

## Security

The Board of Supervisors has the power to and is obligated to annually levy *ad valorem* taxes for the payment of the principal and accreted value of and the interest on the Series 2016-B Bonds upon all property within the School District subject to taxation without limitation of rate or amount (except certain personal property which is taxable at limited rates). Such taxes will be levied annually in addition to all other taxes during the period that the Series 2016-B Bonds are outstanding in an amount sufficient to pay the principal and accreted value of and interest on the Series 2016-B Bonds when due. Such taxes, when collected, will be deposited into the Series 2016-B Temecula Valley Unified School District Debt Service Fund (the "Debt Service Fund"), which is maintained by the County and is kept separate and distinct from all other School District and County funds and which is required by State law to be applied for the payment of principal and accreted value of and interest on the Series 2016-B Bonds when due. The School District's general fund is not a source of repayment of the Series 2016-B Bonds. Although the County is obligated to levy an *ad valorem* tax for the payment of the Series 2016-B Bonds and to make timely payment of the principal or accreted value of and interest on the Series 2016-B Bonds when due and will maintain the Debt Service Fund pledged to the repayment of the Series 2016-B Bonds, the Series 2016-B Bonds are not a debt of the County.

The moneys in the Debt Service Fund, to the extent necessary to pay the principal, accreted value of and interest on and redemption premium, if any, on the Series 2016-B Bonds as the same becomes due and payable, shall be transferred by the County to the Paying Agent. The Paying Agent will in turn remit the funds to DTC for remittance of such principal, accreted value, premium, if any, and interest to its Direct Participants (as defined herein) for subsequent disbursement to the Beneficial Owners of the Series 2016-B Bonds.

The amount of the annual *ad valorem* tax levied by the County to repay the Series 2016-B Bonds will be determined by the relationship between the assessed valuation of taxable property in the School District and the amount of debt service due on the Series 2016-B Bonds in any year. Fluctuations in the annual debt service on the Series 2016-B Bonds and the assessed value of taxable property in the School District may cause the annual tax rate to fluctuate. Economic and other factors beyond the School District's control, such as general market decline in land values, 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 educational, hospital, charitable or religious purposes) or the complete or partial destruction of 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 School District and necessitate a corresponding increase in the annual tax rate. In future years, the School District expects to issue additional series of bonds up to the remaining Authorization and the School District may issue additional bonds for refunding purposes. Such additional bonds will be issued on a parity with all other general obligation bonds of the School District. For further information regarding the School District's assessed valuation, tax rates, overlapping debt and other matters concerning taxation, see "TAX BASE FOR REPAYMENT OF SERIES 2016-B BONDS" herein.

***Lien Perfection Process.*** On July 13, 2015, the Governor signed Senate Bill 222 ("SB 222") into law, effective January 1, 2016. SB 222 was introduced on February 12, 2015, initially to amend Section 15251 of the California Education Code to clarify the process of lien perfection for general obligation bonds issued by or on behalf of California school and community college districts. Subsequently, on April 15, 2015, SB 222 was amended to include an addition to the California Government Code to similarly clarify the process of lien perfection for general obligation bonds issued by cities, counties, authorities and special districts.

SB 222, applicable to general obligations bonds issued after its effective date, will remove the extra step between (a) the issuance of general obligation bonds by cities, counties, cities and counties, school districts, community college districts, authorities and special districts; and (b) the imposition of a lien on the future *ad valorem* property taxes that are the source of repayment of the general obligation bonds. By clarifying that the lien created with each general obligation bond issuance is a “statutory” lien (consistent with bankruptcy statutory law and case precedent), SB 222, while it does not prevent default, should reduce the ultimate bankruptcy risk of non-recovery on local general obligation bonds.

### **Description of the Series 2016-B Bonds**

The Series 2016-B Bonds shall be issued in denominations of \$5,000 principal, maturity or accreted amount, as applicable, or any integral multiple thereof; provided that one Capital Appreciation Bond may be issued in an odd maturity amount. The Series 2016-B Bonds are being issued as Current Interest Bonds and Capital Appreciation Bonds, as further described herein. Interest on the Current Interest Bonds is payable on August 1, 2016, and thereafter on each February 1 and August 1 to maturity. Principal of the Current Interest Bonds is payable on August 1 in each of the years and in the amounts set forth on the inside front cover hereof.

The Capital Appreciation Bonds will not pay interest on a current, periodic basis but will accrete in value to their maturity value payable only at maturity on August 1 in each of the years and in the amounts set forth on the inside front cover hereof. The Capital Appreciation Bonds will be compounded on each February 1 and August 1 to maturity, commencing August 1, 2016.

The Series 2016-B Bonds will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee of DTC. Purchasers will not receive physical certificates representing their interests in the Series 2016-B Bonds. Principal and accreted value of, premium, if any, and interest on the Series 2016-B Bonds is payable by the Paying Agent to DTC. DTC is responsible for disbursing such payments to the Beneficial Owners in accordance with the DTC book-entry-only system. See “ – Book-Entry-Only System” and APPENDIX H – “BOOK-ENTRY-ONLY SYSTEM.”

See the Maturity Schedule on the inside cover for the maturity schedule of the Series 2016-B Bonds and “DEBT SERVICE SCHEDULE” for the debt service schedule for the Series 2016-B Bonds.

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

The Depository Trust Company (defined above as “DTC”) will act as securities depository for the Series 2016-B Bonds. The Series 2016-B Bonds 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 Series 2016-B Bond certificate will be issued for each maturity of the Series 2016-B Bonds, each in the aggregate principal amount or maturity value of such maturity, and will be deposited through the facilities of DTC. See APPENDIX H – “BOOK-ENTRY-ONLY SYSTEM.”

### **Paying Agent**

U.S. Bank National Association, currently located in Los Angeles, California, will act as the initial registrar, transfer agent, authentication agent and paying agent for the Series 2016-B Bonds. As long as DTC is the registered owner of the Series 2016-B Bonds and DTC’s book-entry method is

used for the Series 2016-B Bonds, the Paying Agent will send any notice of redemption or other notices to Owners only to DTC.

The Paying Agent, the School District, the County and the Underwriter of the Series 2016-B Bonds have no responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interests in the Series 2016-B Bonds.

### **Payment**

Payment of interest on any Series 2016-B Bond on any Bond Payment Date shall be made to the person appearing on the registration books of the Paying Agent as the Owner thereof as of the close of business on the 15th day of the month immediately preceding such Bond Payment Date, whether or not such day is a business day (the "Record Date"), such interest to be paid by check mailed by first-class mail to such Owner on the Bond Payment Date at his or her address as it appears on such registration books on the Record Date. The Owner of an aggregate principal amount of Current Interest Bonds of \$1,000,000 or more may request in writing, prior to the close of business on the Record Date, to the Paying Agent that such Owner be paid interest by wire transfer to the bank in the continental United States of America and account number on file with the Paying Agent as of the Record Date.

Payments of Principal and redemption premiums, if any, with respect to the Current Interest Bonds and the payments of Maturity Value and redemption premiums, if any, with respect to the Capital Appreciation Bonds, shall be payable at maturity or redemption upon surrender at the principal office of the Paying Agent or such other location as the Paying Agent shall designate to the County and the School District in writing. The interest, principal, accreted value and premiums, if any, on the Series 2016-B Bonds shall be payable in lawful money of the United States of America. The Paying Agent is authorized to pay the Series 2016-B Bonds when duly presented for payment at maturity and to cancel all Series 2016-B Bonds upon payment thereof. The Series 2016-B Bonds are general obligations of the School District secured by *ad valorem* tax revenues levied and collected pursuant to the California Constitution, the Authorization and State law and do not constitute an obligation of the County, except as provided in the Bond Resolution. No part of any fund of the County is pledged or obligated to the payment of the Series 2016-B Bonds.

***Current Interest Bonds.*** The Current Interest Bonds will be dated as of their date of delivery, and bear interest at the rates set forth on the inside front cover page of this Official Statement, payable on February 1 and August 1 of each year (each, an “Interest Payment Date”), commencing on August 1, 2016, computed using a year of 360 days, comprising twelve 30-day months. Current Interest Bonds authenticated and registered on any date prior to the close of business on July 15, 2016, shall bear interest from their dated date. Current Interest Bonds authenticated during the period between the 15th day of the calendar month immediately preceding the Record Date and the close of business on that Interest Payment Date shall bear interest from that Interest Payment Date or unless it is authenticated on or before the Record Date prior to the initial Interest Payment Date, in which event it shall bear interest from the date of issuance. Any other Current Interest Bond shall bear interest from the Interest Payment Date immediately preceding the date of its authentication. If, at the time of authentication of any Current Interest Bond, interest is then in default on Outstanding Current Interest Bonds, such Current Interest Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon.

***Capital Appreciation Bonds.*** The Capital Appreciation Bonds will be dated as of their date of delivery. The Capital Appreciation Bonds will not bear interest on a periodic basis; instead, each Capital Appreciation Bond will increase in value by the accumulation of earned interest from its initial principal amount on the date of issuance (as stated on the inside front cover page of this Official Statement) to its Maturity Value, as stated on the inside front cover page of this Official Statement. Interest commences to accrue on the date of delivery, and is compounded on each Interest Payment Date, commencing on August 1, 2016, computed using a year of 360 days, comprising twelve 30-day months, and payable only at maturity.

***Accreted Values.*** The rate of interest at which a Capital Appreciation Bond’s Maturity Value is discounted to its initial principal amount is known as the “Accretion Rate,” and is stated on the inside front cover page of this Official Statement. For any Capital Appreciation Bond, the value of principal plus accrued interest on any given Interest Payment Date prior to maturity may be calculated by discounting the Maturity Value of the Capital Appreciation Bond from its maturity date to that Interest Payment Date at a discount rate equal to the Accretion Rate, assuming a year of 360 days comprising twelve 30-day months. The accreted value on any other date may be calculated on the basis of a straight-line interpolation between the values calculated for the Interest Payment Dates immediately preceding and following the date in question.

The Underwriter has prepared the Table of Accreted Values shown in Appendix I hereto, in order to provide the imputed value per \$5,000 of Maturity Value for each Capital Appreciation Bond on each Interest Payment Date prior to maturity. See “TAX MATTERS” herein for Bond Counsel’s discussion of the federal tax treatment of accrued interest on the Capital Appreciation Bonds.

#### **Optional Redemption \***

The Current Interest Bonds maturing on or before August 1, 2025, are not subject to optional redemption prior their respective stated maturity dates. The Current Interest Bonds maturing on or after August 1, 2026, are subject to optional redemption prior to their respective stated maturity dates, at the option of the School District, from any source of available funds, as a whole or in part, on any date on or after February 1, 2026, at a redemption price equal to the principal amount of the Current Interest Bonds called for redemption, together with interest accrued thereon to the date of redemption, without premium.

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\*Preliminary, subject to change.

The Capital Appreciation Bonds maturing on or after August 1, 2026, are subject to optional redemption prior to their stated maturity date, at the option of the School District, from any source of available funds, as a whole or in part, on any date on or after February 1, 2026, at a redemption price equal to the accreted value amount of the Capital Appreciation Bonds called for redemption to the date of such redemption, without premium.

**Mandatory Redemption\***

The \$ \_\_\_\_\_ term Current Interest Bonds maturing on August 1, 20\_\_, are subject to mandatory sinking fund redemption on August 1 in each of the years and in the respective principal amounts as set forth in the following schedule, at a redemption price equal to 100% of the principal amount thereof to be redeemed, without premium:

Mandatory Sinking Fund Redemption Date (August 1)	Principal Amount to be Redeemed
20__	\$
20__	
20__	
20__	
20__ <sup>†</sup>	

<sup>†</sup> Maturity.

The principal amount of any term Current Interest Bond to be redeemed in each year shown above will be reduced proportionately, in integral multiples of \$5,000, by any portion of such term Current Interest Bond optionally redeemed prior to the mandatory sinking fund redemption date.

Purchase In Lieu of Redemption. In lieu of, or partially in lieu of, any mandatory sinking fund redemption of Series 2016-B Bonds, moneys in the Debt Service Fund may be used to purchase the Outstanding Series 2016-B Bonds that were to be redeemed with such funds in the manner provided in the Bond Resolution. Purchases of Outstanding Series 2016-B Bonds may be made by the School District or the County Treasurer through the Paying Agent prior to the selection of Series 2016-B Bonds for redemption at public or private sale as and when and at such prices as the School District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par, plus accrued interest.

**Selection of Series 2016-B Bonds for Redemption**

Whenever less than all the outstanding Series 2016-B Bonds are to be redeemed, the Paying Agent, upon written direction from the School District, shall select the Series 2016-B Bonds to be redeemed as so directed and if not so directed, in inverse order of maturity and within a maturity, the Paying Agent shall select the Series 2016-B Bonds for redemption by lot. Redemption by lot shall be in such manner as the Paying Agent shall determine; *provided, however*, that the portion of any Series 2016-B Bond to be redeemed in part shall be redeemed in the principal or Maturity Value of \$5,000 or any integral multiple thereof.

**Notice of Redemption**

*While the Series 2016-B Bonds are subject to DTC's book-entry system, the Paying Agent will be required to give notice of redemption only to DTC as provided in the letter of representations executed by the School District and received and accepted by DTC. DTC and the Participants will*

*have sole responsibility for providing any such notice of redemption to the beneficial owners of the Series 2016-B Bonds to be redeemed. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Bonds to be redeemed, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption set forth in the Bond Resolution.*

The Paying Agent shall give notice of the redemption (a "Redemption Notice") of the Series 2016-B Bonds at the expense of the School District. Such Redemption Notice shall specify: (a) the Series 2016-B Bonds or designated portions thereof (in the case of redemption of the Series 2016-B Bonds in part but not in whole) which are to be redeemed, (b) if less than all of the then-outstanding Series 2016-B Bonds are to be called for redemption, shall designate the numbers (or state that all Series 2016-B Bonds between two stated numbers both inclusive have been called for redemption) and CUSIP® numbers, if any, of the Series 2016-B Bonds to be redeemed, (c) the date of notice and the date of redemption, (d) the place or places where the redemption will be made, and (e) descriptive information regarding the Series 2016-B Bonds and the specific Series 2016-B Bonds to be redeemed, including the dated date, interest rate and stated maturity date of each. Such Redemption Notice shall further state that on the specified date there shall become due and payable upon each Series 2016-B Bond to be redeemed, the portion of the principal of such Series 2016-B Bond to be redeemed, together with the interest accrued or accreted to the redemption date, and redemption premium, if any, and that from and after such date, interest with respect thereto shall cease to accrue or accrete, as applicable.

Any Redemption Notice shall be mailed, by first-class mail, postage prepaid, to the Owners of the Series 2016-B Bonds, to a Securities Depository and to a national information service, and by first-class mail, postage prepaid, to the School District and the County and the respective Owners of any registered Series 2016-B Bonds designated for redemption at their addresses appearing on the Bond registration books, in every case at least 20 days, but not more than 45 days, prior to the designated redemption date; *provided* that neither failure to receive such notice, nor any defect in any notice so mailed, shall affect the sufficiency of the proceedings for the redemption of such Series 2016-B Bonds nor entitle the Owner thereof to interest beyond the date given for redemption. Neither failure to receive or failure to send, any Redemption Notice, nor any defect in any such Redemption Notice, so mailed shall affect the sufficiency of the proceedings for the redemption of the affected Series 2016-B Bonds, nor entitle the Owner thereof to interest beyond the date given for redemption or affect the cessation of accrual of interest, as applicable, represented thereby from and after the redemption date. Each check issued or other transfer of funds made by the Paying Agent for the purpose of redeeming Series 2016-B Bonds shall bear or include the CUSIP® number identifying, by issue and maturity, the Series 2016-B Bonds being redeemed with the proceeds of such check or other transfer.

#### **Partial Redemption of Series 2016-B Bonds**

Upon the surrender of any Series 2016-B Bond redeemed in part only, the Paying Agent shall execute and deliver to the Owner thereof a new Series 2016-B Bond or Series 2016-B Bonds of like tenor and maturity and of authorized denominations equal (i) with respect to any Outstanding Current Interest Bond, the Principal Amount, and (ii) with respect to any Outstanding Capital Appreciation Bond, the Maturity Value, to the unredeemed portion of the Series 2016-B Bond surrendered. Such partial redemption shall be valid upon payment of the amount required to be paid to such Owner, and the School District shall be released and discharged thereupon from all liability to the extent of such payment.

### **Effect of Notice of Redemption**

Notice having been given pursuant to the Bond Resolution, and the moneys for the redemption (including the interest to the applicable date of redemption) having been set aside in the Debt Service Fund, the Series 2016-B Bonds to be redeemed shall become due and payable on such date of redemption.

If on such redemption date, money for the redemption of all the Series 2016-B Bonds to be redeemed as provided in the Bond Resolution; together with interest accrued to such redemption date, shall be available therefor on such redemption date, and if notice of redemption thereof shall have been given pursuant to the Bond Resolution, then from and after such redemption date, interest with respect to the Series 2016-B Bonds to be redeemed shall cease to accrue. All money held for the redemption of Series 2016-B Bonds shall be held in trust for the account of the Owners of the Series 2016-B Bonds so to be redeemed.

All Series 2016-B Bonds paid at maturity or redeemed prior to maturity pursuant to the Bond Resolution shall be cancelled upon surrender thereof and be delivered to or upon the order of the County or the School District. All or any portion of a Series 2016-B Bond purchased by the County or the School District shall be cancelled by the Paying Agent.

Any redemption notice may specify that redemption of the Series 2016-B Bonds designated for redemption on a specified date will be subject to the receipt by the School District of moneys sufficient to cause such redemption (and will specify the proposed source of such moneys), and the School District, the County and the Paying Agent will have no liability to the Owners of any Series 2016-B Bonds, or any other party, as a result of the School District's failure to redeem the Series 2016-B Bonds designated for redemption as a result of insufficient moneys therefor.

Additionally, the School District may rescind any optional redemption of the Series 2016-B Bonds, and notice thereof, for any reason on any date prior to the date fixed for such redemption by causing written notice of the rescission to be given to the Owners of the Series 2016-B Bonds so called for redemption. Notice of rescission of redemption shall be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of any Series 2016-B Bond of notice of such rescission shall not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice shall not affect the validity of the rescission. Neither the School District nor the Paying Agent will have any liability to the Owners of any Series 2016-B Bonds, or any other party, as a result of the School District's decision to rescind a redemption of any Series 2016-B Bonds pursuant to the provisions of the Bond Resolution.

### **Defeasance**

All or any portion of the outstanding maturities of the Series 2016-B Bonds may be defeased at any time prior to maturity in the following ways:

a. Cash. By irrevocably depositing with a bank or trust company in escrow, an amount of cash which together with amounts then on deposit in the Debt Service Fund, is sufficient to pay all Series 2016-B Bonds outstanding and designated for defeasance, including all principal, accreted value and interest and redemption premium, if any; or

b. Defeasance Obligations. By irrevocably depositing with a bank or trust company in escrow, noncallable Defeasance Obligations (as defined below) together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and moneys then on deposit in the Debt Service Fund together with the interest to

accrue thereon, be fully sufficient to pay and discharge all Series 2016-B Bonds outstanding and designated for defeasance (including all principal, accreted value, interest thereon and redemption premiums, if any), at or before their maturity date; then, notwithstanding that any of such Series 2016-B Bonds shall not have been surrendered for payment, all obligations of the School District with respect to all such designated outstanding Series 2016-B Bonds shall cease and terminate, except for the obligation of the Paying Agent or an independent escrow agent selected by the School District to pay or cause to be paid from funds deposited pursuant to paragraph (a.) above or this paragraph (b.), to the Owners of such designated Series 2016-B Bonds not so surrendered and paid all sums due with respect thereto.

“Defeasance Obligations” shall mean direct and general obligations of the United States of America (including State and Local Government Series), or obligations that are unconditionally guaranteed as to principal and interest by the United States of America, including (in the case of direct and general obligations of the United States of America) evidence of direct ownership or proportionate interests in future interest or principal payments of such obligations. In the case of investments in such proportionate interests, such proportionate interests shall be limited to circumstances wherein (a) a bank or trust company acts as custodian and holds the underlying Defeasance Obligations; (b) the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor of the underlying Defeasance Obligations; and (c) the underlying Defeasance Obligations are held in a special account, segregated from the custodian’s general assets, and are not available to satisfy any claim of the custodian, any person claiming through the custodian, or any person to whom the custodian may be obligated; *provided* that such obligations are rated or assessed at the highest then-prevailing United States Treasury securities credit rating.

#### **Registration, Transfer and Exchange of Series 2016-B Bonds**

So long as any of the Series 2016-B Bonds remain outstanding, the School District will cause the Paying Agent to maintain and keep at its principal office all books and records necessary for the registration, exchange and transfer of the Series 2016-B Bonds as provided in the Bond Resolution (the “Bond Register”). Subject to the provisions of the Bond Resolution, the person in whose name a Series 2016-B Bond is registered on the Bond Register shall be regarded as the absolute Owner of that Series 2016-B Bond for all purposes of the Bond Resolution. Payment of or on account of the principal, premium, if any, and accreted value of, and interest on any Series 2016-B Bond shall be made only to or upon the order of the Owner thereof; the School District, the County and the Paying Agent shall not be affected by any notice to the contrary, but the registration may be changed as provided in the Bond Resolution. All such payments shall be valid and effectual to satisfy and discharge the School District’s liability upon the Series 2016-B Bonds, including interest, to the extent of the amount or amounts so paid.

*In the event that the book-entry-only system as described above is no longer used with respect to the Series 2016-B Bonds, the following provisions will govern the transfer and exchange of the Series 2016-B Bonds.*

Any Series 2016-B Bond may be exchanged for Series 2016-B Bonds of like tenor, maturity and aggregate principal amount or accreted value, as applicable, upon presentation and surrender at the principal corporate trust office of the Paying Agent, together with a request for exchange signed by the Owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Series 2016-B Bond may (but only if the School District determines no longer to maintain the book-entry-only status of the Series 2016-B Bonds, DTC determines to discontinue providing such services and no successor securities depository is named or DTC requests the School District to deliver certificated securities to particular DTC Participants) be transferred on the Bond Register only upon surrender of the Series 2016-B Bond for cancellation at the office of the Paying Agent accompanied by delivery of



a duly executed written instrument of transfer in a form approved by the Paying Agent. Upon exchange or transfer, the Paying Agent shall register, authenticate and deliver a new Series 2016-B Bond or Series 2016-B Bonds of like tenor and of any authorized denomination or denominations requested by the Owner in the aggregate principal amount or accreted value of the Series 2016-B Bond surrendered and bearing or accruing interest at the same rate and maturing on the same date.

In all cases of exchanged or transferred Series 2016-B Bonds, the County shall sign and the Paying Agent shall authenticate and deliver Series 2016-B Bonds in accordance with the provisions of the Bond Resolution. All fees and costs of transfer shall be paid by the requesting party. Those charges may be required to be paid before the procedure is begun for the exchange or transfer. All Series 2016-B Bonds issued upon any exchange or transfer shall be valid obligations of the School District, evidencing the same debt and entitled to the same security and benefit under the Bond Resolution as the Series 2016-B Bonds surrendered upon that exchange or transfer.

Any Series 2016-B Bond surrendered to the Paying Agent for payment, retirement, exchange, replacement or transfer shall be cancelled by the Paying Agent. The School District and the County may at any time deliver to the Paying Agent for cancellation any previously authenticated and delivered Series 2016-B Bonds that the School District and the County may have acquired in any manner whatsoever, and those Series 2016-B Bonds shall be promptly cancelled by the Paying Agent. Written reports of the surrender and cancellation of Series 2016-B Bonds shall be made to the School District and the County by the Paying Agent and updated annually. The cancelled Series 2016-B Bonds shall be destroyed by the Paying Agent in accordance with its procedures as confirmed in writing to the School District.

