

Val Verde Unified School District **Schedule of Direct and Overlapping Bonded Debt**

2009-10 Assessed Valuation: \$5,442,156,298
 Redevelopment Incremental Valuation: 1,280,922,018
 Adjusted Assessed Valuation: \$4,161,234,280

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:

	<u>% Applicable</u>	<u>Debt 1/1/10</u>
Metropolitan Water District	0.230%	\$ 674,878
Eastern Municipal Water District Improvement District No. U-8	0.058	2,794
Eastern Municipal Water District Improvement District No. U-9	69.423	2,147,253
Eastern Municipal Water District Improvement District No. U-22	44.130	2,191,937
Riverside City Community College District	7.072	9,525,709
Val Verde Unified School District	100.	29,770,000⁽¹⁾
Val Verde Unified School District Community Facilities District	100.	50,678,000
Eastern Municipal Water District Community Facilities District No. 2003-25, Improvement Area D	100.	3,785,000
City of Perris Community Facilities Districts	64.345-100.	111,944,687
County Community Facilities Districts	85.907-100.	<u>21,442,814</u>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$232,163,072

DIRECT AND OVERLAPPING GENERAL FUND DEBT:

Riverside County General Fund Obligations	2.741%	\$ 20,338,123
Riverside County Pension Obligations	2.741	10,473,087
Riverside County Board of Education Certificates of Participation	2.741	198,448
Val Verde Unified School District Certificates of Participation	100.	86,045,000
City of Moreno Valley Certificates of Participation	19.771	<u>15,768,361</u>
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$132,823,019
Less: Riverside County self-supporting obligations		<u>431,740</u>
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$132,391,279

GROSS COMBINED TOTAL DEBT	\$364,986,091⁽²⁾
NET COMBINED TOTAL DEBT	\$364,554,351

- (1) Excludes general obligation bonds to be sold.
 (2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2009-10 Assessed Valuation:

Direct Debt (\$29,770,000)0.55%
Total Overlapping Tax and Assessment Debt4.27%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$115,815,000)2.78%
Gross Combined Total Debt8.77%
Net Combined Total Debt8.76%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: \$0

Source: California Municipal Statistics, Inc.

Long-Term Obligations [UPDATE]

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Due in</u> <u>One Year</u>
Certificates of participation					
2005 Series B Refunding	\$63,310,000	\$ -	\$17,810,000	\$45,500,000	\$1,080,000
2006 Series A	31,335,000	-	24,715,000	6,620,000	-
2007 Series A ⁽¹⁾	-	37,625,000	-	37,625,000	-
2007 Series B ⁽¹⁾	-	46,800,000	-	46,800,000	200,000
Capital Leases	1,791,825	-	1,304,551	487,274	230,342
Assessments Payable	-	12,504,792	-	12,504,792	2,251,645
Golden Handshake	350,721	-	29,944	320,777	137,861
	<u>\$96,787,546</u>	<u>\$96,929,792</u>	<u>\$43,859,495</u>	<u>\$149,857,843</u>	<u>\$3,899,848</u>

⁽¹⁾ In July 2007, the District defeased \$35,500,000 in principal amount of 2007 Series A Certificates. The remaining 2007 Series A and 2007 Series B Certificates were prepaid on May 14, 2008 and May 16, 2008, respectively, with the proceeds of the District's Variable Rate Demand Refunding Certificates of Participation, 2008 Series A. Payments of Capital Lease obligations are made in the General Fund. Payments for Golden Handshake are made from the General Fund.
Source: The District.

Assessments Payable [UPDATE]

On September 28, 2007, the State Allocation Board declared assessments payable totaling \$12,504,792 principal amount. At June 30, 2008, the remaining unpaid assessment was \$10,253,147 principal amount.

