VALOREM</i> PROPERTY TAXATION	29
TEETER PLAN	30
TAX RATES.....	31
STATE FUNDING OF EDUCATION AND REVENUE LIMITATIONS	31
FINANCIAL STATEMENTS OF THE DISTRICT	31
BUDGET PROCESS.....	33
GENERAL FUND BUDGET	34
ACCOUNTING PRACTICES.....	35
DISTRICT REPORTS AND CERTIFICATION	36
PROJECTED AND ACTUAL CASH FLOWS	36
PROPERTY TAX COLLECTION	37
EXISTING INDEBTEDNESS	38
COMMUNITY FACILITIES DISTRICT BONDS.....	41
CAPITAL LEASES	41
RETIREMENT SYSTEM.....	42

OTHER POSTEMPLOYMENT BENEFITS.....	43
CHARTER SCHOOLS.....	43
STATE ASSISTANCE.....	44
STATEMENT OF DIRECT AND OVERLAPPING DEBT.....	44
PRINCIPAL TAXPAYERS.....	45
COUNTY INVESTMENT POOL.....	47
TAX MATTERS.....	48
LEGAL OPINION.....	49
LEGALITY FOR INVESTMENT IN CALIFORNIA.....	49
RATING.....	49
LITIGATION.....	49
NEW INFORMATION REPORTING REQUIREMENTS.....	50
AVAILABILITY OF INFORMATION.....	50
UNDERWRITING.....	50
CONTINUING DISCLOSURE.....	50
MISCELLANEOUS.....	51
APPENDIX A - REGIONAL AND COUNTY INFORMATION.....	A-1
APPENDIX B - FORM OF OPINION OF BOND COUNSEL.....	B-1
APPENDIX C - FORM OF CONTINUING DISCLOSURE CERTIFICATE.....	C-1
APPENDIX D - EXCERPTS FROM THE DISTRICT'S FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009.....	D-1

SUMMARY STATEMENT

THIS SUMMARY STATEMENT IS SUBJECT IN ALL RESPECTS TO MORE COMPLETE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT AND THE OFFERING OF THE NOTES TO POTENTIAL INVESTORS IS MADE ONLY BY MEANS OF THE ENTIRE OFFICIAL STATEMENT.

- Purpose: The Notes are being sold to fund short term operating cash requirements of the District.
- Security for the Notes: The District is required to make Note payments only out of taxes, income, revenue, cash receipts and other moneys of the District attributable to the fiscal year 2010-11 and legally available for payment thereof.
- Form of the Notes: The Notes will be issued in registered form. Purchases of the Notes will be made in book-entry form in the denomination of \$5,000 each or any integral multiple thereof.
- Redemption: The Notes are not subject to redemption prior to maturity.

NEITHER THE DISTRICT OFFICERS OR EMPLOYEES NOR ANY PERSONS EXECUTING THE NOTES SHALL BE PERSONALLY LIABLE OR ACCOUNTABLE BY REASON OF THE EXECUTION AND DELIVERY THEREOF

OFFICIAL STATEMENT
\$15,000,000*
Desert Sands Unified School District
County of Riverside
State of California
2010-11 Tax and Revenue Anticipation Notes

INTRODUCTION

This Official Statement provides certain information in connection with the issuance, sale and delivery by the County of Riverside (the "County") in the name and on behalf of the Desert Sands Unified School District, La Quinta, California (the "District") of \$15,000,000* of the District's 2010-11 Tax and Revenue Anticipation Notes (the "Notes"). The Notes are issued under the authority of Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code and pursuant to resolutions adopted by the Board of Education of the District (the "District Note Resolution") and by the Board of Supervisors of the County (the "County Note Resolution" and together with the District's Note Resolution, the "Resolutions"). Issuance of the Notes will provide funds to meet Fiscal Year 2010-11 General Fund expenditures, including operating expenses, capital expenditures, and the discharge of other obligations or indebtedness, of the District.

Borrowing is necessitated by District General Fund expenditures occurring in relatively level amounts throughout the year with receipts occurring in uneven amounts, primarily as a result of the uneven pattern of payments from state and federal sources and payments of secured property taxes in [January] and [April], which are the largest sources of District revenues. As a result, the General Fund cash balance is negative during parts of the Fiscal Year. The Notes are intended to finance such cash deficits and are an alternative to the District's borrowing from the County Treasury.

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

2010-11 SHORT-TERM BORROWING PROGRAM

The Notes, in accordance with California law, are general obligations of the District, and to the extent not paid from taxes, income, revenue, cash receipts and other moneys received by the District during or allocable to Fiscal Year 2010-11 pledged for the payment thereof, will be paid with interest thereon from any other moneys of the District legally available therefor. Security for the Notes is described under "SECURITY FOR AND SOURCES OF PAYMENT OF THE NOTES - Security for the Notes."

THE NOTES

General Provisions

The Notes will be dated the date of their delivery and will mature on July __, 2011. The Notes will be registered in the name of Cede & Co. ("Cede & Co."), as nominee of the Depository Trust Company, New York, New York ("DTC"). Interest on the Notes will be computed on a 360-day year and 30-day month basis. The Notes are not subject to redemption prior to maturity. Principal and interest due with respect to the Notes

* Preliminary, subject to change.

shall be payable upon maturity on July __, 2011 as described below under "THE NOTES - Book-Entry Only System."

Book-Entry Only System

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

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Notes. The Notes 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 the Notes, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market 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 has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District 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 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, 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 Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Agent, 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.

A Beneficial Owner shall give notice to elect to have its Notes purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Notes by causing the Direct Participant to transfer the Participant's interest in the Notes, on DTC's records, to the Paying Agent. The requirement for physical delivery of Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Notes to the Paying Agent's DTC account.

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

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

Note Payments

Pursuant to Section 53856 of the Government Code of the State of California, the District's Note Resolution specifies, as security for the payment of principal and interest on the Notes, the pledging of certain unrestricted revenue (as hereinafter defined) of the District to be received in certain months (such pledged amounts being called "Pledged Revenues"). In the event that there are insufficient Pledged Revenues received by the District to permit the deposit into the Repayment Account (as hereinafter defined) of the full amount of the aforesaid pledge, then the amount of any deficiency shall be satisfied and made up from any other moneys of the District lawfully available for the payment of the principal of and interest on the Notes. The term "unrestricted revenues" means taxes, income, revenue, cash receipts and other moneys intended as receipts for the general fund of the District for the fiscal year 2010-11 and which are generally available for the payment of current expenses and other obligations of the District. See "THE NOTES - Security for the Notes."

Principal of and interest on the Notes will be payable at maturity by the District upon presentation at the principal office of the paying agent of the District, the Treasurer-Tax Collector of the County. The Notes are not subject to redemption prior to maturity.

Authority for Issuance

The Notes are issued pursuant to Article 7.6 Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the California Government Code and pursuant to Resolutions adopted respectively by the Board of Education of the District and the Board of Supervisors of the County (collectively, the "Resolutions").

Purpose of Issue

Issuance of the Notes will provide funds to meet Fiscal Year 2010-11 General Fund expenditures, including operating expenses, capital expenditures, and the discharge of other obligations or indebtedness of the District.

Investment of Note Proceeds

Pursuant to the Resolutions, the District is authorized to invest Note proceeds in the Riverside County Treasury Pool pursuant to Government Code Section 53601(1), the Local Agency Investment Fund, or a guaranteed investment contract with a financial institution or insurance company which has or its guarantor has at the date of execution thereof one or more outstanding issues of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated not lower than the second highest rating category (without regard to subcategories) by Standard & Poor's, a division of the McGraw-Hill Companies and Moody's Investors Service, Inc. The District expects to invest the Note proceeds in the Riverside County Treasury Pool.

SECURITY FOR AND SOURCES OF PAYMENT OF THE NOTES

Security for the Notes

The Resolutions authorizing the issuance of the Notes provide that the Notes shall be payable from certain pledged revenues of the District. Pursuant to Section 53856 of the Act, the Resolutions pledge, as security for the payment of the principal and interest on the Notes, unrestricted revenues received by the District in the month ending [January 31, 2011] in an amount sufficient to pay 50% of the aggregate principal amount of the Notes and unrestricted revenues received by the District in the month ending on [April 30, 2011] in an amount sufficient to pay 50% of the aggregate principal amount of the Notes and the interest on the Notes at maturity (the "Pledged Revenues"). The term "unrestricted revenues" is defined by the Resolutions to mean taxes, income, revenue, cash receipts and other moneys intended as receipts for the general fund of the District and which are generally available for the payment of current expenses and other obligations of the

District. In the event that there are insufficient unrestricted revenues received by the District to permit payment of the full amounts due and owing on the Notes, then the amount of any deficiency will be satisfied and made up from any other moneys of the District lawfully available for the repayment of the principal of and interest on the Notes. The principal of and interest on the Notes will constitute a first lien and charge against, and will be payable from, the first moneys received by the District from such Pledged Revenues.

All Pledged Revenues will be deposited into a special fund held by the Treasurer-Tax Collector of the County designated as the "Desert Sands Unified School District, County of Riverside, State of California, 2010-11 Tax and Revenue Anticipation Notes Repayment Fund" (the "Repayment Fund"). Moneys in the Repayment Fund will be invested as permitted by applicable California law. After the date on which the amount of Pledged Revenues deposited in the Repayment Fund are sufficient to pay in full the principal of and interest on the Notes, when due, any moneys in excess of such amount remaining in or accruing to the Repayment Fund shall be transferred to the General Fund of the District upon request of the District.

Available Sources of Payment

The Notes, in accordance with California law, are general obligations of the District, and to the extent not paid from taxes, income, revenue, cash receipts and other moneys received by the District during or allocable to Fiscal Year 2010-11 pledged for the payment thereof, will be paid with interest thereon from any other moneys of the District legally available therefor. A 1978 change in the Constitution of the State of California substantially limited the District's ability to levy *ad valorem* taxes. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES" and "DISTRICT FINANCIAL INFORMATION - *Ad valorem* Property Taxation." The District may, under existing law, issue the Notes only if the principal of and interest on the Notes and any other short-term debt will not exceed 85% of the estimated moneys legally available for the payment of the Notes and such other debt. With an interest rate of _____% the amount needed to repay the Notes and the interest thereon is \$_____. The District estimates that funds available from its General Fund for payment of the Notes will be in excess of approximately \$_____ as indicated in the following table:

**ESTIMATED REVENUE AVAILABLE FOR PAYMENT OF
2010-11 Tax and Revenue Anticipation Notes
DESERT SANDS UNIFIED SCHOOL DISTRICT**

Sources	Amount
Beginning Cash - July 1, 2010.....	\$ _____
Revenue Limits.....	
Federal.....	
Other State.....	
Other Local.....	
TRANS Proceeds.....	
Total	\$ _____

Source: Desert Sands Unified School District.

In addition to the District's obligation to repay the Notes, the District has other contractual commitments that must be paid from General Fund revenues. For information regarding the levels of the District's Expenditure commitments for Fiscal Year 2008-09 and the projected commitments for 2009-10, see "DESERT SANDS UNIFIED SCHOOL DISTRICT - Financial Statements of the District," "—District Budget," and "—Projected and Actual Cash Flows."

Limitations on Noteholder Remedies

The rights of the owners of the Notes are subject to the limitations on legal remedies against county offices of education in the State. Additionally, enforceability of the rights and remedies of the owners of the Notes, and the obligations incurred by the District, 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 creditor's rights generally, now or hereafter in effect; 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 serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Notes to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

FUNDING OF SCHOOL DISTRICTS IN CALIFORNIA

Major Revenues

School district principal revenues consist of guaranteed State moneys, *ad valorem* property taxes and funds received from the State in the form of categorical aid under ongoing programs of local assistance. All State aid is subject to the appropriation of funds in the State's annual budget. Decreases in State revenues may affect appropriations made by the legislature to school districts.

Each school district receives a portion of the local property taxes that are collected within its district boundaries. This amount is compared to the total revenue limit; the balance is received in the form of State aid. Therefore, the sum of the property taxes and State aid equal the district's revenue limit. Districts which receive the minimum amount of State aid are known as "Basic Aid" districts.

School districts in the State have historically received most of their income under a formula known as the State revenue limit. This apportionment, which is funded by State general fund moneys and local property taxes (and in the case of community college districts, certain other local revenues), is allocated to the school districts based on the ADA of the school districts for either the current or preceding school year. Generally, such apportionments will amount to the difference between the school district's revenue limit and the district's local property tax allocation. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all California school districts of the same type (*i.e.*, all unified school districts, all high school districts or all elementary school districts).

A small part of a school district's budget is from local sources other than property taxes, such as interest income, donations and sales of property. The rest of a school district's budget comes from categorical funds provided exclusively by the State and federal government. These funds are to be used for specific programs and typically cannot be used for any other purpose. The California lottery is another source of funding for school districts, providing approximately 3% of a school district's budget. Every school district receives the same amount of lottery funds per pupil from the State; however, these are not categorical funds as they are not for particular programs or children. The initiative authorizing the lottery mandates the funds be used for instructional purposes, and prohibits their use for capital purposes.

The State revenue limit was first instituted in 1973-74 to provide a mechanism to calculate the amount of general purpose revenue a school district is entitled to receive from state and local sources. Prior to 1973-74, taxpayers in districts with low property values per pupil paid higher tax rates than taxpayers in districts with high property values per pupil. However, despite higher tax rates, less was spent per pupil in districts

with low property values per pupil than districts with high property values per pupil. Thus, the State revenue limit helps to alleviate the inequities between the two types of districts.

The State revenue limit is calculated three times a year for each school district. The first calculation is performed for the February 20th First Principal Apportionment, the second calculation for the June 25th Second Principal Apportionment, and the final calculation for the end of the year Annual Principal Apportionment. Calculations are reviewed by the county and submitted to the State Department of Education to review the calculations for accuracy, calculate the amount of state aid owed to such school district and notify the State Controller of the amount, who then distributes the state aid.

The calculation of the amount of State aid a school district is entitled to receive each year is basically a five-step process. First, the prior year State revenue limit per ADA is established, with recalculations as are necessary for adjustments for equalization or other factors. Second, the adjusted prior year state revenue limit per ADA is inflated according to formulas based on the implicit price deflator for government goods and services and the statewide average State revenue limit per ADA for school districts. Third, the current year's State revenue limit per ADA for each school district is multiplied by such school district's ADA for either the current or prior year. Fourth, revenue limit add-ons are calculated for each school district if such school district qualified for the add-ons. Add-ons include the necessary small school district adjustments, meals for needy pupils and small school district transportation, and are added to the State revenue limit for each qualifying school district. Finally, local property tax revenues are deducted from the State revenue limit to arrive at the amount of state aid based on the State revenue limit to which each school district is entitled for the current year.

State Budget Measures

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

The 2009 Budget Act. On February 19, 2009, the Legislature passed a series of bills (the "2009 Budget Act") designed as a comprehensive solution to the State's budget deficit, which had been projected to grow to approximately \$41.6 billion between fiscal years 2008-09 and 2009-10. On March 13, 2009, the LAO released a report analyzing the provisions of the 2009 Budget Act (the "2009 Budget Act Report"). The following information has been adapted from the 2009 Budget Act Report.

According to the LAO, the 2009 Budget Act is a valid budget for fiscal year 2009-10, adopted nearly five months ahead of the State constitutional budgetary deadline. The 2009 Budget Act, however, contains provisions that are designed to achieve solutions in both fiscal years 2008-09 and 2009-10.