Neither the School District nor the Paying Agent will be required (a) to issue or transfer any Series 2016-B Bonds during a period beginning with the day after the Record Date next preceding any Interest Payment Date or beginning the date of selection of Series 2016-B Bonds to be redeemed and ending with the close of business on the Interest Payment Date or any day on which the applicable notice of redemption is given, as applicable, or (b) to transfer any Series 2016-B Bonds which have been selected or called for redemption in whole or in part.

**ESTIMATED SOURCES AND USES OF FUNDS**

The proceeds of the Series 2016-B Bonds are expected to be applied as follows:

*Sources:*

Principal Amount of Series 2016-B Bonds	\$
Plus Net Original Issue Premium	
Total Sources	\$ _____

*Uses:*

Building Fund	\$
Debt Service Fund <sup>(1)</sup>	
Underwriter's Discount	
Costs of Issuance <sup>(2)</sup>	
Total Uses	\$ _____

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(1) Represents capitalized interest on the Current Interest Bonds accrued through August 1, 2016. \*

(2) A portion of the proceeds of the Series 2016-B Bonds will be used to pay costs of issuance, including, but not limited to, Bond Counsel and Disclosure Counsel fees, rating fees, County expenses, Paying Agent fees, bond insurance premium, printing costs and certain other miscellaneous costs of issuance.

## DEBT SERVICE SCHEDULE

The following table shows the debt service schedule with respect to the Series 2016-B Bonds (assuming no optional redemptions).

Period Ending August 1	Current Interest Bonds		Capital Appreciation Bonds		Total Debt Service <sup>(1)</sup>
	Principal	Interest	Principal	Accreted Interest	
2016	-	\$	-	-	\$
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					
2026					
2027					
2028					
2029					
2030					
2031					
2032					
2033					
2034					
2035					
2036					
2037					
2038					
2039					
2040					
2041					
2042					
2043					
2044					
2045					
Total	\$	\$	\$	\$	\$

<sup>(1)</sup> Interest payments on the Current Interest Bonds will be made semiannually on February 1 and August 1 of each year, commencing August 1, 2016.

**Aggregate Debt Service Schedule.** The following table shows the debt service schedule with respect to the remaining Outstanding Bonds and the Series 2016-B Bonds (assuming no optional redemptions or extraordinary redemption) through August 1 of each applicable year.

**COMBINED DEBT SERVICE SCHEDULE<sup>(1)</sup>**

Period Ending August 1	Series 2004 Bonds	Series 2005 Bonds	Series 2013-A Bonds	Series 2016-B Bonds	Aggregate General Obligation Bonds Debt Service <sup>(1)</sup>
2016	\$2,379,600.00	\$488,000.00	\$2,305,625.00	-	\$5,173,225.00
2017	2,387,750.00	496,000.00	987,225.00		3,870,975.00
2018	2,205,250.00	503,000.00	1,017,225.00		3,725,475.00
2019	2,216,750.00	494,000.00	1,091,025.00		3,801,775.00
2020	687,750.00	539,750.00	1,708,246.26		2,935,746.26
2021	-	797,500.00	1,758,246.26		2,555,746.26
2022	-	811,500.00	1,831,246.26		2,642,746.26
2023	-	823,250.00	1,911,246.26		2,734,496.26
2024	-	832,750.00	1,991,246.26		2,823,996.26
2025	-	840,000.00	2,081,246.26		2,921,246.26
2026	-	-	2,401,246.26		2,401,246.26
2027	-	-	2,495,246.26		2,495,246.26
2028	-	-	2,595,796.26		2,595,796.26
2029	-	-	2,696,421.26		2,696,421.26
2030	-	-	2,805,411.26		2,805,411.26
2031	-	-	2,917,736.26		2,917,736.26
2032	-	-	3,037,966.26		3,037,966.26
2033	-	-	3,155,456.26		3,155,456.26
2034	-	-	3,281,481.26		3,281,481.26
2035	-	-	3,413,281.26		3,413,281.26
2036	-	-	3,550,181.26		3,550,181.26
2037	-	-	3,693,487.50		3,693,487.50
2038	-	-	3,850,000.00		3,850,000.00
2039	-	-	4,007,500.00		4,007,500.00
2040	-	-	4,169,750.00		4,169,750.00
2041	-	-	4,335,750.00		4,335,750.00
2042	-	-	4,504,500.00		4,504,500.00
2043	-	-	-		-
2044	-	-	-		-
2045	-	-	-		-
Total	<u>\$9,877,100.00</u>	<u>\$6,625,750.00</u>	<u>\$73,593,788.92</u>	<u>\$</u>	<u>\$90,096,938.92</u>

<sup>(1)</sup> The Series 2016-B Bonds debt service will be included in the Aggregate General Obligation Bonds Debt Service after pricing of the Series 2016-B Bonds.

## **APPLICATION OF PROCEEDS OF SERIES 2016-B BONDS**

### **Building Fund**

A portion of the proceeds from the sale of the Series 2016-B Bonds received by the School District shall be paid to the County to the credit of the fund known as the Temecula Valley Unified School District, Series 2016-B Bonds Building Fund (the "Building Fund") and shall be kept separate and distinct from all other School District and County funds. Such proceeds shall be used solely for authorized purposes which relate to the construction, rehabilitation, modernization or replacement of school facilities, which may include the furnishing and equipping of school facilities or the acquisition or lease of real property for schools or to the payment of certain costs of issuance of the Series 2016-B Bonds. Series 2016-B Bond proceeds may be used to reimburse the School District for eligible costs but Series 2016-B Bond proceeds are not expected to be applied to any reimbursements at this time. Any excess proceeds of the Series 2016-B Bonds not needed for the authorized purposes for which the Series 2016-B Bonds are being issued shall be transferred to the Debt Service Fund and applied to the payment of principal and accreted value of and interest on the Series 2016-B Bonds. If, after payment in full of the Series 2016-B Bonds, there remain excess proceeds, any such excess amounts shall be transferred to the general fund of the School District. Interest earned on the investment of moneys held in the Building Fund shall be retained in the Building Fund.

### **Debt Service Fund**

Premium received by the School District from the sale of the Series 2016-B Bonds shall be kept separate and apart in the Debt Service Fund and shall be used only for payment of interest on the Series 2016-B Bonds accrued through August 1, 2016.\* The *ad valorem* property taxes levied by the County for the payment of the Series 2016-B Bonds, when collected, will be deposited into the Debt Service Fund. The Series 2016-B Bonds shall be paid from the Debt Service Fund. Interest earnings on the investment of moneys held in the Debt Service Fund shall be retained in the Debt Service Fund and used by the School District to pay principal and accreted value of and interest on the Series 2016-B Bonds when due (subject to compliance with applicable federal tax code requirements).

### **Permitted Investments**

The Treasurer and Tax Collector of the County (the "County Treasurer") is authorized to invest the proceeds of the sale of the Series 2016-B Bonds and all proceeds of taxes for payment of the Series 2016-B Bonds in the County Pooled Investment Fund (as defined below) into which the School District may lawfully invest its funds. Upon the written direction of the School District, the County Treasurer may invest Series 2016-B Bond proceeds or proceeds of taxes collected for payment of the Series 2016-B Bonds in any investment permitted by law, including, but not limited to investment agreements which comply with the requirements of each rating agency then rating the Series 2016-B Bonds necessary in order to maintain the then-current rating on the Series 2016-B Bonds or in the Local Agency Investment Fund established by the State Treasurer.

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\*Preliminary, subject to change.

## **RIVERSIDE COUNTY TREASURY POOL**

Unless the School District provides the County Treasurer with other instructions, all amounts held under the County Resolution will be invested in the County Pooled Investment Fund (the "County Pooled Investment Fund"). In addition, in accordance with California Education Code Section 41001, substantially all School District operating funds are required to be held by the County Treasurer. See Appendix F and Appendix G for a description of the County Pooled Investment Fund and the current County Treasurer Statement of Investment Policy.

The information in Appendix F and Appendix G has been provided by the County Treasurer. Neither the School District nor the Underwriter has made an independent investigation of the investments in the County Pooled Investment Fund and neither the School District nor the Underwriter has made any assessment of the current County Treasurer's Statement of Investment Policy. The value of the various investments in the County Pooled Investment Fund will fluctuate on a daily basis as a result of a multitude of factors, including the investments in the County Pooled Investment Fund, generally prevailing interest rates and other economic conditions. The County Treasurer's Statement of Investment Policy is approved annually by the County Board of Supervisors as required by California Government Code Section 53646 (a) (1) and reviewed annually by the Investment Oversight Committee, pursuant to the requirements of California Government Code Section 27133. The County Treasurer, with the consent of the Investment Oversight Committee and the approval of the County Board of Supervisors, may change the County Treasurer's Statement of Investment Policy at any time. Finally, there are proposed, from time to time in the State Legislature, bills which could modify the currently authorized investments and/or place restrictions on the ability of public agencies, including the County, to invest in various securities. Therefore, there can be no assurance that the values of the various investments in the County Pooled Investment Fund will not vary significantly from the values described herein.

### **TAX BASE FOR REPAYMENT OF SERIES 2016-B BONDS**

*The information in this section describes ad valorem property taxation, assessed valuation and other measures of the tax base of the School District. The Series 2016-B Bonds are payable solely from ad valorem taxes levied and collected by the County on taxable property in the School District. The School District's general fund is not a source for the repayment of the Series 2016-B Bonds.*

#### ***Ad Valorem Property Taxation***

The collection of property taxes is significant to the School District and the Owners of the Series 2016-B Bonds in two respects. First, the County Board of Supervisors will levy and collect *ad valorem* taxes on all taxable parcels within the School District which are pledged specifically to the repayment of the Series 2016-B Bonds. Second, the general *ad valorem* property tax levy levied in accordance with Article XIII A of the California Constitution and its implementing legislation is taken in to account in connection with the State's LCFF, which determines the amount of funding received by the School District from the State to operate the School District's educational programs. The LCFF replaces revenue limit and most categorical program funding previously used to determine the amount of funding received by the School District from the State with the LCFF which consists primarily of base, supplemental and concentration funding formulas that focus resources based on a school district's student demographics. See APPENDIX A – "INFORMATION RELATING TO THE SCHOOL DISTRICT'S OPERATIONS AND BUDGET – Revenue Sources. – THE SCHOOL DISTRICT – Allocation of State Funding to School Districts; Restructuring of the K-12 Funding System." As described below, the general *ad valorem* property tax levy and the additional *ad valorem*

property tax levy pledged to repay the Series 2016-B Bonds will be collected on the annual tax bills distributed by the County to the owners of parcels within the boundaries of the School District.

*Method of Property Taxation.* Beginning in Fiscal Year 1978-79, Article XIII A and its implementing legislation permitted each county to levy and collect all property taxes (except for levies to support prior voter approved indebtedness) and prescribed the way in which levies on county-wide property values were to be shared with local taxing entities within each county. All property is assessed using "full cash value" as defined by Article XIII A of the State Constitution. State law, however, provides exemptions from *ad valorem* property taxation for certain classes of property, such as churches, colleges, non-profit hospitals and charitable institutions.

For purposes of allocating a county's 1% base property tax levy, future assessed valuation growth allowed under Article XIII A (new construction, certain changes of ownership, up to 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" sources 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 the tax bases of such entities may be affected by the existence of redevelopment agencies (including their successor agencies) which, under certain circumstances, may be entitled to sources resulting from the increase in certain property values. State law exempts \$7,000 of the assessed valuation of an owner-occupied principal residence. This exemption does not result in any loss of revenue to local agencies since an amount equivalent to the taxes that would have been payable on such exempt values is supplemented by the State.

*Ad Valorem Property Taxation.* Taxes are levied by the County for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1. The valuation of secured real property is established as of January 1 and is subsequently equalized in August. The valuation of secured real property which changes ownership or is newly constructed is revalued at the time the change in ownership occurs or the new construction is completed. The current year property tax rate will be applied to the reassessment, and the taxes will then be adjusted by a proration factor to reflect the portion of the remaining tax year for which taxes are due.

For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State-assessed public utility property, and property (real or personal), for which there is a tax lien on such property sufficient, in the opinion of the county assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll." Boats and airplanes are examples of unsecured property. Secured property assessed by the State Board of Equalization is commonly identified for taxation purposes as "utility" property.

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively. A penalty of 10% attaches immediately to any delinquent payment. Property on the secured roll with respect to which taxes are delinquent becomes tax defaulted on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of delinquent taxes and the delinquency penalty, plus costs and redemption a penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the Treasurer-Tax Collector of the county levying the tax.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to delinquent taxes on property on the unsecured roll and if unsecured taxes are unpaid at 5 p.m. on October 31, an additional penalty of 1.5% per month begins to accrue on November 1 and a lien may be recorded against the assessee. The

taxing authority has four ways of collecting delinquent unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain facts in order to obtain a lien on certain property of the taxpayer; (3) filing a certificate of delinquency for record in the county recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizing and selling personal property improvements or possessory interests belonging or assessed to the delinquent taxpayer.

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 school districts 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 existence of successor agencies to redevelopment agencies or by similar entities which, under certain circumstances, may be entitled to revenues resulting from the increase in certain property values in the School District.

*District Assessed Valuation.* The assessed valuation of property in the School District is established by the County Assessor, except for public utility property which is assessed by the State Board of Equalization ("SBE"). See " – Taxation of State-Assessed Utility Property" below and Appendix A. Assessed valuations are reported at 100% of the "full value" of the property, as defined in Article XIII A of the California Constitution. For a discussion of how properties currently are assessed, see APPENDIX A – "INFORMATION RELATING TO THE SCHOOL DISTRICT'S OPERATIONS AND BUDGET."

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. Both the general *ad valorem* property tax levy and the additional *ad valorem* levy for the Series 2016-B Bonds are based upon the assessed valuation of the parcels of taxable property in the School District. Property taxes allocated to the School District are collected by the County at the same time and on the same tax rolls as are county, city and special district taxes. The assessed valuation of each parcel of property is the same for both School District and county taxing purposes. The valuation of secured property by the County Assessor is established as of January 1, and is subsequently equalized in September of each year.

*Taxation of State-Assessed Utility Property.* A portion of property tax revenue of the School District is derived from utility property subject to assessment by the SBE. State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions that are assessed as part of a "going concern" rather than as individual pieces of real or personal property. This may include railways, telephone companies and companies transmitting or selling gas or electricity. The assessed value of unitary and certain other state-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the School District) according to statutory formulae generally based on the distribution of taxes in the prior year. Except for unitary property of regulated railways and certain other excepted property, all unitary and operating non-unitary property is taxed at special county-wide rates and tax proceeds are distributed to taxing jurisdictions according to statutory formulae generally based on the distribution of taxes in the prior year. Taxes on privately owned railway cars, however, are levied and collected directly by the Board of Equalization. Property used in the generation of electricity by a company that does not also transmit or sell that electricity is taxed locally instead of by the Board of Equalization. Thus, the reorganization of regulated utilities and the transfer of electricity-generating property to non-utility companies, as occurred under electric power deregulation in California, affects how those assets are assessed, and which local agencies benefit from the property taxes derived. In general, the transfer of State-assessed property located in the



School District to non-utility companies will increase the assessed value of property in the School District, since the property's value will no longer be divided among all taxing jurisdictions in the County. The transfer of property located and taxed in the School District to a State-assessed utility will have the opposite effect: generally reducing the assessed value in the School District, as the value is shared among the other jurisdictions in the County. The School District is unable to predict future transfers of State-assessed property in the School District and the County, the impact of such transfers on its utility property tax revenues, or whether future legislation or litigation may affect ownership of utility assets, the State's methods of assessing utility property, or the method by which tax revenues of utility property is allocated to local taxing agencies, including the School District

*Tax Collections and Delinquencies.* A school district's share of the 1% county-wide tax is based on the actual allocation of property tax revenues to each taxing jurisdiction in the county in Fiscal Year 1978-79, as adjusted according to a complicated statutory scheme enacted since that time. Revenues derived from special *ad valorem* taxes for voter-approved indebtedness are reserved to the taxing jurisdiction that approved and issued the debt, and may only be used to repay that debt.

The County only provides information for tax charges and corresponding delinquencies by local agencies with respect to debt service levies for voter approved indebtedness. It does not provide such information for the 1% general tax levy. See "- Teeter Plan" and "Tax Levies and Delinquencies" below.

#### **Teeter Plan**

The following information has been provided by the County for inclusion in this Official Statement.

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. Supplemental taxes are currently excluded from the Teeter Plan.

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 3% of the total of all taxes and assessments levied on the secured roll for that year, 1% 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 by August 1 of any fiscal year, the 10% 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 3% of the total of all taxes and assessments levied on the secured rolls for the agency. The School District knows of no consideration by the County to discontinue the Teeter Plan.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan. The *ad valorem* taxes for payment of the Series 2016-B Bonds are included in the County's Teeter Program.

## Assessed Valuations

Property within the School District had a total assessed valuation for Fiscal Year 2015-16 of \$20,091,949,928. Table 1 below shows the assessed valuation in the School District for Fiscal Years 2003-04 through 2015-16.

**Table 1**  
**ASSESSED VALUATIONS**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**Fiscal Years 2003-04 through 2015-16**

<u>Fiscal Year</u>	<u>Secured Valuation</u>	<u>Utility</u>	<u>Unsecured Valuation</u>	<u>Total</u>	<u>% Change</u>
2003-04	\$9,002,554,544	\$385,192	\$441,790,321	\$9,414,730,057	N/A
2004-05	10,936,538,602	385,192	453,135,096	11,390,058,890	20.98%
2005-06	13,654,743,379	320,287	485,635,237	14,140,698,903	24.15
2006-07	16,197,715,970	413,258	510,313,742	16,708,442,970	18.16
2007-08	18,378,783,830	413,258	728,936,678	19,108,133,766	14.36
2008-09	17,959,502,121	413,258	1,066,461,844	19,026,377,223	(0.43)
2009-10	15,654,169,960	413,258	899,789,904	16,554,373,122	(12.99)
2010-11	15,448,859,227	413,258	875,022,353	16,324,294,838	(1.39)
2011-12	15,541,304,506	413,258	837,589,403	16,379,307,167	0.34
2012-13	15,578,491,680	229,241	886,621,071	16,465,341,992	0.53
2013-14	16,461,295,287	229,241	765,536,966	17,227,061,494	4.63
2014-15	18,058,337,592	229,241	759,083,642	18,817,650,475	9.23
2015-16	19,381,231,906	229,241	710,488,781	20,091,949,928	6.77

*Source: California Municipal Statistics, Inc.*

As indicated above, assessments may be adjusted during the course of the year when real property changes ownership or new construction is completed. Assessments may also be appealed by taxpayers seeking a reduction as a result of economic and other factors beyond the School District's control, such as a 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 State and local agencies and property used for qualified education, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by a natural or manmade disaster, such as earthquake, flood, drought, fire, toxic contamination, dumping, etc. When necessitated by changes in assessed value in the course of a year, taxes are pro-rated for each portion of the tax year. Any such reduction would result in a corresponding increase in the annual tax rates levied by the County to pay the debt service with respect to the Series 2016-B Bonds.

With respect to droughts specifically, the State of California in recent years has been facing water shortfalls. On January 17, 2014, the Governor declared a state of drought emergency, calling on Californians to conserve water. As part of his declaration, the Governor directed State officials to assist agricultural producers and communities that may be economically impacted by dry conditions. Thereafter, the California State Water Resources Control Board (the "Water Board") issued a statewide notice of water shortages and potential future curtailment of water right diversions. On April 1, 2015, the Governor issued an executive order mandating certain conservation measures

including a requirement that the Water Board impose restrictions to achieve a statewide 25% reduction in urban water usage through February 28, 2016. On November 13, 2015, the Governor issued an executive order which stated that if the drought conditions persist through January 2016, the Water Board shall extend until October 31, 2016, restrictions to achieve a statewide reduction in urban potable water usage, that the Water Board consider modifying existing restrictions to address use of potable and non-potable water, and that the California Public Utilities Commission be requested to take similar action with respect to investor owned utilities providing water service. On December 1, 2015, the Department of Water Resources announced an initial 2016 allocation of 10% for customers of the State Water Project. As of March 17, 2016, the Department of Water Resources announced a 2016 allocation of 45% for customers of the State Water Project, although that amount could be higher. Depending upon the amount of rain and snow that reaches California this winter, the allocation maybe increased or decreased.

The historic drought has lasted for years and will not be resolved by a single year's rainfall. The implementation of mandatory water reductions is ongoing. The School District cannot predict how long the drought conditions will last, what effect drought conditions may have on property values or whether to what extent water reduction requirements may affect the homeowners or other property owners in the School District.

*Appeals and Adjustments of Assessed Valuation; Blanket Reductions of Assessed Values.*

There are two basic types of property tax assessment appeals provided for under State law. The first type of appeal, commonly referred to as a base year assessment appeal, involves a dispute on the valuation assigned by the assessor immediately subsequent to an instance of a change in ownership or completion of new construction. If the base year value assigned by the assessor is reduced, the valuation of the property cannot increase in subsequent years more than 2% annually unless and until another change in ownership and/or additional new construction activity occurs.

The second type of appeal, commonly referred to as a Proposition 8 appeal (which Proposition 8 was approved by the voters in 1978), can result if factors occur causing a decline in the market value of the property to a level below the property's then current taxable value (escalated base year value). Pursuant to State law, a property owner may apply for a Proposition 8 reduction of the property tax assessment for such owner's property by filing a written application, in the form prescribed by the State Board of Equalization, with the appropriate county board of equalization or assessment appeals board. A property owner desiring a Proposition 8 reduction of the assessed value of such owner's property in any one year must submit an application to the county assessment appeals board (the "Appeals Board"). Following a review of the application by the county assessor's office, the county assessor may offer to the property owner the opportunity to stipulate to a reduced assessment, or may confirm the assessment. If no stipulation is agreed to, and the applicant elects to pursue the appeal, the matter is brought before the Appeals Board (or, in some cases, a hearing examiner) for a hearing and decision. The Appeals Board generally is required to determine the outcome of appeals within two years of each appeal's filing date. Any reduction in the assessment ultimately granted applies only to the year for which application is made and during which the written application is filed. The assessed value increases to its pre-reduction level (escalated to the inflation rate of no more than 2%) following the year for which the reduction application is filed. However, the county assessor has the power to grant a reduction not only for the year for which application was originally made, but also for the then current year and any intervening years as well. In practice, such a reduced assessment may and often does remain in effect beyond the year in which it is granted.

In addition, Article XIII A of the State Constitution provides that the full cash value base of real property used in determining taxable value may be adjusted from year to year to reflect the inflationary rate, not to exceed a 2% increase for any given year, or may be reduced to reflect a reduction in the consumer price index or comparable local data. This measure is computed on a calendar year basis. According to representatives of the County assessor's office, the County has in the past, pursuant to Article XIII A of the State Constitution, ordered blanket reductions of assessed property values and corresponding property tax bills on single family residential properties when the value of the property has declined below the current assessed value as calculated by the County.

No assurance can be given that property tax appeals and/or blanket reductions of assessed property values will not significantly reduce the assessed valuation of property within the School District in the future. See APPENDIX A – "INFORMATION RELATING TO THE SCHOOL DISTRICT'S OPERATIONS AND BUDGET – CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES AND APPROPRIATIONS – Article XIII A of the California Constitution" for a discussion of other limitations on the valuation of real property with respect to *ad valorem* taxes.

Table 2 below shows the Assessed Valuation by Jurisdiction for the Fiscal Year 2015-16.