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest to</u> <u>Maturity</u>	<u>Total</u>
2009	\$ 2,369,923	\$ 538,598	\$ 2,908,521
2010	2,494,415	414,106	2,908,521
2011	2,625,447	283,074	2,908,521
2012	2,763,362	145,159	2,908,521
	<u>\$10,253,147</u>	<u>\$1,380,937</u>	<u>\$11,634,084</u>

Golden Handshake [UPDATE]

In prior years, the District adopted an early retirement incentive program, pursuant to Education Code Section 22714 and 44929, whereby the service credit to eligible employees is increased by two years. As a result of this early retirement incentive program, the District expects to incur \$_____ in additional costs that will be repaid over three years as follows:

<u>Year Ending</u> <u>June 30,</u>	
2010	\$32,777
2011	
2012	
Total	\$ _____

Bonded Debt – Community Facilities District (CFD) Special Tax Bonds [UPDATE]

The bonds issued by certain Community Facilities Districts established by the District (the "CFD Bonds") are not obligations of the District. The CFD Bonds, the interest thereon, and any premiums on the redemption of any of the CFD Bonds are not an indebtedness of the District, the State of California, or any of its political subdivisions. Neither the faith and credit nor the general taxing power of the CFD, the

District, the County, the State of California, or any political subdivision thereof is pledged to the payment of the CFD Bonds, which are payable from the proceeds of an annual special tax levied on and collected from property within the respective CFDs according to the rate and method of apportionment determined by a formula approved by the qualified electors of the CFDs and by the Board of Education of the District. The CFD Bonds are secured only by a first pledge of all revenues derived from the net special taxes and the moneys deposited in certain funds held under their respective fiscal agent agreements.

<u>CFD</u>	<u>Original Issue</u>	<u>CFD Bonds Outstanding Beginning of 2007-08 Year</u>	<u>Redeemed</u>	<u>CFD Bonds Outstanding End of 2008-09 Year</u>
1998 Series A	\$ 7,180,000	\$ 4,525,000	\$ 495,000	\$ 4,030,000
2003-1 Citation Area No. 1	1,984,000	1,968,000	34,000	1,934,000
2003-2 John Laing Homes	2,975,000	2,875,000	50,000	2,825,000
2003 Refunding	29,450,000	26,785,000	765,000	26,020,000
2003-1 Meritage Area No. 2	2,751,000	2,751,000	46,000	2,705,000
2002-1 Boulder Springs Area A	16,440,000	16,440,000	20,000	16,420,000
		<u>\$55,344,000</u>	<u>\$1,410,000</u>	<u>\$53,934,000</u>

Source: The Underwriter and the Financial Advisor.

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Major Employers

The County is host to a diverse mix of major employers representing industries ranging from manufacturing to hospitals as well as casinos, schools and government offices. The following table lists the major employers within the County.

COUNTY OF RIVERSIDE MAJOR EMPLOYERS 2009

<u>Employer</u>	<u>Product/Service</u>	<u>Number of Employees</u>
Riverside City Council	Government Offices-City, Village & TWP	10,000 plus
Corrections Dept	State Government-Correction Institutions	1,000-4,999
Crossroads Truck Dismantling	Automobile Wrecking (WHLS)	1,000-4,999
Desert Sands Unified School District	Schools	1,000-4,999
Eisenhower Medical Ctr	Hospitals	1,000-4,999
Eisenhower Medical Ctr	Laboratories-Medical	1,000-4,999
Fantasy Springs Resort Casino	Bowling Centers	1,000-4,999
Handsome Rewards	Internet & Catalog Shopping	1,000-4,999
Hemet Valley Medical System	Hospitals	1,000-4,999
Hub International of CA Ins	Insurance	1,000-4,999
JW Marriott-Desert Springs Resort	Hotels & Motels	1,000-4,999
Kaiser Permanente	Physicians & Surgeons	1,000-4,999
La Quinta Resort & Club	Resorts	1,000-4,999
Morongo Casino Resort & Spa	Casinos	1,000-4,999
Mountain & Dunes Golf Courses	Golf Courses-Private	1,000-4,999
Pechanga Development Corp	Casinos	1,000-4,999
Riverside Community Hospital	Hospitals	1,000-4,999
Riverside County Regional Med	Hospitals	1,000-4,999
Riverside Forklift Training	Trucks-Industrial (Wholesale)	1,000-4,999
Robertson's Ready Mix	Concrete-Ready Mixed	1,000-4,999
Starcrest of California	Internet & Catalog Shopping	1,000-4,999
Starcrest Products-California	Gift Shops	1,000-4,999
Sun World Intl LLC	Fruits & Vegetables-Growers & Shippers	1,000-4,999
University of Cal-Riverside	Schools-Universities & Colleges Academic	1,000-4,999
Watson Pharmaceuticals Inc	Marketing Programs-Services	1,000-4,999

Source: California Employment Development Department: Labor Market Information, Major Employers in Other Counties.