For fiscal year 2008-09, the 2009 Budget Act assumes year-end revenues of approximately \$91.7 billion and expenditures of approximately \$94.1 billion. The 2009 Budget Act also eliminates the \$1.7 billion reserve projected by the budget for fiscal year 2008-09 (the "2008-09 Budget"), projecting that the State will end fiscal year 2008-09 with a \$3.4 billion deficit. For fiscal year 2009-10, the 2009 Budget Act projects total revenues of \$97.7 billion and authorizes expenditures of \$92.2 billion, allowing the State to build up a \$2.1 billion reserve. The LAO generally concurs with the 2009 Budget Act's forecast for year-end 2008-09 revenues. For 2009-10, however, the LAO projects year-end revenues that are approximately \$8 billion less than those assumed by the 2009 Budget Act, reflecting recent negative developments in the State's economic condition. Consequently, the LAO projects that the State will end the 2009-10 fiscal year with a \$6 billion deficit. The LAO notes the need for additional budgetary solutions in fiscal year 2009-10 beyond those contained in the 2009 Budget Act.

To address the projected \$41.6 billion deficit, the 2009 Budget Act includes \$15.7 billion in expenditure reductions, \$12.5 billion in revenue increases, and \$5.4 billion in borrowings. Approximately \$6

billion of these solutions were subject to voter approval at a May 19, 2009 state election and were not approved. The 2009 Budget Act also projects the receipt of approximately \$8.5 billion in stimulus funds from the federal government as part of the American Recovery and Reinvestment Act of 2009 ("ARRA"), signed into law by the President of the United States on February 17, 2009. Of the solutions included in the 2009 Budget Act, approximately \$2.8 billion of expenditure reductions and tax increases can be "triggered off"—meaning they will not go into effect—if the State receives at least \$10 billion in combined federal funding pursuant to ARRA during fiscal years 2008-09 and 2009-10.

The 2009 Budget Act includes the following major expenditure reductions:

- *No COLAs.* \$1.2 billion in combined spending-related savings for fiscal years 2008-09 and 2009-10 by suspending COLAs for various programs, including Supplemental Security Income ("SSI"), State Supplementary Payment ("SSP"), CalWORKs and Medi-Cal, as well as trial courts and the University of California and California State University systems.
- *Deferred Spending.* The 2009 Budget Act also defers approximately \$500 million in costs for expenses the State will face in future years, including approximately \$200 million in tribal revenues to the General Fund that would otherwise have been used to pay off prior transportation loans. The 2009 Budget Act also defers approximately \$91 million in mandate reimbursements to local governments.
- *Health.* \$184 million in savings in fiscal year 2009-10 by eliminating certain optional Medi-Cal benefits and reducing reimbursements rates to public hospitals by 10%. This provision may be triggered off by the receipt of sufficient federal stimulus funds. The 2009 Budget Act also assumes \$160 million in savings from reductions to reimbursement rates for developmental health service providers.
- *Social Services.* \$74 million in savings in fiscal year 2009-10 for In-Home Supportive Service ("IHSS") expenditures from the reduction of IHSS provider wages, as well as \$4 million in savings by eliminating state assistance with Medi-Cal co-payments for new IHSS participants. The 2009 Budget Act also achieves \$147 million in savings by reducing CalWORKs grants by 4% and \$268 million in savings by reducing SSI/SSP grants by 2.3%. All of these Social Services reductions can be triggered off by the receipt of sufficient federal stimulus funds.
- *Transportation.* \$460 million in combined savings in fiscal years 2008-09 and 2009-10 for transportation services expenditures by reducing state funding of the State Transit Assistance program in fiscal year 2008-09 and eliminating such funding in fiscal year 2009-10.
- *Employee Compensation.* \$1.2 billion in combined savings for fiscal years 2008-09 and 2009-10, realized primarily from the continued implementation of monthly one and two-day furloughs for state employees.
- *Higher Education Savings.* \$232 million in unallocated reductions for higher education funding, as well as an additional \$100 million unallocated reduction for fiscal year 2009-10 that may be triggered off by the receipt of sufficient federal stimulus funds.
- *Other Reductions.* The 2009 Budget Act also includes (i) a \$171.4 million reduction in judiciary expenditures in fiscal year 2009-10 that may be triggered off by the receipt of sufficient federal stimulus funds, and (ii) \$580 million in unspecified correctional services reductions.

The 2009 Budget Act reduces total Proposition 98 funding in fiscal year 2008-09 to \$50.7 billion, including \$35 billion in General Fund support, and which is approximately \$7.3 billion below the level set by the 2008-09 Budget. The bulk of this reduction—approximately \$2.4 billion—represents cuts to K-14 programs. Major components of this reduction include (i) \$287 million through elimination of the COLA

included as part of the 2008-09 budget, (ii) \$944 million of K-12 and county office of education revenue limit payments and (iii) \$944 million from K-12 categorical programs.

The 2009 Budget Act retires existing Proposition 98 settle-up obligations (\$1.1 billion) and uses special funds to directly support the Home-to-School Transportation program (\$619 million). The 2009 Budget Act also defers \$3.2 billion in K-14 payments to June 2009, of which \$320 million is from community college district apportionments. Specifically, monthly apportionment payments for February, March and April of 2008 are deferred to July 2009. These deferrals are in addition to an existing \$200 million community college district apportionment that was deferred to October of 2009. Both deferrals are permanent, and will be applied in future fiscal years.

For fiscal year 2009-10, the 2009 Budget Act provides for \$54.9 billion in Proposition 98 funding, including \$39.5 billion in General Fund support, representing an increase of \$4.2 billion from the level set for 2008-09. However, \$4.6 billion of this funding will be used to backfill programs for one-time solutions enacted as part of the 2008-09 Budget. To accommodate this backfill, as well as fund \$253 million in new growth and baseline adjustments—including \$185 million for a 3% growth at community college districts—the 2009 Budget Act maintains the programmatic cuts set for 2008-09 and makes additional cuts of \$702 million to K-12 and child care programs. Specifically, these additional cuts reflect reductions of (i) \$268 million to K-12 and county office of education revenue limit payments, (ii) \$268 million to K-12 categorical programs, (iii) \$53 million to reimbursement rates and family fees for child care providers and (iv) \$114 million through elimination of the High Priority Schools Grant Program.

As mentioned above, the 2009 Budget Act assumes an additional \$12.5 billion in revenues, including \$1.5 billion in fiscal year 2008-09 and \$11 billion in fiscal year 2009-10, through the enactment of the following major revenue and borrowing solutions:

- *Sales Tax.* \$5.8 billion from a temporary one-cent increase in the state sales tax, including \$1.2 billion of additional revenue for fiscal year 2008-09 and \$4.6 billion of such revenues for fiscal year 2009-10. The increased tax becomes effective April 1, 2009 and is set to lapse on July 1, 2011.
- *Vehicle License Fees.* \$2 billion from a temporary increase in vehicle license fees, including \$346 million in additional revenues for fiscal year 2008-09 and \$1.7 billion of such revenues in fiscal year 2009-10. This increase is set to lapse on July 1, 2011.
- *Personal Income Tax.* \$1.8 billion from a temporary increase of 0.125% in each personal income tax rate. The 2009 Budget Act also provides for \$1.8 billion from an additional personal income tax increase of 0.125% that may be triggered off if sufficient federal stimulus funds are received. This tax increase is set to lapse after tax year 2010.
- *Reduction of Dependent Tax Credit.* \$1.4 billion from a temporary reduction in the value of dependent credit for income tax purposes. This reduction is set to lapse after tax year 2010.

Additional information regarding the 2009 Budget Act is available from the LAO's website: www.lao.ca.gov.

Amendments to 2009 Budget Act. On July 28, 2009, the Governor signed into law a series of amendments to the 2009 Budget Act (the "2009 Budget Amendments"). The following information has been adapted from both the Department of Finance and LAO reports on the 2009 Budget Amendments.

The 2009 Budget Amendments are designed to address the State's budget deficit, which grew to approximately \$60 billion since the adoption of the 2009 Budget Act. As a result of the deteriorating state and national economies, the 2009 Budget Amendments lower projected General Fund revenues for fiscal year 2009-10 by \$3 billion. Further, the 2009 Budget Amendments project \$89.5 billion of General Fund revenues

and authorize \$84.6 billion of expenditures. The State is now expected to end the 2009-10 fiscal year with a \$500 million reserve.

The 2009 Budget Amendments include measures for both fiscal year 2008-09 and 2009-10, and are in addition to those implemented as part of the 2009 Budget Act. Specifically, the 2009 Budget Amendments include \$18 billion in expenditure reductions, \$3.5 billion in revenue increases, and \$2.2 billion in borrowings. The LAO notes that year-to-year comparisons of revenues and expenditures are difficult due to the variety of one-time solutions.

The 2009 Budget Amendments include the following major features. In formulating many of the expenditure reductions, the Department of Finance notes that General Fund costs would be significantly higher but for the receipt of federal stimulus funding:

- *K-14 Education.* For fiscal years 2008-09 and 2009-10, total reductions of \$6.1 billion in Proposition 98 funding, as further discussed herein. These reductions have been partially offset by the receipt of federal stimulus funds—including \$2.8 billion pursuant to ARRA—for fiscal years 2008-09 and 2009-10. The State expects to maintain the minimum spending levels required for the continued receipt of ARRA stimulus funds.
- *Higher Education.* For fiscal years 2008-09 and 2009-10, reductions of \$1 billion for each of the University of California (“UC”) and California State University (“CSU”) systems. When combined with the reductions approved as part of the 2009 Budget Act, and factoring in the receipt of federal stimulus funds and new fee revenues, the UC and CSU systems have experienced an 8% cut in base funding.
- *Student Fees.* The 2009 Budget Amendments authorize an increase of enrollment fees at California Community Colleges by \$6 per unit, which is expected to generate \$80 million in additional revenue. Student fees are also increased in the UC and CSU systems by 9.3% and 32%, respectively. These increases are expected to generate \$166 million and \$366 million, respectively, in additional revenues.
- *Cal Grant.* The 2009 Budget Amendments fully fund Cal Grant programs for fiscal year 2009-10, and reduce General Fund expenditures by \$32 million by borrowing a like amount from the Student Loan Operating Fund.
- *Proposition 1A Suspension.* The 2009 Budget Amendments authorize the borrowing of \$1.9 billion from city, county and special district property taxes pursuant to Proposition 1A. These funds will be shifted to county-level supplemental revenue augmentation funds and used to fund judicial, correctional, Medi-Cal and education expenses otherwise borne by the General Fund. These funds must be repaid with interest by June 30, 2013. To alleviate the impact on local governments, the enabling legislation authorizes the creation of joint powers authorities to issue bonds against the state’s repayment obligation.
- *Redevelopment Shift.* The 2009 Budget Amendments require \$1.7 billion to be shifted from redevelopment agency revenues in fiscal year 2009-10, and \$350 million in fiscal year 2010-11. These revenues will be used to fund courts, prisons, the Medi-Cal system, as well as offset reduced General Fund Proposition 98 funding.
- *Corrections/Rehabilitation.* \$788 million in fiscal year 2009-10 reductions to the California Department of Corrections and Rehabilitation resulting from a combination of operational savings, program reductions, and policy reforms. When added to the reductions approved by the 2009 Budget Act, total reductions are approximately \$1.2 billion. The 2009 Budget Amendments also assume \$50 million in savings from limiting

reimbursement rates paid to private contractors providing health care to inmates outside of prison.

- *Medi-Cal.* The 2009 Budget Amendments assume \$1 billion in General Fund savings from the receipt of federal funds that were either past due or authorized through federal waivers. The 2009 Budget Amendments also assume unspecified reductions to the Medi-Cal program amounting to approximately \$323 million. The LAO notes that the manner in which these savings would be achieved has not been determined.
- *Supplemental Security Income/State Supplementary Payment (SSI/SSP).* \$108 million in reductions to SSI/SSP program for fiscal year 2009-10 by reducing grants for individuals by \$5 per month and grants for couples to \$72 per month.
- *CalWORKs.* \$510 million in reductions to the CalWORKs program for fiscal year 2009-10, primarily from a reduction in county block grant allocations for welfare-to-work and child care services.
- *In Home Supportive Services (IHSS).* \$264 million in reductions for IHSS expenditures for fiscal year 2009-10 consisting primarily of (i) reforms designed to reduce or prevent fraud, (ii) elimination of the State's share-of-cost contribution, and (iii) eliminating or reducing domestic and related services for all but the most severely disabled recipients.
- *Regional Center and Developmental Center Programs.* \$284 million in reductions for developmental services in fiscal year 2009-10. The bulk of the expected savings consist of a \$234 million cost containment target set for the statewide developmental services system. The Department of Finance notes that proposals are being developed by the Legislature to achieve this savings.
- *COLAs.* The 2009 Budget Amendments eliminate automatic COLAs for the CalWORKs and SSI/SSP programs, beginning in fiscal year 2010-11. COLAs for long-term care providers, including skilled nursing facilities, are frozen, resulting in a reduction of \$76 million in General Fund expenditures.
- *Transportation.* The 2009 Budget Act includes several fund shifts and borrowings related to transportation funding, including (i) the use of \$562 million in spillover gasoline sales tax revenues from 2009-10 to reimburse the General Fund for regional center transportation and debt service funding, (ii) redirection of \$225 million in Public Transportation Account funds for regional center transportation and debt service funding, (iii) an interfund loan of \$135 million from the State Highway Account to the General Fund, which loan must be repaid with interest in three years, and (iv) transfer of \$70 million in unrestricted motor vehicle account revenues to the General Fund.
- *Resources and Environmental Protection.* The 2009 Budget Amendments include \$14 million in reductions to General Fund support for state park operations, as well as \$62 million in loans from resource-related special funds to the General Fund.
- *State Operations.* The 2009 Budget Amendments include a series of expenditure reductions related to State operations, including (i) the deferral of \$900 million in state employee paychecks to the next fiscal year by moving the June 30, 2010 payday to July 1, 2010, (ii) the imposition of a third monthly furlough day for certain state employees, which the 2009 Budget Amendments assume will yield \$425 million in savings, (iii) \$100 million in reductions to information technology budgets, (iv) \$50 million in assumed

savings from the consolidation, reorganization or elimination of various state boards and committees; and (v) \$150 in assumed savings from changes in PERS rates and fees.

- *Other Reductions.* Other reductions include (i) \$168.6 million in fiscal year 2009-10 for state trial courts, (ii) \$178.6 million in fiscal year 2009-10 for the Healthy Families Program.
- *Revenue Increases.* The 2009 Budget Amendments include the following measures designed to increase State revenues: (i) an increase of 10% in the state wage withholding, effective as of October 1, 2009, which is expected to increase revenues by \$1.7 billion in fiscal year 2009-10, (ii) alteration to the amount of estimated taxes that individuals and corporations must submit to the state each quarter that is expected to increase revenues by \$610 million in fiscal year 2009-10, and (iii) the sale of a portion of the State Compensation Insurance Fund which is expected to yield increased revenues of \$1 billion in fiscal year 2009-10.
- *Gubernatorial Vetoes.* Prior to signing the 2009 Budget Amendments, the Governor used his veto power to further reduce expenditures. These vetoes included (i) \$6 million in financial aid administration for the Cal Grant program, (ii) \$80 million in county funding for child welfare services, (iii) virtually all funding for the Williamson Act Open Space program, (iv) \$55 million of departmental funding for certain scheduled pay increases, (v) \$50 million for developmental services funding, and (vi) \$300 million in healthcare spending. Representatives of groups affected by these reductions have publicly expressed their intent to judicially challenge the Governor's veto power over these expenditures.