**Table 2**  
**ASSESSED VALUATIONS BY JURISDICTION**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**Fiscal Year 2015-16 <sup>(1)</sup>**

<u>Jurisdiction</u>	<u>Assessed Valuation in School District</u>	<u>% of School District</u>	<u>Assessed Valuation of Jurisdiction</u>	<u>% of Jurisdiction in School District</u>
City of Murrieta	\$3,934,500	0.02%	\$11,623,964,976	0.03%
City of Temecula	14,054,053,094	69.95	14,055,545,643	99.99
Unincorporated Riverside County	<u>6,033,962,334</u>	<u>30.03</u>	<u>\$36,331,022,777</u>	<u>16.61</u>
Total District	\$20,091,949,928	100.00%		
Riverside County	\$20,091,949,928	100.00%	\$238,256,114,839	8.43%

<sup>(1)</sup> Before deduction of redevelopment (successor entity) incremental valuation.

Source: California Municipal Statistics, Inc.

### Tax Levies and Delinquencies

Table 3 below summarizes the annual secured tax charges for debt service within the School District and the amount delinquent as of June 30 for the previous five fiscal years. Under the terms of the County's Teeter Plan, the School District is paid 100% of the secured tax levy each year by the County and the County takes responsibility for collecting delinquencies and keeps penalties and interest.

**Table 3**  
**SECURED TAX CHARGES AND DELINQUENCIES**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**Fiscal Years 2010-11 through 2014-15**

<u>Fiscal Year</u>	<u>Secured Tax Charge <sup>(1)</sup></u>	<u>Delinquent Taxes Secured as of June 30</u>	<u>% Delinquent June 30</u>
2010-11	\$3,521,619.96	\$98,381.20	2.79%
2011-12	3,866,024.54	80,723.11	2.09
2012-13	4,220,634.85	54,900.66	1.30
2013-14	6,008,859.87	68,432.06	1.14
2014-15	5,393,960.95	47,635.28	0.88

<sup>(1)</sup> School District's general obligation bond debt service levy.

Source: California Municipal Statistics, Inc.

**Tax Rates**

The State Constitution permits the levy of an *ad valorem* tax on taxable property not to exceed 1% of the full cash value of the property, and State law requires the full 1% tax to be levied. The levy of special *ad valorem* property taxes in excess of the 1% levy is permitted as necessary to provide for debt service payments on school bonds and other voter-approved indebtedness.

The rate of tax necessary to pay fixed debt service on the Series 2016-B Bonds in a given year depends on the assessed value of taxable property in that year. (The rate of tax imposed on unsecured property for repayment of the Series 2016-B Bonds is based on the prior year's secured property tax rate.) Economic and other factors beyond the School District's control, such as a general market decline in land values, reclassification of property to a class exempt from taxation, whether by ownership or use (such as exemptions for property owned by State and local agencies and property used for qualified educational, hospital, charitable or religious purposes), or the complete or partial destruction of taxable property caused by natural or manmade disaster, such as earthquake, flood, fire, toxic dumping, etc., could cause a reduction in the assessed value of taxable property within the School District and necessitate a corresponding increase in the annual tax rate to be levied to pay the principal and accreted value of and interest on the Series 2016-B Bonds. Issuance of additional authorized bonds in the future might also cause the tax rate to increase.

There are a total of 141 tax rate areas in the School District. A representative tax rate area in the School District, Tax Rate Area 13-004, had a Fiscal Year 2015-16 assessed valuation of \$2,600,542,422, which is 12.94% of the total School District's assessed valuation. Table 4 below shows the *ad valorem* tax rates levied by all taxing entities in Tax Rate Area 13-004 within the School District from Fiscal Years 2011-12 through 2015-16.

**Table 4**  
**TYPICAL TOTAL AD VALOREM TAX RATES AS A PERCENTAGE OF ASSESSED**  
**VALUATION (TRA 13-004)**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**Fiscal Years 2011-12 through 2015-16**

	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
General	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
Temecula Valley Unified School District	.02527	.02740	.03696	.03019	.02741
Mount San Jacinto Community College District	—	—	—	—	.01394
Metropolitan Water District	<u>.00370</u>	<u>.00350</u>	<u>.00350</u>	<u>.00350</u>	<u>.00350</u>
Total	1.02897%	1.03090%	1.04046%	1.03369%	1.04485%

*Source: California Municipal Statistics, Inc.*

In accordance with the law which permitted the Series 2016-B Bonds to be approved by a 55% popular vote, bonds approved by the School District's voters at the November 6, 2012, election may not be issued unless the School District projects that repayment of all outstanding bonds approved at such election will require a tax rate no greater than \$60.00 per \$100,000 of assessed value. Based on the assessed value of taxable property in the School District at the time of issuance of the Series 2016-B Bonds, the School District projects that the maximum tax rate required to repay the Series 2016-B Bonds approved at such November 6, 2012, election will be within that legal limit. The tax rate test applies only when new bonds are issued, and is not a legal limitation upon the authority of the Board of Supervisors to levy taxes at such rate as may be necessary to pay debt service on the Series 2016-B Bonds in each year.

## Largest Property Owners

Table 5 below lists the 20 largest owners of taxable property within the School District measured by secured assessed valuation for Fiscal Year 2015-16.

**Table 5**  
**20 LARGEST 2015-16 LOCAL SECURED TAXPAYERS**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**Fiscal Year 2015-16**

	<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2015-16 Assessed Valuation</u>	<u>% of Total <sup>(1)</sup></u>
1.	Temecula Towne Center Associates	Shopping Center	\$ 151,344,039	0.78%
2.	Abbott Cardiovascular Systems Inc.	Industrial	115,469,946	0.60
3.	Advanced Cardiovascular System Inc.	Industrial	105,125,708	0.54
4.	Temecula Valley Hospital Inc.	Medical Buildings	100,393,580	0.52
5.	International Rectifier Corp.	Industrial	79,629,604	0.41
6.	LIPT Winchester Road Inc.	Shopping Center	61,198,799	0.32
7.	Medline Industries Inc.	Industrial	59,668,830	0.31
8.	Vineyards Temecula Apartments	Apartments	59,526,253	0.31
9.	Redhawk Towne Center II	Shopping Center	57,985,814	0.30
10.	Fairfield Solana Ridge	Apartments	55,107,766	0.28
11.	Cape May Harveston Co. Inc.	Apartments	53,226,184	0.27
12.	Temecula 2 Conventional Apartments	Apartments	52,361,921	0.27
13.	Inland Western Temecula Commons	Industrial	50,999,577	0.26
14.	Kimco Palm Plaza	Shopping Center	49,579,757	0.26
15.	FG Temecula Senior Apartments	Apartments	48,411,150	0.25
16.	BACM 2006 5 Rancho California LP	Shopping Center	42,640,158	0.22
17.	APA 9 Owner	Apartments	42,333,624	0.22
18.	MG Sage Canyon Apartments	Apartments	39,779,405	0.21
19.	Macys California Inc.	Commercial	38,651,407	0.20
20.	Temecula Ridge LP	Apartments	<u>36,256,855</u>	<u>0.19</u>
			<u>\$1,299,690,377</u>	<u>6.71%</u>

<sup>(1)</sup>2015-16 local secured assessed valuation: \$19,381,231,906

Source: California Municipal Statistics, Inc.



## Assessed Valuation by Land Use

Table 6 below provides a distribution of taxable property located in the School District on the 2015-16 tax roll by principal purpose for which the land is used and the secured assessed valuation and number of parcels for each use.

**Table 6**  
**FISCAL YEAR 2015-16**  
**ASSESSED VALUATION AND PARCELS BY LAND USE<sup>(1)</sup>**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**

	2015-16 <u>Assessed Valuation</u> <sup>(1)</sup>	% of <u>Total</u>	No. of <u>Parcels</u>	% of <u>Total</u>
<b>Non-Residential:</b>				
Agricultural/Rural	\$304,076,570	1.57%	827	1.61%
Commercial/Industrial	3,584,839,996	18.50	1,715	3.35
Vacant Commercial/Industrial	278,091,505	1.43	500	0.98
Other Vacant/Miscellaneous	<u>130,547,069</u>	<u>0.67</u>	<u>1,916</u>	<u>3.74</u>
Subtotal Non-Residential	\$4,297,555,140	22.17%	4,958	9.67%
<b>Residential:</b>				
Single Family Residence	\$13,412,141,450	69.20%	39,324	76.71%
Condominium/Townhouse	570,640,583	2.94	2,821	5.50
Mobile Home/Lots	106,020,730	0.55	715	1.39
2-4 Residential Units	57,935,020	0.30	89	0.17
5+ Residential Units/Apartments	637,365,305	3.29	38	0.07
Miscellaneous Residential	389,700	0.00	5	0.01
Vacant Residential	<u>299,183,978</u>	<u>1.54</u>	<u>3,310</u>	<u>6.46</u>
Subtotal Residential	\$15,083,676,766	77.83%	46,302	90.33%
<b>Total</b>	<b>\$19,381,231,906</b>	<b>100.00%</b>	<b>51,260</b>	<b>100.00%</b>

<sup>(1)</sup> Local Secured Assessed Valuation, excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

## Assessed Valuation of Single-Family Homes

Table 7 below shows the distribution of secured assessed valuation of single-family homes in the School District for tax year 2015-16.

**Table 7**  
**PER PARCEL FISCAL YEAR 2015-16**  
**ASSESSED VALUATION OF SINGLE-FAMILY HOMES<sup>(1)</sup>**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**

	<u>No. of Parcels</u>	<u>2015-16 Assessed Valuation</u>	<u>Average Assessed Valuation</u>	<u>Median Assessed Valuation</u>
Single Family Residential	39,324	\$13,412,141,450	\$341,068	\$323,263

<u>2015-16 Assessed Valuation</u>	<u>No. of Parcels <sup>(1)</sup></u>	<u>% of Total</u>	<u>Cumulative % of Total</u>	<u>Total Valuation</u>	<u>% of Total</u>	<u>Cumulative % of Total</u>
\$0 - \$49,999	39	0.099%	0.099%	\$1,535,661	0.011%	0.011%
\$50,000 - \$99,999	226	0.575	0.674	17,210,650	0.128	0.140
\$100,000 - \$149,999	492	1.251	1.925	64,813,895	0.483	0.623
\$150,000 - \$199,999	2,738	6.963	8.888	493,397,883	3.679	4.302
\$200,000 - \$249,999	5,600	14.241	23.128	1,269,332,322	9.464	13.766
\$250,000 - \$299,999	6,738	17.135	40.263	1,852,133,400	13.809	27.575
\$300,000 - \$349,999	7,828	19.906	60.169	2,538,457,592	18.927	46.502
\$350,000 - \$399,999	6,192	15.746	75.915	2,312,838,580	17.244	63.746
\$400,000 - \$449,999	4,175	10.617	86.532	1,766,439,993	13.170	76.917
\$450,000 - \$499,999	2,184	5.554	92.086	1,029,733,141	7.678	84.594
\$500,000 - \$549,999	1,041	2.647	94.733	542,422,182	4.044	88.638
\$550,000 - \$599,999	606	1.541	96.275	347,587,327	2.592	91.230
\$600,000 - \$649,999	429	1.091	97.365	266,485,230	1.987	93.217
\$650,000 - \$699,999	224	0.570	97.935	151,334,874	1.128	94.345
\$700,000 - \$749,999	218	0.554	98.489	157,299,834	1.173	95.518
\$750,000 - \$799,999	112	0.285	98.774	86,548,341	0.645	96.163
\$800,000 - \$849,999	79	0.201	98.975	64,977,827	0.484	96.648
\$850,000 - \$899,999	60	0.153	99.128	52,203,362	0.389	97.037
\$900,000 - \$949,999	54	0.137	99.265	49,863,419	0.372	97.409
\$950,000 - \$999,999	60	0.153	99.418	58,387,099	0.435	97.844
\$1,000,000 and greater	229	0.582	100.000	289,138,838	2.156	100.000
Total	39,324	100.000%		\$13,412,141,450	100.000%	

<sup>(1)</sup> Improved single family residential parcels. Excludes condominiums and parcels with multiple-family units.

Source: California Municipal Statistics, Inc.

### **Direct and Overlapping Debt**

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. The Debt Report is included for general information purposes only. The School District and the Underwriter have 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 School District in whole or in part. Such long-term obligations generally are not payable from revenues of the School District (except as indicated) nor are they necessarily obligations secured by land within the School 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 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 School District in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the School 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 School District.

**Table 8**  
**Estimated Direct and Overlapping Bonded Debt**  
**as of March 1, 2016**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**

2015-16 Assessed Valuation: \$20,091,949,928

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 3/1/16</u>
Metropolitan Water District	0.816%	\$ 900,976
Riverside County Flood Control and Water Control Zone No. 4	0.169	34,899
Mount San Jacinto Community College District	26.273	18,391,100
<b>Temecula Valley Unified School District</b>	<b>100.000</b>	<b>48,475,070</b> <sup>(1)</sup>
Temecula Valley Unified School District Community Facilities Districts	100.000	83,985,000
Rancho California Water District Community Facilities District No. 88-3	100.000	495,000
Eastern Municipal Water District, I.D. Nos. 22, 23, 24 & U-8	0.102-92.972	3,857,043
Eastern Municipal Water District Community Facilities Districts	100.000	78,563,000
City of Temecula Community Facilities Districts	100.000	96,240,000
Riverside County Community Facilities District No. 07-2	25.334	6,376,482
Riverside County and Special District 1915 Act Bonds (Estimated)	100.000	<u>4,510,000</u>
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$341,828,570</b>
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Riverside County General Fund Obligations	8.433%	\$ 78,177,654
Riverside County Pension Obligation Bonds	8.433	27,025,235
Riverside County Board of Education Certificates of Participation	8.433	78,849
City of Murrieta General Fund Obligations	0.034	2,808
City of Temecula General Fund Obligations	99.989	<u>22,408,535</u>
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>		<b>\$127,693,081</b>
Less: Riverside County supported obligations		<u>(581,482)</u>
<b>TOTAL NET OVERLAPPING GENERAL FUND DEBT</b>		<b>\$127,111,599</b>
 <u>OVERLAPPING TAX INCREMENT DEBT:</u>		
Riverside County Redevelopment Agency	0.325-1.460%	\$ 2,485,705
Temecula Redevelopment Agency	100.000	<u>83,600,000</u>
<b>TOTAL OVERLAPPING TAX INCREMENT DEBT</b>		<b>\$86,085,705</b>
 <b>GROSS COMBINED TOTAL DEBT</b>		<b>\$555,607,356</b> <sup>(2)</sup>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$555,025,874</b>

<sup>(1)</sup> Excludes the Series 2016-B Bonds described herein.

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

Ratios to 2015-16 Assessed Valuation:

<b>Direct Debt (\$48,475,000)</b> .....	<b>0.24%</b>
Total Direct and Overlapping Tax and Assessment Debt.....	1.70%
Gross Combined Total Debt.....	2.77%
Net Combined Total Debt .....	2.76%

Ratios to Redevelopment Incremental Valuation (\$1,839,001,558):

Overlapping Tax Increment Debt .....	4.68%
--------------------------------------	-------

Source: California Municipal Statistics, Inc.

See "APPENDIX A – "INFORMATION RELATING TO THE SCHOOL DISTRICT'S OPERATIONS AND BUDGET – District Obligations."

## **BOND INSURANCE**

*Set forth below is a brief summary of certain information concerning [Insurer] and the terms of the Insurance Policy. The information relating to [Insurer] and the Insurance Policy contained below has been supplied to the School District by [Insurer]. No representation is made by the School District as to the accuracy, completeness or adequacy of such information or as to the absence of material adverse changes in the condition of [Insurer] subsequent to the date of this Official Statement.*

### **Bond Insurance Policy**

Concurrently with the issuance of the Series 2016-B Bonds, [Insurer] will issue the Policy for the Series 2016-B Bonds. The Policy guarantees the scheduled payment of principal of (or in the case of Capital Appreciation Bonds, the accreted value) and interest on the Series 2016-B Bonds when due as set forth in the form of the Policy included as Appendix J to this Official Statement.

The Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

**[Insurer]**

## **TAX MATTERS**

### **Opinion of Bond Counsel**

In the opinion of Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel ("Bond Counsel"), subject, to certain qualifications described herein, under existing laws, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2016-B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended ("Code"). In the further opinion of Bond Counsel, interest on the Series 2016-B Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, Bond Counsel observes that such interest is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liabilities.

The opinions of Bond Counsel set forth in the preceding paragraph are subject to the condition that the School District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2016-B Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The School District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Series 2016-B Bonds.

In the further opinion of Bond Counsel, interest on the Series 2016-B Bonds is exempt from State of California personal income taxation.

Bond Counsel expresses no opinion regarding or concerning any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2016-B Bonds.

See APPENDIX D – “PROPOSED FORM OF OPINION OF BOND COUNSEL” for the proposed form of opinion of Bond Counsel.

Bond Counsel’s engagement with respect to the Series 2016-B Bonds ends with the issuance of the Series 2016-B Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the School District or the Beneficial Owners of the Series 2016-B Bonds regarding the tax-exempt status of the Series 2016-B Bonds in the event of an audit examination by the Internal Revenue Service. Under current procedures, parties other than the School District and its appointed counsel, including the Beneficial Owners of the Series 2016-B Bonds, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of Internal Revenue Service positions with which the School District legitimately disagrees may not be practicable. Any action of the Internal Revenue Service, including but not limited to selection of the Series 2016-B Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2016-B Bonds, and may cause the School District or the Beneficial Owners of the Series 2016-B Bonds to incur significant expense.

#### **Original Issue Discount; Premium Bonds**

The initial public offering prices of the Series 2016-B Bonds, may be less than the amount payable with respect to such Bonds at maturity. An amount not less than the difference between the initial public offering price of a Bond and the amount payable at the maturity of such Bond constitutes original issue discount. Original issue discount on a tax-exempt obligation, such as the Series 2016-B Bonds, accrues on a compounded basis. The amount of original issue discount that accrues to the owner of a Bond issued with original issue discount will be excludable from such owner’s gross income and will increase the owner’s adjusted basis in such Bond potentially affecting the amount of gain or loss realized upon the owner’s sale or other disposition of such Bond. The amount of original issue discount that accrues in each year is not included as a tax preference for purposes of calculating alternative minimum taxable income and may therefore affect a taxpayer’s alternative minimum tax liability. Consequently, taxpayers owning the Series 2016-B Bonds issued with original issue discount should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability although the taxpayer has not received cash attributable to such original issue discount in such year.

Owners should consult their personal tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount properly accruable with respect to the Series 2016-B Bonds, other federal income tax consequences of owning tax-exempt obligations with original issue discount and any state and local consequences of owning the Series 2016-B Bonds.

The Series 2016-B Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Series 2016-B Bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However a

purchaser's basis in a Premium Bond and, under Treasury Regulations, the amount of tax exempt interest received will be reduced by the amount of amortizable bond premium properly allocable to such purchaser. Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

### **Impact of Legislative Proposals, Clarifications of the Code and Court Decisions on Tax Exemption**

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2016-B Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners of the Series 2016-B Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the Series 2016-B Bonds. In recent years, legislative changes were proposed in Congress, which, if enacted, would result in additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the Series 2016-B Bonds. Prospective purchasers of the Series 2016-B Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation as to which Bond Counsel expresses no opinion. As discussed in this Official Statement, under the above caption " – Proposed Forms of Opinions of Bond Counsel," interest on the Series 2016-B Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date such Series 2016-B Bonds were issued as a result of future acts or omissions of the School District in violation of its covenants in the Bond Resolution. Should such an event of taxability occur, the Series 2016-B Bonds are not subject to special redemption or acceleration and will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Bond Resolution.

### **Internal Revenue Service Audit of Municipal Bond Issues**

The Internal Revenue Service has initiated an expanded program for the auditing or examination of tax-exempt securities issues, including both random and targeted audits. It is possible that the Series 2016-B Bonds will be selected for audit or examination by the Internal Revenue Service. It is also possible that the market value of the Series 2016-B Bonds might be affected as a result of such an audit of the Series 2016-B Bonds (or by an audit of similar bonds or securities).

### **Information Reporting and Backup Withholding**

Information reporting requirements apply to interest (including original issue discount) paid on tax-exempt obligations, including the Series 2016-B Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an Owner purchasing Series 2016-B Bonds through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2016-B Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the

Owner's federal income tax once the required information is furnished to the Internal Revenue Service. Bond Counsel provides no opinion concerning such reporting or withholding with respect to the Series 2016-B Bonds.

## **OTHER LEGAL MATTERS**

### **Continuing Disclosure**

The School District has covenanted for the benefit of owners and Beneficial Owners of the Series 2016-B Bonds to provide certain financial information and operating data relating to the School District (the "Annual Report") by not later than eight months following the end of the School District's fiscal year (which shall be March 1 of each year, so long as the School District's fiscal year ends on June 30), commencing with the report for the 2015-16 Fiscal Year (which will be due not later than March 1, 2017), and to provide notices of the occurrence of certain enumerated events. The Annual Reports will be filed by the School District with the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access System ("EMMA") in an electronic format and accompanied by identifying information as prescribed by the MSRB. Any notices of enumerated events will be filed by the School District with the MSRB through the EMMA System. The specific nature of the information to be made available and to be contained in the notices of enumerated events is set forth in the Continuing Disclosure Agreement. See APPENDIX E – "FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with the Rule.

[UPDATE] In the previous five years, the School District and community facilities districts formed by the School District have complied timely with all their previous undertakings under the Rule, except that the School District's annual audited financial statements for the year ended June 30, 2010, and the School District's budget for Fiscal Year 2010/11 were provided by a link to the School District's website. As of May 4, 2011, the June 30, 2010, audited financial statements and Fiscal Year 2010/11 budget had been posted on the EMMA website of the MSRB and the School District has provided such material as required by the Rule since that date.

### **Limitation on Remedies; Amounts Held in the County Treasury Pool**

The opinions of Bond Counsel, the proposed forms of which are attached hereto as Appendix D, are qualified by reference to bankruptcy, insolvency and other laws relating to or affecting creditors' rights. The rights of the Owners of the Series 2016-B Bonds are subject to certain limitations. Enforceability of the rights and remedies of the Beneficial Owners of the Series 2016-B Bonds, and the obligations incurred by the School District, are limited by applicable bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect, equity principles that 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, 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, the limitations on remedies against school and community college districts on the State. Bankruptcy proceedings, if initiated, could subject the beneficial owners of the Series 2016-B Bonds 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.

Under Chapter 9 of the Federal Bankruptcy Code (Title 11, United States Code) (the "Bankruptcy Code"), which governs the bankruptcy proceedings for public agencies, no involuntary



petitions for bankruptcy relief are permitted. While current State law precludes school districts from voluntarily seeking bankruptcy relief under Chapter 9 of the Bankruptcy Code without the concurrence of the State, such concurrence could be granted or State law could be amended.

The Bond Resolution and the State Government Code require the County to annually levy *ad valorem* property taxes upon all property subject to taxation by the School District, without limitation as to rate or amount (except as to certain personal property which is taxable at limited rates), for the payment of the principal of, premium, if any, and interest on the Series 2016-B Bonds. The County, on behalf of the School District, is thus expected to be in possession of the annual *ad valorem* property taxes and certain funds to repay the Series 2016-B Bonds and may invest these funds in the County's Treasury Pool, as described above. In the event the School District or the County were to enter into bankruptcy proceedings, a federal bankruptcy court might hold that the owners of the Series 2016-B Bonds are unsecured creditors with respect to any funds received by the School District or the County prior to the bankruptcy, which may include taxes that have been collected and deposited into the respective Debt Service Funds, where such amounts are deposited into the County Treasury Pool, and such amounts may not be available for payment of the principal and interest on the Series 2016-B Bonds under the Owners of the Series 2016-B Bonds can "trace" those funds. There can be no assurance that the Owners could successfully so "trace" such taxes on deposit in the Debt Service Fund where such amounts are invested in the County Treasury Pool. Under any such circumstances, there could be delays or reductions in payment on the Series 2016-B Bonds.