Financial Statements

The District's financial statements are prepared on a modified accrual basis of accounting in accordance with generally accepted accounting principles as set forth by the National Council on Governmental Accounting.

Funds and Accounting Groups used by the District are categorized as follows:

Governmental Funds

General Fund

Special Revenue Funds

Capital Projects Funds

Proprietary Fund

Internal Service Funds

Fiduciary Funds

Expendable Trust Funds

Account Group

General Long-Term Debt Account Group

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

The financial statements included herein were prepared by the District using information from the Annual Financial Reports which are prepared by the Directors of Accounting for the District and audited by independent certified public accountants each year. The District's audited financial statements for the year ended June 30, 2007 are attached hereto as APPENDIX B. Copies of the audited report are available from the District upon request to the District at the District offices; a fee may be imposed for copying, shipping and handling.

Budgets of District

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

The District is required by provisions of the California Education Code to maintain a balanced budget each year, where the sum of expenditures plus the ending fund balance cannot exceed the revenues plus the carry-over fund balance from the previous year. The California State Department of Education imposes a uniform budgeting format for each school district in the State.

State Emergency Loan Program

The California Education Code provides that a school district which determines during a fiscal year that its revenues are less than the amount necessary to meet its current year expenditure obligations may request an emergency apportionment from the State through the State Superintendent of Public Instruction (the "State Superintendent") subject to certain conditions.

The District is not currently participating in the emergency loan program.

FUNDING OF SCHOOL DISTRICTS IN CALIFORNIA

Major Revenues

The Treasurer and Tax Collector of the County of Riverside (the "Treasurer") manages, in accordance with California Government Code Section 53600 *et seq.*, funds deposited with the Treasurer by County school and community college districts, various special districts and some cities. State law generally requires that all moneys of the County, school districts and certain special districts be held in the County's Treasury Pool as described below. The composition and value of investments under

management in the Treasury Pool vary from time to time, depending on cash flow needs of the County and the other public agencies invested in the Treasury Pool, the maturity or sale of investments, purchase of new securities and fluctuations in interest rates generally.

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

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

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

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

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

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

The calculation of the amount of state aid a school district is entitled to receive each year is basically a five-step process. First, the prior year State revenue limit per ADA is established, with recalculations as are necessary for adjustments for equalization or other factors. Second, the adjusted prior year state revenue limit per ADA is inflated according to formulas based on the implicit price deflator for government goods and services and the statewide average State revenue limit per ADA for school districts. Third, the current year's State revenue limit per ADA for each school district is

multiplied by such school district's ADA for either the current or prior year. Fourth, revenue limit add-ons are calculated for each school district if such school district qualified for the add-ons. Add-ons include the necessary small school district adjustments, meals for needy pupils and small school district transportation, and are added to the State revenue limit for each qualifying school district. Finally, local property tax revenues are deducted from the State revenue limit to arrive at the amount of state aid based on the State revenue limit to which each school district is entitled for the current year.

Ad Valorem Property Taxes

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County as of the preceding January 1, effective with the lien date of January 1, 1997. However, upon a change in ownership of property or completion of new construction, State law permits an accelerated recognition and taxation of increases in real property assessed valuation (known as a "floating lien date"). For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing State assessed property secured by a lien which is sufficient, in the opinion of the assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

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

Property taxes on the secured roll are due in two installments, on November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively, and a ten percent penalty attaches to any delinquent payment. In addition, property on the secured roll secured by the assessee's fee ownership of land with respect to which taxes are delinquent is declared tax-defaulted on or about June 30. Those properties on the secured roll that become tax-defaulted on June 30 of the fiscal year that are not secured by the assessee's fee ownership of land are transferred to the unsecured roll and are then subject to the Treasurer's enforcement procedures (*i.e.*, seizures of money and property, liens and judgments). Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus costs and redemption penalty of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the tax-defaulted property is subject to sale by the Treasurer.