The 2009 Budget Amendments reduce Proposition 98 funding to \$49.1 billion in fiscal year 2008-09, a change of \$1.6 billion from the levels set by the 2009 Budget Act. This reduction is achieved primarily by reverting unallocated categorical programs funding that had not been distributed at the end of the 2008-09 fiscal year to the General Fund. The 2009 Budget Amendments also create a future funding obligation, or "maintenance factor," of \$11.2 billion as a result of the reductions in Proposition 98 funding for fiscal year 2008-09. Payments with respect to this funding obligation will be required in future fiscal years until repaid in full.

For fiscal year 2009-10, the 2009 Budget Amendments reduce Proposition 98 funding to \$50.4 billion, a change of \$4.5 billion from the funding levels set by the 2009 Budget Act. This figure reflects a total reduction in Proposition 98 funding of \$5.3 billion, which is offset by \$850 million in redevelopment revenues shifted from certain state agencies, as discussed above. The bulk of this reduction consists primarily of (i) \$2.1 billion in reductions to school district and county office of education revenue limit payments, (ii) \$80 million in reductions to basic aid school district categorical programs, (iii) \$580 million in reductions to ongoing California Community College funding, and (iv) a deferral of \$1.7 billion in school district revenue limit payments and \$115 million community college apportionments from the 2009-10 fiscal year to August of the 2010-11 fiscal year. As a cash management measure, the 2009 Budget Amendments also defer approximately \$2 billion in K-12 apportionments from the first few months of the 2009-10 fiscal year to December 2009 and January 2010.

Additional information is available from the LAO's website at www.lao.ca.gov and the Department of Finance's website at www.dof.ca.gov.

Governor's Proposed 2010-2011 State Budget. On January 8, 2010, the Governor released his proposed budget for fiscal year 2010-11 (the "Proposed 2010-11 Budget"). On January 12, 2010, the Legislative Analyst's Office released its overview of the Proposed 2010-11 Budget (the "LAO Report"). The following information is adapted from the LAO Report.

The Proposed 2010-11 Budget estimates that, absent corrective measures, the State will end fiscal year 2009-10 with a \$6.6 billion deficit. Also, General Fund expenditures in fiscal year 2010-11 are projected to exceed revenues by approximately \$12.3 billion. The projected budget gap results from an inability of the state to achieve previous budget solutions in several areas, the effects of certain adverse court rulings, and the expiration of various one-time and temporary budget solutions approved as part of the 2009-10 State budget.

To address the projected budget gap, the Proposed 2010-11 Budget includes approximately \$19.9 billion worth of measures affecting both fiscal year 2009-10 and 2010-11. Specifically, the Proposed 2010-11 Budget includes \$7.6 billion of expenditure reductions, \$7.9 billion worth of measures requiring either federal government funding or flexibility to change programs funded wholly or in part by the federal government, and \$4.5 of additional solutions, comprised primarily of fund shifts.

With the implementation of these measures, the Proposed 2010-11 Budget assumes year-end revenues of \$88.1 billion for fiscal year 2009-10, an increase of 6.4% from the prior year. The State is projected to end the 2009-10 fiscal year with a \$5.4 billion deficit, thus eliminating the \$500 million surplus enacted as part of the 2009 Budget Amendments. For fiscal year 2010-11, the Proposed 2010-11 Budget assumes total expenditures of \$82.9 billion (reflecting a decrease of 3.7% from the prior year) and total revenues of \$89.3 billion (reflecting an increase of 1.4% from the prior year). The State is also projected to end fiscal year 2010-11 with a \$1 billion surplus.

Total Proposition 98 expenditures are reduced by \$893 million in fiscal year 2009-10. The bulk of these reductions come from mid-year adjustments to Proposition 98 funding. Specifically, the Proposed 2010-11 Budget recognizes \$340 million in purported savings from increased K-3 class sizes and \$228 million in various baseline adjustments resulting primarily from reduced student attendance.

For fiscal year 2010-11, the Proposed 2010-11 Budget implements \$1.5 billion in reductions to K-12 revenue limit funding. This reduction would be achieved by (1) requiring school districts to spend less on central administration, (2) consolidating county office of education functions, and (3) removing restrictions on the contracting out of non-instructional services. The remaining cuts include recognizing a 0.38% decline in costs of living adjustments (\$230 million), reducing eligibility and reimbursement rates for CalWORKs Stage 3 child care (\$200 million), and recognizing additional savings from increased K-3 class sizes (\$210 million). The Proposed 2010-11 Budget also provides \$126 million to fund a 2.2% enrollment growth at California community colleges, and \$77 million to fund three K-12 mandates.

The Proposed 2010-11 Budget would implement new flexibility for school districts to respond to the various proposed cuts, including (1) eliminating seniority rules that apply to layoffs, assignments/reassignments, transfers and hires, (2) eliminating rules regarding priority for receiving substitute teacher assignments, and (3) extending the layoff notification window to 60 days after the state budget has been enacted.

With the implementation of these measures, the Proposed 2010-11 Budget provides for \$49.8 billion in Proposition 98 funding for fiscal year 2009-10, including \$34.6 billion from the State general fund. For fiscal year 2010-11, Proposition 98 funding is set at \$49.9 billion, including \$36.1 from the State general fund, reflecting an increase of 0.2% from the prior year. The LAO notes that, while Proposition 98 funding remains virtually flat across fiscal years 2009-10 and 2010-11, the State general fund share will increase by approximately 4.1%, while the share covered by local property tax revenues will decline by approximately 8.7%. While this is attributable in part to the slumping real estate market, the bulk of the decline in State general fund support results from the one-time \$850 million contribution from redevelopment agencies approved as part of the 2009 Budget Amendments.

Generally, the LAO is supportive of the Proposed 2010-11 Budget's funding of Proposition 98, particularly the Governor's efforts to keep Proposition 98 spending flat across the current and coming fiscal year, and the flexibility options for school districts. However, the LAO notes that minimum funding guarantee

for fiscal year 2010-11 could rise if the Legislature does not adopt the proposed modifications to transportation funding discussed herein, or if the State does not receive all the anticipated federal stimulus funds built into the Proposed 2010-11 Budget. Moreover, the LAO notes that approximately \$600 million of the proposed reductions to education funding are predicated on the receipt by the State of a federal waiver of maintenance-of-effort requirements under ARRA.

In addition to the provisions regarding education funding discussed above, the Proposed 2010-11 Budget includes the following major features:

- *Transportation Funding.* Elimination of most Proposition 42 transportation funding by repealing the State sales tax on gasoline. The State would make up the lost revenues by increasing the per gallon excise tax on gasoline (the "Gas Tax"). For fiscal year 2010-11, this proposal is projected to reduce fuel sales tax revenues by \$2.8 billion. The Proposed 2010-11 Budget would partially offset this loss with a 10.8 cents per gallon increase of the Gas Tax, which is projected to generate \$1.9 billion in revenues, resulting in a net reduction of transportation revenues of approximately \$1 billion. The Proposed 2010-11 Budget does not provide any additional public transit or rail funding, either in fiscal year 2010-11 or going forward. In addition, by reducing State sales tax revenues, the Proposed 2010-11 Budget expects to achieve additional savings by lowering the Proposition 98 minimum funding guarantee.
- *State Employees.* \$1.6 million of anticipated general fund savings by ending the current employee furlough program and instituting (1) a five percent reduction of state employee salaries across the board, (2) a five percent increase in employee pension contributions, and (3) a five percent unallocated reduction of departmental personnel costs.
- *Medi-Cal.* \$750 million of various measures designed to reduce Medi-Cal costs through unspecified limits on services, utilization controls, and increased cost sharing with benefits recipients through copayment requirements or premiums. The Proposed 2010-11 Budget also anticipates \$294 million in savings in fiscal years 2009-10 and 2010-11 by eliminating full-scope Medi-Cal services for certain immigrants, eliminating adult day health care benefits, delaying payments to institutional providers, and rescinding family planning rate increases.
- *Corrections/Rehabilitation.* \$811 million of assumed savings from the reduction of inmate medical costs. The LAO notes that the Proposed 2010-11 Budget fails to specify the measures of achieving this savings. The Proposed 2010-11 Budget also assumes savings of \$25 million in fiscal year 2009-10 and \$292 million in 2010-11 by requiring that certain non-serious, non-violent and non-sex-offense felonies result in one-year county jail sentences in lieu of state prison sentences.
- *Department of Developmental Services.* \$200 million in assumed savings in fiscal year 2010-11 through various cost-control measures for the Department of Developmental Services ("DDS").
- *Delay of Local Government Mandate Payments.* \$137 million in anticipated reductions by suspending mandates not related to elections, law enforcement and property taxes. The Proposed 2010-11 Budget also anticipates saving \$95 million by deferring scheduled mandates for costs incurred prior to fiscal year 2004-05.
- *Social Services.* \$178 million in reductions to SSI/SSP programs by reducing grants to individuals by \$15 per month (or 1.8%). The Proposed 2010-11 Budget also includes a 15.7% reduction in CalWORKs grants, with assumed general fund savings of \$117 million.

- *Proposition 10 Ballot Proposal.* The Proposed 2010-11 Budget would place, on the June 2010 election ballot, a measure to allow use of Proposition 10 early childhood development funds for State general fund-supported DDS and Department of Social Services programs that serve children. It is anticipated that these measures would generate \$550 million in general fund savings. The LAO notes that this proposal is similar to the Proposition 1D ballot proposal that was unsuccessfully put to the voters as part of the 2009 Budget Act.
- *Proposition 63 Ballot Proposal.* The Proposed 2010-11 Budget would also place on the June 2010 election ballot a measure shifting \$452 million of Proposition 63 mental health funds to pay State general fund costs for specified Department of Mental Health programs in fiscal years 2010-11 and 2011-12. The LAO notes that this proposal is similar to the Proposition 1E ballot proposal that was unsuccessfully put to the voters as part of the 2009 Budget Act.
- *Other Measures.* The Proposed 2010-11 Budget also includes the following measures: (1) elimination of the Cash Assistance Program for Immigrants and the California Food Assistance Program (\$200 million); (2) use of automated speed enforcement systems to reduce state costs for trial courts (\$297 million); (3) a 4.8% surcharge on residential and commercial property insurance (\$200 million) to cover fire protections costs; (4) approval by the Legislature of a lease to mine oil and gas off the Santa Barbara coast (\$197 million) to cover costs associated with the State park system.

In addition to the various expenditures reductions and revenue measures described above, the Proposed 2010-11 Budget relies heavily on the receipt of federal government funding, or operating flexibility for state-federal programs, collectively totaling \$7.9 billion. As discussed above, the LAO notes that other portions of the Proposed 2010-11 Budget, including some cuts to education funding, may also require federal approval.

The Proposed 2010-11 Budget identifies \$6.9 billion of federal funds to relieve fiscal year 2010-11 general fund costs, many of which, if received, would be of a one-time nature. These funds include the following:

- *Medi-Cal/Medicare.* Assumed savings of \$1.8 billion by having the federal government increase the State's Federal Medical Assistance Percentage ("FMAP") funding ratio. The Proposed 2010-11 Budget also would request the federal government to extend through June 30, 2011 the increased FMAP provided as part of ARRA, resulting in an assumed savings of \$1.2 billion. Pursuant to ARRA, this increased FMAP is set to expire during calendar year 2010. Finally, the Proposed 2010-11 Budget assumes \$1 billion in Medi-Cal relief from various federal moneys the Governor's administration believes are owed to the State, including funds related to health costs for individuals actually eligible for Medicare and changes to the level of state funding for prescription drug costs.
- *Other Federal Funds.* The Proposed 2010-11 Budget assumes State general fund savings in connection with other miscellaneous programs, including: (1) \$1 billion of anticipated federal reimbursement for special education services; (2) \$538 million from an extension of ARRA funding for the CalWORKs program; and (3) \$880 million of federal funding to fully offset costs of incarcerating undocumented immigrant, which the LAO notes is substantially in excess the federal funding the State has received in past years for such costs (approximately \$111 million per year).

The Proposed 2010-11 Budget includes other expenditure and revenue measures that may be triggered in the event some of the above-described federal funds are not received. Possible expenditure reductions (\$3.8 billion) include elimination of the CalWORKs, IHSS and Health Families programs, and well as an additional five percent state employee salary reduction. Possible one-time revenue increases (\$2.3 billion) include the

extension of business tax changes relating to operating losses, extension of the temporary reduction in the dependent personal income tax credit approved as part of the 2009 Budget Act, and the delayed implementation of various other personal and corporate tax breaks.

While generally supportive of the Proposed 2010-11 Budget's revenue forecasts, the LAO perceives some flaws. Beyond questioning some of the assumed savings claimed by the Proposed 2010-11 Budget, the LAO notes that many of the proposed measures, such as a unilateral increase in state employee pension contributions, raise questions regarding their legality. Other proposed cuts to health, social services and transportation funding may face lawsuits. Finally, the LAO cautions that it is highly unlikely that the State will receive all the federal funds or flexibility sought by the Proposed 2010-11 Budget, and advocates more modest assumptions in the receipt of such federal assistance.

Additional information regarding the Proposed 2010-2011 Budget may be obtained from the LAO at www.lao.ca.gov.

Governor's May Revision to the Proposed 2010-11 Budget. On May 14, 2010, the Governor released his May revision to the Proposed 2010-11 Budget (the "May Revision"). On May 18, 2010, the LAO released its summary of the May Revision (the "May Revision Summary"). The following information is drawn from the May Revision Summary.

The May Revision estimates a total budget deficit of \$17.9 billion, a net reduction of approximately \$1 billion from the deficit projected by the Proposed 2010-11 Budget. This reduction results from (1) increased State revenues occasioned by the Gas Tax and enhanced Medicaid federal matching funds and (2) offsetting cost increases and declines in State revenues. Absent corrective action, the May Revision estimates that the State will end fiscal year 2009-10 with a \$7.7 billion deficit. State general fund expenditures for fiscal year 2010-11 are also expected to exceed revenues by approximately \$10.2 billion.

To address this projected gap, the May Revision proposes measures totaling \$19.1 billion for both fiscal years 2009-10 and 2010-11. These measures are in addition to, or modify, those set out by the Proposed 2010-11 Budget. Specifically, the May Revision proposes \$12.2 billion in expenditure reductions, \$2.6 billion in loans, transfers and fund shifts, and \$900,000 in revenue increases. The May Revision also assumes the receipt of \$3.4 billion in federal funds, a significant decrease from the amount assumed by the Proposed 2010-11 Budget.

With the implementation of these measures, the May Revision assumes, for fiscal year 2009-10, year-end revenues of \$86.5 billion and expenditures of \$86.4 billion. The May Revision projects that the State will end the 2009-10 fiscal year with a deficit of \$6.8 billion. For fiscal year 2010-11, the May Revision projects total revenues of \$91.4 billion and expenditures of \$83.4 billion. The May Revisions projects that the State will end the 2010-11 fiscal year with a \$1.2 billion reserve.

For fiscal year 2009-10, the May Revision keeps total Proposition 98 funding virtually unchanged at \$49.9 billion. This level of funding is maintained despite a drop in State general fund revenues and a corresponding decrease in the Proposition 98 minimum guarantee. As a result, the May Revision provides for \$503 million more than the Proposed 2010-11 Budget. The May Revision counts this overappropriation as a payment towards the State's \$11.2 billion in outstanding maintenance factor payments. Although total Proposition 98 funding remains relatively unchanged, the State general fund share increases to \$35.8 billion (an increase of approximately \$1.1 billion) to offset declines in local property tax revenues and oil/mineral revenues.