#### **Legality for Investment in California**

Under provisions of the California Financial Code, the Series 2016-B Bonds are legal investments for commercial banks in California to the extent that the Series 2016-B Bonds, in the informed opinion of the bank, are prudent for the investment of funds of depositors, and under provisions of the California Government Code, are eligible for security for deposits of public moneys in California.

#### **Absence of Material Litigation**

No litigation is pending or threatened concerning the validity of the Series 2016-B Bonds, and a certificate or certificates to that effect will be executed by a School District authorized officer at the time of the original delivery of the Series 2016-B Bonds. The School District is not aware of any litigation pending or threatened questioning the political existence of the School District or contesting the School District's ability to receive *ad valorem* taxes or contesting the School District's ability to issue and retire the Series 2016-B Bonds.

## **RATINGS**

The Series 2016-B Bonds have been assigned a rating of “\_\_\_” by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business (“S&P”) with the understanding that, upon delivery of the Series 2016-B Bonds, the Policy will be issued by the Insurer. The Series 2016-B Bonds have been assigned an underlying rating of “\_\_\_” by S&P. The Series 2016-B Bonds have been assigned a rating of “\_\_\_” by Fitch Ratings. Fitch Ratings does not rate the Insurer. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agencies furnishing the same, through their websites. See “BOND INSURANCE” herein for a discussion of the rating assigned to the Insurer. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. Some information provided to the rating agencies by the School District may not appear in this Official Statement. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely or placed under review or “Credit Alert” by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price for the Series 2016-B Bonds.

## **UNDERWRITING**

Stifel, Nicolaus & Company, Incorporated (the “Underwriter”), has agreed to purchase the Series 2016-B Bonds at a price of \$\_\_\_\_\_, consisting of the principal amount of the Series 2016-B Bonds of \$\_\_\_\_\_, plus a net premium of \$\_\_\_\_\_, less an Underwriter’s discount of \$\_\_\_\_\_. The Bond Purchase Agreement relating to the Series 2016-B Bonds provides that the Underwriter will purchase all of the Series 2016-B Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in said agreement, the approval of certain legal matters by counsel and certain other conditions. A predecessor investment banking firm to the Underwriter made contributions to an organization for the support of the passage of the Authorization.

The Underwriter may offer and sell Series 2016-B Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

## **ADDITIONAL INFORMATION**

Quotations from and summaries and explanations of the Series 2016-B Bonds, the Bond Resolution and the constitutional provisions, statutes and other documents referenced herein, do not purport to be complete, and reference is made to said documents, constitutional provisions and statutes for full and complete statements of their provisions.

Some of the data contained herein has been taken or constructed from School District records. This Official Statement has been approved by the School District Board of Education.

## **TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**

By: \_\_\_\_\_  
Timothy Ritter, Superintendent

## APPENDIX A

### INFORMATION RELATING TO THE SCHOOL DISTRICT'S OPERATIONS AND BUDGET

Principal of and interest on the Series 2016-B Bonds are payable from the proceeds of an *ad valorem* tax levied by the County for the payment thereof. (See "THE SERIES 2016-B BONDS – Security" herein.) Articles XIII A, XIII B, XIII C and XIII D of the California Constitution, Propositions 39, 98, 111, and 218, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these constitutional and statutory measures on the ability of the County to levy taxes and of the School District to spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy taxes for payment of the Series 2016-B Bonds. The tax levied by the County for payment of the Series 2016-B Bonds was approved by the School District's voters in compliance with Article XIII A, Article XIII C and all applicable laws.

#### THE SCHOOL DISTRICT

*The information in this section concerning the School District is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal and accreted value of or interest on the Series 2016-B Bonds is payable from the general fund of the School District. The Series 2016-B Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County on taxable property within the School District in an amount sufficient for the payment thereof. See "THE SERIES 2016-B BONDS – Security" herein.*

#### General Information

The Temecula Valley Unified School District (the "School District"), a political subdivision of the State of California, was organized as a unified school district of the State of California (the "State") in 1989 and provides public education for grades kindergarten through twelve within an area of approximately 222 square miles located in the southwest portion of Riverside County (the "County") (includes approximately 9 square miles which was annexed from the Hemet Unified School District on July 1, 2015). As of October 1, 2015, for Fiscal Year 2015-16, the School District maintained school facilities, including 17 elementary schools with an enrollment of approximately 12,284, 6 middle schools with an enrollment of approximately 6,556, 3 comprehensive high schools with an enrollment of approximately 9,374, and 3 alternative education programs with an enrollment of approximately 233, 1 continuation high school with an enrollment of approximately 193 two charter schools with an enrollment of approximately 1,576 and preschool, adult and non-public school special education with populations of approximately 308. Total enrollment was approximately 30,524 students as of the California Basic Educational Data System ("CBEDS") of October 7, 2015. The School District estimates funded average daily attendance in Fiscal Year 2015-16 of approximately 27,161 with a 2015-16 Fiscal Year Local Control Funding Formula ("LCFF") budget of approximately \$206,503,548 (as of the School District's Second Interim Report, dated March 15, 2016). For more complete information concerning the School District, including certain financial information, see APPENDIX A – "INFORMATION RELATING TO THE SCHOOL DISTRICT'S OPERATIONS AND BUDGET – THE SCHOOL DISTRICT – Outstanding Debt; Financial Obligations." The School District's audited financial statements for the Fiscal Year ended June 30, 2015, are included as Appendix B and should be read in their entirety.

**Administration**

The School District is governed by a Board of Education (the “Board”), consisting of five members, each 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. If a vacancy arises during any term, the vacancy is filled by an appointment by a majority vote of the remaining Board members and, if there is no majority, by a special election.

Current members of the Board, together with their offices and the dates their current terms expire, are listed below:

**Board of Education  
TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**

<u>Name</u>	<u>Office</u>	<u>Current Term Expires</u>
Dr. Kristi Rutz-Robbins	President	December 2016
Sandy Hinkson	Clerk	December 2018
Julie Farnbach	Board Member	December 2018
Kevin Hill	Board Member	December 2018
Dr. Allen Pulsipher	Board Member	December 2016

**Superintendent and Administrative Personnel**

The Superintendent of the School District is appointed by the Board and reports to the Board. The Superintendent is responsible for management of the School District’s day to-day operations and supervises the work of other School District administrators and supervisors.

**Allocation of State Funding to School Districts; Restructuring of the K-12 Funding System**

**General.** The School District’s operating income consist primarily of two components: a state portion funded from the State’s general fund and a locally generated portion derived from the School District’s share of the 1% local *ad valorem* property tax authorized by the State Constitution. California school districts receive a significant portion of their funding from State appropriations. As a result, changes in State revenues may affect appropriations made by the Legislature to school districts.

**State Education Funding; Proposition 98.** On November 8, 1988, California voters approved Proposition 98 ("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 changed 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 State general fund revenues as the percentage appropriated to such districts in Fiscal Year 1986-87, or (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. The State Department of Finance indicates that Proposition 98's share of General Fund tax proceeds averages about 40 percent. As a percentage of new (additional) General Fund tax revenues, Proposition 98 gets approximately 60 percent. That is, for an increase in General Fund tax proceeds of \$100 million, Proposition 98 would get about \$60 million on the average.

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 school districts. Any such transfer to K-14 school districts would be excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit for the next year would automatically be increased by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIII B surplus. The maximum amount of excess tax revenues which could be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the Accountability Act to require a different percentage of State general fund revenues to be allocated to K-14 school districts, or to apply the relevant percentage to the State's budget in a different way than is proposed in the Governor's Budget. In any event, it is possible that the Accountability Act could place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIII B spending limit would restrain the State's ability to fund such other programs by raising taxes. (See APPENDIX A – "INFORMATION RELATING TO THE SCHOOL DISTRICT'S OPERATIONS AND BUDGET – EFFECT OF STATE BUDGET ON REVENUES" and " – SCHOOL DISTRICT FINANCIAL INFORMATION" below.)

**Local Control Funding Formula.** The State Budget for Fiscal Year 2013-14 contained a new school funding allocation system (the "Local Control Funding Formula" or "LCFF" hereafter). State Assembly Bill 97 (Stats. 2013, Chapter 47) ("AB 97") was enacted to establish a new system for funding State school districts, charter schools and county offices of education by the implementation of the Local Control Funding Formula. Subsequently, AB 97 was amended and clarified by Senate Bill 91 (Stats. 2013, Chapter 49). Under the former system, the Proposition 98 funding was allocated in such a way that approximately two-thirds of the revenues received by school districts was allocated based on complex historical formulas (known as "revenue limit" funds), and approximately one-third of the revenues received by school districts was derived through numerous "categorical programs," such as for summer school textbooks, staff development, gifted and talented students, and counselors for middle and high schools. The Local Control Funding Formula replaces revenue limit and most categorical program funding. The State budget provided funding commencing in Fiscal Year 2013-14 to begin implementing the new formulas. Under the prior funding system, school districts received different per-pupil funding

rates based on historical factors and varying participation in the categorical programs. The new system provides a more uniform base per-pupil rate for each of several grade levels. The base rates are augmented by several funding supplements for (1) students needing additional services, defined as English learners, students from lower income families, and foster youth; (2) school districts with high concentrations of English learners and lower income families; and (3) high school students. The new funding system requires school districts to develop local plans describing how the school district intends to educate its students. Full implementation of the LCFF is estimated to take approximately eight years.

With revenues based on per-pupil rates, as augmented by the funding supplements, changes in enrollment will cause a school district to gain or lose operating revenues, without necessarily permitting the school district to make adjustments in fixed operating costs. Enrollment can fluctuate due to factors such as population growth or decline, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues, without necessarily permitting the school district to make adjustments in fixed operating costs.

Because the School District's legal minimum funding level is not expected to be met from local property taxes alone, the School District budgeted receipt of general operating funds from the State in Fiscal Year 2014-15 and Fiscal Year 2015-16. The School District projects receipt of approximately \$206.5 million in local control funding from the State in Fiscal Year 2015-16. The School District also projects receipt of approximately \$44.6 million of Other State unrestricted funding in Fiscal Year 2015-16. Total State funding accounts for approximately 96.9% of the School District's overall revenues. As a result, decrease or deferrals in State revenues, or in State legislative appropriations made to fund education may significantly affect School District operations.

#### **Average Daily Attendance**

As indicated above, commencing with the Fiscal Year 2013-14, the State budget restructures the manner in which the State allocates funding for K-12 education using the Local Control Funding Formula. Under the prior funding system, school districts received different per-pupil funding rates based on historical factors and varying participation in categorical programs. Table A-1 below sets forth the School District's enrollment and average daily attendance ("ADA"), for Fiscal Years 2010-11 through 2017-18.

Enrollment can fluctuate due to factors such as population growth or decline, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues, without necessarily permitting the district to make adjustments in fixed operating costs.

**Table A-1**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**CBEDS AND AVERAGE DAILY ATTENDANCE**  
**Fiscal Years 2010-11 through 2017-18**

<b><u>Fiscal</u> <u>Year</u></b>	<b><u>CBEDs</u> <u>Enrollment</u><sup>(1)</sup></b>	<b><u>Average Daily</u> <u>Attendance</u></b>
2010-11	29,014	27,767.87
2011-12	28,763	27,772.04
2012-13	28,731	27,450.70
2013-14	28,522	27,348.71
2014-15	28,479	27,287.18
2015-16 <sup>(2)</sup>	28,419	27,160.51
2016-17 <sup>(2)</sup>	28,362	27,145.03
2017-18 <sup>(2)</sup>	28,305	27,064.60

<sup>(1)</sup> CBEDs is enrollment, not average daily attendance.

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

*Source: Temecula Valley Unified School District.*

The following table shows a breakdown of the School District's ADA for purposes of the Local Control Funding Formula by grade span, total enrollment and the percentage of EL/LI student enrollment for Fiscal Years 2013-14 to 2016-17.

**Table A-2**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**Local Control Funding Formula**  
**ADA, Enrollment and EL/LI Enrollment Percentage**  
**Fiscal Year 2013-14 to 2016-17**

Fiscal Year	Average Daily Attendance <sup>(1)</sup>					Enrollment	
	K-3	4-6	7-8	9-12	Total ADA	Total Enrollment	% of EL/LI Enrollment <sup>(2)</sup>
2013-14 <sup>(3)</sup>	7,584.82	6,211.46	4,217.34	9,272.95	27,286.57	28,522	23.21%
2014-15 <sup>(3)</sup>	7,564.47	6,158.85	4,107.60	9,323.74	27,154.66	28,477	22.81
2015-16 <sup>(4)</sup>					[27,155.94]	28,443	26.26
2016-17 <sup>(4)</sup>							

<sup>(1)</sup> ADA is as of the second principal reporting period (P-2 ADA), ending on or before the last attendance month prior to April 15 of each school year.

<sup>(2)</sup> As of October report submitted to the California Basic Educational Data System (CBEDS). For purposes of calculating Supplemental and Concentration Grants, a school district's Fiscal Year 2013-14 percentage of unduplicated EL/LI students will be expressed solely as a percentage of its Fiscal Year 2013-14 total enrollment. For Fiscal Year 2014-15, the percentage of unduplicated EL/LI enrollment is based on the two-year average of EL/LI enrollment in Fiscal Years 2013-14 and 2014-15. Beginning in Fiscal Year 2015-16, a school district's percentage of unduplicated EL/LI students will be based on a rolling average of such district's EL/LI enrollment for the then-current fiscal year and the two immediately preceding fiscal years.

<sup>(3)</sup> Actual

<sup>(4)</sup> Projected.

Source: Temecula Valley Unified School District.

Local Control Funding Formula calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among California school districts.

### Labor Relations

In the fall of 1974, the State Legislature enacted a public school employee collective bargaining law known as the Rodda Act, which became effective in stages in 1976. The law provides that employees are to be divided into appropriate bargaining units which are to be represented by an exclusive bargaining agent.

The teachers of the School District (certificated non-management personnel) are represented by the Temecula Valley Educators' Association ("TVEA"). The current contract for certificated personnel will expire on June 30, 2017. As of June 30, 2015, the School District's certificated non-management employees had a total payroll of \$111,516,410, and for Fiscal Year 2015-16 have a budgeted total payroll of \$123,866,492.

The California School Employees' Association ("CSEA") has been selected as the exclusive bargaining agent for non-teaching, non-management (classified) personnel. The current contract for the classified personnel will expire on June 30, 2016. As of June 30, 2015, the School District's classified



non-management employees had a total payroll of \$38,691,998, and for Fiscal Year 2015-16 have budgeted total payroll of \$42,737,797.

Management, supervisory and confidential personnel are comprised of certificated and classified personnel who are self-represented. The Superintendent and upper level management have employment contracts. As of June 30, 2015, the School District's management, supervisory and confidential employees had a total payroll of \$12,246,093, and for Fiscal Year 2015-16 have a budgeted total payroll of \$13,235,715.

For Fiscal Year 2015-16, the estimated split among the number of certificated, classified and management employees is approximately 58.1% certificated, 36.8% classified and 5.1% management. Table A-2 below sets forth the number of certificated, classified and management employees employed by the School District for Fiscal Years 2011-12 through 2015-16.

**Table A-3**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**EMPLOYEES**  
**Fiscal Years 2011-12 through 2015-16**

<u>Fiscal Year</u>	<u>Total FTE for Certificated Employees</u>	<u>Total FTE for Classified Employees</u>	<u>Total FTE for Management Employees</u>	<u>Total FTE for Employees</u>
2011-12	1,353.5	766.1	84.5	2,204.1
2012-13	1,251.2	752.9	92.5	2,096.6
2013-14	1,277.5	803.7	109.8	2,191.0
2014-15	1,316.0	850.6	113.5	2,280.1
2015-16 <sup>(1)</sup>	1,350.3	846.7	117.4	2,331.7

\*FTE: Full-Time Equivalent.

<sup>(1)</sup> Second Interim.

*Source: Temecula Valley Unified School District.*

### **Retirement Programs**

The School District participates in the State Teachers' Retirement System ("STRS"), which provides benefits to full-time certificated personnel. STRS provides retirement, disability and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. 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 School District was required by such statutes to contribute 8.88% of their eligible salary for Fiscal Year 2014-15 and is currently required by such statutes to contribute 10.73% of eligible salary for Fiscal Year 2015-16, while participants were required to contribute 8.15% of their respective salaries for Fiscal Year 2014-15 and are required to contribute 9.20% (classic members) and 8.56% (new members) of their respective salaries for Fiscal Year 2015-16 (see "Pension Reform" below). The State also contributes to STRS. The State's contribution reflects a base contribution and a supplemental contribution that will vary from year to year based on statutory criteria. The State also contributes an amount based on a percentage of annual member earnings into the STRS Supplemental Benefits Maintenance Account, which is used to maintain the purchasing power of benefits.

The School District's contributions to STRS for Fiscal Years 2012-13 through 2014-15 were

\$9,003,517, \$9,026,477 and \$16,731,976, respectively, and is budgeted at \$20,297,956 for Fiscal Year 2015-16. The increase in costs in Fiscal Years 2014-15 and 2015-16 is due to the recording of the STRS on-behalf payments (as discussed in the previous paragraph) being booked in accordance with new State requirements effective in Fiscal Year 2014-15. The on-behalf amounts included in these figures for Fiscal Years 2014-15 and 2015-16 are \$6.19 million and \$6.25 million, respectively.

Interested persons may refer to the STRS website for details regarding its programs – <http://www.calstrs.com> (this reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement). The following information has been obtained from the information published by STRS and is believed to be reliable but is not guaranteed as to accuracy or completeness. The governing board of STRS adopts a valuation of its defined benefit plan and its defined benefit supplemental plan each year. Due to the financial market declines which occurred during the Fiscal Year 2008-09 period, STRS investments lost substantial value at that time. STRS uses an averaging process that recognizes gains and losses over a three-year period, as a result of which the fund is still being affected by losses incurred during the market downturn. Recent years have seen positive investment returns. The valuation for the period ending June 30, 2014, identified the level of funding for the STRS defined benefit program at 68.5% of full funding based on an actuarial value of assets (73.3% based on a fair market value of assets), with an estimated actuarial obligation of \$231.2 billion, an actuarial valuation of assets of \$158.4 billion and unfunded actuarial obligations of \$72.7 billion. In recent years, historical unfunded actuarial obligations for the defined benefit plan have ranged from being over funded in the late 1990's to the 66.9% of full funding estimated in the June 30, 2013, valuation. Contributions to STRS are generally fixed by State law.

The 2014-15 State Budget included a plan of shared responsibility among the State, school districts and teachers. The Board of STRS periodically meets and adopts valuation assumptions and valuation policy for the retirement program.

The School District also participates in the State of California Public Employees Retirement System ("PERS") which provides benefits to full-time classified personnel and part-time employees who are employed more than 1,000 hours during the year. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by the State statutes, as legislatively amended, with the Public Employees' Retirement Laws. School districts are currently required to contribute to PERS at an actuarially determined rate, which was 11.771% of eligible salary expenditures for Fiscal Year 2014-15 and 11.817% of eligible salary expenditures for Fiscal Year 2015-16, while participants enrolled in PERS prior to the Implementation Date (defined herein) contribute 7% of their respective salaries for Fiscal Year 2014-15 and 7% of their respective salaries for Fiscal Year 2015-16. Participants enrolled after the Implementation Date contribute at an actuarially determined rate, which is 6% of their respective salary for Fiscal Year 2014-15 and 6% of their respective salaries for Fiscal Year 2015-16. See " – Pension Reform" herein.

The School District's contributions to PERS as the employer's portion of the contributions for Fiscal Years 2012-13 through 2014-15 were \$4,756,620, \$5,049,177 and \$4,365,958, respectively, and is budgeted at \$4,438,632 for Fiscal Year 2015-16.

Interested persons may refer to the PERS website for details regarding its programs – <http://www.calpers.ca.gov> (this reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement). The following information has been obtained from the information published by PERS and is believed to be reliable but is not guaranteed as to accuracy or completeness. The governing board of the PERS adopts a valuation of its defined benefit plan each year. Due to the financial market declines which occurred during the Fiscal Year 2008-09 period, PERS investments lost substantial value at that time. In December 2009, the PERS Board adopted changes to its

asset smoothing method in order to phase in over a three-year period the impact of the 24% investment loss experience by PERS in Fiscal Year 2008-09. Recent years have seen positive investment returns. The valuation for the period ending June 30, 2014, identified the level of funding for the PERS defined benefit program for schools at 86.6% of full funding. PERS website does not provide an estimate of the actuarial obligations, of the estimated actuarial valuation of assets or of the estimated unfunded actuarial obligations. PERS has adopted policies regarding contribution rates for the various plans and such plans are subject to modification as the PERS governing board determines how to address the unfunded actuarial obligations. At its April 17, 2013 meeting, the Board approved a change to the CalPERS amortization and smoothing policies. Beginning with the June 30, 2014, valuation, the newly adopted direct smoothing method will be used to set the 2015-16 rates for the State and Schools defined benefit plans. Under this new direct-rate smoothing method, all gains and losses will be paid over a fixed 30-year period with the increases or decreases in the rate spread over a 5-year period. The PERS governing board periodically adopted new assumptions regarding the longer life expectancy of state retirees. The June 30, 2014, valuation notes that the changes to the demographic assumptions approved by the Board would be use to set the Fiscal Year 2016-17 contribution rate for School employers. The increase in liability due to the new actuarial assumptions would be calculated in the 2015 actuarial valuation and amortized over a 20-year period with a 5-year ramp-up/ramp-down in accordance with Board policy.

In 2014, the Governor signed into law a comprehensive funding strategy to address the unfunded liability at the California State Teachers' Retirement System (CalSTRS), which is currently estimated to be \$72.7 billion. Consistent with this strategy, the 2016-17 Proposed Budget (defined below) includes \$2.5 billion General Fund in 2016-17 for CalSTRS. The 2016-17 Proposed Budget indicates that the funding strategy positions CalSTRS on a sustainable path forward, eliminating the unfunded liability in about 30 years. Based on a model of shared responsibility, the state, school districts and teachers all increased their contributions to the system beginning in 2014-15. Specifically, the 2016-17 Proposed Budget funding plan in 2016-17 increases the state contribution to 6.3% of teacher compensation, 10.2% for most teachers and 12.6% for school districts. The 2016-17 Proposed Budget also proposes that the State make an additional contribution of 2.5% of teacher compensation to CalSTRS for the Supplemental Benefits Maintenance Account.

Contribution rates to STRS and PERS vary annually depending on changes in actuarial assumptions and other factors, such as changes in retirement benefits. The contribution rates are based on state-wide rates set by the STRS and PERS retirement boards. STRS has a substantial state-wide unfunded liability. Since this liability has not been broken down by each school district, it is impossible to determine the School District's share.

## **Pension Reform**

On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that reforms pensions for State and local government employees. AB 340, which was signed into law on September 12, 2012, established the California Public Employees' Pension Reform Act of 2012 ("PEPRA") which governs pensions for public employers and public pension plans on and after January 1, 2013 (the "Implementation Date"). For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is \$118,500 for 2016, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and school district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. Although the School District anticipates that PEPRA would not increase the School District's future pension obligations, the School District is unable to determine the extent of any impact PEPRA would have on the School District's pension obligations at this time. Additionally, the School District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

## **GASB 67 and 68**

On June 25, 2012, the Governmental Accounting Standards Board ("GASB") voted to approve two new standards that aimed to improve the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, Financial Reporting for Pension Plans, revised existing guidance for the financial reports of most pension plans. Statement No. 68, Accounting and Financial Reporting for Pensions, revised and established new financial reporting requirements for most governments that provide their employees with pension benefits.

Statement 67 replaces the requirements of Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and Statement 50, Pension Disclosures as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. Statement 67 builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year required supplementary information schedules.

Statement 68 replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers and Statement No. 50, Pension Disclosures, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

The provisions in Statement 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement 68 are effective for fiscal years beginning after June 15, 2014.