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

Proposition 98

General. In 1988, California voters approved Proposition 98, an initiative that amended Article XVI of the State Constitution and provided specific procedures to determine a minimum guarantee

for annual grade kindergarten to 14 ("K-14") funding. The constitutional provision links the K-14 funding formulas to growth factors that are also used to compute the State appropriations limit. Proposition 111 (Senate Constitutional Amendment 1), adopted in June 1990, among other things, revised certain funding provisions of Proposition 98 relating to the treatment of revenues in excess of the State spending limit and added a third funding "test" to calculate the annual funding guarantee. This third calculation is operative in years in which general fund tax revenue growth is weak. The amendment also specified that under Test 2 (see below), the annual cost of living adjustment ("COLA") for the minimum guarantee would be the change in California's per-capita personal income, which is the same COLA used to make annual adjustments to the State appropriations limit (Article XIII B).

Calculating Minimum Funding Guarantee. There are currently three tests which determine the minimum level of K-14 funding. Test 1 guarantees that K-14 education will receive at least the same funding share of the State general fund budget it received in 1986-87. Initially, that share was just over 40 percent. Because of the major shifts of property tax from local government to community colleges and K-12 which began in 1992-93 and increased in 1993-94, the percentage dropped to 33.0%.

Under implementing legislation (AB 198 and SB 98 of 1989), each segment of public education (K-12 districts, community college districts, and direct elementary and secondary level instructional services provided by the State of California) has separately calculated amounts under the Proposition 98 tests. The base year for the separate calculations is 1989-90. Each year, each segment is entitled to the greater of the amounts separately computed for each under Test 1 or 2. Should the calculated amount Proposition 98 guarantee (K-14 aggregated) be less than the sum of the separate calculations, then the Proposition 98 guarantee amount shall be prorated to the three segments in proportion to the amount calculated for each. This statutory split has been suspended in every year beginning with 1992-93. In those years, community colleges received less than was required from the statutory split.

Test 2 provides that K-14 education will receive as a minimum, its prior-year total funding (including State general fund and local revenues) adjusted for enrollment growth ("ADA") and per-capita personal income COLA.

A third formula, established pursuant to Proposition 111 as "Test 3," provides an alternative calculation of the funding base in years in which State per-capita General Fund revenues grow more slowly than per-capita personal income. When this condition exists, K-14 minimum funding is determined based on the prior-year funding level, adjusted for changes in enrollment and COLA where the COLA is measured by the annual increase in per-capita general fund revenues, instead of the higher per-capita personal income factor. The total allocation, however, is increased by an amount equal to one-half of one percent of the prior-year funding level as a funding supplement.

In order to make up for the lower funding level under Test 3, in subsequent years K-14 education receives a maintenance allowance equal to the difference between what should have been provided if the revenue conditions had not been weak and what was actually received under the Test 3 formula. This maintenance allowance is paid in subsequent years when the growth in per-capita State tax revenue outpaces the growth in per-capita personal income.

The enabling legislation to Proposition 111, Chapter 60, Statutes of 1990, (SB 88, Garamendi), further provides that K-14 education shall receive a supplemental appropriation in a Test 3 year if the annual growth rate in non-Proposition 98 per-capita appropriations exceeds the annual growth rate in per-pupil total spending.

State Assistance

The following discussion of the California State budget has been obtained from publicly available information which the District believes to be reliable; however neither District nor the Underwriter

guaranty the accuracy or completeness of this information and have not independently verified such information. *Additional information regarding State budgets is available at various State-maintained websites, including www.dof.ca.gov.* These websites are not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

Budget Reform and 2009 Budget Act. On November 6, 2008, the Governor called a special session of the State Legislature and announced a plan to address a projected revenue shortfall for fiscal year 2008-09, estimated as of December 10, 2008 to be approximately \$14.8 billion, as well as substantial shortfalls in future fiscal years. This legislative special session ended without a resolution. Coinciding with the swearing-in of the new Legislature on December 1, 2008, the Governor declared a fiscal emergency for the State, allowing him to call several Proposition 58 legislative special sessions to address the shortfall.