For fiscal year 2010-11, the May Revision reduces total Proposition 98 funding to \$48.4 billion, including \$35 billion from the State general fund. The May Revision purports to achieve the bulk of this reduction (\$1.2 billion) by eliminating all Proposition 98 support for state-subsidized child care. Other measures affecting K-12 education funding include a reduction of \$4.1 million reflecting an increase (from

0.38% to 0.39%) in the negative COLA approved by the Proposed 2010-11 budget, and a fund shift of \$321 million in unspent prior-year funds to achieve a like amount of general fund savings.

Significantly, the May Revision maintains the overall \$1.5 billion reduction to K-12 revenue limit funding included in the Proposed 2010-11 Budget. This reduction included a \$45 million cut to county office of education funding. Under the terms of the Proposed 2010-11 Budget, this reduction would have been achieved by requiring school districts to spend less on non-instructional activities and the consolidation of county office of education functions. The May Revision, however, removes these requirements in order to provide school districts maximum flexibility to manage the overall reduction to revenue limit funding. The May Revision also reduces the cut to county office of education funding by \$16.8 million.

The May Revision purports to achieve an additional \$1.5 billion in savings by “rebenching” the Proposition 98 minimum funding guarantee to reflect the elimination of child care services discussed above. The LAO notes that the legality of this rebenching is unclear and suggests that the Legislature consider suspending Proposition 98 in fiscal year 2009-10 and fund the minimum Proposition 98 guarantee amount of \$50.8 billion in fiscal year 2010-11. Alternatively, the LAO suggests suspending the guarantee in both fiscal years and funding a flat amount of \$49.8 billion.

Other significant measures included as part of the May Revision are discussed below:

- *State Employees.* \$795 million in anticipated savings from a mandatory personal leave program pursuant to which certain State employees will have their take-home pay reduced by the equivalent of eight hours of pay each month during fiscal year 2010-11. Such employees would be credited with a corresponding amount of personal leave hours.
- *CalWORKs.* \$1.2 billion in anticipated savings through the elimination of the CalWORKs program. Combined with other CalWORKs reductions set forth in the Proposed 2010-11 Budget, total savings are assumed to be \$2.5 billion. The LAO recommends the rejection of this proposal, principally on grounds that the State would forego significant amounts of federal funding tied to the CalWORKs program, and that its elimination would shift the cost of providing services to needy families to counties.
- *Medi-Cal.* Approximately \$900 million in savings from a variety of changes to the Medi-Cal program, including: (i) enrolling seniors and persons with disabilities in managed care; (ii) imposing new copayment requirements for various services, hospital stays and emergency room visits ; (iii) limiting physician and clinic visits to ten per year; and (iv) freezing hospital rates. The May Revision assumes the receipt of federal approval of these reductions. The May Revision also largely eliminates the Drug Medi-Cal program, a substance abuse program partly funded by the federal government.
- *Health.* \$602 million in purported savings by allowing counties to provide no more than the minimum range of mental health services required by the federal government for participation in Medicaid. The May Revision has also removed the Proposition 63 ballot measure included in the Proposed 2010-11 Budget.
- *In-Home Supportive Services.* With a majority of prior In-Home Supportive Services (“IHSS”) reductions blocked by court decisions, the May Revision proposes \$750 million in savings to be achieved through cost-containment measures developed in consultation with stakeholders. For fiscal year 2010-11, the net benefit to the State general fund is projected to be \$637 million after factoring in the receipt of federal matching funds under the American Reinvestment and Recovery Act.

- *Corrections/Rehabilitation.* \$244 million in anticipated savings by requiring that certain non-serious, non-violent, non-sex offenders convicted of specified felonies, and who receive a sentence of three years or less, serve such sentences in county jails rather than state prisons.
- *Federal Funding.* As mentioned above, the State has already received federal Medicaid matching funds amounting to approximately \$680 million. The May Revision assumes the receipt of an additional \$3.4 billion in federal aid, with approximately half coming from the congressional extension of the FMAP program and other federal economic stimulus funds. The LAO notes that this amount is significantly lower than the amount of federal funds assumed by the Proposed 2010-11 Budget, and, accordingly, no “trigger” list of alternative proposals is included in the May Revision.
- *Other Measures.* \$1.6 billion of one-time budget relief from the use of special fund monies for State general fund purposes. Also, the May Revision assumes approximately \$200 million in savings through the use of federal retiree reinsurance funds to reduce costs associated with the PERS program.

The LAO continues to believe that the State faces an ongoing annual General Fund budget gap of around \$20 billion through at least fiscal year 2014-15. The LAO calculates these ongoing shortfalls will range between \$4 billion and \$7 billion through fiscal year 2014-15 even if all of the Governor’s recommendations in the May Revision are implemented.

Additional information regarding the May Revision may be obtained from the LAO at www.lao.ca.gov.

Future Actions. The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no 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. Continued State budget shortfalls in future fiscal years may also have an adverse financial impact on the financial condition of the District.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES

Article XIII A of the California Constitution

Article XIII A of the State Constitution 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. 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. See "DESERT SANDS UNIFIED SCHOOL DISTRICT – Assessed Valuations."

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 (i) on any indebtedness approved by the voters prior to July 1, 1978, or (ii) as the result of an amendment approved by State voters on July 3, 1986, on any bonded indebtedness approved by two-thirds of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (iii) 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 of the proposition, but only if certain accountability measurers are included in the proposition. In addition, Article XIII A requires the approval of two-thirds of all members of the state legislature to change any state taxes for the purpose of increasing tax revenues.

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.

That portion of annual property tax revenues generated by increases in assessed valuations within each tax rate area within a county, subject to redevelopment agency, if any, claims on tax increment and subject to changes in organizations, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions.

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 District 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 ("SBE") 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 counties by SBE, taxed at special county-wide rates, and the tax

revenues distributed to taxing jurisdictions (including the District) 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 District 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 District. So long as the District is not a basic aid 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.

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 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.

Article XIII B also includes a requirement that fifty percent 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 "Propositions 98 and 111" below.

Article XIIC and Article XIID 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 XIIC and XIID, 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 XIIC 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 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 XIIC 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 XIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIC or XIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District 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 one percent *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 District, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the District thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the District.

Propositions 98 and 111

On November 8, 1988, 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 General Fund revenues as the percentage appropriated to such districts in 1986-87, and (b) the amount actually appropriated to such districts from the 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 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.

On June 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("Proposition 111") which further modified Article XIII B and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to appropriations limitations and school funding priority and allocation.

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 are 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 the 1990 level (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 percent (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1 percent limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments 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, including the District, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1 percent of the value of property. Property taxes may 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 percent vote requirement would apply 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 places certain limitations on local school bonds to be approved by 55 percent of the voters. These provisions require that the tax rate 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), per \$100,000 of taxable property value when assessed valuation is projected to increase in accordance with Article XIII A of the Constitution. These requirements are not part of this proposition and can be changed with a majority vote of both houses of the Legislature and approval by the Governor. See "—Article XIII A of the California Constitution" above.

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 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 State Controller to disburse funds. The foregoing requirement could apply to amounts budgeted by the District as being received from the State. To the extent the holding in such case would apply to State payments reflected in the District'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 District 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

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 can not (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. Beginning, in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. 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.

Future Initiatives

Article XIII A, Article XIII B, Article XIII C, Article XIII D of the California Constitution and Propositions 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 District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

DESERT SANDS UNIFIED SCHOOL DISTRICT

Introduction

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of the most recent and subsequent audited financial reports of the District may be obtained by contacting: Desert Sands Unified School District, 47-950 Dune Palms Road, La Quinta, California 92253, Attention: Superintendent.

General Information

Desert Sands Unified School District is a unified school district including elementary and secondary levels of education under a single Board of Education and centralized administration. Established in 1966, the District currently operates 19 elementary schools, one charter elementary school, six middle schools, one charter middle school, three comprehensive high schools, two continuation high schools, one Alternative Education School and one adult school. The District encompasses approximately 752 square miles of the southern part of Riverside County. Population centers include the cities of Indio, La Quinta, Indian Wells, Palm Desert, Rancho Mirage and the community of Bermuda Dunes.

The governing board of the District consists of five elected members, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and

three available positions. Current members of the Board, together with their offices and the dates their terms expire, are listed below: A president is elected by members of the board each year. The day-to-day affairs of the District are the responsibility of its Superintendent.

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Donald B. Griffith	President	December 2012
Gary Tomak	Vice President/Clerk	December 2012
Jim Koedyker	Member	December 2010
Michael Duran	Member	December 2010
Matt Monica	Member	December 2012

The Superintendent of the District is responsible for administering the affairs of the District in accordance with the policies of the Board.

Dr. Sharon P. McGehee, Superintendent. Dr. Sharon P. McGehee began her term as the District's Superintendent in November 2007. Prior to arriving at the District, Dr. McGehee served as the Superintendent of the Ontario-Montclair School District for six years, and, prior to that, as its Deputy Superintendent, Administrative Services and Assistant Superintendent, Personnel Services, Director of Certificated Personnel and teacher. Dr. McGehee holds a Bachelors of Arts in Sociology from the University of California, Santa Barbara, a Masters of Science in Education Administration from California State University, Fullerton and a Doctorate in Philosophy in Education from the Claremont Graduate School. She holds a life credential in elementary teaching and a credential in administrative services.

Cindy McDaniel, Assistant Superintendent , Business Services. Cindy McDaniel began her term as the District's Assistant Superintendent, Business Services in November 2008. Prior to that appointment, Ms. McDaniel served as the Director of Fiscal Services for the District for seventeen years, and, prior to that, as its Accounting Supervisor and Senior Account Clerk. She has a thirty-two cumulative years of service in finance with the District.

Average Daily Attendance and Enrollment

The average daily attendance and enrollment for the most recent twelve-year period and a budgeted amount for 2010-11 is reported in the following table.

AVERAGE DAILY ATTENDANCE AND ENROLLMENT
Fiscal Years 1998-99 through 2010-11
Desert Sands Unified School District

Fiscal Year	Average Daily Attendance	Enrollment
1998-99	20,512	22,037
1999-00	21,306	22,815
2000-01	21,214	23,500
2001-02	22,965	24,582
2002-03	23,654	25,180
2003-04	24,602	26,122
2004-05	25,500	27,059
2005-06	26,011	27,565
2006-07	26,716	28,277
2007-08	27,153	28,775
2008-09	27,649	28,976
2009-10 ⁽¹⁾	27,676	29,329
2010-11 ⁽²⁾	27,810	29,476

⁽¹⁾ Estimated

⁽²⁾ Budgeted

Source: The District.

On average throughout the District, the pupil-teacher ratio is approximately [31 to 1] for Kindergarten, [] to 1] for grades 1-2, [] to 1] for grades 3-5, [] to 1] for grades 6-8 and [] to 1] for grades 9-12.

Assessed Valuations

The assessed valuation of property in the District 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. Prior to 1981-82, assessed valuations were reported at 25% of the full value of property. (See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES.")

The California State Legislature adopted in 1969 the Homeowners Property Tax Relief Program. The 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.

Property within the District has a total assessed valuation for fiscal year 2009-10 of \$_____. The following table represents the 12-year history of assessed valuations in the District.

ASSESSED VALUATIONS
Fiscal Year 1998-99 through 2008-09
Desert Sands Unified School District

Fiscal Year	Total Assessed Valuation
1998-99	\$12,225,311,129
1999-00	13,256,632,076
2000-01	15,217,820,035
2001-02	17,207,367,334
2002-03	19,362,550,162
2003-04	21,419,228,616
2004-05	23,712,148,541
2005-06	27,350,807,769
2006-07	31,869,751,870
2007-08	35,905,592,167
2008-09	37,413,532,192
2009-10	_____

Sources: California Municipal Statistics, Inc. (fiscal years 1998-99 through 2007-08) and Riverside County Auditor-Controller (fiscal year 2008-09).

Economic and other factors beyond the District’s control, such as general market decline in property values, disruption in financial markets that may reduce availability of financing for purchasers of property, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by the State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of the taxable property caused by a natural or manmade disaster, such as earthquake, flood or toxic contamination, could cause a reduction in the assessed value of taxable property within the District. Any such reduction would result in a corresponding increase in the annual tax rates levied by the Counties to pay the debt service with respect to the District’s general obligation bonds. See “DESERT SANDS UNIFIED SCHOOL DISTRICT – Existing Indebtedness – General Obligation Bonds” herein.

Appeals and Adjustments of Assessed Valuations. Under California law, property owners may apply for a reduction of their property tax assessment by filing a written application, in form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. County assessors may independently reduce assessed values as well based upon the above factors or reductions in the fair market value of the taxable property. In most cases, the appeal is filed because the applicant believes that present market conditions (such as residential home prices) cause the property to be worth less than its current assessed value. Any reduction in the assessment ultimately granted as a result of such appeal applies to the year for which application is made and during which the written application was filed. Such reductions are subject to yearly reappraisals and may be adjusted back to their original values when market conditions improve. Once the property has regained its prior value, adjusted for inflation, it once again is subject to the annual inflationary factor growth rate allowed under Article XIII A. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Article XIII A of the California Constitution” herein.

A second type of assessment appeal involves a challenge to the base year value of an assessed property. Appeals for reduction in the base year value of an assessment, if successful, reduce the assessment for the year in which the appeal is taken and prospectively thereafter. The base year is determined by the

completion date of new construction or the date of change of ownership. Any base year appeal must be made within four years of the change of ownership or new construction date.

No assurance can be given that property tax appeals in the future will not significantly reduce the assessed valuation of property within the District.

Assessed Valuation and Parcels by Land Use

The following table is an analysis of the District's secured assessed valuation by land use.

**ASSESSED VALUATION AND PARCELS BY LAND USE
Fiscal Year 2009-10
Desert Sands Unified School District**

	<u>2009-10 Assessed Valuation ⁽¹⁾</u>	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
Non-Residential:				
Agricultural				
Commercial				
Vacant Commercial				
Office Building				
Industrial				
Vacant Industrial				
Recreational				
Government/Social/Institutional				
Subtotal Non-Residential				
Residential:				
Single Family Residence				
Rural Residential				
Condominium/Townhouse				
Mobile Home				
2-4 Residential Units				
5+ Residential Units/Apartments				
Vacant Residential				
Subtotal Residential				
Total				

⁽¹⁾ Local Secured Assessed Valuation; excluding tax-exempt property.
Source: California Municipal Statistics, Inc.

The following table reflects the twelve-year history of secured tax levies and year-end delinquencies for bond levies only.

SUMMARY OF SECURED TAX CHARGES AND DELINQUENCIES
Fiscal Years 1997-98 through 2006-07
Desert Sands Unified School District

Fiscal Year	Secured Tax Charge ⁽¹⁾	Amount Delinquent June 30	% Delinquent June 30
1997-98	\$10,925,975.96	\$216,343.63	1.98%
1998-99	11,473,052.28	239,568.27	2.09
1999-00	12,427,698.81	274,166.35	2.21
2000-01	14,292,769.98	307,419.31	2.15
2001-02	16,379,168.64	386,969.53	2.36
2002-03	18,301,643.24	415,375.57	2.27
2003-04	20,163,568.17	347,308.28	1.72
2004-05	22,063,018.28	431,664.58	1.96
2005-06	20,486,706.05	495,233.32	2.42
2006-07	23,036,657.80	869,670.03	3.78
2007-08	26,430,894.22	1,087,253.91	4.11
2008-09			

⁽¹⁾ Debt service levy only.