At the end of Fiscal Year 2014-15, the School District had an outstanding pension liability of \$242,956, as a result of the adoption of GASB No. 68, Accounting Reporting for Pensions. The District has, recorded its proportionate share of net pension liabilities for STRS and PERS.

### **Post-Retirement Health Care Benefits**

The School District provides other post-employment benefits (“OPEB”), in accordance with School District contracts, to eligible employees who retire from the School District with at least eight years of service as Assistant Superintendent or higher, *provided* that they remain retired under the provisions of STRS or PERS. The School District will pay the cost of a retiree-only HMO plan until the retired Assistant Superintendent or Superintendent is eligible to be covered by Medicare at which time the School District will pay the Medicare supplement costs for ten (10) years or until age 75. The School District’s funding policy is based on the projected pay-as-you-go funding requirements. During Fiscal Years 2012-13 and 2013-14, the School District contributed \$10,886.00 and \$11,736.00, respectively, and for Fiscal Year 2014-15 actual \$\_\_\_\_\_ and for Fiscal Year 2015-16 budgeted \$[\_\_\_\_\_/235,761.00] for retirees’ healthcare benefits. Fiscal Year 2014-15 includes recognition of the implicit rate subsidy as required by GASB 68.

In addition to the OPEB benefits provided for eligible Assistant Superintendents or higher, the School District recently entered into a Tentative Agreement, dated December 3, 2015, with the Temecula Valley Educators Association CTA/NEA to provide retiree health and welfare benefits beginning in the 2016-17 school year. Benefits are available to unit members who are at least fifty-five (55) years of age, have fifteen (15) years of full-time service in the District and must have participated in the School District’s health and welfare insurance for the past 10 years with the District. The benefit shall be paid for the lesser of five (5) years or until the retiree attains Medicare age eligibility (i.e. 65 years of age). The retiree benefit paid by the School District shall not exceed the cost of the lowest active HMO medical premium at the time of retirement; however, in no event shall the benefit exceed the School District’s health and welfare contribution limit for each bargaining unit member. The retiree benefits are subject to additional requirements and provisions as set forth in the agreement. The effect of this agreement on the outstanding pension liability has not yet been actuarially evaluated.

The GASB issued its final accrual accounting standards for retiree healthcare benefits, GASB 45, in June 2004 (“GASB 45”). GASB 45 requires local governmental employers who provide OPEB as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. GASB 45 establishes standards for the measurement, recognition and display of OPEB expenses/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of the governmental employer.

Pursuant to GASB 45, the School District retained BRS/Bickmore Risk Services to assess the School District’s liabilities in connection with GASB 45. The report was prepared on December 15, 2015, with a June 30, 2015, valuation date. The next report will be valued as of June 30, 2017, under the biennial rules. The report concluded that the amount of actuarial liability (past and present) for the School District, as of June 30, 2015, was \$242,956. As of June 30, 2015, the most recent actuarial evaluation date, the School District did not have a funded plan.

**Supplemental Early Retirement Plans (SERP) and Early Retirement Incentives.** For Fiscal Year 2010-11, the School District adopted an early retirement incentive that provided the School District contribute for a period of five years towards the cost of retiree medical, dental and vision insurance for certain eligible employees. The eligible employees had the option to waive their rights to payment toward retirement health benefits and instead receive cash in lieu of benefits payments. As of June 30, 2015, the balance of the obligation associated with the early retirement incentive was fully paid.

For Fiscal Year 2011-12, the School District adopted an early retirement incentive that provided eligible certificated employees with 100 percent of their salaries. Certificated employees who met the eligibility requirements and retired as of June 30, 2012, will receive the benefit for a period 60 months beginning July of 2012. As of June 30, 2015, the balance of the obligation associated with the early retirement incentive was \$3,291,011.

### **Risk Management**

The School District is a member of the Riverside Schools' Insurance Authority (RSIA), the Self-Insured Schools of California (SISC) and the Joint Educational Transit of Riverside County (JET). The School District pays an annual amount to each entity for its health, property/liability coverage and other services. Coverage is comparable with insurance maintained by similar school districts.

During the year ended June 30, 2015, the School District made payments of \$1,341,356, \$25,564,242 and \$6,049 to RSIA, SISC and JET, respectively.

### **Outstanding Debt; Financial Obligations**

As of June 30, 2015, the School District had [Confirm: \$128,630,609 of long-term debt outstanding (not including debt of Mello-Roos community facilities districts (the "CFDs") within the School District). The debt of the CFDs is payable from special taxes levied on the taxable property within those districts; and the School District's general obligation debt, including the Series 2016-B Bonds, is payable from *ad valorem* taxes levied on the taxable property within the School District and not from general revenues of the School District. The School District leases equipment, portable classrooms and school buses pursuant to capital leases.

A schedule of changes in long-term debt for the Fiscal Year ended June 30, 2015, is set forth in the table below.

**Table A-4**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**Schedule of Changes in Long-Term Debt as June 30, 2015**  
**(Excludes CFD Obligations)**

	<u>Balance as of June 30, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance as of June 30, 2015</u>	<u>Amount Due in One Year</u>
General Obligation Bonds	\$57,629,162	\$612,924	\$4,305,000	\$53,937,086	\$4,035,000
Premium on issuance	4,082,906	0	356,251	3,726,655	0
TVUSD Financing Authority Bonds	0	55,340,000	0	55,340,000	1,305,000
Premium on issuance	0	9,606,654	128,089	9,478,565	0
Capital lease	90,269	0	90,269	0	0
CalSTRS Golden Handshake PARS 403(b) Supplemental	677,271	0	211,552	465,719	211,552
Supplemental Early Retirement Plan – H&W	762,223	0	762,223	0	0
Early Retirement Incentive Plans	4,936,517	0	1,645,506	3,291,011	1,645,506
Compensated absences - net	525,444	69,129	0	594,573	0
Claims Liability	<u>1,514,000</u>	<u>879,965</u>	<u>596,965</u>	<u>1,797,000</u>	<u>596,965</u>
<b>TOTALS</b>	<b>\$70,217,792</b>	<b>\$66,508,672</b>	<b>\$8,095,855</b>	<b>\$128,630,609</b>	<b>\$7,794,023</b>

*Source: Temecula Valley Unified School District.*

Repayment schedules for certain of the debts/obligations are contained in APPENDIX B — “AUDITED FINANCIAL STATEMENTS OF THE TEMECULA VALLEY UNIFIED SCHOOL DISTRICT FOR FISCAL YEAR 2014-15.”

**General Obligation Bonds.** On February 12, 2004, the School District issued its 2004 General Obligation Refunding Bonds (the “2004 Refunding Bonds”) in the amount of \$47,425,000. The 2004 Refunding Bonds were issued at an aggregate price of \$52,870,926 (representing the principal amount of \$47,425,000, plus an original issue premium of \$5,965,132, less underwriter’s discount of \$248,981 and costs of issuance of \$270,225). The 2004 Refunding Bonds mature August 1, 2020, and yield interest rates of 0.95 to 4.10 percent. As of June 30 2015, the principal balance of \$12,335,000 of the 2004 Refunding Bonds remained outstanding. No portion of the \$65,000,000 authorization to issue general obligation bonds received at the election held on November 7, 1989 remains unissued.

On February 2, 2006, the School District issued its 2005 General Obligation Refunding Bonds (the “2005 Refunding Bonds”) in the amount of \$6,740,000. The 2005 Refunding Bonds were issued at an aggregate price of \$7,189,566 (representing the principal amount of \$6,740,000, plus an original issue premium of \$516,847, less underwriter’s discount of \$67,281). The 2005 Refunding Bonds mature August 1, 2025 and yield interest rates of 3.10 to 4.40 percent. As of June 30, 2015, the principal balance of \$5,180,000 of the 2005 Refunding Bonds remained outstanding. As indicated in the preceding

paragraph no portion of the \$65,000,000 authorization to issue general obligation bonds received at the election held on November 7, 1989 remains unissued.

On November 6, 2012, the voters of the School District approved the issuance of not to exceed \$165,000,000 of general obligation securities. The Series 2016-B Bonds are the second series of bonds issued under the measure as approved by voters. The annual debt service requirements on the Series 2016-B Bonds are shown in "DEBT SERVICE SCHEDULE" in the Official Statement.

On February 21, 2013, the Temecula Valley Unified School District issued the General Obligation Bonds, Series 2013-A (the "Series 2013-A Bonds"), in the amount of \$34,995,070. The Series 2013-A Bonds were the first series of authorized bonds not to exceed \$165,000,000 to be issued under the measure as approved by voters. The Series 2013-A Bonds were issued as both current interest bonds and capital appreciation bonds, with the value of the capital appreciation bonds accreting to \$4,339,930, and an aggregate principal debt service balance of \$39,335,000.

The Series 2013-A Bonds have a final maturity which occurs on August 1, 2042. As of June 30, 2015, the principal balance outstanding (including accretion) on the Series 2013-A Bonds was \$36,422,086.

**Financing Authority.** The Temecula Valley Unified School District Financing Authority (TVUSD FA) was created to refinance the Community Facility Districts' (CFD) debt. On February 26, 2015, the TVUSD FA issued \$55,350,000 of 2015 Special Tax Revenue Bonds. The bonds refinanced the debt for CFD's 2000-1, 2002-1 Improvement Area 2, 2002-2, 2003-2, 2004-1 Improvement Area A, and 2005-1. On June 30, 2015, the principal balance outstanding on 2015 Special Tax Revenue Bonds was \$55,340,000. Unamortized premium received on issuance of the bonds amounted to \$9,478,565.

**Community Facilities Districts.** [Update: As of June 30, 2015, the community facilities districts formed by the School District had an aggregate of \$27,830,000 of bonds outstanding [confirm: exclusive of community facilities district bonds refinanced by TVUSD FA described in the preceding paragraph. The CFD Bonds are secured by special taxes levied on taxable property within the Community Facilities Districts and are not secured by *ad valorem* taxes of the School District's general fund.

**Accumulated Unpaid Employee Vacation.** The accumulated unpaid employee vacation for the School District at June 30, 2015, amounted to \$594,573.

**Short-Term Debt; Tax and Revenue Anticipation Notes.** The School District currently has no tax revenue anticipation notes outstanding. The School District expects to issue up to \$15,000,000 of notes on or about July 1, 2016 to supplement cash flow.

**Operating Leases.** The School District has entered into various operating leases for equipment with lease terms in excess of one year. Fiscal Year 2015-16 expenditures for operating leases are approximately \$350,000. The School District leases contain purchase options and consist of vehicles.

**State Past Practice of Cash Management Deferrals.** In the past, the State has engaged in the practice of deferring certain apportionments to school districts in order to manage the State's cash flow. Collectively, these deferrals are referred to as the "Cash Management Deferrals." This practice has included deferring certain apportionments from one fiscal year to the next. These "cross-year" deferrals were codified. In recent year, the State has paid down the deferrals. The School District cannot predict whether the State will engage in the practice of deferring certain apportionments to school districts in the future.



## EFFECT OF STATE BUDGET ON REVENUES

*The information in this section concerning the State budget and State finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal and accreted value of or interest on the Series 2016-B Bonds is payable from the general fund of the School District. The Series 2016-B Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment of the Series 2016-B Bonds. See "THE SERIES 2016-B BONDS – Security" herein.*

Most public school districts in California are dependent on revenues from the State for a large portion of their operating budgets. California school districts receive an average of about 55% of their operating revenues from various State sources. Prior to implementation in Fiscal Year 2013-14 of the Local Control Funding Formula, the primary source of funding for school districts was the revenue limit, which was a combination of State funds and local property taxes (see " – SCHOOL DISTRICT FINANCIAL INFORMATION – State Funding of Education" below). Under the Local Control Funding Formula, State funds typically make up the majority of a district's funding, as was the case under the previous revenue limit funding. In the past, school districts also received substantial funding from the State for various categorical programs. Commencing with Fiscal Year 2009-10, various mandates and restrictions on local school districts were removed, allowing flexibility to spend funding for 42 categorical programs as school districts wished. These flexibility provisions were extended for a number of years through legislation and the Local Control Funding Formula replaces revenue limit and most categorical program funding. Revenues received by the School District from all State sources accounted for approximately \_\_\_% of total general fund revenues in Fiscal Year 2013-14, for approximately \_\_\_% of total general fund revenues in Fiscal Year 2014-15 and are estimated to account for approximately 96.9% of total general fund revenues in Fiscal Year 2015-16.

The availability of State funds for public education is a function of constitutional provisions affecting school district revenues and expenditures, the condition of the State economy (which affects total revenue available to the State general fund), and the annual State budget process. As a result of the slow State and United States of America economies prior to the recent improvement in the economy, the State experienced serious budgetary shortfalls. The effect of the State revenue shortfalls on the local or State economy or on the demand for, or value of, the property within the School District cannot be predicted.

**Proposition 98; State Education Funding.** As indicated above, the Proposition 98 guaranteed amount for education is based on prior-year funding, as adjusted through various formulas and tests that take into account State proceeds of taxes, local property tax proceeds, school enrollment, per capita personal income, and other factors. The State's share of the guaranteed amount is based on State general tax proceeds and is not based on the general fund in total or on the State budget. The local share of the guaranteed amount is funded from local property taxes. The total guaranteed amount varies from year to year and throughout the stages of any given fiscal year's budget, from the Governor's initial budget proposal to actual expenditures to post-year-end revisions, as better information regarding the various factors becomes available. Over the long run, the guaranteed amount will increase as enrollment and per capita personal income grow.

If, at year-end, the guaranteed amount is calculated to be higher than the amount actually appropriated in that year, the difference becomes an additional education funding obligation, referred to as "settle-up." If the amount appropriated is higher than the guaranteed amount in any year, that higher funding level permanently increases the base guaranteed amount in future years. The Proposition 98 guaranteed amount is reduced in years when general fund revenue growth lags personal

income growth, and may be suspended for one year at a time by enactment of an urgency statute. In either case, in subsequent years when State general fund revenues grow faster than personal income (or sooner, as the Legislature may determine), the funding level must be restored to the guaranteed amount, the obligation to do so being referred to as "maintenance factor."

In the past, the State's response to fiscal difficulties has had a significant impact on Proposition 98 funding and settle-up treatment. The State has sought to avoid or delay paying settle-up amounts when funding has lagged the guaranteed amount. In response, teachers' unions, the State Superintendent and others sued the State or Governor in 1995, 2005 and 2009 to force them to fund schools in the full amount required. The settlement of the 1995 and 2005 lawsuits resulted in over \$4 billion in accrued State settle-up obligations. However, legislation enacted to pay down the obligations through additional education funding over time, including the Quality Education Investment Act of 2006 (QEIA), have also become part of annual budget negotiations, resulting in repeated adjustments and deferrals of the settle-up amounts.

The State has also sought to preserve general fund cash while avoiding increases in the base guaranteed amount through various mechanisms: by treating any excess appropriations as advances against subsequent years' Proposition 98 minimum funding levels rather than current year increases; by temporarily deferring apportionments of Proposition 98 funds one fiscal year to the next, by permanently deferring the year end apportionment from June 30 to July 2; by suspending Proposition 98, as the State did in 2004-05; and by proposing to amend the Constitution's definition of the guaranteed amount and settle-up requirement under certain circumstances.

**Proposition 1A.** Beginning in 1992-93, the State has satisfied a portion of its Proposition 98 obligations by shifting part of the property tax revenues otherwise belonging to cities, counties, special districts, and redevelopment agencies, to school and college districts through a local Educational Revenue Augmentation Fund (ERAF) in each county. Local agencies, objecting to invasions of their local revenues by the State, sponsored a statewide ballot initiative intended to eliminate the practice. In response, the Legislature proposed an amendment to the State Constitution, which the State's voters approved as Proposition 1A at the November 2004 election. That measure was generally superseded by the passage of a new initiative constitutional amendment at the November 2010 election, known as "Proposition 22."

**Ballot Propositions.** On November 2, 2010, voters approved Propositions 22, 25 and 26. Proposition 22 prohibits State legislators from using existing funds allocated to local government, public safety and transportation. Proposition 25 lowers the vote threshold for lawmakers to pass the State budget from two-thirds to a simple majority. Proposition 26 requires a two-thirds affirmative vote in the State Legislature and local governments to pass many fees, levies, charges and tax revenue allocations that under previous rules could be enacted by a simple majority vote.

**Education Provisions of the California State Budget.** Following the enactment of Proposition 25 on November 2, 2010, the Governor is required by the State Constitution to propose a budget to the State Legislature no later than January 10 of each year, and a final budget must be adopted by a majority vote of each house of the Legislature no later than June 15. Prior to enactment of Proposition 25, the final budget was required to be approved by a 2/3rds majority vote of each house of the Legislature and the June 15 deadline was routinely breached. For example, prior to enactment of Proposition 25, the State Budget approval occurred as late as September 23, 2008, for the Fiscal Year 2008-09 State Budget and October 8, 2010, for the Fiscal Year 2010-11 State Budget, the latest budget approval in State history. The budget becomes law upon the signature of the Governor, who retains veto power over specific items of expenditure. School district budgets must generally be adopted by July 1, and revised by the school board within 45 days after the Governor signs the budget

act to reflect any changes in budgeted revenues and expenditures made necessary by the adopted State budget. State income tax, sales tax, and other receipts can fluctuate significantly from year to year depending on economic conditions in the State and the nation. Because funding for K-12 education is closely related to overall State income, funding levels can also vary significantly from year to year, even in the absence of significant education policy changes. The School District cannot predict how State income or State education funding will vary over the entire term to maturity of the Series 2016-B Bonds, and the School District takes no responsibility for informing Owners of the Series 2016-B Bonds as to any such annual fluctuations.

When the State budget is not adopted on time, basic appropriations and the categorical funding portion of each school district's State funding are affected differently. Under the rule of *White v. Davis* (also referred to as *Jarvis v. Connell*), a State Court of Appeal decision reached in 2002, there is no constitutional mandate for appropriations to school districts without an adopted budget or emergency appropriation, and funds for State programs cannot be disbursed by the State Controller until that time, unless the expenditure is (i) authorized by a continuing appropriation found in statute, (ii) mandated by the Constitution (such as appropriations for salaries of elected state officers), or (iii) mandated by federal law (such as payments to State workers at no more than minimum wage). The State Controller has consistently stated that basic State funding for schools is continuously appropriated by statute, but that special and categorical funds may not be appropriated without an adopted budget. The State Controller has posted guidance as to what can and cannot be paid during a budget impasse at its website [www.sco.ca.gov](http://www.sco.ca.gov). Neither the School District nor the Underwriter take responsibility for the continued accuracy of this internet address or for the accuracy, completeness or timeliness of information posted there, and such information is not incorporated herein by reference. Should the Legislature fail to pass the budget or emergency appropriation before the start of any fiscal year, the School District might experience delays in receiving certain expected revenues.

***Information Regarding State Education Spending.*** Information about the State budgeting process, the State Budget and State spending for education is available at various State-maintained websites, including (i) the State's website <http://www.ebudget.ca.gov> (this reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement), where recent official statements for State bonds are posted, (ii) the California State Treasurer's Internet home page <http://www.treasurer.ca.gov> (this reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement) which includes the State's audited financial statements, various State of California Official Statements, many of which contain a summary of the current State Budget, past State Budgets, and the impact of those budgets on school districts in the State, the State's Rule 15c2-12 filings for State bond issues, financial information which includes an overview of the State economy and government, State finances, State indebtedness, litigation and discussion of the State budget and its impact on school districts, (iii) the California Department of Finance's internet home page <http://www.dof.ca.gov/budget> (this reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement) which includes the text of the budget and information regarding the State budget, and (iv) the State Legislative Analyst's Office ("LAO") <http://www.lao.ca.gov> (this reference is for convenience of reference only and not considered to be incorporated as part of this Official Statement) which prepares analyses and reports regarding the proposed and adopted State budgets. *The State has not entered into any contractual commitment with the School District, the Underwriter or the Owners of the Series 2016-B Bonds to provide State budget information to the School District or the Owners of the Series 2016-B Bonds. Although the State sources of information listed above are believed to be reliable, neither the School District nor the Underwriter assumes any responsibility for the accuracy of the State budget information set forth or referred to therein.*

**2016-17 Proposed State Budget.** On January 7, 2016, the Governor released his proposed State budget for Fiscal Year 2016-17 (the “2016-17 Proposed Budget”). The 2016-17 Proposed Budget proposed \$71.6 billion with respect to the Proposition 98 (as defined below in “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES AND APPROPRIATIONS –Proposition 98”) minimum funding guarantee for Fiscal Year 2016-17. The 2016-17 Proposed Budget reflects Proposition 98 Guarantee increases in Fiscal Years 2014-15 and 2015-16, relative to the Fiscal Year 2015-16 Budget Act levels – providing additional one-time resources in each of those years. For K-12 per pupil spending, the total per-pupil expenditures from all sources are projected to be \$14,184 in Fiscal Year 2015-16 and \$14,550 in Fiscal Year 2016-17, including funds provided for prior year settle-up obligations. Ongoing K-12 Proposition 98 per-pupil expenditures in the 2016-17 Proposed Budget are \$10,591 in Fiscal Year 2016-17, an increase of \$368 per-pupil over the level provided in Fiscal Year 2015-16, and up significantly from the \$7,008 per pupil provided in Fiscal Year 2011-12. The 2016-17 Proposed Budget utilizes the funding to implement the LCFF and provides \$2.8 billion in new funding, bringing the Local Control Funding Formula’s implementation to 95% complete.

The 2016-17 Proposed Budget proposes an additional \$2 billion deposit above the deposit required by Proposition 2 to fund the Rainy Day Fund to a total of \$8 billion, which is 6.5 percent of the General Fund tax revenues. The 2016-17 Proposed Budget notes the significant reliance of the General Fund on capital gains and on taxes paid by the top 1 percent of income earners who paid over 45 percent of personal income taxes in the 2013 tax year. Personal income taxes are estimated to contribute 69.5 percent of Fiscal Year 2016-17 general fund revenues. Proposition 2, enacted in 2014, provides that when capital gains revenue is projected to be greater than 8 percent of the General Fund tax revenue, the excess revenue is to be used to pay off General Fund debts and build up a reserve for future downturns. The 2016-17 Proposed Budget also notes an estimated \$77 billion in deferred maintenance on existing State infrastructure, including the State’s highways, roads and bridges, and proposes funding \$879 million from the General Fund to accelerate the repayment of loans to transportation projects, \$807 million (\$500 million from the General Fund) for critical deferred maintenance at levees, state parks, universities, community colleges, prisons, state hospitals and other state facilities and \$1.5 billion from the General Fund for work on three state office buildings, including the State Capitol Annex.