On February 19, 2009, the State Legislature passed a budget-balancing reform signed by Governor Schwarzenegger on February 20, 2009 (the "2009 Budget Act"), intended to close the State's projected \$41.6 billion deficit through June of 2010. The 2009 Budget Act enacted nearly five months ahead of the constitutional deadline, along with a number of accompanying measures, was designed to reduce the deficit forecasts and to achieve budget solutions for both the 2008-09 and 2009-10 fiscal years. The Department of Finance has reported that California's chronic and cyclic budget crises are largely attributable to the use of higher than normal revenues to create permanent, ongoing spending commitments and tax cuts. The 2009 Budget Act and accompanying legislation are designed to end this cycle by preventing government from spending revenue above the long-term trend line and by creating a substantial Rainy Day fund of up to 12.5 percent of General Fund revenue for use only during times when revenue is insufficient to fund a moderate, population-and-inflation-based growth in spending. Certain of these reforms, to be effective, were required to be approved as constitutional amendments by qualified voters voting at an election on May 19, 2009. See "May Revision to 2009 Budget Act" below.

Features of the 2009 Budget Act and accompanying legislation as they pertain to education funding and programs include the following:

- **Proposition 98 Reduction.** An expenditure reduction of \$8.4 billion in Proposition 98 funding included in the 2009 Budget Act reflected the reduction in the Proposition 98 minimum guarantee that resulted from the severe decline in General Fund revenues. In order to protect classroom funding during the financial downturn, the 2009 Budget Act included \$3.24 billion of deferrals from the 2008-09 fiscal year to July of the 2009-10 fiscal year from school district revenue limits, K-3 class size reduction and community college apportionment payments.
- **Allocation of Proposition 98 Funding.** The 2009 Budget Act contained reductions and changes in the way the total Proposition 98 funding was allocated to various programs: (a) eliminated the \$286.9 million cost-of-living adjustment (COLA) included in the 2008 Budget Act; (b) reduced \$943.8 million to school district and county office of education revenue limits in 2008-09, and made an additional reduction to revenue limits of \$267.5 million in 2009-10; and (c) reduced \$1,211.3 million from most all K-12 categorical programs, which consisted of a reduction of \$943.8 million in 2008-09, and an additional reduction of \$267.5 million in 2009-10. In order to increase school districts' flexibility to accommodate these reductions, the 2009 Budget Act provided 100-percent flexibility for 42 of the 61 categorical programs.
- **Long-term Funding for Education.** The severe decline in the State's General Fund revenues impacted K-14 funding by dramatically reducing the Proposition 98 guarantee. In the long term, given the manner in which Proposition 98 is tied to General Fund

revenues, the guarantee would return to historical levels. The 2009 Budget Act recognized the need to plan for this transition over a number of years by scheduling increases in K-14 funding as part of the budget reform package. This mechanism used one-half of the annual 3-percent General Fund transfer into the "Rainy Day" fund to provide education over a period of several years.