Source: California Municipal Statistics, Inc.

Ad Valorem Property Taxation

District property taxes are assessed and collected by Riverside County at the same time and on the same tax rolls as are county, city and special district taxes. Assessed valuations are the same for both District and County taxing purposes.

The valuation of secured property is established as of January 1 and is subsequently equalized in August. Property taxes are payable in two installments due November 1 and February 1, respectively, and become delinquent on December 10 and April 10 for each respective installment. Taxes on unsecured property (personal property and leasehold) are due on August 31 of each year based on the preceding fiscal year's secured tax rate and become delinquent on October 31.

State law exempts from taxation \$7,000 of the full cash value of an owner-occupied dwelling, but this exemption does not result in any loss of revenue to local agencies, since the State reimburses local agencies for the value of the exemptions.

All property is assessed using full cash value as defined by Article XIII A of the State Constitution. State law provides exemptions from *ad valorem* property taxation for certain classes of property such as churches, colleges, non-profit hospitals, and charitable institutions.

Future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, 2% inflation) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and schools will share the growth of "base" revenues from the tax rate area. Each year's growth allocation becomes part of each agency's allocation in the following year. The availability of revenue from growth in tax bases to such entities may be affected by the establishment of redevelopment agencies which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values.

For assessment and collection purposes, property is classified as either "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is the part of the assessment roll containing State-assessed property and real property having a tax lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Unsecured property comprises all property not attached to land such as personal property or business property. Boats and airplanes are examples of unsecured property. Unsecured property is assessed on the "unsecured roll."

The passage of AB 454 in 1987 changed the manner in which unitary and operating nonunitary property is assessed by the State Board of Equalization. The legislation deleted the formula for the allocation of assessed value attributed to such property and imposed a state-mandated local program by requiring the assignment of the assessed value of all unitary and operating nonunitary property in each county of each state assessee other than a regulated railway company. The legislation established formulas for the computation of applicable countrywide tax rates for such property and for the allocation of property tax revenue attributable to such property among taxing jurisdictions in the county beginning in fiscal year 1988-89. This legislation requires each county to issue each state assessee, other than a regulated railway company, a single tax bill for all unitary and operating nonunitary property.

Teeter Plan

With respect to collection of property taxes, the County has adopted the Teeter Plan, which is an alternate method of tax apportionment authorized in Chapter 3, Part 8, Division 1 of the Revenue and Taxation Code of the State of California (comprising Sections 4701 through 4717, inclusive) (the "Law") for distribution of certain property tax and assessment levies on the secured roll. Pursuant to the Law, the County adopted the Teeter Plan. The Teeter Plan provides for a tax distribution procedure in which secured roll taxes and assessments are distributed to participating County taxing agencies on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all taxing agencies is avoided. In connection with its adoption of the Teeter Plan, the County advanced to the participating taxing agencies an amount equal to 95% of the total prior years delinquent secured property taxes and assessments (not including penalties and interest) and 100% of the current year's delinquent secured property taxes and assessments outstanding.

Pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses which may occur as a result of sale of tax-defaulted property. Once the tax losses reserve fund reaches a level of three percent of the total of all taxes and assessments levied on the secured roll for that year, one percent of the total of all taxes and assessments levied on the secured roll for that year, and any additional penalties and interest normally credited to the tax losses reserve fund may be credited to the County General Fund. Upon adoption of a resolution by the Board of Supervisors of the County by August 1 of any fiscal year, the ten percent tax losses reserve fund threshold may be reduced to 25% of the total delinquent taxes and assessments for the previous year. The County did not elect to fund the tax losses reserve fund at a required threshold initially, thereby requiring penalties and interest to be credited first to the tax losses reserve fund to meet its required threshold before allowing any additional penalties and interest to be credited to the County General Fund. The tax loss reserve fund is now fully funded and amounts in excess of the required minimum may be transferred to the County General Fund in the future.

Once adopted by the County, the Teeter Plan remains in effect unless the County orders its discontinuance or prior to the commencement of any subsequent fiscal years the County receives a petition for its discontinuance adopted by resolution of two-thirds of the participating revenue districts in the County. Further, the County may by resolution adopted not later than July 15 of any subsequent fiscal year after a public hearing, discontinue the Teeter Plan as to any levying or assessment levying agency if the rate of secured tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured rolls for the agency.

Tax Rates

The following table summarizes the total *ad valorem* tax rates levied by all taxing entities in a typical tax rate area within the District from 2003-04 to 2007-08.

SUMMARY OF AD VALOREM TAX RATES
Fiscal Years 2003-04 through 2007-08
Desert Sands Unified School District

Typical Tax Rate per \$100 Assessed Valuation (TRA 75-004)

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>
General	1.00000%	1.00000%	1.00000%		
Desert Sands Unified School District	.07674	.07613	.07561		
Desert Community College District	.01995	.01995	.01995		
Coachella Valley Water District	<u>.02080</u>	<u>.02080</u>	<u>.04000</u>		
	1.11749%	1.11688%	1.13556%		

Source: California Municipal Statistics, Inc.

State Funding of Education and Revenue Limitations

Annual State apportionments of basic and equalization aid to school districts for general purposes are computed up to a revenue limit per unit of average daily attendance (A.D.A.). Such apportionments will, generally speaking, amount to the difference between the District's revenue limit and the District's local property tax allocation. Revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all of the same type of California school districts (*i.e.*, unified). The District's revenue limit per A.D.A. was \$5,531.98 in 2006-07, \$5,783.98 in 2007-08, \$6,112.98 in 2008-09, was estimated to be \$6,374.98 in fiscal year 2009-10, and is budgeted to be \$6,349.98 in 2010-11. Beginning with 1998-99, revenue limit calculations include only the actual attendance by excluding excused absences.

Financial Statements of the District

The District's General Fund finances the legally authorized activities of the District for which restricted funds are not provided. General Fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Certain information from the Financial Statements follows. Excerpts from the District's audited financial statements for the year ended June 30, 2009 are included for reference in Appendix D hereto.

**STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
Fiscal Years 2004-05 Through 2008-09
Desert Sands Unified School District**

	Audited Actuals Fiscal Year <u>2004-05</u>	Audited Actuals Fiscal Year <u>2005-06</u>	Audited Actuals Fiscal Year <u>2006-07</u>	Audited Actuals Fiscal Year <u>2007-08</u>	Audited Actuals Fiscal Year <u>2008-09</u>
REVENUES					
Revenue Limit Sources	\$123,832,902	\$132,694,655	\$146,936,189	\$153,817,762	\$145,701,342
Federal Revenues	20,870,481	20,931,927	20,457,090	15,144,197	24,803,975
Other State Revenues	27,053,720	30,158,491	42,012,968	39,288,634	33,427,766
Other Local Revenues	<u>20,570,539</u>	<u>23,756,292</u>	<u>30,981,035</u>	<u>37,291,960</u>	<u>37,127,733</u>
Total Revenues	192,327,642	207,541,365	240,387,282	245,542,553	241,060,816
EXPENDITURES					
Current					
Instruction	119,086,285	128,804,483	143,354,293	150,426,060	142,539,709
Instruction-related activities:					
Supervision of Instruction	7,619,781	9,050,185	10,466,818	10,756,266	10,350,393
Instructional Library, media, and technology	2,327,444	2,357,902	2,770,578	2,552,799	2,364,262
School site administration	12,598,703	12,987,715	14,283,727	15,017,732	13,561,443
Pupil services:					
Home-to-school transportation	4,665,082	4,993,307	5,453,280	6,156,320	5,516,236
Food services	43,332	30,624	30,841	37,313	39,442
All other pupil services	9,053,196	9,650,950	11,760,538	12,616,458	11,910,719
General administration:					
Data processing	1,653,231	1,996,474	2,133,483	2,484,526	2,735,544
All other general administration	7,368,833	7,056,343	8,052,814	8,357,594	7,778,534
Plant services	15,207,999	17,607,275	20,719,319	22,500,767	21,994,302
Facility acquisition and construction	30,419	1,652,828	1,383,300	1,643,532	22,962
Ancillary services	329,478	374,965	675,336	1,585,351	2,191,995
Community services	7,510	3,325	5,922	3,422	6,546
Other outgo	1,230,050	1,361,366	1,041,073	11,903	82,401
Debt Service					
Principal	--	--	--	--	--
Interest and Other	--	<u>242,052</u>	--	--	--
Total Expenditures	181,221,343	198,169,794	222,131,322	234,150,043	221,094,488
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	11,106,299	9,371,571	18,255,960	11,392,510	19,966,328
OTHER FINANCING SOURCES/(USES)					
Operating Transfers In	--	--	50,000	114,821	1,000,000
Operating Transfers Out	<u>(8,511,903)</u>	<u>(7,283,098)</u>	<u>(9,989,432)</u>	<u>(13,649,505)</u>	<u>(14,576,887)</u>
Total Other Financing Sources (Uses)	<u>(8,511,903)</u>	<u>(7,283,098)</u>	<u>(9,939,432)</u>	<u>(13,534,684)</u>	<u>(13,576,887)</u>
Excess of Revenues & Other Financing Sources Over (Under) Expenditures and Other Uses	2,594,396	2,088,473	8,316,528	(2,142,174)	6,389,441
Fund Balance (Deficit), July 1	<u>10,673,666</u>	<u>13,268,062</u>	<u>15,356,535</u>	<u>23,673,063</u>	<u>21,530,889</u>
Fund Balance (Deficit), June 30	<u>\$13,268,062</u>	<u>\$15,356,535</u>	<u>\$23,673,063</u>	<u>\$21,530,889</u>	<u>\$27,920,330</u>

Source: The District.

Budget Process

The District is required by provisions of the State Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. The State Department of Education imposes a uniform budgeting and accounting format for school districts. The budget process for school districts was substantially amended by Assembly Bill 1200 ("AB 1200"), which became State law on October 14, 1991. Portions of AB 1200 are summarized below.

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the county office of education, or as needed. [The District is on a single budget cycle and adopts its budget on or before July 1.]

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the district to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. No later than August 20, the county superintendent must notify the Superintendent of Public Instruction of all school districts whose budget has been disapproved.

For all dual budget options and for single and dual budget option districts whose budgets have been disapproved, the district must revise and readopt its budget by September 8, reflecting changes in projected income and expense since July 1, including responding to the county superintendent's recommendations. The county superintendent must determine if the budget conforms with the standards and criteria applicable to final district budgets and not later than October 8, will approve or disapprove the revised budgets. If the budget is disapproved, the county superintendent will call for the formation of a budget review committee pursuant to Education Code Section 42127.1. Until a district's budget is approved, the district will operate on the lesser of its proposed budget for the current fiscal year or the last budget adopted and reviewed for the prior fiscal year.

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office 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 office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district 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 school district that may not meet its financial obligations for the current fiscal year or two sequent fiscal years.

[The District has never had an adopted budget disapproved by the county superintendent of schools, and has never received a “negative” or “qualified” certification of an Interim Financial Report pursuant to AB 1200.]

General Fund Budget

The District’s general fund adopted budgets and its audited actual results for the fiscal years ending June 30, 2007, June 30, 2008, and June 30, 2009, are set forth in the following table.

GENERAL FUND BUDGET AND ACTUAL RESULTS FISCAL YEARS ENDING JUNE 30, 2007, 2008, AND 2009 Desert Sands Unified School District

	2006-07 Adopted Budget	2006-07 Actual	2007-08 Adopted Budget	2007-08 Actual	2008-09 Adopted Budget	2008-09 Actual
REVENUES						
Revenue Limit Sources	\$146,520,197	\$146,936,189	\$152,790,007	\$153,817,762	\$146,716,915	\$145,701,342
Federal sources	18,564,126	20,457,090	14,481,644	15,144,197	14,351,552	24,803,975
Other State sources	22,054,139	42,012,968	26,351,186	39,288,634	26,176,879	33,427,766
Other local sources	<u>23,785,073</u>	<u>30,981,035</u>	<u>30,001,042</u>	<u>37,291,960</u>	<u>31,157,316</u>	<u>37,127,733</u>
Total Revenues ⁽¹⁾	210,923,535	240,387,282	223,623,879	245,542,553	218,402,662	241,060,816
EXPENDITURES						
Current						
Instruction	133,613,273	143,354,293	139,034,849	150,426,060	134,895,142	142,539,709
Instruction-related activities:						
Supervision of instruction	9,979,177	10,466,818	10,280,027	10,756,266	10,482,241	10,350,393
Instructional library, media, and technology	2,641,499	2,770,578	2,439,772	2,552,799	2,394,379	2,364,262
School site administration	13,618,259	14,283,727	14,352,814	15,017,732	13,734,195	13,561,443
Pupil services:						
Home-to-school transportation	5,267,916	5,453,280	5,920,674	6,156,320	5,477,311	5,516,236
Food services	29,793	30,841	35,885	37,313	39,164	39,442
All other pupil services	11,360,782	11,760,538	12,133,537	12,616,458	11,826,671	11,910,719
General administration:						
Data processing	2,206,869	2,133,483	2,438,393	2,484,526	2,935,049	2,735,544
All other general administration	8,329,810	8,052,814	8,202,409	8,357,594	8,345,827	7,778,534
Plant services	20,308,367	20,719,319	22,380,158	22,500,767	20,908,273	21,994,302
Facility acquisition and construction	1,355,863	1,383,300	1,634,722	1,643,532	21,828	22,962
Ancillary services	381,599	675,336	394,109	1,585,351	2,313,140	2,191,995
Community services	3,542	5,922	6,415	3,422	10,035	6,546
Other outgo	1,158,223	1,041,073	7,000	11,903	12,000	82,401
Debt Service:						
Principal	--	--	--	--	--	--
Interest and Other	--	--	--	--	--	--
Total Expenditures	210,254,972	222,131,322	219,260,764	234,150,043	213,395,255	221,094,488
Excess of Revenues Over Expenditures	668,563	18,255,960	4,363,115	11,392,510	5,007,407	19,966,328
Other Financing Uses:						
Operating Transfers In	--	50,000	50,000	114,821	--	1,000,000
Operating Transfers Out	<u>(3,502,194)</u>	<u>(9,989,432)</u>	<u>(8,160,809)</u>	<u>(13,649,505)</u>	<u>(10,193,628)</u>	<u>(14,576,887)</u>
NET CHANGE IN FUND BALANCES	<u>(2,833,631)</u>	8,316,528	<u>(3,747,694)</u>	<u>(2,142,174)</u>	<u>(5,186,221)</u>	6,389,441
Fund Balance – Beginning	<u>15,356,535</u>	<u>15,356,535</u>	<u>23,673,063</u>	<u>23,673,063</u>	<u>21,530,889</u>	<u>21,530,889</u>
Fund Balance - Ending	<u>\$12,522,904</u>	<u>\$23,673,063</u>	<u>\$19,925,369</u>	<u>\$21,530,889</u>	<u>\$16,344,668</u>	<u>\$27,920,330</u>

Source: The District.

The District's general fund adopted budgets for the years ended June 30, 2010 and June 30, 2011, as well as its general fund estimated actual results for the fiscal year ending June 30, 2010 are set forth in the following table.