The LAO, a nonpartisan State office which provides fiscal and policy information and advice to the State Legislature, released its report on the 2016-17 Proposed State Budget entitled “The 2016-17 Budget: Overview of the Governor’s Budget” on January 11, 2016 (the “2016-17 Proposed Budget Overview”). In the 2016-17 Proposed Budget Overview, the LAO notes that the Governor’s emphasis on reserves is appropriate and that this general approach is prudent as a large budget reserve is the key to weathering the next recession with minimal disruption to public programs. The LAO also noted that a focus on infrastructure makes sense, but indicate the specific proposals raise several issues that merit legislative consideration, such as (i) the appropriateness of the propose funding sources, (ii) ensuring such funding is allocated to the highest priority and most cost-effective infrastructure needs and (iii) allowing for sufficient legislative oversight. The LAO also noted that the Governor allocates about \$7 million in discretionary resources, prioritizing reserves and one-time spending, including using a significant portion of the discretionary resources to increase total reserves to over \$10 billion, doubling the size of budget reserves. The LAO recommends that as the Legislature considers the trade-offs among different budget priorities, the Legislature plan for the next downturn, and begin with a robust target for budget reserves for the end of 2016-17 and concentrate spending on one-time purposes. *The 2016-17 Proposed Budget Overview is available from the LAO at [www.lao.ca.gov](http://www.lao.ca.gov) but such information is not incorporated herein by reference.*

Significant proposals of the 2016-17 Proposed State Budget affecting K-12 school districts include:

- *Local Control Funding Formula* – A fourth-year investment of more than \$2.8 billion in the LCFF, building upon almost \$12.8 billion provided over the last three years. In total, this level of funding exceeds the original 2013 projection of formula funding provided through Fiscal Year 2016-17 by almost \$6 billion. The proposed funding level is enough to eliminate almost 50% of the remaining funding gap to full implementation, bring total formula implementation to 95%.
- *Early Education Block Grant* – A \$1.6 billion early education block grant for local educational agencies that combines \$880 million for the California State Preschool Program, \$725 million for the Proposition 98 General Fund for transitional kindergarten, and \$50 million for the Proposition 98 General Fund for the Preschool Quality Rating and Improvement system to better target services to low-income and at risk children and their families.
- *Career Technical Education* – Continued support of the Career Technical Education Incentive Grant Program, a transitional education and workforce development initiative administered by the California Department of Education.
- *K-12 School Facilities* – Continued dialogue by the Governor’s Administration with the State Legislature and education stakeholders to shape a future state program focused on school districts with the greatest need, while providing substantial new flexibility to school districts to raise the necessary resources for their facilities needs. The 2016-17 Proposed Budget indicates the Governor has significant concerns with the current school facilities program, including being overly complex, creating costs for school districts to navigate a process that can involve as many as ten different state agencies and creating an incentive for school districts to build new schools when they already have the capacity to absorb enrolment growth, and allocating funding on a first-come, first-served basis, giving school districts with dedicated facilities personnel a substantial advantage, and not providing school districts enough flexibility to design school facility plans to reflect local needs.
- *K-12 Budget Adjustments* – More than \$2.8 billion in Proposition 98 General Fund funding for school districts and charter schools, including (i) one time discretionary funding, (ii) additional Proposition 98 General Fund funding for County Office of Education, (iii) increases in Proposition 98 General Fund funding for charter school ADA growth and one time funding for operational startup costs for new charter schools in 2016 and 2017, (iv) increases in funding for local educational agencies to provide academic and behavioral support, (v) a decrease in special education funding based on a projected decrease in Special Education ADA, (vi) a cost of living adjustment for categorical programs that remain outside of LCFF, (vii) a decrease in Proposition 98 General Fund for school districts and county offices of education as a result of higher offsetting property tax revenues, (viii) a decrease in funding due to decreased projected ADA, (ix) Proposition 39 funding for energy efficiency, and (x) Proposition 47 funding for truancy and dropout prevention, victim services and mental health and drug treatment.
- *Child Care* – Stakeholder workshops to recommend actions the State may take to increase the administrative efficiency of State-subsidized child care contractors and increase funding to reflect full-year implementation of child care and preschool investment made in the 2015-16 State Budget and increasing costs per case for CalWORKS Stage 2 cases and increasing costs and increasing cases for CalWORKS Stage 3 cases.

Included in the 2014-15 State Budget trailer bills was a provision which caps the amount of money school districts may set aside for economic crises if state-level reserves reach certain levels if the State electorate approves the Rainy Day Fund. The School District is in compliance with the requirements.

**Future Budget Impacts.** The State Budget will be affected by national and State economic conditions and other factors. The School District cannot predict how State income or State education funding will vary over the term to maturity of the Series 2016-B Bonds, and the School District takes no responsibility for informing owners of the Series 2016-B Bonds as to actions the State Legislature or Governor may take affecting a budget after its adoption. The Series 2016-B Bonds, however, are not payable from such revenue. The 2016-B Bonds will be payable solely from the proceeds of an *ad valorem* property tax which is required to be levied by the County in an amount sufficient for the payment thereof. Information about the State budget and State spending for education is regularly available at various State-maintained websites. See, “ – EFFECT OF STATE BUDGET ON REVENUES – *Information regarding State Education Spending*” above.

To the extent negatively impacted by actions taken by the Governor and the State Legislature to address changing State revenues generally or by State revenues available for education specifically, the School District may need to develop and implement different or additional budgetary adjustments to contend with its projected spending in the future.

**Litigation Regarding State Budgetary Provisions; Redevelopment Litigation.** On July 18, 2011, the California Redevelopment Association, the League of California Cities, and the Cities of Union City and San Jose filed petition for a writ of mandate in *California Redevelopment Association et al. v. Ana Matosantos et al.* (“Matosantos”) with the Supreme Court of California alleging that ABX1 26 and ABX1 27 violate the California Constitution, as amended by Proposition 22 (the Local Taxpayer, Public Safety and Transportation Protection Act, approved by the voters of the State on November 2, 2010, hereafter referred to as “Proposition 22”). The petitioners alleged, among other things, that ABX1 26 and ABX1 27 seek to illegally divert tax increment revenue from redevelopment agencies by threatening such agencies with dissolution if payments are not made to support the State’s obligation to fund education. The petition was accompanied by an application for a stay seeking to delay implementation of the provisions of ABX1 26 and ABX1 27 until the claims were adjudicated.

On December 29, 2011, the California Supreme Court issued its ruling in *Matosantos*. The Court upheld ABX1 26, the bill that dissolves all redevelopment agencies and directs the resolution of their activities. However, it found that ABX1 27, which allows redevelopment agencies to avoid elimination by making certain payments to offset state budget expenses, is unconstitutional. As a result, all redevelopment agencies were required to dissolve and transfer their assets and liabilities to “successor agencies” that will wind down the redevelopment agencies’ affairs. Based on the decision, all redevelopment agencies were dissolved as of February 1, 2012.

Tax increment revenues that would have been directed to redevelopment agencies will be distributed to make “Pass-Through Payments” to local agencies that they would have received under prior law and to successor agencies for retirement of the redevelopment agencies’ debts and for limited administrative costs. The remaining revenues will be distributed as property tax revenues to cities, counties, school districts, community college districts and special districts. The School District cannot predict whether, or to what extent, the elimination of redevelopment agencies will affect the Pass-Through Payments or whether amounts received will be offset against other funds the State would otherwise have paid to the School District. See “THE SERIES 2016-B BONDS – Security.”

The School District entered into agreements with several redevelopment agencies formed pursuant the California Community Redevelopment Law (Health and Safety Code Sections 33000 *et seq.*) (generally, “Redevelopment Agencies”), pursuant to which the School District has, in the past, received “pass-through” tax increment revenues (the “Redevelopment Revenues”). The School District has projected the receipt of \$3,023,505 in Redevelopment Revenues with respect to agreements entered into in the past with the City of Temecula and Riverside County redevelopment agencies in Fiscal Year 2015-16.

The School District, however, can make no representations that Redevelopment Revenues will continue to be received by the School District in amounts consistent with prior years, or as currently projected, particularly in light of the recently enacted legislation eliminating redevelopment agencies.

## **SCHOOL DISTRICT FINANCIAL INFORMATION**

*The information in this section concerning the operations of the School District and the School District's general fund finances is provided as supplementary information only, and it should not be inferred from the inclusion of this information in this Official Statement that the principal and accreted value of or interest on the Series 2016-B Bonds is payable from the general fund of the School District. The Series 2016-B Bonds are payable from the proceeds of an ad valorem tax required to be levied by the County in an amount sufficient for the payment thereof. See "THE SERIES 2016-B BONDS – Security" herein.*

### **Accounting Practices**

The accounting practices of the School 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 California Education Code, is to be followed by all California school districts. Significant accounting policies followed by the School District are explained in Note 1 to the School District's audited financial statements for the Fiscal Year ended June 30, 2015, which are included as Appendix B.

The School District's expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered *susceptible* to accrual. Delinquent taxes not received after the fiscal year end are not recorded as revenue until received. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the School District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

The School District's accounting is organized on the basis of fund groups, with each group consisting of a *separate* set of self-balancing accounts containing assets, liabilities, fund balances, revenues and expenditures. The major fund classification is the "General Fund" which accounts for all financial resources not requiring a special type of fund. The School District's fiscal year begins on July 1 and ends on June 30.

### **Financial Statements**

The School District's general fund finances the legally authorized activities of the School 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. Audited financial statements for the School District for the Fiscal Year ended June 30, 2015, and prior fiscal years are on file with the School District and available for public inspection at the office of the Superintendent of the Temecula Valley Unified School District, 31350 Rancho Vista Road, Temecula, California 92592, telephone number (951) 506-7940. The audited financial statements for the year ended June 30, 2015, are included in Appendix B herein.

Vavrinek, Trine, Day & Co., LLP has not been requested to consent to the use or to the inclusion of its reports in this Official Statement and they have neither audited nor reviewed this Official Statement. The School District is required by law to adopt its audited financial statements after a public meeting to be conducted no later than January 31, following the close of each fiscal year.



The following table shows information from the School District's audited financial statements for the Fiscal Years 2010-11 through 2014-15.

**Table A-5  
TEMECULA VALLEY UNIFIED SCHOOL DISTRICT  
AUDITED FINANCIAL STATEMENTS**

**BALANCE SHEET – GENERAL FUND**

	<b>AUDITED <u>2010-11</u><sup>(1)</sup></b>	<b>AUDITED <u>2011-12</u></b>	<b>AUDITED <u>2012-13</u></b>	<b>AUDITED <u>2013-14</u></b>	<b>AUDITED <u>2014-15</u></b>
<b>Assets</b>					
Deposits and Investments	\$13,678,183	\$6,646,095	\$16,780,750	\$13,654,161	\$25,502,953
Receivables	45,251,814	58,741,366	39,303,605	38,260,533	6,739,730
Due from Other Funds	758,426	330,115	318,694	314,454	296,661
Prepaid Expenditures	675,535	0	19,741	24,663	61,962
Stores Inventory	<u>67,418</u>	<u>60,045</u>	<u>83,496</u>	<u>73,035</u>	<u>59,316</u>
<b>TOTAL ASSETS</b>	<b>\$60,431,376</b>	<b>\$65,777,621</b>	<b>\$56,506,286</b>	<b>\$52,326,846</b>	<b>\$32,660,622</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts Payable	\$7,105,044	\$7,456,596	\$9,061,020	\$23,692,741	\$7,635,659
Due to Other Funds	3,793,915	6,736,610	2,373,050	6,004,829	2,050,140
Other Current Liabilities	14,850,000	24,725,000	22,355,000	0	0
Deferred Revenue	<u>5,231,424</u>	<u>108,521</u>	<u>95,379</u>	<u>91,258</u>	<u>102,400</u>
<b>TOTAL LIABILITIES</b>	<b>\$30,980,383</b>	<b>\$39,026,727</b>	<b>\$33,884,449</b>	<b>\$29,788,828</b>	<b>\$9,788,199</b>
<b>Fund Balance<sup>(1)</sup></b>					
Nonspendable	\$792,953	\$110,045	\$153,237	\$147,697	\$171,278
Restricted	1,945,378	3,136,143	3,153,895	5,997,173	3,953,281
Committed	0	0	0	1,433,883	1,172,065
Assigned	20,560,035	17,175,041	13,151,009	8,525,382	10,611,331
Unassigned	6,152,627	6,329,665	6,163,696	6,433,883	6,964,468
Reserved:					
Revolving Cash	0	0	0	0	0
Stores Inventories	0	0	0	0	0
Prepaid Expenditures	0	0	0	0	0
Reserve for all others	0	0	0	0	0
Restricted Programs	0	0	0	0	0
Unreserved:					
Designated	0	0	0	0	0
Undesignated, reported in:					
Debt Service Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>TOTAL FUND BALANCE</b>	<b>\$29,450,993</b>	<b>\$26,750,894</b>	<b>\$22,621,837</b>	<b>\$22,538,018</b>	<b>\$22,872,423</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$60,431,376</b>	<b>\$65,777,621</b>	<b>\$56,506,286</b>	<b>\$52,326,846</b>	<b>\$32,660,622</b>

*(1) New fund balance definitions were implemented in 2010-11, including Nonspendable, Restricted, Assigned and Unassigned.*

*Source: Temecula Valley Unified School District audited financial statements.*

The following table shows information from the School District's adopted budgets and audited financial statements for the Fiscal Years 2013-14 and 2014-15, the School District's adopted budget for Fiscal Year 2015-16 and the School District's Second Interim Report as of March 15, 2016.

**Table A-6**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**GENERAL FUND BUDGET – FISCAL YEARS 2013-14 THROUGH 2015-16**

	2013-14		2014-15		2015-16		2015-16 2 <sup>nd</sup> Interim Report
	Original Adopted	Actuals	Original Adopted	Actuals	Original Adopted	Budget	
<b>Revenues</b>							
Revenue Limit Sources (LCFF)	\$153,635,437	\$168,131,310	\$184,010,695	\$184,989,030	\$206,710,789	\$206,710,789	\$206,503,548
Federal Revenue	8,346,002	8,488,360	8,220,492	8,361,810	286,024	286,024	9,445,148
Other State Sources	34,889,121	33,657,709	21,905,074	30,176,132	21,029,232	21,029,232	44,553,771
Other Local Revenue	7,153,990	8,850,101	8,976,906	8,956,362	4,821,494	4,821,494	9,020,039
<b>Total Revenues</b>	<b>\$204,024,550<sup>(1)</sup></b>	<b>\$219,127,480<sup>(1)</sup></b>	<b>\$223,113,167</b>	<b>\$232,483,334</b>	<b>\$232,847,539</b>	<b>\$232,847,539</b>	<b>\$269,522,505</b>
<b>Expenditures</b>							
Certificated Salaries	\$112,704,176	\$112,888,903	\$117,319,647	\$120,115,824	\$107,494,177	\$107,494,177	\$133,231,269
Classified Salaries	34,012,367	34,898,154	36,819,406	39,547,264	25,775,707	25,775,707	43,506,911
Employee Benefits	36,989,432	43,014,9247	39,137,731	43,775,536	32,900,204	32,900,204	49,464,640
Books and Supplies	7,075,686	9,443,836	9,462,357	8,239,911	6,084,516	6,084,516	11,678,010
Services & Other Oper. Exp.	16,663,010	17,424,269	18,201,846	17,887,911	14,692,238	14,692,238	20,587,304
Capital Outlay	659,500	405,779	303,593	256,882	408,474.00	408,474.00	762,872
Other Outgo	(193,742)	459,942	301,903	282,000	40,000	40,000	655,273
Transfers of Indirect/Direct Costs [Other Outgo]	0	0	0	0	(621,777)	(621,777)	(317,891)
<b>Total Expenditures</b>	<b>\$207,910,429<sup>(1)</sup></b>	<b>\$218,535,810<sup>(1)</sup></b>	<b>\$221,546,483</b>	<b>\$230,105,328</b>	<b>\$186,773,539</b>	<b>\$186,773,539</b>	<b>\$259,568,387</b>
Excess (deficiency) of Revenue over (under) Expenditures	(\$3,885,879)	\$591,673	\$1,566,684	\$2,378,006	\$46,074,000	\$46,074,000	\$9,954,118
<b>Other Financing Sources/Uses</b>							
Transfer In	\$0	\$1,375,271	\$0	\$0	\$0	\$0	\$0
Transfers Out	(2,000,000)	(2,050,760)	(2,000,000)	(2,043,602)	(5,000)	(5,000)	2,780,000
Contributions	0	0	0	0	0	0	0
<b>Total Other Financing Sources/Uses</b>	<b>(\$2,000,000)</b>	<b>(\$675,489)</b>	<b>(\$2,000,000)</b>	<b>(\$2,043,602)</b>	<b>(\$5,000)</b>	<b>(\$5,000)</b>	<b>(\$2,780,000)</b>
Net Change in Fund Balance	(\$5,885,879)	\$83,819	(\$433,316)	\$334,404	\$10,207,214	\$10,207,214	\$7,174,118
Fund Balance -- Beginning	\$22,621,837	\$22,621,837	\$22,538,018	\$22,538,018	\$19,176,910	\$19,176,910	\$22,872,424
Fund Balance -- Ending	\$16,735,958	\$22,538,018	\$22,104,702	\$22,872,422	\$29,384,124	\$29,384,124	\$30,046,542

(1) On behalf payments of \$6,123,807 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts.

Source: Temecula Valley Unified School District

## **Budget Process**

The School 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 of schools (as described in AB 1200) within five days of adoption or by July 1, whichever occurs first. A school 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.

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 School District to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the School 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 school 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 school district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. The school district is then required to revise the budget, hold a public hearing thereon, adopt the revised budget, and file with the county superintendent no later than September 8. No later than September 22, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budgets have been disapproved.

Each dual budget option district and each single and dual budget option district whose budget has been disapproved 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 school 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 two fiscal years. 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 the 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 subsequent two fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the county superintendent.

School District's most recent Interim Financial Report has received a "positive" certification pursuant to AB 1200. The School District cannot predict and will have no control over the outcome of any changes to the 2015-16 State Budget or how the 2015-16 or 2016-17 State Budget will ultimately affect the funding of K-12 school districts. The Series 2016-B Bonds are payable from the proceeds of an *ad valorem* tax required to be levied by the County in an amount sufficient for the payment of the Series 2016-B Bonds and are not dependent upon receipt of moneys from the State. See "THE SERIES 2016-B BONDS – Security" herein.

### **General Fund Revenues, Expenditures and Changes in Fund Balances**

The School District's statement of revenues, expenditures and changes in fund balances with respect to its general fund, excluding non-major governmental funds for the Fiscal Years ending June 30, 2011, through June 30, 2015, are set forth below.

**Table A-7**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES --**  
**GENERAL FUND**  
**FOR FISCAL YEARS ENDING JUNE 30, 2011, THROUGH JUNE 30, 2015<sup>(1)</sup>**

	<u>Audited Actuals 2010-11<sup>(1)</sup></u>	<u>Audited Actuals 2011-12</u>	<u>Audited Actuals 2012-13</u>	<u>Audited Actuals 2013-14</u>	<u>Audited Actuals 2014-15</u>
<b>Revenue</b>					
Revenue limit sources /LCFF	\$148,572,385	\$147,628,249	\$147,291,145	\$168,131,310	\$184,989,030
Federal sources	15,168,125	16,281,422	9,855,385	8,488,360	8,361,810
Other State sources	26,851,197	27,226,551	26,444,443	33,657,709	30,176,132
Other local sources	<u>23,383,055</u>	<u>22,637,019</u>	<u>23,429,907</u>	<u>8,850,101</u>	<u>8,956,362</u>
Total Revenues	\$213,974,762	\$213,773,241	\$207,020,880	\$219,127,480	\$232,483,334
<b>Expenditures</b>					
Instruction	\$146,672,797	\$152,280,989	\$144,562,430	\$148,235,331	\$155,726,925
Instruction – Related Services:					
Supervision of instruction	3,125,142	3,596,101	4,601,375	5,109,977	5,614,722
Instructional library, media and technology	2,999,965	3,214,294	2,767,848	2,895,073	3,285,681
School site administration	9,843,205	10,822,528	10,039,831	10,741,215	11,355,935
Pupil Services:					
Home-to-school transportation	4,192,855	4,359,033	4,482,421	4,368,015	4,740,052
Food services	0	96	0	0	0
All other pupil services	10,677,479	11,304,367	11,329,680	11,481,687	12,874,590
Administration:					
Data processing services	1,354,348	1,172,758	1,470,986	1,851,856	1,905,818
Other general administration	7,523,672	7,905,032	7,719,890	8,892,501	9,842,872
Plant services	16,695,956	17,076,226	17,610,194	20,203,225	21,372,239
Facilities acquisition and construction	79,027	11,259	508,596	49,938	26,582
Ancillary services	734,792	775,627	1,194,959	1,428,088	194,084
Community services	173,795	173,752	175,385	213,856	338,155
Other outgo	31,473	64,220	49,998	748,287	578,647
Enterprise activities	1,785,346	1,815,418	1,769,470	1,978,972	2,212,431
Debt Service					
Principal	73,162	75,745	38,869	0	0
Interest and other	<u>366,802</u>	<u>140,748</u>	<u>466,075</u>	<u>338,789</u>	<u>36,594</u>
Total Expenditures	<u>\$206,329,816</u>	<u>\$214,788,193</u>	<u>\$208,788,007</u>	<u>\$218,535,810</u>	<u>\$230,105,327</u>
Excess (Deficiency) of Revenues Over (Under)	\$7,644,946	(\$1,014,952)	(\$1,767,127)	\$591,670	\$2,378,007
<b>Other Financing Sources (Uses)</b>					
Transfers in	\$ 50,000	\$ 50,000	\$ 0	\$ 1,375,271	\$ 0
Transfers out	<u>(3,451,752)</u>	<u>(1,735,147)</u>	<u>(2,361,930)</u>	<u>(2,050,760)</u>	<u>(2,043,602)</u>
Net Financing Sources (Uses)	<u>(\$3,401,752)</u>	<u>(\$1,685,147)</u>	<u>(\$2,361,930)</u>	<u>(\$675,489)</u>	<u>(\$2,043,602)</u>
Net Change in Fund Balances	\$4,243,194	(\$2,700,099)	(\$4,129,057)	(\$83,819)	\$334,405
Fund Balance – Beginning	<u>\$25,207,799</u>	<u>\$29,450,993</u>	<u>\$26,750,894</u>	<u>\$22,621,837</u>	<u>\$22,538,018</u>
Fund Balance – Ending	<u>\$29,450,993</u>	<u>\$26,750,894</u>	<u>\$22,621,837</u>	<u>\$22,538,018</u>	<u>\$22,872,423</u>

<sup>(1)</sup>Commencing with Fiscal Year 2009-10, various mandates and restrictions on local school districts were removed, allowing flexibility to spend funding for 42 categorical programs as school districts wish. These flexibility provisions have been extended for seven years, 2008-09 through 2014-15 by Education Code Section 42605.

Source: Temecula Valley Unified School District.

## **State Funding of Education**

California school districts receive a significant portion of their funding from State appropriations. As a result, changes in State revenues may affect appropriations made by the Legislature to school districts.

Until implementation of the Local Control Funding Formula, annual State apportionments of basic and equalization aid to school districts were computed based on a revenue limit per unit of ADA. Revenue limit calculations were adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among California school districts. See, "THE SCHOOL DISTRICT –Average Daily Attendance" and the table in that section titled, "Average Daily Attendance, Revenue Limit and Enrollment Fiscal Years 2010-11 through [2017-18]," above.

## **Prior State Funding of Education**

Previously, school districts operated under general purpose revenue limits established by the State Department of Education. Under the prior system, California Education Code Section 42238 and following, each school district was determined to have a target funding level: a "base revenue limit" per student multiplied by the school district's student enrollment measured in unit of average daily attendance ("ADA"). The base revenue limit was calculated from the school district's prior-year funding level, as adjusted for a number of factors, such as inflation, special or increased instructional needs and costs, employee retirement costs, especially low enrollment, increased pupil transportation costs, etc. Generally, the amount of State funding allocated to each school district is the amount needed to reach that district's base revenue limit after taking into account certain other revenues, in particular, locally generated property taxes. This is referred to as State "equalization aid." To the extent local tax revenues increase due to growth in local property assessed valuation, the additional revenue is offset by a decline in the State's contribution; ultimately, a school district whose local property tax revenues exceed its base revenue limit is entitled to receive no State equalization aid, and receives only its special categorical aid, which is deemed to include the "basic aid" of \$120 per student per year guaranteed by Article IX, Section 6 of the Constitution. Such school districts are known as "basic aid districts." School districts that receive some equalization aid are commonly referred to as "revenue limit districts." Beginning in Fiscal Year 2013-14, school districts are funded based on a new local control funding formula. See " – Current State Education Funding" below.