**GENERAL FUND BUDGET AND ACTUAL RESULTS
FISCAL YEAR ENDING JUNE 30, 2010 AND JUNE 30, 2011
Desert Sands Unified School District**

	2009-10 Adopted <u>Budget</u>	2009-10 Estimated Actuals ⁽¹⁾	2010-11 Adopted <u>Budget</u>
REVENUES			
Revenue Limit Sources	\$134,737,962	\$	\$129,070,879
Federal Sources	21,455,397		16,133,138
Other State Sources	23,468,830		24,750,300
Other Local Sources	<u>31,489,176</u>		<u>31,297,399</u>
TOTAL REVENUES	211,151,365		201,251,716
EXPENDITURES			
Certificated Salaries	107,287,525		100,183,149
Classified Salaries	31,065,798		28,877,216
Employee Benefits	46,481,246		45,892,293
Books & Supplies	7,820,768		7,118,362
Services & Other Operating Expenses	17,604,050		19,208,827
Capital Outlay	287,500		475,700
Other Outgo	6,000		35,800
Transfers of Direct Support/Indirect Costs	<u>(378,101)</u>		<u>(340,998)</u>
TOTAL EXPENDITURES	210,174,786		201,450,349
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES			
OTHER FINANCING SOURCES/(USES)			
Operating Transfers In	--		2,135,000
Operating Transfers Out	(8,837,262)		(7,467,040)
Other Sources/(Uses)	<u>--</u>		<u>--</u>
TOTAL OTHER FINANCING SOURCES/(USES)	(8,837,262)		(5,332,040)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER/(UNDER) EXPENDITURES AND OTHER SOURCES (USES)			
Fund Balance at beginning of year	<u>14,942,748</u>		<u>13,918,563</u>
Fund Balance at end of year	<u><u>\$7,082,065</u></u>	\$	<u><u>\$8,387,890</u></u>

⁽¹⁾ Estimated Actuals based on _____.
Source: The District.

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the State of California Education Code, is to be followed by all California school districts. The Governmental Accounting Standards Board ("GASB") has released Statement No. 34, which makes changes in the annual financial statements for all governmental agencies in the United States, especially in recording of fixed assets and their depreciation, and in the way the report itself is formatted. These requirements became effective in 2001-02 for the District, as well as any other governmental agency with annual revenues of \$100 million or more. Revenue is recorded on an accrual basis except for district property taxes which are considered revenue in the year collections are made and therefore are fully reserved. Expenditures are recorded according to receipt of goods and services on an accrual basis. Differences between estimated and actual accounts receivable and payable, as of the beginning of the fiscal year, are reflected as adjustments to fund balance.

District Reports and Certification

State law requires each school district to certify at two points during the fiscal year whether or not it is able to meet its financial obligations for the remainder of such fiscal year, the first for the period ending October 31 and the second for a period ending January 31. Such certifications and a report shall be filed with the County Superintendent of Schools within forty-five days after the close of the period being reported and, to the extent required, to the State Controller and the Superintendent of Public Instruction.

[The District has filed positive certifications with the County Superintendent of Schools for each reporting period for which a certificate has been filed and the County Superintendent of Schools has not made any qualified or negative determination with respect to any such certifications.]

Copies of the District's reports and certifications, as well as audited financial statements, may be obtained upon request from the District's Business Office at 47-950 Dune Palms Road, La Quinta, CA 92253, (Tel. 760-771-8526).

Projected and Actual Cash Flows

The District has prepared the accompanying monthly General Fund cash flow statement covering the past Fiscal Year and the projected 2010-11 Fiscal Year. The General Fund is used to finance the ordinary operations of the District and is available for any legally authorized purpose. The anticipated deficit occurs due to the daily timing of expenditures occurring prior to the receipt of revenues for the month. The projections are based on the District's tentative budget.

**DESERT SANDS UNIFIED SCHOOL DISTRICT
2009-10 Actual/Estimated Cash Flow**

	Beginning Balance	Revenues	TRAN Amount	Expenditures	TRAN Pledge Amount	Ending Balance
July						
August						
September						
October						
November						
December						
January						
February						
March						
April						
May						
June						
Totals						

Source: The District.

**DESERT SANDS UNIFIED SCHOOL DISTRICT
2010-11 Projected Cash Flow**

	Beginning Balance	Revenues	TRAN Amount	Expenditures	TRAN Pledge Amount	Ending Balance
July						
August						
September						
October						
November						
December						
January						
February						
March						
April						
May						
June						
<hr/>						
Totals						

Source: The District.

Property Tax Collection

The following table shows the dates and percentage of anticipated secured property taxes to be distributed to the District by the County in Fiscal Year 2010-11.

**DESERT SANDS UNIFIED SCHOOL DISTRICT
2010-11 SCHEDULE OF SECURED PROPERTY TAX PAYMENTS**

Date of Distribution	Percentage of Total Secured Property Taxes
December ____, 2010	
January ____, 2011	
April ____, 2011	
May ____, 2011	
August ____, 2011	
Total	100%

⁽¹⁾ Any property taxes collected but not distributed in prior periods will be distributed during this time period.
Source: County of Riverside Auditor-Controller's office.

Existing Indebtedness

Long-Term Debt. A schedule of changes of the District in long-term debt for the year ended June 30, 2009, is shown below:

	Balance (June 30, 2008)	Additions and <u>Adjustments</u>	<u>Deductions</u>	Balance (June 30, 2009)
2004 Series A General Obligation Bond	\$22,000,000	--	\$3,260,000	\$18,740,000
2006 Series General Obligation Bond	98,175,000	--	380,000	97,795,000
2006 General Obligation Refunding Bond	99,456,872	\$524,040	14,845,199	85,135,713
2008 General Obligation Bond	--	100,000,000	--	100,000,000
Premium on Issuance	--	1,501,007	71,477	1,429,530
2002 Refunding Certificates of Participation	8,270,000	--	545,000	7,725,000
2003 Refunding Certificates of Participation	12,420,000	--	825,000	11,595,000
2003 Series F Certificates of Participation	5,320,000	--	2,610,000	2,710,000
2008 Certificates of Participation	--	54,505,000	4,030,000	50,475,000
Premium on Issuance	--	320,355	20,022	300,333
Capital leases	--	419,660	91,679	327,981
Accumulated vacation (net)	806,746	68,704	--	875,450
Claims liability	3,084,946	370,194	--	3,455,140
Net OPEB Obligation	<u>2,502,743</u>	<u>3,933,181</u>	<u>1,440,988</u>	<u>4,994,936</u>
Total	<u>\$252,036,307</u>	<u>\$161,642,141</u>	<u>\$28,119,365</u>	<u>\$385,559,083</u>

Source: The District.

Certificates of Participation. In October 1995, the District executed and delivered \$27,505,940.20 in Certificates of Participation, consisting of \$7,285,940.25 initial issue amount of Series 1995 Convertible Capital Appreciation Certificates and \$20,220,000.00 aggregate principal amount of Series 1995 Current Interest Certificates (the "Series 1995 Certificates"). The capital appreciation portion of the Series 1995 Certificates were refunded by certificates of participation issued by the District on March 22, 2002 in an aggregate principal amount of \$11,235,000 (the "2002 Refunding Certificates").

In July 2003, the District executed and delivered \$16,450,000 of 2003 Refunding Certificates of Participation (the "2003 Refunding Certificates") for the purpose of refunding all outstanding Series 1995 Certificates.

In addition, the District executed and delivered on October 24, 2008, its Certificates of Participation (2008 Financing Project) in an aggregate principal amount of \$54,505,000 (the "2008 Certificates").

The following table summarizes the total annual lease payment requirements of the District for all outstanding Certificates of Participation, including the 2008 Certificates:

<u>Year Ending (March 1)</u>	<u>2002 Refunding Certificates</u>	<u>2003 Refunding Certificates</u>	<u>2008 Certificates</u>	<u>Total Annual Lease Payments</u>
2011	\$930,950.00	\$1,387,487.50	\$4,997,312.50	\$7,315,750.00
2012	908,450.00	1,392,687.50	4,998,750.00	7,299,887.50
2013	918,450.00	1,396,287.50	4,995,150.00	7,309,887.50
2014	912,850.00	1,408,287.50	4,997,550.00	7,318,687.50
2015	913,150.00	1,393,287.50	4,995,550.00	7,301,987.50
2016	902,100.00	1,394,475.00	4,998,300.00	7,294,875.00
2017	920,150.00	1,392,775.00	4,995,812.50	7,308,737.50
2018	915,000.00	1,393,187.50	4,998,062.50	7,306,250.00
2019	915,500.00	1,390,450.00	4,997,062.50	7,303,012.50
2020	924,000.00	1,394,562.50	4,997,562.50	7,316,125.00
2021	--	--	4,996,362.50	4,996,362.50
2022	--	--	4,996,650.00	4,996,650.00
2023	--	--	4,998,712.50	4,998,712.50
2024	--	--	4,996,687.50	4,996,687.50
	<u>\$9,160,600.00</u>	<u>\$13,943,487.50</u>	<u>\$69,959,525.00</u>	<u>\$93,063,612.50</u>

Source: The District.

General Obligation Bonds. The voters of the District on November 6, 2001, approved \$450,000,000 of general obligation bonds (the "2001 Authorization"). On July 2, 2003, the District issued \$62,000,000 of 2003 General Obligation Bond Anticipation Notes (the "2003 Notes") against this authorization. In June 2004, the District issued \$146,000,000.00 of its General Obligation Bonds, Election of 2001, Series 2004 (the "Series 2004 Bonds") to retire the 2003 Notes and provide for the funding of additional school facilities. In June 2006, the District issued \$130,000,000.00 of its General Obligation Bonds, Election of 2001, Series 2006 (the "Series 2006 Bonds") and \$99,168,983.60 of its 2006 General Obligation Refunding Bonds (the "Refunding Bonds"), the proceeds of which were used to refund a portion of the Series 2004 Bonds. In November 2008, the District issued \$100,000,000.00 of its General Obligation Bonds, Election of 2001, Series 2008 (the "Series 2008 Bonds"), the proceeds of which were used to finance certain District facilities. The District has \$69,116,016.40 remaining of its 2001 Authorization.

The following table summarizes the total annual debt service requirements of the District for all general obligation bonded debt (assuming no optional redemptions are made):

Period Ending August 1	Series 2004 Debt Service ⁽¹⁾⁽²⁾	Series 2006 Debt Service ⁽²⁾	Refunding Bonds Debt Service ⁽²⁾	Series 2008 Debt Service	Total Annual Debt Service
2011	\$4,283,500.00	\$5,562,043.76	\$20,335,000.00	\$5,276,400.00	\$35,456,943.76
2012	4,280,700.00	5,758,468.76	20,915,000.00	5,276,400.00	36,230,568.76
2013	4,316,500.00	5,960,118.76	21,500,000.00	5,681,400.00	37,458,018.76
2014	4,320,750.00	6,166,356.26	22,090,000.00	6,020,200.00	38,597,306.26
2015	--	6,381,543.76	26,805,000.00	5,612,200.00	38,798,743.76
2016	--	6,607,575.00	13,230,000.00	9,557,700.00	29,395,275.00
2017	--	6,837,900.00	--	9,749,950.00	16,587,850.00
2018	--	7,076,400.00	--	9,942,875.00	17,019,275.00
2019	--	7,321,900.00	--	10,142,725.00	17,464,625.00
2020	--	7,583,150.00	--	10,343,825.00	17,926,975.00
2021	--	7,848,400.00	--	10,555,700.00	18,404,100.00
2022	--	8,121,400.00	--	10,764,225.00	18,885,625.00
2023	--	8,405,650.00	--	10,978,087.50	19,383,737.50
2024	--	8,699,400.00	--	11,200,450.00	19,899,850.00
2025	--	9,005,900.00	--	11,425,700.00	20,431,600.00
2026	--	9,318,150.00	--	11,651,950.00	20,970,100.00
2027	--	9,646,500.00	--	11,882,700.00	21,529,200.00
2028	--	9,980,750.00	--	12,121,950.00	22,102,700.00
2029	--	10,329,750.00	--	--	10,329,750.00
2030	--	10,691,000.00	--	--	10,691,000.00
2031	--	11,067,000.00	--	--	11,067,000.00
Total	<u>\$17,201,450.00</u>	<u>\$168,369,356.30</u>	<u>\$124,875,000.00</u>	<u>\$168,184,437.50</u>	<u>\$478,630,243.80</u>

⁽¹⁾ Does not include Series 2004 Bonds refunded from proceeds of the Refunding Bonds.

⁽²⁾ Bonds maturing on June 1 of the years indicated; interest payment dates on such bonds are made semiannually on June 1 and December 1.

Community Facilities District Bonds

In June 2001, Community Facilities District No. 1 within the District issued \$2,285,000 of Special Tax Bonds (the "CFD Bonds"), pursuant to the Mello-Roos Community Facilities Act of 1982. The CFD Bonds were issued and delivered to finance the acquisition and construction of various public school improvements, fund a reserve account and pay the costs of issuance of the CFD Bonds. The interest rate on the CFD Bonds is 6.75% and the CFD Bonds mature on September 1, 2025. At June 30, 2009, the principal balance on the outstanding CFD Bonds was \$1,945,000, maturing as follows:

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$70,000	\$123,124	\$193,124
2012	70,000	118,836	188,836
2013	75,000	114,531	189,531
2014-2018	460,000	492,439	952,439
2019-2023	645,000	310,064	955,064
2024-2026	<u>500,000</u>	<u>70,469</u>	<u>570,469</u>
Total	<u>\$1,820,000.00</u>	<u>\$1,229,463.00</u>	<u>\$3,049,463.00</u>

Source: The District.

Capital Leases

The District has entered into agreements to lease various equipment. Such agreement are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

Balance, July 1, 2008	--
Additions	\$458,397
Payments	<u>(91,679)</u>
Balance, June 30, 2009	<u>\$366,718.00</u>

<u>Fiscal Year</u>	<u>Lease Payment</u>
2010	\$91,679
2011	91,679
2012	91,680
2013	91,680
Total	<u>\$366,718</u>

Less: Amount Representing Interest	<u>(38,737)</u>
Present Value of Minimum Lease Payments	<u>\$694,699.00</u>

Lease equipment under capital leases in capital assets at June 30, 2009, includes the following:

Equipment	\$458,397
Less: Amount Representing Interest	<u>(30,560)</u>
Total	<u>\$427,837.00</u>

Source: The District.

Developer Fees. The District expects to receive approximately \$___ million in developer fees in fiscal year 2009-10. The following table summarizes the revenues received by the District from developer fees over the last ten years and an estimate for 2009-10.

<u>Fiscal Year</u>	<u>Developer Fees Received by the District</u>
1998-99	\$8,591,645
1999-00	11,539,782
2000-01	10,340,647
2001-02	9,536,272
2002-03	11,496,017
2003-04	16,870,825
2004-05	14,804,814
2005-06	20,931,552
2006-07	6,853,562
2007-08	4,313,895
2008-09	_____
2009-10 ⁽¹⁾	_____
2010-11 ⁽²⁾	_____

⁽¹⁾ Estimated.
⁽²⁾ Budgeted.
Source: The District.

Redevelopment Revenues. The District has agreements with a number of redevelopment agencies, pursuant to which the District receives a portion of the tax increment revenues received by such agencies. The following table summarizes the revenues received by the District from such redevelopment agencies over the last five fiscal years, an estimate for fiscal year 2008-09 and projections for fiscal years 2009-10 and 2010-11. The District has approximately \$14,000,000 of such funds on deposit. The District intends to use such redevelopment revenues to pay the debt service due with respect to its 2008 Certificates (as defined herein); but, no assurance can be given that the District will not allocate such revenues to other expenses in the future or pledge such revenues in respect of other obligations. See “DISTRICT FINANCIAL INFORMATION – District Debt Structure – Certificates of Participation.”

<u>Fiscal Year</u>	<u>Redevelopment Revenues Received by the District</u>	<u>Annual Redevelopment Revenues Allocated to Outstanding Debt</u>	<u>Unencumbered Annual Redevelopment Revenues</u>
2003-04	\$7,879,916	\$2,316,415	\$5,563,501
2004-05	9,360,150	2,315,419	7,044,731
2005-06	12,796,854	2,308,868	10,487,986
2006-07	13,578,700	2,300,120	11,278,580
2007-08	19,997,350	2,292,968	17,704,382
2008-09	_____	_____	_____
2009-10 ⁽¹⁾	_____	_____	_____
2010-11 ⁽²⁾	_____	_____	_____

⁽¹⁾ Estimated
⁽²⁾ Projected.
Source: The District.

Retirement System

STRS and PERS. The District participates in the State of California Teachers Retirement System (“STRS”). This plan covers all full-time and most part-time certificated employees. The District’s

contribution to STRS was \$9,753,551 in fiscal year 2007-08, \$9,589,362 in fiscal year 2008-09, was estimated to be \$_____ and is budgeted to be \$_____ in fiscal year 2010-11. In order to receive STRS benefits, an employee must be at least 55 years old and have provided five years of service to California public schools.

The District also participates in the State of California Public Employees Retirement System ("PERS"). This plan covers all classified personnel who are employed more than four hours per day. The District's contribution to PERS was \$5,390,250 in fiscal year 2007-08, \$5,529,063 in fiscal year 2008-09, was estimated to be \$_____ in fiscal year 2009-10 and is budgeted to be \$_____ in fiscal year 2010-11. In order to receive PERS benefits, an employee must be at least 50 years old and have provided five years of service to California public schools.

The District is currently required by statute to contribute 8.25% of eligible salary expenditures to STRS, while participants contribute 8% of their respective salaries. STRS has a substantial statewide unfunded liability. Since this liability has not been broken down by each school district, it is impossible to determine the District's share. The District was required to contribute to PERS at an actuarially determined rate, which is 10.707% of eligible salary expenditures for fiscal year 2010-11, while participants contribute 7% of their respective salaries.

[Alternative Plan. As established by Federal law, all public sector employees who are not members of their employers existing retirement systems (STRS or PERS) must be covered by social security or an alternative plan. The District has elected to use Accumulation Program of Part-Time and Limited-Service Employees ("APPLE") Plan as its alternative plan. The District contributes _____% of an employee's gross earnings. An employee is required to contribute _____% of his or her gross earnings to the pension plan.]

During fiscal year 2009-10, the District's required and actual contributions for the APPLE Plan amounted to \$_____, which was _____% of its current year covered payroll. Employees' required and actual contributions matched that of the employer's.

Other Postemployment Benefits

The Desert Sands Unified School District Retiree Health Program (the "Program") is a single-employer defined benefit health care program administered by the District. The Program provides medical benefits to eligible retirees and their spouses. Membership of the Program consists of 175 retirees and beneficiaries currently receiving benefits and 2,447 active Program members. The Contribution requirements of the Program members and the District are established and may be amended by the District and the Desert Sands Teachers Association (DSTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contributions is based on projected pay-as-you-go financing requirements. For fiscal year 2009-10, the District contributed \$_____ to the Program, all of which was used for premiums.

[The District has received an actuarial study by Keenan & Associates dated April 28, 2008 with respect to its accrued liability in connection with such postemployment benefits. The study concluded the District's total unfunded actuarial accrued liability for such benefits as of January 1, 2008, was \$32,593,970, and that the District's annual required contribution in respect of such benefits was \$3,856,478 for the year beginning January 1, 2008.]

Charter Schools

The California Legislature enacted the Charter Schools Act of 1992 (California Education Code Sections 47600-47616.5) to permit teachers, parents, students, and community members to establish schools that would be free from most state and district regulations. Revised in 1998, California's charter school law states that local boards are the primary charter approving agency and that county panels can appeal a denied

charter. State education standards apply, and charter schools are required to use the same student assessment instruments. The charter school is exempt from state and local education rules and regulations, except as specified in the legislation.

The District has approved two petitions to establish charter schools within the District, known as the Washington Charter School, which opened in 1994-95, and the Palm Desert Middle Charter School, which opened in July 2008 (collectively, the "Charter Schools"). It is estimated that approximately _____ students are currently enrolled in the Charter Schools (approximately _____ of which were formerly enrolled in the District). The District cannot estimate at this time how many District students will transfer to charter schools in the future or back to the District from charter schools, and the corresponding financial impact on the District.

State Assistance

The District's largest revenue source is the State of California. See "FUNDING OF SCHOOL DISTRICTS IN CALIFORNIA" for a discussion of recent State budgets and State funding of school districts.

Statement of Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. and as of August 1, 2010. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

The Debt Report generally includes long-term obligations sold in the public credit markets by public agencies whose boundaries overlap the boundaries of the District in whole or in part. Such long-term obligations generally are not payable from revenues of the District (except as indicated) nor are they necessarily obligations secured by land within the District. In many cases long-term obligations issued by a public agency are payable only from the general fund or other revenues of such public agency.

The table shows the percentage of each overlapping entity's assessed value located within the boundaries of the District. The table also shows the corresponding portion of the overlapping entity's existing debt payable from property taxes levied within the District. The total amount of debt for each overlapping entity is not given in the table.

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

Principal Taxpayers

The following table lists the major taxpayers in the District in terms of their 2009-10 secured assessed valuations.

**LARGEST 2009-10 LOCAL SECURED TAXPAYERS
Desert Sands Unified School District**

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2009-10 Assessed Valuation</u>	<u>% of Total⁽¹⁾</u>
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				
11.				
12.				
13.				
14.				
15.				
16.				
17.				
18.				
19.				
20.				

⁽¹⁾ 2009-10 local secured assessed valuation: \$ _____
Source: California Municipal Statistics, Inc.

STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT
Desert Sands Unified School District

[TO COME]

Source: California Municipal Statistics, Inc.

COUNTY INVESTMENT POOL

The following information concerning the Riverside County Pooled Investment Fund has been provided by the Riverside County Treasurer-Tax Collector (the "Treasurer") and has not been confirmed or verified by the District. 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.

It is expected that amounts held under the Resolution will be invested in the Pooled Investment Fund of the Treasurer-Tax Collector of the County of Riverside.

The Treasurer maintains one Pooled Investment Fund ("PIF") for all local jurisdictions having funds on deposit in the County Treasury. As of May 31, 2010, the portfolio assets comprising the PIF had a market value of \$5,809,312,985.89.

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

All purchases of securities for the PIF are made in accordance with the Treasurer's November 24, 2009 Investment Policy Statement (the "Policy Statement") which is more restrictive than the investments authorized pursuant to Sections 53601 and 53635 of the California Government Code. The Policy Statement requires that all investment transactions be governed by first giving consideration to the safety and preservation of principal, second to maintain the sufficient liquidity to meet daily cash flow needs, and third to achieving a reasonable rate of return or yield on the investment. Investments are not authorized in reverse-repurchase agreements except for temporary and unanticipated cash flow need that would cause the Treasurer to sell securities at a principal loss.

The structure of the PIF as of May 31, 2010 was:

	<u>Market Value</u>	<u>% of Pool</u>
Federal Agency Securities	\$4,391,664,232	75.60%
Cash Equivalents & Money Market Funds	369,054,054	6.35
Commercial Paper	159,981,667	2.75
Negotiable CDs	--	--
Medium Term Notes	--	--
Municipal Bonds	101,740,719	1.75
Certificates of Deposit	--	--
Bond - U.S. Treasury	771,212,314	13.28
Local Agency Obligations ⁽¹⁾	<u>15,660,000</u>	<u>0.27</u>
Total	<u>\$5,809,312,986</u>	<u>100.00%</u>
 Weighted Average Yield:	 0.91%	
Weighted Average Maturity:	0.8 years	

⁽¹⁾ Represents Local Agency Obligations issued by the Riverside District Court Financing Corporation and March Joint Powers Redevelopment Agency.

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

The Board of Supervisors of the County has established an Investment Oversight Committee (IOC) in compliance with California Government Code Section 27131. The purpose of the committee is to review the prudence of the County's investment policy, portfolio holdings and investment procedures, and, to make any findings and recommendations known to the Board. The IOC is currently comprised of the following members: the County Treasurer, County Finance Director, Superintendent of Schools, a school district representative, and a public member at large.

The County has obtained a rating on the PIF of "AAA/V1+" from Fitch Ratings, and a "Aaa/MR1" rating from Moody's Investors Service. There is no assurance that such ratings will continue for any given period of time or that any such rating may not be lowered, suspended or withdrawn entirely by the respective rating agency if, in the judgment of such rating agency, circumstances so warrant.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest on the Notes is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Notes is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the Notes is not included as an adjustment in the calculation of alternative minimum taxable income.

Bond Counsel's opinion as to the exclusion from gross income of interest on the Notes is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Notes to assure that interest on the Notes will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest on the Notes to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Notes. The District has covenanted to comply with all such requirements.

The amount by which a Note Owner's original basis for determining loss on sale or exchange in the applicable Note (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Note premium, which must be amortized under Section 171 of the Code; such amortizable Note premium reduces the Note Owner's basis in the applicable Note (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Note premium may result in a Note Owner realizing a taxable gain when a Note is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Note to the Owner. Purchasers of the Notes should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Note premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt Note issues, including both random and targeted audits. It is possible that the Notes will be selected for audit by the IRS. It is also possible that the market value of the Notes might be affected as a result of such an audit of the Notes (or by an audit of similar notes).

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Resolutions and the Tax Certificate relating to the Notes permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of interest on the Notes for federal income tax purposes with respect to any Note if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

Although Bond Counsel has rendered an opinion that interest on the Notes is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Notes and the accrual or receipt of interest with respect to the Notes may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Notes, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Notes.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix B.

LEGAL OPINION

Bond Counsel will render a final approving opinion with respect to the Notes substantially in the form attached as Appendix B. A copy of such approving opinion will be available at the time of delivery of the Notes.

The statements of law and legal conclusions set forth in this Official Statement have not been reviewed by Bond Counsel. Bond Counsel's employment is limited to a review of the legal proceedings required for the authorization of the Notes. Bond Counsel's opinion will not consider or extend to any documents, agreements, representations, offering circulars or other material of any kind concerning the Notes. Certain matters will be passed upon for the District by the County Counsel of Riverside.

LEGALITY FOR INVESTMENT IN CALIFORNIA

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

RATING

The District received the rating of "_____" on the Notes from Standard & Poor's Ratings Service. Certain information was supplied by the District to the rating agency to be considered in evaluating the Notes. The rating issued reflects only the views of the rating agency, and any explanation of the significance of such rating should be obtained from the rating agency. There is no assurance that any rating obtained will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. The District undertakes no responsibility either to bring to the attention of the holders of the Notes any downward revision or withdrawal. Any such downward revision or withdrawal of the rating obtained may have an adverse effect on the market price of the Notes.

LITIGATION

No litigation is pending or threatened concerning the validity of the Notes, and a Certificate of the District and an opinion of County Counsel to that effect will be furnished to the Underwriter at the time of the

original delivery of the Notes. The District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other pledged revenues or contesting the District' ability to issue and retire the Notes.

NEW INFORMATION REPORTING REQUIREMENTS

On May 17, 2006, the President signed the Tax Increase Prevention and Reconciliation Act of 2005 (the "TIPRA"). Under Section 6049 of the Internal Revenue Code of 1986, as amended by TIPRA, interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. The effective date for this provision is for interest paid after December 31, 2005, regardless of when the tax-exempt obligations were issued. The purpose of this change was to assist in relevant information gathering for the IRS relating to other applicable tax provisions. TIPRA provides that backup withholding may apply to such interest payments made after March 31, 2007 to any Owner who fails to file an accurate Form W-9 or who meets certain other criteria. The information reporting and backup withholding requirements of TIPRA do not affect the excludability of such interest from gross income for federal income tax purposes.

AVAILABILITY OF INFORMATION

Copies of the Resolutions are available, upon written request, from the District. For further information concerning the financial condition of the District, copies of the final Fiscal Year 2009-10 budget, 2010-11 proposed budget and 2008-09 audited financial statements may be obtained from the District, as they become available. Audited financial statements for fiscal years prior to 2008-09 are currently available for review.

This Official Statement contains financial data taken or constructed from the official records of the District. Such data has been reviewed by an authorized representative of each District acting in his or her official capacity. Such representative has determined that as of the date hereof the information contained herein is, to the best of his or her knowledge and belief, true and correct in all material respects and does not contain an untrue statement of a material fact, or omit to state a material fact, necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

UNDERWRITING

The Notes are being purchased for reoffering by RBC Capital Markets Corporation (the "Underwriter"). The Underwriter has agreed to purchase the Notes at a price of \$ _____ (representing the aggregate principal amount of the Notes of \$ _____, plus a net original issue premium of \$ _____, less an Underwriter's discount of \$ _____ and less cost of issuance to be paid by the Underwriter of \$ _____) pursuant to the Note Purchase Agreement dated _____, 2009 (the "Note Purchase Agreement"). The Note Purchase Agreement provides that the Underwriter will purchase all of the Notes, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in the Note Purchase Agreement .

The Underwriter may offer and sell Notes to dealers and others at a price lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

The District will covenant for the benefit of the holders of the Notes to provide notices of the occurrence of certain enumerated events, if material. The notices of material events will be filed by the District with the Municipal Securities Rulemaking Board. The specific nature of the notices of material events is contained in "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These

covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The District is currently in compliance with all prior continuing disclosure obligations.

MISCELLANEOUS

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

Any statements 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 District and the purchasers or Owners of any of the Notes.

DESERT SANDS UNIFIED SCHOOL DISTRICT

By: _____
Assistant Superintendent, Business Services

APPENDIX A

REGIONAL AND COUNTY INFORMATION COUNTY OF RIVERSIDE

The Notes are not obligations of the County of Riverside (the "County") and do not represent a lien or charge against any funds or property of County or of any city. The following information is provided only to give prospective investors an overview of the general economic condition of the County and the State of California (the "State").

General

The District encompasses approximately 752 square miles of the southern part of Riverside County (the "County"). Population centers include the cities of Indio, La Quinta, Indian Wells, Palm Desert, Rancho Mirage and the community of Bermuda Dunes.

The County is the fourth largest county in the State of California (the "State"), encompassing approximately 7,243 square miles. It is located in the southern portion of the State and is bordered by San Bernardino County on the north, Los Angeles and Orange Counties on the west, the State of Arizona and the Colorado River on the east, and San Diego and Imperial Counties on the south. The County, incorporated in 1893, is a general law city with its County seat located in the city of Riverside.

Population

The following table presents population figures for the cities of Indio and Palm Desert (the largest cities in the District), the County of Riverside and the State of California for the past 17 years.