## **Current State Education Funding**

***Local Control Funding Formula.*** The State Constitution requires that from all State revenues there will be funds set aside to be allocated by the State for support of the public school system and public institutions of higher education. As discussed below, school districts in the State receive a significant portion of their funding from these State allocations. **Bond proceeds from voter-approved bond measures, such as the measures approved by the School District's voters at the election held on November 6, 2012, and the *ad valorem* taxes levied to pay them are separately accounted for from School District operating revenues.** See "THE SCHOOL DISTRICT – General Information."

The general operating income of school districts in California is comprised of two major components: (i) a State portion funded from the State's general fund, and (ii) a local portion derived from the School District's share of the 1% local *ad valorem* tax authorized by the State Constitution. School districts may also be eligible for special categorical and grant funding from State and federal government programs.

As indicated above, as part of the State Budget for Fiscal Year 2013-14 (the “2013-14 State Budget”), State Assembly Bill 97 (Stats. 2013, Chapter 47) (“AB 97”) was enacted to establish a new system for funding State school districts, charter schools and county offices of education by the implementation of the Local Control Funding Formula or LCFF. This formula replaced the 40-year revenue limit funding system for determining State apportionments and the majority of categorical programs. See “ – Prior State Funding of Education” above. Subsequently, AB 97 was amended and clarified by Senate Bill 91 (Stats. 2013, Chapter 49). The LCFF consists primarily of base, supplemental and concentration funding formulas that focus resources based on a school district student demographics. Each school district and charter school will receive a per pupil base grant used to support the basic costs of instruction and operations. The implementation of the LCFF is to occur over a period of several years. Beginning in Fiscal Year 2013-14, an annual transition adjustment is to be calculated for each individual school district, equal to such district’s proportionate share of appropriations included in the State Budget. The Governor’s Department of Finance estimates the LCFF funding targets could be achieved in eight years, with LCFF being fully implemented by 2020-21. See “EFFECT OF STATE BUDGET ON REVENUES – 2016-17 Proposed State Budget” herein for a further discussion of the LCFF.

The 2016-17 Proposed Budget, notes the following major components of LCFF:

- A base grant for each local education agency per unit of ADA, including an adjustment of 10.4% to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in high schools. It should be noted that the authorizing LCFF statute, AB 97, provides for a differentiated base grant amount according to four different grade spans: K-3, 4-6, 7-8, and 9-12. Unless otherwise collectively bargained for, following full implementation of the LCFF, school districts must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site by the target year so as to continue receiving its adjustment to the K-3 base grant.]
- A 20% supplemental grant for English learners (“EL”), students from low-income families, and youth in foster care to reflect increased costs associated with educating those students. These supplemental grants are only attributed to each eligible student once, and the total student population eligible for the additional funding is known as an “unduplicated count.”
- An additional concentration grant of up to 22.5% of a local educational agency’s base grant, based on the number of English learners, students from low-income families, and youth in foster care served by the local educational agency that comprise more than 55% of enrollment. The School District’s eligible student percent for supplemental grants is equal to 50% of the adjusted base grant multiplied by the ADA (the percent of pupils exceeding 55% of LEA Enrollment) and is not projected to reach the 55% threshold for concentration grants.
- An Economic Recovery Target to ensure that almost every local educational agency receives at least their pre-recession funding level, adjusted for inflate, at full implementation of the LCFF.

The 2016-17 Proposed Budget provides a fourth-year investment of more than \$2.8 billion in the LCFF, building upon almost \$12.8 million provided over the last three years. In total, this level of funding exceeds the original 2013 projection of LCFF funding provided through Fiscal Year 2016-17 by almost \$6 billion. The proposed funding level is enough to eliminate almost 50% of the remaining funding gap to full implementation, bringing total LCFF implementation to 95%.

A summary of the target LCFF funding amounts for the School District for Fiscal Year 2015-16 based on grade levels and targeted students classified as English learners, those eligible to receive a free or reduced price meal, foster youth, or any combination of these factors (“unduplicated” count) is shown below:



**Table A-8**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**Grade Span Funding**  
**Local Control Target Funding Formula 2015-16**

<u>Grade Levels</u>	<u>2015-16 Base Grant per ADA</u>	<u>Grade Span Adjustments</u>	<u>Supplemental Grant<sup>(1)</sup></u>	<u>Concentration Grant</u>	<u>Total per ADA</u>
TK-3	\$7,083	\$737	\$385	\$0	\$8,205
4-6	7,189	-	354	0	7,543
7-8	7,403	-	365	0	7,768
9-12	8,578	223	433	0	9,234

<sup>(1)</sup> Based on the School District's percent of eligible students of 24.62%.  
Source: California Department of Education

Beginning July 1, 2014, school districts were required to develop a three-year Local Control and Accountability Plan (each, a "LCAP"). County Superintendent of Schools and the State Superintendent of Public Instruction will review and provide support to school districts and county offices of education under their jurisdiction. In addition, the Fiscal Year 2013-14 State Budget created the California Collaborative for Education Excellence (the "Collaborative") to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans. The State Superintendent of Public Instruction may direct the Collaborative to provide additional assistance to any district, county office, or charter school. For those entities that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the State Superintendent of Public Instruction has authority to make changes to school district or county office's local plan. For charter schools, the charter authorizer is required to consider revocation of a charter if the Collaborative finds that the inadequate performance is so persistent and acute as to warrant revocation. The State will continue to measure student achievement through statewide assessments, produce an Academic Performance Index for schools and subgroups of students, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

**LCFF and the School District.** The School District's Fiscal Year 2014-15 actual budget reflected increased revenues of \$16.98 million under LCFF and the District's Fiscal Year 2015-16 revised budget reflected increased revenues of approximately \$21.38 million under LCFF. Base funds received may be spent on a District-wide basis. The School District must also identify specific services and expenditures for the targeted students. Based on current data, the School District would need to provide \$7.62 million for services to those targeted students in Fiscal Year 2015-16. The School District is aware of certain risks associated with the LCFF, including future State budget challenges in the event of an economic recession and the impact of Proposition 30 revenues after the temporary sales and income taxes expire at the end of 2016 and 2018, respectively. See "EFFECT OF STATE BUDGET ON REVENUES" herein.

Actual funding in Fiscal Year 2013-14 and subsequent years is based on the difference between the School District's funding floor and its LCFF target (the LCFF gap). For Fiscal Year 2015-16, the School District estimates it will receive approximately \$184.33 million in its funding floor amount plus a portion of its LCFF gap, which was equivalent to approximately \$22.18 million. Total Fiscal Year 2015-16 revenues, including federal, other local and other revenues is estimated to be approximately \$269.52 million. As part of the 2015-16 Budget, the Department of Finance revised its projections and increased the gap funding provided to 51.97% in Fiscal Year 2015-16. The 2016-17 Proposed Budget utilizes

funding to implement the LCFF and provides \$2.8 billion in new funding, bring the Local Control Funding Formula's implementation to 95% complete. Each Fiscal Year thereafter, the School District's funding amount will be based on recalculation of its LCFF target and its funding floor including any prior year transition funding converted to a per-ADA value and then adjusted for current year ADA. As LCFF continues to be implemented, the School District's base and supplemental grant funding will increase in an effort to bring the School District's total funding to its overall LCFF target. This increased funding will provide additional resources for the School District to invest in academic, programmatic and operational purposes, while providing a more positive fiscal outlook. The School District does not qualify for concentration grant funding.

The following table sets forth the School District's actual, funded and projected ADA for Fiscal Years 2013-14 through 2017-18, the School District's projected target LCFF funding amounts at full implementation (which represents a combined total of base grant, K-3 class size reduction and grades 9-12 adjustments, supplemental grant funding, each calculated by grade span), projected annual LCFF allocation and gap funding for Fiscal Years 2013-14 through 2017-18. Funded ADA is the greater of current or prior years ADA. Note the data assumes an unduplicated count of EL, FRPM and foster youth of 26% of enrollment for each of the projected Fiscal Years, based on current unduplicated counts which are projected to remain stable.

**Table A-9**  
**TEMECULA VALLEY UNIFIED SCHOOL DISTRICT**  
**Local Control Funding Formula Projections**  
**Fiscal Years 2013-14 through 2017-18<sup>(1)</sup>**

Fiscal Year	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>
<b>Funded ADA</b>	27,348.71	27,287.18	27,160.51	27,145.08	27,064.60
<b>COLA</b>	1.57%	1.85%	1.02%	0.47%	2.13%
<b>Total LCFF</b>	\$168.1	\$185.1	\$206.5	\$217.1	\$223.9
<b>Total LCFF Revenue in Million</b>					
<b>Target in Million</b>	\$223.8	\$225.2	\$227.0	\$228.2	\$232.7

(1) Final, preliminary and projected figures for Fiscal Years 2013-14 through 2017-18. For purposes of calculating supplemental and concentration grants, a school district's Fiscal Year 2013-14 percentage of unduplicated EL, FRPM, and foster youth students was expressed solely as a percentage of its Fiscal Year 2013-14 total enrollment. For Fiscal Year 2014-15, the percentage of unduplicated EL, FRPM, and foster youth enrollment was based on the two-year average of EL, FRPM and foster youth enrollment in Fiscal Years 2013-14 and 2014-15. Beginning in Fiscal Year 2015-16, a school district's percentage of unduplicated EL, FRPM and foster youth students will be based on a rolling average of such school district's EL, FRPM, and foster youth enrollment for the then-current Fiscal Year and the two immediately preceding Fiscal Years.

Source: The School District.

### Revenue Sources

The School District generally categorizes its general fund revenues into four sources: (1) LCFF sources (consisting of a mix of State and local revenues), (2) federal revenues, (3) other State revenues and (4) other local revenues. Each of these revenue sources is described below.

**LCFF Sources.** Since Fiscal Year 1973-74 through Fiscal Year 2012-13, State school districts operated under general purpose revenue limits established by the State Legislature. In general, the base revenue limits were calculated for each school district by multiplying (1) the A.D.A. for each such district by (2) a base revenue limit per unit of A.D.A. The base revenue limit calculations were adjusted annually

in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all State school districts of the same type. The base revenue limit was then adjusted by the State deficit factor. In Fiscal Year 2013-14, the State implemented a new funding system, referred to as "Local Control Funding Formula." See "EFFECT OF STATE BUDGET ON REVENUES – 2016-17 Proposed State Budget" and "– Current State Education Funding" above.

Enrollment can fluctuate due to factors such as population growth or decline, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues, without necessarily permitting the school district to make adjustments in fixed operating costs.

Funding of the School District's revenue limit is provided by a mix of (1) local property taxes and (2) State apportionments of basic and equalization aid. Generally, the State apportionments amounted to the difference between the School District's revenue limit and its local property tax revenues.

Beginning in Fiscal Year 1978-79, Proposition 13 and its implementing legislation provided for each county to levy and collect all property taxes (except for levies to support prior voter approved indebtedness) and prescribed how levies on county-wide property values were to be shared with local taxing entities within each county. Property taxes collected by the County which are used to pay the principal and accreted value of and interest on the Series 2016-B Bonds do not constitute local property taxes for purposes of being applied toward the School District's LCFF limit.

Federal Revenues. The federal government provides funding for several School District programs, including special education programs, programs under the Educational Consolidation and Improvement Act, and specialized programs such as the No Child Left Behind Act of 2001 – Title Nos. I, II, III, Junior Reserve Officers Training Corp, Vocational Education, Medi-Cal and Child Nutrition Program. The federal revenues, most of which are restricted, comprised approximately 4.8% of general fund revenues in 2012-13, approximately 3.9% in 2013-14, approximately 3.6% in 2014-15 and are budgeted to equal approximately 3.7% of such revenues in 2015-16.

Other State Revenues. As discussed above, the School District receives State apportionment of basic and equalization aid in an amount equal to the difference between the School District's revenue limit and its property tax sources. In addition to such apportionment revenue, the School District receives substantial other State revenues ("Other State Revenues"). In Fiscal Years 2013-14 and 2014-15, Other State Revenues comprised for approximately 17.1% and 9.8%, respectively, of total general fund revenues. In Fiscal Year 2015-16, Other State Revenues are projected to equal approximately 16.5% of total general fund revenues.

Some of the Other State Revenues are restricted to specific types of program uses such as special education. These other State revenues are primarily restricted revenue funding items such as the Special Education Master Plan, Economic Impact Aid, Class Size Reduction Program, Tier 3 Funding and home-to-school transportation. The Local Control Funding Formula replaces revenue limit and most categorical program funding.

Other State revenues include the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues comprised approximately 2.27% of general fund revenues for the School District in 2013-14, 2.08% in 2014-15 and are budgeted to equal approximately 0.19% of such revenues in 2015-16.

Other Local Revenues. In addition to property taxes, the School District receives additional local revenues from items such as interest earnings and other local sources (“Other Local Sources”). Other local revenues comprised approximately 3.5% of general fund revenues in 2013-14, 4.0% of general fund revenues in 2014-15 and are budgeted to equal approximately 2.7% of general fund revenues in 2015-16.

## **CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES AND APPROPRIATIONS**

*Principal and accreted value of and interest on the Series 2016-B Bonds are payable from the proceeds of an ad valorem tax levied by the County for the payment thereof. (See "THE SERIES 2016-B BONDS – Security" herein.) Articles XIII A, XIII B, XIII C and XIII D of the Constitution, Propositions 39, 98, 111, and 218, and certain other provisions of law discussed below, are included in this section to describe the potential effect of these constitutional and statutory measures on the ability of the County to levy taxes and of the School District to spend tax proceeds for operating and other purposes, and it should not be inferred from the inclusion of such materials that these laws impose any limitation on the ability of the County to levy taxes for payment of the Series 2016-B Bonds. The tax levied by the County for payment of the Series 2016-B Bonds was approved by the School District's voters in compliance with Article XIII A, Article XIII C and all applicable laws.*

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

On June 6, 1978, California voters approved Proposition 13, which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A, as amended, limits the amount of any *ad valorem* taxes on real property to 1% of the "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds or more of the votes cast by the voters voting on the proposition, 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% of the voters of the school district voting on the proposition, but only if certain accountability measures are included in the proposition as provided by Proposition 39. The tax for payment of the Series 2016-B Bonds falls within the exception for bonds approved by a 55% vote.

Article XIII A defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed 2% per year until new construction or a change of ownership occurs.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by substantial damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster, and in various other minor or technical ways.

### **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 or successor agency claims on tax

increment, if any, 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 of 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.

All taxable property is 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.

### **Inflationary Adjustment of Assessed Valuation**

As described above, the assessed value of a property may be increased at a rate not to exceed 2% per year to account for inflation. Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property, adjusted for inflation) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property. On December 27, 2001, the Orange County Superior Court, in *County of Orange v. Orange County Assessment Appeals Board No. 3*, held that where a home's taxable value did not increase for two years, due to a flat real estate market, the Orange County assessor violated the 2% inflation adjustment provision of Article XIII A, when the assessor tried to "recapture" the tax value of the property by increasing its assessed value by 4% in a single year. The assessors in most California counties, including the County, use a similar methodology in raising the taxable values of property beyond 2% in a single year. The State Board of Equalization has approved this methodology for increasing assessed values. On appeal, the Appellate Court held that the trial court erred in ruling that assessments are always limited to no more than 2% of the previous year's assessment. On May 10, 2004, a petition for review was filed with the California Supreme Court. The petition was denied by the California Supreme Court. As a result of this litigation, the "recapture" provision described above may continue to be employed in determining the full cash value of property for property tax purposes.

### **Taxation of State-Assessed Utility Property**

A portion of property tax revenue of the School District is derived from utility property subject to assessment by the State Board of Equalization ("SBE"). State-assessed property, or "unitary property," is property of a utility system with components located in many taxing jurisdictions that are assessed as part of a "going concern" rather than as individual pieces of real or personal property. The assessed value of unitary and certain other state-assessed property is allocated to the counties by the SBE, taxed at special county-wide rates, and the tax revenues distributed to taxing jurisdictions (including the School District) according to statutory formulae generally based on the distribution of taxes in the prior year.

Changes in the California electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, non-utility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The School District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation or 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 School District. Because the School District is not a

basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as aid under the State's school financing formula.

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

An initiative to amend the California Constitution entitled "Limitation of Government Appropriations," was approved on November 6, 1979, thereby adding Article XIII B to the California Constitution ("Article XIII B"). Under Article XIII B, state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the appropriations limit. Article XIII B does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including appropriations for debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is based on certain Fiscal Year 1978-79 expenditures, and adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities' revenues in any two consecutive years exceed the combined appropriations limit for those two years, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. In the event the School District receives any proceeds of taxes in excess of the allowable limit in any fiscal year, the School District may implement a statutory procedure to concurrently increase the School District's appropriations limit and decrease the State's allowable limit, thus nullifying the need for any return. Certain features of Article XIII B were modified by Proposition 111 in 1990 (see "Proposition 111" below).

### **Proposition 98**

As discussed above in "- THE SCHOOL DISTRICT - Allocation of State Funding to School Districts; Restructuring of the K-12 Funding System - State Education Funding; Proposition 98," on November 8, 1988, California voters approved Proposition 98, a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act, have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changed 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 State general fund revenues as the percentage appropriated to such districts in Fiscal Year 1986-87, or (b) the amount actually appropriated to such districts from the State general fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the Legislature to suspend this formula for a one-year period. (See APPENDIX A - "INFORMATION RELATING TO THE SCHOOL DISTRICT'S OPERATIONS AND BUDGET - THE SCHOOL DISTRICT - Allocation of State Funding to School Districts; Restructuring of the K-12 Funding System," "- EFFECT OF STATE BUDGET ON REVENUES" and "- SCHOOL DISTRICT FINANCIAL INFORMATION" above.)

## Proposition 111

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

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

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

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

c. Exclusions from Spending Limit. Two new exceptions have been added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, excluded are all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, excluded are any increases in gasoline taxes above the then current cents per gallon level, 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.

d. Recalculation of Appropriations Limit. The Article XIII B appropriations limit for each unit of government, including the State, was recalculated beginning in Fiscal Year 1990-91. It is based on the actual limit for Fiscal Year 1986-87, adjusted forward to Fiscal Year 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) a certain percentage 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, school districts 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, school districts 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 (the "third test"). If the third test is used in any year, the difference between the third test and the second test will become a "credit" to school districts which will be paid in future years when State general fund revenue growth exceeds personal income growth.

### **Article XIIC and Article XIID of the State Constitution; Proposition 218**

An initiative measure entitled "Right to Vote on Taxes Act," also known as Proposition 218 (the "Proposition 218"), was approved by California voters at the November 5, 1996, state-wide general election, and became effective on November 6, 1996. Proposition 218 added Articles XIIC and XIID ("Article XIIC" and "Article XIID," respectively) to the California Constitution. Articles XIIC and XIID 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. All references herein to Articles XIIC and XIID are references to the text as set forth in Proposition 218.

Among other things, Article XIIC establishes that every tax imposed by a local government is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), and prohibits special purpose government agencies such as school districts from levying general taxes.

Article XIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The initiative power is, however, limited by the United States Constitution's prohibition against state or local laws "impairing the obligation of contracts." The Series 2016-B Bonds represent a contract between the School District and the Owners secured by the collection of *ad valorem* property taxes. While not free from doubt, it is likely that, once the Series 2016-B Bonds are issued, the taxes securing them would not be subject to reduction or repeal. Legislation adopted in 1997 provides that Article XIIC shall not be construed to mean that any owner or beneficial owner of a municipal security assumes the risk of or consents to any initiative measure which would constitute an impairment of contractual rights under the contracts clause of the United States Constitution.

Article XIID deals with assessments and property-related fees and charges. Article XIID explicitly provides that nothing in Article XIIC or XIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however, it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the School District. No developer fees imposed by the School District are pledged or expected to be used to pay the Series 2016-B Bonds.

The interpretation and application of Proposition 218 and the United States Constitution's contracts clause will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination.

### **Proposition 39**

On November 7, 2000, California voters approved an amendment (commonly known as "Proposition 39") to the California Constitution. Upon passage of Proposition 39, implementing legislation entitled "Strict Accountability in Local School Construction Bonds Act of 2000" (the "Strict Accountability in Local School Construction Bonds Act") became operative. Proposition 39 (1) allows school facilities' bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional

amendments of Proposition 39 may be changed only with another State-wide vote of the people. The statutory provisions of the Strict Accountability in Local School Construction Bonds Act, as amended, may be changed by a majority vote of both houses of the Legislature and approved by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition and implementing legislation are K-12 school districts, including the School District, community college districts and county offices of education. As noted above, the California Constitution previously limited property taxes to 1% of the value of property. Prior to Proposition 39, property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to buy or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement 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. The Strict Accountability in Local School Construction Bonds Act approved in June 2000, as amended, places certain limitations on local school bonds to be approved by 55% 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. These requirements are statutory provisions and are not part of the Proposition 39 changes to the California Constitution. The Strict Accountability in Local School Construction Bonds Act statutory provisions can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

### ***Jarvis v. Connell***

On May 29, 2002, the California Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et. al., v. Kathleen Connell* (as Controller of the State of California). The Court of Appeal held that 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 School District as being received from the State. To the extent the holding in such case would apply to State payments reflected in the School 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 School District if such required legislative action is delayed, unless the payments are self-executing authorization 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 ("Proposition 1A"), which amended the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocation 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-thirds 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 Fiscal Year 2008-09, the State could 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.

See “ – EFFECT OF STATE BUDGET ON REVENUES” above.

### **Proposition 62; Statutory Limitations**

On November 4, 1986, State voters approved Proposition 62, an initiative statute limiting the imposition of new or higher taxes by local agencies. The statute (a) requires new or higher general taxes to be approved by two-thirds of the local agency’s governing body and a majority of its voters; (b) requires the inclusion of specific information in all local ordinances or resolutions proposing new or higher general or special taxes; (c) penalizes local agencies that fail to comply with the foregoing; and (d) required local agencies to stop collecting any new or higher general tax adopted after July 31, 1985, unless a majority of the voters approved the tax by November 1, 1988.

Appellate court decisions following the approval of Proposition 62 determined that certain provisions of Proposition 62 were unconstitutional. However, the California Supreme Court upheld Proposition 62 in its decision on September 28, 1995 in Santa Clara County Transportation Authority v. Guardino. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court’s decision, such as whether the decision applies retroactively, what remedies exist for taxpayers subject to a tax not in compliance with Proposition 62, and whether the decision applies to charter cities.

### **Proposition 22**

Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act (“Proposition 22”), approved by the voters of the State on November 2, 2010, prohibits the State from enacting new laws that require redevelopment agencies to shift funds to schools or other agencies and eliminates the State’s authority to shift property taxes temporarily during a severe financial hardship of the State. In addition, Proposition 22 restricts the State’s authority to use State fuel tax revenues to pay debt service on state transportation bonds, to borrow or change the distribution of state fuel tax revenues, and to use vehicle license fee revenues to reimburse local governments for state mandated costs. Proposition 22 impacts resources in the State’s general fund and transportation funds, the State’s main funding source for schools and community colleges, as well as universities, prisons and health and social services programs.

### **Proposition 26**

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed

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

### **Proposition 30**

On November 6, 2012, voters of the State approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30"), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2016. Proposition 30 also imposes an additional excise tax on the storage, use or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use or other consumption in the State. This excise tax will be levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing on January 1, 2012 and ending December 31, 2018, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over \$250,000 but less than \$300,000 for single filers (over \$340,000 but less than \$408,000 for joint filers), (ii) 2% for taxable income over \$300,000 but less than \$500,000 for single filers (over \$408,000 but less than \$680,000 for joint filers), and (iii) 3% for taxable income over \$500,000 for single filers (over \$680,000 for joint filers).

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

local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs.