LARGEST CITIES IN DISTRICT, COUNTY AND STATE
Population
(1991-2008)

Calendar Year ⁽²⁾	City of Indio ⁽²⁾	City of Palm Desert ⁽²⁾	Riverside County	State
1991 ⁽⁴⁾	38,217	23,880	1,221,257	30,143,555
1992	40,355	25,035	1,275,484	30,722,998
1993	41,420	26,978	1,312,341	31,150,786
1994	42,525	28,108	1,340,214	31,418,940
1995	42,952	34,487	1,365,456	31,617,770
1996	43,888	35,504	1,391,844	31,837,399
1997	45,200	36,767	1,420,573	32,207,869
1998	46,099	37,815	1,451,371	32,657,877
1999	47,301	39,424	1,490,474	33,140,771
2000 ⁽¹⁾	49,116	41,155	1,545,387	33,873,086
2001 ⁽¹⁾	50,430	42,070	1,589,950	34,430,970
2002	52,422	43,058	1,652,537	35,063,959
2003	55,030	44,388	1,723,976	35,652,700
2004	59,983	45,463	1,803,742	36,199,342
2005	66,284	49,402	1,882,812	36,675,346
2006	71,939	49,735	1,962,801	37,114,598
2007	77,208	49,789	2,034,840	37,559,440
2008	81,512	50,907	2,088,322	38,049,462

⁽¹⁾ Estimates exclude figures for the Community of Bermuda Dunes.

⁽²⁾ As of January 1, (years 2001-2008 with 2000 DRU Benchmark).

⁽³⁾ As of April 1.

⁽⁴⁾ Years 1991-2000 with 1990 and 2000 Census Counts.

Source: All totals are State Department of Finance Estimates. All figures for District are estimated – census data not compiled.

Employers

For a summary of the labor force, employment and unemployment figures over the past five years for the County of Riverside, the State of California and the United States as a whole see "Employment and Industry" herein.

The following table sets forth the major employers located in the County during 2009.

COUNTY OF RIVERSIDE Major Employers⁽¹⁾ (2009)

Company Name	Product/Service	Number of Employees
County of Riverside	Government	21,425
March Air Reserve Base	Military	8,400
University of California, Riverside	Education	7,147
Wal-Mart	Retail	6,550
Stater Bros. Markets	Retail - Grocery	6,500
Riverside Unified School District	Education	5,099
Pechanga Resort & Casino	Casino and Resort	5,000
Abbot Vascular	Medical and Biotech Manufacturer	4,500
Riverside Community College District	Higher Education	3,765
Kaiser Permanente Medical Center	Health Care	3,200
City of Riverside	Government	3,000
Temecula Valley Unified School District	Education	2,752
Hemet Unified School District	Education	2,590
Morongo Casino Resort & Spa	Casino and Resort	2,402
Eisenhower Medical Center	Health Care	2,223

⁽¹⁾ The County itself does not directly maintain employment records, but relies upon a variety of independent surveys, as well as upon its own surveys to identify major employers.

Source: *The Business Press, Book of Lists 2009.*

Building Activity

The following table provides a summary of the building permit valuations and the number of new residential dwelling units authorized by the cities contained within the District from 2000 through 2008.

DISTRICT AND INCLUDED CITIES Building Permit Valuations (in 000's) 2000 – 2008

	2000		2001	
	Residential Valuation	Non-Residential Valuation	Residential Valuation	Non-Residential Valuation
Indio	\$60,506	\$27,560	\$78,150	\$20,513
La Quinta	272,578	22,273	183,097	24,646
Indian Wells	52,510	5,911	41,399	24,174
Palm Desert	158,422	38,420	120,073	36,319
Rancho Mirage	104,567	43,986	148,869	39,050
	2002		2003	
	Residential Valuation	Non-Residential Valuation	Residential Valuation	Non-Residential Valuation
Indio	\$148,342	\$12,556	\$232,920	\$10,851
La Quinta	142,264	22,008	234,479	63,950
Indian Wells	18,049	15,361	32,012	6,223
Palm Desert	100,486	41,414	86,388	20,123
Rancho Mirage	133,058	40,314	197,528	47,092
	2004		2005	
	Residential Valuation	Non-Residential Valuation	Residential Valuation	Non-Residential Valuation
Indio	\$450,091	\$31,742	\$390,471	\$62,662
La Quinta	301,995	46,865	305,969	57,529
Indian Wells	77,784	17,369	50,544	10,856
Palm Desert	103,738	43,112	78,131	92,535
Rancho Mirage	142,950	42,913	83,209	21,854
	2006		2007	
	Residential Valuation	Non-Residential Valuation	Residential Valuation	Non-Residential Valuation
Indio	\$421,765	\$64,351	\$64,709	\$40,823
La Quinta	200,611	59,951	115,039	31,868
Indian Wells	42,405	18,083	38,430	20,152
Palm Desert	163,105	94,311	155,872	80,465
Rancho Mirage	43,692	32,824	36,461	96,814
	2008			
	Residential Valuation	Non-Residential Valuation		
Indio	\$37,176	\$52,088		
La Quinta	89,913	45,380		
Indian Wells	14,636	7,840		
Palm Desert	130,251	51,303		
Rancho Mirage	16,564	25,370		

Source: Construction Industry Research Board.

The following table shows residential and non-residential construction valuation information for the County for 1993 through 2008.

COUNTY OF RIVERSIDE
Construction Valuation (in 000's)
1993 – 2008

<u>Year</u>	<u>Residential Valuation</u>	<u>Non-Residential Valuation</u>	<u>Totals</u>
1993	\$897,235	\$246,222	\$1,143,457
1994	1,059,509	240,758	1,300,267
1995	941,435	333,725	1,275,160
1996	1,049,321	317,530	1,366,851
1997	1,440,470	517,241	1,957,711
1998	1,925,704	588,313	2,514,017
1999	2,476,024	607,496	3,083,520
2000	2,716,143	766,914	3,483,057
2001	3,300,710	656,897	3,957,607
2002	3,910,879	716,379	4,627,257
2003	5,175,088	899,018	6,074,156
2004	6,446,025	1,339,866	7,877,172
2005	6,992,305	1,264,408	8,256,713
2006	5,001,935	1,529,833	6,531,769
2007	2,589,426	1,474,851	4,064,277
2008	1,576,984	1,041,813	2,618,797

Source: Construction Industry Research Board.

Employment and Industry

Employment data is not separately reported on an annual basis for La Quinta or Indian Wells but is compiled for the Riverside-San Bernardino Metropolitan Statistical Area ("MSA"), which includes all of Riverside and San Bernardino Counties. In addition to varied manufacturing employment, the MSA has a large and growing commercial and service sector employment, as reflected in the table below. Overall, in the past five years, total employment rose approximately _____%, while population increased approximately 16% in the County. As of 2008, unemployment in the MSA was 8.3%.

The following table represents the Annual Average Labor Force and Industry Employment for the Riverside-San Bernardino MSA:

**RIVERSIDE-SAN BERNARDINO
METROPOLITAN STATISTICAL AREA
Annual Average Labor Force and Industry Employment**

	2004	2005	2006	2007	2008
Agriculture ⁽¹⁾	18,700	18,300	17,300	16,400	16,200
Natural Resources & Mining	1,200	1,400	1,400	1,300	1,200
Construction ⁽²⁾	111,800	123,300	127,500	112,500	90,500
Manufacturing	120,100	121,000	123,400	118,500	107,000
Wholesale & Retail Trade	199,400	215,600	227,400	232,400	223,100
Transportation, Warehousing & Utilities	55,500	60,200	63,800	69,500	70,200
Information	14,000	14,500	15,300	15,400	14,800
Financial Activities	45,700	49,000	51,600	50,200	46,300
Services	399,900	416,500	435,000	445,800	439,400
Government ⁽³⁾	212,500	220,400	222,500	225,300	230,000
Total All Industries	1,178,700	1,240,300	1,285,000	1,287,300	1,238,700
<u>Total Civilian Labor Force</u>				1,782,700	1,795,200
Total Unemployment				103,800	148,900
Unemployment Rate				5.8%	8.3%

⁽¹⁾ Does not include farmers and unpaid family workers.

⁽²⁾ Includes employees of construction contractors and operative builders; force account or government construction workers.

⁽³⁾ Includes all civilian employees of federal, state and local governments activity in which the employee is engaged.

Source: State Employment Development Department, Labor Market Information Division (March 2008 Benchmark).

Effective Buying Income

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

**RIVERSIDE COUNTY AND STATE OF CALIFORNIA
Estimated Annual Median Household Effective Buying Income⁽¹⁾**

	<u>Median Held EBI⁽²⁾</u>	<u>Percent of Households with EBI over \$50,000</u>
2007		
Riverside County	\$45,310	--
State of California	48,203	--
2006		
Riverside County	\$43,490	--
State of California	46,275	--
2005		
Riverside County	\$41,326	--
State of California	44,681	--
2004		
Riverside County	\$40,275	37.1%
State of California	43,915	42.5%
2003		
Riverside County	\$39,321	34.8%
State of California	42,924	41.2%
2002		
Riverside County	\$38,691	34.8%
State of California	42,484	40.5%
2001		
Riverside County	\$37,480	31.9%
State of California	43,532	41.9%

⁽¹⁾ Information available only up to 2007.

⁽²⁾ Dollars in thousands.

Source: Years 2001-2005 "Survey of Buying Power," and for Years 2006-2007 Sales & Marketing Management Magazine.

APPENDIX B

FORM OF OPINION OF BOND COUNSEL

_____, 2010

Members of the Board of Education
Desert Sands Unified School District

§ _____
DESERT SANDS UNIFIED SCHOOL DISTRICT
COUNTY OF RIVERSIDE
STATE OF CALIFORNIA
2010-11 Tax and Revenue Anticipation Notes

Members of the Board:

We hereby certify that we have examined certified copies of the legal proceedings and other proofs submitted pertaining to the issuance and sale of \$ _____ aggregate principal amount of the Desert Sands Unified School District (the "District"), County of Riverside, State of California 2010-11 Tax and Revenue Anticipation Notes, issued by the Board of Supervisors of the County of Riverside (the "County") issued pursuant to Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (Sections 53850-53858, inclusive) of the State of California Government Code and pursuant to a resolution adopted by the Board of Supervisors of the County (the "Resolution"), designated "Desert Sands Unified School District, County of Riverside, State of California 2010-11 Tax and Revenue Anticipation Notes" (the "Notes"). The Notes are dated the date hereof and are due and payable on July __, 2011. Both the principal of and interest on the Notes are payable to the registered owner thereof at maturity in lawful money of the United States of America at the office of the Treasurer-Tax Collector of the County of Riverside, Riverside, California, as paying agent.

We are of the opinion that such proceedings and proofs show lawful authority for the issuance and sale of the Notes under the Constitution and laws of the State of California now in force, and the Notes constitute valid and legally binding general obligations of the District. The District has pledged an amount equal to fifty percent (50%) of the principal amount of the Notes from the unrestricted revenues received by the District in the month ending [January 31, 2011]; and an amount equal to fifty percent (50%) of the principal amount of the Notes from the unrestricted revenues received by the District in the month ending [April 30, 2011]; together with an amount sufficient to pay interest on the Notes at maturity, from the unrestricted revenues received by the District in the month ending May 31, 2011. The principal of the Notes and the interest thereon shall constitute a first lien and charge thereon and shall be paid from such pledged revenues, and to the extent not so paid shall be paid from any other moneys of the District lawfully available therefor.

We are further of the opinion that based on existing statutes, regulations, rulings and judicial decisions, and assuming compliance by the District with certain covenants in the Resolution and with certain requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of proceeds of the Notes, and the timely payment of certain investment earnings to the United

States, interest on the Notes is not includable in the gross income of the holders of the Notes for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Notes to be included in federal gross income retroactive to the date of issuance of the Notes.

Interest on the Notes is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Notes is not included as an adjustment in the calculation of federal corporate alternative minimum taxable income. We express no opinion regarding other income tax consequences resulting from the ownership of, or the receipt of interest on, the Notes.

We are of the further opinion that interest on the Notes is exempt from personal income taxes imposed by the State of California.

The amount by which a Note owner's original basis for determining loss on sale or exchange of the applicable Note (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Noteowner's basis in the applicable Note (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Note premium may result in a Note owner realizing a taxable gain when a Note is sold by the Note owner for an amount equal to or less (under certain circumstances) than the original cost of the Note to the Note owner. Purchasers of the Notes should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

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 do occur. The Resolution and the Tax Certificate relating to the Notes permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest for federal income tax purposes with respect to any Note if any such action is taken or omitted based upon the advice of counsel other than ourselves. Other than expressly stated herein, we express no opinion regarding tax consequences with respect to the Notes.

Certain portions of this opinion address federal income tax matters other than (A) the excludability of interest on a Note from gross income under Section 103 of the Code, and (B) whether interest on a Note is an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations (these other matters not referred to in (A) or (B) above are hereinafter referred to as the "Non State and Local Note Opinion Portions").

The Non State and Local Bond Opinion Portions (A) are not intended or written by Bond Counsel to be used, and cannot be used, by any Note holder (or other taxpayer) for the purpose of avoiding penalties that may be imposed on the Note holder or other taxpayer and (B) have been written to support the promotion or marketing of the Notes. Note holders (and other taxpayers) should seek advice based upon their particular circumstances, from an independent tax advisor, with respect to the Non State and Local Bond Opinion Portions applicable to the Notes.

With respect to the opinions expressed herein, the rights of the holders of the Notes and the enforceability thereof are subject to bankruptcy, insolvency, moratorium and other laws affecting the enforcement of creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public agencies in the State of California.

Respectfully submitted,

STRADLING YOCCA CARLSON & RAUTH

APPENDIX C

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Desert Sands Unified School District (the "District") in connection with the issuance by the District of \$ _____ 2010-11 Tax and Revenue Anticipation Notes (the "Notes"). The Notes are being issued pursuant to a resolution of the District and a resolution of the County of Riverside (the "County") (collectively, the "Resolution"). The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders of the Notes and to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

"EMMA" shall mean the Electronic Municipal Market Access system of the Municipal Securities Rulemaking Board.

"Holders" shall mean, while the Notes are registered in the name of The Depository Trust Company, any applicable participant in its depository system, or the owner of any Note for Federal income tax purposes.

"Listed Events" shall mean any of the events listed in Section 3(a) of this Disclosure Certificate.

"Participating Underwriter" shall mean the original underwriter of the Notes required to comply with the Rule in connection with offering of the Notes.

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

SECTION 3. Reporting of Significant Events.

(a) This Section 3 shall govern the giving of notices of the occurrence of any of the following events with respect to the Notes:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Modifications to rights of the Holders of the Notes.
4. Optional, contingent or unscheduled bond calls.
5. Defeasances.
6. Rating changes.

7. Adverse tax opinions or events adversely affecting the tax-exempt status of the Notes.
8. Unscheduled draws on debt service reserves reflecting financial difficulties.
9. Unscheduled draws on credit enhancements reflecting financial difficulties.
10. Substitution of the credit or liquidity providers or their failure to perform.
11. Release, substitution or sale of property securing repayment of the Notes.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material, the District shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board through EMMA. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (a)(5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Notes pursuant to the Resolution.

SECTION 4. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Notes. If such termination occurs prior to the maturity of the Notes, the District shall give notice of such termination in the same manner as for a Listed Event under Section 3(c).

SECTION 5. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate.

SECTION 6. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Of rice amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

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

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

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders of the Notes.

SECTION 7. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If

the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Agreement to update such information or include it in any future notice of occurrence of a Listed Event.

SECTION 8. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any Holder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Notes.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Holders from time to time of the Notes, and shall create no rights in any other person or entity.

Dated: July __, 2010

DESERT SANDS UNIFIED SCHOOL DISTRICT

By: _____
Cindy McDaniel
Assistant Superintendent, Business Services