### **Statutory Lien for General Obligation Bonds**

On July 13, 2015, the Governor signed Senate Bill 222 (“SB 222”) into law, effective January 1, 2016. SB 222 was introduced on February 12, 2015, initially to amend Section 15251 of the California Education Code to clarify the process of lien perfection for general obligation bonds issued by or on behalf of California school and community college districts. Subsequently, on April 15, 2015, SB 222 was amended to include an addition to the California Government Code to similarly clarify the process of lien perfection for general obligation bonds issued by cities, counties, authorities and special districts.

SB 222, applicable to general obligations bonds issued after its effective date, will remove the extra step between (a) the issuance of general obligation bonds by cities, counties, cities and counties, school districts, community college districts, authorities and special districts; and (b) the imposition of a lien on the future *ad valorem* property taxes that are the source of repayment of the general obligation bonds. By clarifying that the lien created with each general obligation bond issuance is a “statutory” lien (consistent with bankruptcy statutory law and case precedent), SB 222, while it does not prevent default, should reduce the ultimate bankruptcy risk of non-recovery on local general obligation bonds.

### **State Cash Management Legislation**

Since 2002, the State engaged in the practice of deferring certain apportionments to school districts in order to manage the State’s cash flow. This practice included deferring certain apportionments from one fiscal year to the next. These “cross-year” deferrals were codified. In recent year, the State has paid down the deferrals. The District cannot predict whether the State will engage in the practice of deferring certain apportionments to Districts in the future.

### **Applications of Constitutional and Statutory Provisions**

The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. For a discussion of how the provisions of Proposition 98 have been applied to school funding, see “– Proposition 98” and “– Proposition 111” above.

### **Future Initiatives and Legislation**

Articles XIII A, XIII B, XIII C, XIII D and Propositions 26, 30, 98 and 218 were each adopted pursuant to a measure qualified for the ballot pursuant to California’s constitutional initiative process, Propositions 1A and 39 were each legislatively-referred constitutional amendments which were approved by the electorate, and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the State Legislature. For example, during 2013 a proposal (2013-14 Assembly Bill 182) was introduced in the State Legislature and later enacted to place limitations on the ability of school districts to issue capital appreciation bonds or convertible capital appreciation bonds commencing on and after January 1, 2014. The adoption of any such initiative or enactment of legislation might place limitations on the ability of the State, the County, any city whose students are served by the School District, the School District or local districts to increase revenues, to increase appropriations or affect the timing of issuance and/or structure

of future series of school district general obligation bonds, such as those expected to be issued under the measure approved by voters that authorized the Series 2016-B Bonds.

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**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF  
THE TEMECULA VALLEY UNIFIED SCHOOL DISTRICT  
FOR FISCAL YEAR 2014-15**



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## APPENDIX C

### ECONOMIC AND DEMOGRAPHIC INFORMATION

*The School District is located within the City of Temecula (the "City") in Riverside County (the "County"), in the western region of the County. The following information concerning the City, the County and the State of California (the "State") is presented as general background information. The Series 2016-B Bonds are not a debt or obligation of the City, the County or the State and the taxing power of the City, the County and the State are not pledged to the payment of the Series 2016-B Bonds. Property taxes for the payments of the Series 2016-B Bonds will only be levied on taxable property within the boundaries of the School District. The School District will not, and is not committing to, update this information as part of its continuing disclosure commitment. The County, including its Board of Supervisors, officers, officials, agents and other employees, are required, only to the extent required by law, to: (i) levy and collect ad valorem taxes for payment of the Series 2016-B Bonds in accordance with the law; and (ii) transmit the proceeds of such taxes to the paying agent for the payment of the principal of and interest on Series 2016-B Bonds at the time such payment is due*

#### Population

The City's population as of January 1, 2015, was approximately 108,920 persons, representing approximately 4.7% of the population of the County. The population of the City, the County and the State from 2006 to 2015 is shown in the following table. Since 2006, Temecula's population has increased by approximately 20.9%, representing an annual compound growth rate of approximately 1.91%.

#### POPULATION OF TEMECULA, RIVERSIDE COUNTY AND THE STATE OF CALIFORNIA 2006-2015

Year	City of Temecula		Riverside County		State of California	
	Population	Annual % Change	Population	Annual % Change	Population	Annual % Change
2006	90,120	-	1,975,913	-	36,116,202	-
2007	93,122	3.3	2,049,902	3.7	36,399,676	0.8
2008	95,332	2.4	2,102,741	2.6	36,704,375	0.8
2009	97,741	2.5	2,140,626	1.8	36,966,713	0.7
2010	99,757	2.1	2,179,692	1.8	37,223,900	0.7
2011	101,250	1.5	2,205,731	1.2	37,427,946	0.5
2012	103,067	1.8	2,229,467	1.1	37,680,593	0.7
2013	104,780	1.7	2,253,516	1.1	38,030,609	0.9
2014	106,256	1.4	2,280,191	1.2	38,357,121	0.9
2015	108,920	2.5	2,308,441	1.2	38,714,725	0.9

*Note: California Department of Finance for January 1.*

## Employment

The following table summarizes wage and salary employment in the County from 2010 to 2014. Trade, transportation and utilities, government, retail trade and construction are the largest employment sectors in the County.

### ANNUAL AVERAGE WAGE AND SALARY EMPLOYMENT COUNTY OF RIVERSIDE 2010-2014\*

Industry	Average Annual Employment <sup>(1)</sup>				
	2010	2011	2012	2013	2014
Total Farm	12,400	12,400	12,500	12,100	12,200
Total Non-Farm	533,600	545,800	558,700	585,700	616,700
Natural Resources and Mining	400	400	400	300	300
Construction	35,400	34,100	35,900	42,600	47,300
Manufacturing	37,900	38,600	39,400	39,000	40,400
Trade, Transportation and Utilities	117,000	121,600	123,000	129,700	136,700
Wholesale Trade	19,100	19,700	20,700	22,400	23,200
Retail Trade	78,500	81,600	81,400	84,400	85,200
Finance and Insurance	11,100	11,000	11,300	11,600	11,600
Real Estate	8,200	7,600	8,000	8,400	9,000
Other Services	18,300	18,800	19,200	20,300	21,700
Government	<u>109,200</u>	<u>114,200</u>	<u>112,100</u>	<u>111,200</u>	<u>112,800</u>
Total, All Industries	<u>546,000</u>	<u>558,200</u>	<u>571,200</u>	<u>597,800</u>	<u>628,900</u>

<sup>(1)</sup> Employment is reported by place of work; it does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred. Columns may not add to totals due to rounding.

\* Not seasonally adjusted.

Source: California Employment Development Department, based on March, 2014 benchmark.

The following tables summarize civilian labor force, employment and unemployment in the City and the County from 2006 to 2015. The average unemployment rate in the City in calendar year 2015 was 4.4% and in the County in calendar year 2015 was 6.1%; in contrast, the average unemployment rate in California in 2015 was 5.8%.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT  
CITY OF TEMECULA  
ANNUAL AVERAGES, 2006-2015\***

Year	Civilian Labor Force	Employed Labor Force <sup>(1)</sup>	Unemployed Labor Force <sup>(2)</sup>	Unemployment Rate <sup>(3)</sup>
2006	36,400	35,200	1,200	3.3%
2007	37,100	35,600	1,500	4.0
2008	37,200	35,000	2,100	5.7
2009	36,700	33,300	3,400	9.2
2010	46,800	42,000	4,800	10.2
2011	46,900	42,400	4,500	9.7
2012	47,700	43,600	4,100	8.5
2013	48,400	44,900	3,500	7.2
2014	49,200	46,300	2,900	6.0
2015	50,600	48,400	2,200	4.4

<sup>(1)</sup> Includes persons involved in labor-management trade disputes.

<sup>(2)</sup> Includes all persons without jobs who are actively seeking work.

<sup>(3)</sup> The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

\* Not seasonally adjusted.

Source: California Employment Development Department, based on March 2015 benchmark.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT  
RIVERSIDE COUNTY  
ANNUAL AVERAGES, 2006-2015\***

Year	Civilian Labor Force	Employed Labor Force <sup>(1)</sup>	Unemployed Labor Force <sup>(2)</sup>	Unemployment Rate <sup>(3)</sup>
2006	881,200	836,900	44,400	5.0%
2007	902,000	847,600	54,400	6.0
2008	911,500	833,300	78,200	8.6
2009	915,800	796,800	120,000	13.1
2010	976,200	841,100	135,200	13.8
2011	978,200	849,400	128,800	13.2
2012	989,100	873,900	115,200	11.6
2013	998,600	899,800	98,800	9.9
2014	1,010,700	927,300	83,400	8.2
2015	1,032,000	969,200	62,800	6.1

<sup>(1)</sup> Includes persons involved in labor-management trade disputes.

<sup>(2)</sup> Includes all persons without jobs who are actively seeking work.

<sup>(3)</sup> The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

\* Not seasonally adjusted.

Source: California Employment Development Department, based on March 2015 benchmark.

## Construction Activity

The level of construction activity in the City and the County as measured by total building permit valuations and new residential dwelling units is shown in the following tables.

### BUILDING PERMIT ACTIVITY CITY OF TEMECULA 2010-2014

	2010 <sup>(1)</sup>	2011 <sup>(2)</sup>	2012 <sup>(2)</sup>	2013 <sup>(2)</sup>	2014 <sup>(2)</sup>
<b>Valuation (\$000):</b>					
Residential	\$68,489,143	\$62,054,258	\$68,802,240	\$95,702,793	\$99,087,643
Non-residential	<u>14,235,576</u>	<u>16,305,032</u>	<u>16,150,648</u>	<u>21,500,670</u>	<u>34,094,939</u>
<b>TOTAL</b>	<b>\$82,724,719</b>	<b>\$78,359,290</b>	<b>\$84,952,888</b>	<b>\$117,203,463</b>	<b>\$133,182,582</b>
<b>Residential Units:</b>					
Single family	342	280	329	316	234
Multiple family	<u>6</u>	<u>8</u>	<u>70</u>	<u>348</u>	<u>596</u>
<b>TOTAL</b>	<b>348</b>	<b>288</b>	<b>399</b>	<b>664</b>	<b>830</b>

<sup>(1)</sup> Source: Construction Industry Research Board.

<sup>(2)</sup> Source: California Homebuilding Foundation.

### BUILDING PERMIT ACTIVITY COUNTY OF RIVERSIDE 2010-2014

	2010 <sup>(1)</sup>	2011 <sup>(2)</sup>	2012 <sup>(2)</sup>	2013 <sup>(2)</sup>	2014 <sup>(2)</sup>
<b>Valuation (\$000):</b>					
Residential	\$1,079,636,800	\$879,948,697	\$1,079,405,232	\$1,375,593,423	\$1,621,750,788
Non-residential	<u>539,379,400</u>	<u>559,409,023</u>	<u>637,434,081</u>	<u>873,976,948</u>	<u>814,990,007</u>
<b>TOTAL</b>	<b>\$1,619,016,200</b>	<b>\$1,439,357,720</b>	<b>\$1,716,839,313</b>	<b>\$2,249,570,371</b>	<b>\$2,436,740,795</b>
<b>Dwelling Units:</b>					
Single family	4,031	2,659	3,720	4,716	5,007
Multiple family	<u>526</u>	<u>1,061</u>	<u>909</u>	<u>1,427</u>	<u>1,931</u>
<b>TOTAL</b>	<b>4,557</b>	<b>3,720</b>	<b>4,629</b>	<b>6,143</b>	<b>6,938</b>

<sup>(1)</sup> Source: Construction Industry Research Board.

<sup>(2)</sup> Source: California Homebuilding Foundation.

## Income

Between 2005 and 2014, total personal income in the County increased by 36.8%, representing an average annual compound growth rate of 3.19%. Per capita personal income in the County grew by 13.5% during this time, representing an average annual compound growth of 1.27%.

The following tables summarize personal income for the County for 2005 to 2014.

### RIVERSIDE COUNTY PERSONAL INCOME 2005-2014 (In Thousands)

Year	Riverside County	Annual Percent Change
2005	\$57,179,601	-
2006	62,791,072	9.8%
2007	65,545,866	4.4
2008	66,450,042	1.4
2009	64,119,679	(3.5)
2010	65,532,154	2.2
2011	69,531,143	6.1
2012	72,303,147	4.0
2013	74,657,667	3.3
2014	78,239,388	4.8

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

### PER CAPITA PERSONAL INCOME 2005-2014

Year	Riverside County	California	United States
2005	\$29,599	\$39,046	\$35,904
2006	31,203	41,693	38,144
2007	31,586	43,182	39,821
2008	31,497	43,786	41,082
2009	29,869	41,588	39,376
2010	29,753	42,411	40,277
2011	31,073	44,852	42,453
2012	31,879	47,614	44,266
2013	32,503	48,125	44,438
2014	33,590	49,985	46,049

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

## Retail Sales

Taxable sales in the City and the County are shown below. Between 2009 and 2013, taxable sales in the City increased by approximately 27.0%. The largest taxable sales sectors in the City are motor vehicles & Parts, general merchandise, eating and drinking places, service stations and other retail stores.

**TAXABLE SALES  
CITY OF TEMECULA  
2009-2014\***

	Taxable Sales (\$000)					
	2009	2010	2011	2012	2013	2014*
Motor Vehicles & Parts	\$309,649	\$322,715	\$385,044	\$478,293	\$523,274	\$166,880
Home Furnishings & Appliances	67,336	67,526	71,180	73,234	77,797	18,366
Building Materials	97,877	99,657	105,793	106,644	125,463	32,911
Food Stores	72,796	71,194	74,169	76,374	82,678	21,204
Service Stations	173,696	196,542	243,563	250,453	236,279	60,151
Apparel Stores	112,400	119,186	133,350	155,124	161,228	38,730
General Merchandise Stores	339,035	362,572	378,732	388,833	396,128	91,820
Eating & Drinking Places	225,760	237,997	249,781	261,777	274,558	73,710
Other Retail Stores	145,770	149,402	156,640	170,559	179,521	42,925
Total Retail Stores	\$1,544,319	\$1,626,791	\$1,799,253	\$1,961,289	\$2,056,926	\$546,698
All Other Outlets	511,527	553,511	565,543	574,091	553,361	148,740
Totals All Outlets	\$2,058,846	\$2,180,302	\$2,364,795	\$2,535,380	\$2,610,286	\$695,438

\*As of February 5, 2016, data for calendar year 2014 is available only through 3rd Quarter.  
Source: California Board of Equalization.

**TAXABLE SALES  
COUNTY OF RIVERSIDE  
2009-2014\***

	Taxable Sales (\$000)					
	2009	2010	2011	2012	2013	2014*
Motor Vehicles & Parts	\$2,449,747	\$2,620,568	\$3,010,487	\$3,493,098	\$3,965,201	\$1,121,807
Home Furnishings & Appliances	858,098	883,109	914,888	930,068	996,484	240,574
Building Materials	1,237,518	1,232,145	1,303,073	1,364,513	1,535,178	425,926
Food Stores	1,251,220	1,267,758	1,304,731	1,356,148	1,421,590	362,594
Service Stations	2,300,247	2,685,840	3,300,785	3,516,040	3,456,322	879,052
Apparel Stores	1,293,271	1,391,174	1,505,821	1,672,482	1,771,603	455,897
General Merchandise Stores	2,855,733	2,947,905	3,051,709	3,174,022	3,298,920	729,941
Eating & Drinking Group	2,266,853	2,317,486	2,473,339	2,668,324	2,836,388	714,708
Other Retail Stores	1,544,800	1,573,517	1,711,453	1,841,973	2,025,088	480,296
Total Retail Stores	\$16,057,488	\$16,919,500	\$18,576,285	\$20,016,668	\$21,306,774	\$5,410,795
All Other Outlets	6,170,390	6,233,280	7,065,212	8,079,341	8,758,693	2,342,474
Totals All Outlets	\$22,227,877	\$23,152,780	\$25,641,497	\$28,096,009	\$30,065,467	\$7,753,270

\*As of February 5, 2016, data for calendar year 2014 is available only through 3rd Quarter.  
Source: California Board of Equalization.

## APPENDIX D

### PROPOSED FORM OF OPINION OF BOND COUNSEL

*Upon delivery of the Bonds, Bowie, Arneson, Wiles & Giannone, Newport Beach, California, Bond Counsel to the Temecula Valley Unified School District, proposes to render their final approving opinion with respect to the Bonds in substantially the following form:*

Board of Education of the  
Temecula Valley Unified School District  
31550 Rancho Vista Road  
Temecula, CA 92592

Re: \$ \_\_\_\_\_ Temecula Valley Unified School District  
General Obligation Bonds, 2012 Election, Series 2016-B  
**Final Opinion**

Ladies and Gentlemen:

We have acted as Bond Counsel for the Temecula Valley Unified School District ("District") in connection with the proceedings for the issuance and sale by the District of \$ \_\_\_\_\_ principal amount of Temecula Valley Unified School District General Obligation Bonds, 2012 Election, Series 2016-B ("Bonds"). The Bonds are being issued pursuant to a Resolution of the Board of Education of the District, adopted on [April 5], 2016 (Resolution No. 2015-16/\_\_\_\_) (the "District Resolution"), and a Resolution of the Board of Supervisors of the County of Riverside ("County"), adopted on \_\_\_\_\_, 2016 (Resolution No. 2016-\_\_\_\_) ("County Resolution" and collectively with the District Resolution, the "Bond Resolution"), in accordance with the provisions of the California Constitution, the provisions of California Government Code Section 53506 *et seq.*, and, to the extent applicable, California Education Code Sections 15264, 15266(b) and as applicable, the statutory authority set forth in Title 1, Division 1, Part 10, Chapter 1 of the State of California Education Code, commencing with Section 15100 and related California law.

As Bond Counsel, we have examined copies certified to us as being true and complete copies of the proceedings in connection with the issuance of the Bonds. In this connection, we have also examined such certificates of public officials and officers of the District, the County and the purchaser of the Bonds, including certificates as to factual matters, including, but not limited to the Tax Certificate, as we have deemed necessary to render this opinion.

Attention is called to the fact the we have not been requested to examine, and have not examined, any documents or information relating to the District or the County other than the record of proceedings hereinabove referred to, and no opinion is expressed as to any financial or other information, or the adequacy thereof, which has been, or may be supplied to any purchaser of the Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only matters set forth as our opinion in the Official Statement).

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such



opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their execution and delivery, and we disclaim any obligation to update this letter. As to questions of fact material to our opinions, we have relied upon the documents and matters referred to above, and we have not undertaken by independent investigation to verify the authenticity of signatures or the accuracy of the factual matters represented, warranted or certified therein. Furthermore, we have assumed compliance with all covenants contained in the Bond Resolution, the Tax Certificate and in certain other documents, including, without limitation, covenants compliance with which is necessary to assure that future actions or events will not cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of original issuance of the Bonds.

The Bond Resolution and other related documents refer to certain requirements and procedures which may be changed and certain actions which may be taken, in circumstances and subject to terms and conditions set forth in such documents, upon the advice or with an approving opinion of nationally recognized bond counsel. No opinion is expressed herein as to the effect on any Bond or the effect on interest thereon if any such change is made or action is taken upon the advice or approval of counsel other than ourselves.

Based on the foregoing, we are of the following opinions:

1. The Bonds are valid and binding general obligations of the District.
2. All taxable property in the territory of the District is subject to *ad valorem* taxation without limitation as to rate or amount (except as to certain classes of personal property which is taxable at limited rates) to pay the Bonds. The County is required by law to include in its annual tax levy the principal and interest coming due on the Bonds to the extent necessary funds are not provided from other sources.
3. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is exempt from State of California personal income taxes. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum taxes imposed on individuals and corporations; although, it should be noted that, with respect to corporations, such interest will be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. We express no opinion regarding other tax consequences arising with respect to the Bonds.

It is understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and remedies, to the application of equitable principles heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to exercise of judicial discretion in appropriate cases and to limitations on legal remedies applicable to school districts in the State of California.

Very truly yours,

**APPENDIX E**

**FORM OF CONTINUING DISCLOSURE AGREEMENT**

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**APPENDIX F**

**RIVERSIDE COUNTY POOLED INVESTMENT FUND**

**APPENDIX G**

**COUNTY OF RIVERSIDE  
OFFICE OF THE TREASURER TAX-COLLECTOR  
STATEMENT OF INVESTMENT POLICY**

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## APPENDIX H

### BOOK-ENTRY-ONLY SYSTEM

*The following description under the heading "Procedures and Record Keeping" with respect to beneficial ownership interests in the Series 2016-B Bonds, payment of principal and accreted value of and interest on the Series 2016-B Bonds to Direct Participants, Indirect Participants or Beneficial Owners (as such terms are defined below) of the Series 2016-B Bonds, confirmation and transfer of beneficial ownership interests in the Series 2016-B Bonds and other Bond-related transactions by and between DTC, Direct Participants, Indirect Participants and Beneficial Owners of the Series 2016-B Bonds is based solely on information furnished by DTC to the School District which the School District believes to be reliable, but the School District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

#### **Procedures and Record Keeping**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2016-B Bonds. The Series 2016-B Bonds 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 Series 2016-B Bond will be issued for each maturity of the Series 2016-B Bonds, each in the aggregate principal amount of such maturity, and will be deposited through the facilities of 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 3.6 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 a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com). The information on such website is not incorporated herein by such reference or otherwise.

Purchases of Series 2016-B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016-B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016-B Bond ("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 Series 2016-B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016-B Bonds, except in the event that use of the book-entry-only system for the Series 2016-B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016-B Bonds 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 Series 2016-B Bonds 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 Series 2016-B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016-B Bonds 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 Series 2016-B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2016-B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2016-B Bonds documents. For example, Beneficial Owners of the Series 2016-B Bonds may wish to ascertain that the nominee holding the Series 2016-B Bonds 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 Paying Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2016-B Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2016-B Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the School 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 the Series 2016-B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, accreted value and redemption price of and interest payments on the Series 2016-B Bonds 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 School 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 School District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, accreted value, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the School District or the Paying 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.

DTC may discontinue providing its services as depository with respect to the Series 2016-B Bonds at any time by giving reasonable notice to the School District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2016-B Bond certificates are required to be printed and delivered.

The School District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2016-B Bond certificates will be printed and delivered to DTC.

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

#### **Discontinuance of DTC Services**

In the event that (a) DTC determines not to continue to act as securities depository for the Series 2016-B Bonds, or (b) the School District determines that DTC shall no longer act and delivers a written certificate to the Paying Agent to that effect, then the School District will discontinue the Book-Entry-Only System with DTC for the Series 2016-B Bonds. If the School District determines to replace DTC with another qualified securities depository, the School District will prepare or direct the preparation of a new single separate, fully registered Series 2016-B Bond for each maturity of the Series 2016-B Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the Bond Resolution. If the School District fails to identify another qualified securities depository to replace the incumbent securities depository for the Series 2016-B Bonds, then the Series 2016-B Bonds shall no longer be restricted to being registered in the Series 2016-B Bond registration books in the name of the incumbent securities depository or its nominee, but shall be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Series 2016-B Bonds shall designate.

In the event that the Book-Entry-Only System is discontinued, the following provisions would also apply: (i) the Series 2016-B Bonds will be made available in physical form, (ii) principal and accreted value of and redemption premiums, if any, on the Series 2016-B Bonds will be payable upon surrender thereof at the trust office of the Paying Agent identified in the Bond Resolution, and (iii) the Series 2016-B Bonds will be transferable and exchangeable as provided in the Bond Resolution.

*The School District and the Paying Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Series 2016-B Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal and accreted value of or redemption price of or interest on the Series 2016-B Bonds; (iii) the delivery of any notice which*

*is permitted or required to be given to registered owners under the Bond Resolution; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Series 2016-B Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the Series 2016-B Bonds or the Bond Resolution. The School District and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal and accreted value of or interest on the Series 2016-B Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The School District and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Series 2016-B Bonds or any error or delay relating thereto.*

**APPENDIX I**

**TABLE OF ACCRETED VALUE OF CAPITAL APPRECIATION BONDS  
[TO BE UPDATED]**

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**APPENDIX J**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**