- **Educational Categorical Flexibility.** To assist school districts manage their budgets during these economic times, the 2009 Budget Act and accompanying legislation provided relief in connection with 42 categorical programs. This flexibility was provided through fiscal year 2012-13, allowing school districts to shift funds to meet their highest priority needs. In addition, 2009 Budget Act and accompanying legislation proposed to significantly reduce the penalties associated with K-3 Class Size Reduction through 2011-12, allowing districts to retain up to 70 percent of funding if pupil-to-teacher ratios increase more than 25 to 1, which provided greater local flexibility. This proposal did not include programs that are protected under federal law or that were approved through a voter initiative. The most notable programs in this category included Special Education, Child Nutrition, Child Care and the After School Education and Safety Program.
- **Higher Education.** The \$793.8 million reduction in higher education funding reflected: (a) an ongoing reduction beginning in the current year to achieve the 10-percent reduction initially proposed in the Governor's Proposed 2008-09 Budget (\$132.2 million in both years), (b) elimination of the Higher Education Compact-related increases scheduled for the budget year (\$427.6 million), (c) elimination of the anticipated budget year increase to restart state contributions to University of California's retirement system (\$95.7 million) including legislative elimination of the proposed \$20 million partial year start-up proposed by the Administration, and (d) legislative elimination of proposed new cohorts of nursing and medical enrollments for the budget year (\$6.1 million). The 2009 Budget Act included unallocated reductions, through a veto, of \$255 million each from the University of California and California State University. The additional reductions were offset by funding intended for restoration from the State Fiscal Stabilization Fund under the Federal American Recovery and Reinvestment Act of 2009.

Additional reductions featured in the 2009 Budget Act and accompanying legislation in other programs included reductions in Medi-Cal and Supplemental Security Income/State Supplementary Payment spending, California Work Opportunities and Responsibility to Kids programs, certain other mental health and health and human services programs, as well as reductions in State employee compensation. Legislation accompanying the 2009 Budget Act included measures designed to help stimulate the State's economy through changes in the manner in which corporate taxes are calculated, a temporary new job creation credit for small businesses under personal income and corporate tax laws, a trailer bill creating a home buyers' credit against personal income tax liability, and measures to authorize state and local transportation agencies to seek private sector financing to build transportation projects in addition to those financed with public funds.

May Revision to the 2009 Budget Act. On May 14, 2009, the office of the Governor proposed its May revision to the 2009 Budget Act (the "May Revision"). The May Revision proposed additional solutions to address growing revenue losses and expenditure increases experienced by the State since the passage of the 2009 Budget Act. The May Revision projected that, absent corrective action, State expenditures would exceed revenues by approximately \$15.4 billion through the current fiscal year and fiscal year 2009-10. To address this projected deficit, the May Revision proposed \$2 billion in expenditure reductions and revenue increases for fiscal year 2008-09 and \$12.5 billion of such solutions for fiscal year 2009-10, coupled with a \$889 million reduction to the \$2.1 billion reserve approved as part of the 2009 Budget Act. With respect to K-12 education funding, the proposed solutions included reductions in Proposition 98 funding of \$1 billion fiscal year 2008-09 and \$2 billion in fiscal year

2009-10. The May Revision also acknowledged that the 2009 Budget Act included approximately \$6 billion of solutions subject to voter approval at the May 19, 2009 special election, including the securitization of future State Lottery revenues and diversion of tax revenues to general fund purposes that were previously dedicated by voter initiative to childhood development and mental health services. However, on May 19, 2009, five of the six proposed Statewide ballot measures failed to pass. Failure to secure voter approval for these measures increased the projected deficit by the amount of approximately \$6 billion. Accordingly, in response to worsening revenue projections and the May 19, 2009 special election results, the May Revision proposed the following budgetary measures, among numerous others:

Revenues: the acceleration of state income tax withholding (\$1.7 billion) and personal and corporation estimated tax payments (\$610 million) and sale of a portion of the State Compensation Insurance Fund (\$1.0 billion).

Expenditures: a reduction to K-14 education funding (Proposition 98) by \$1.5 billion in 2008-09 and by \$2.97 billion in 2009-10 and a reduction of \$1.02 billion from 2008-09 California State University and University of California funding. A deferral of K-14 education funding of \$115 million from the fiscal year 2008-09 to fiscal year 2009-10 and a deferral of K-14 education funding of \$1.7 billion from fiscal year 2009-10 to fiscal year 2010-11.

Borrowing: diversion of \$1.98 billion in local property tax revenues to the State, to be repaid within three years under Proposition 1A of 2004.

Additional changes included spending cuts, revenue enhancements, and shifting revenues and expenditures between programs. On May 26, 2009, the Governor released an update to the May Revision that included an additional \$5.5 billion in spending reductions, and on May 29, 2009, the Governor released a further update to the May Revision that included an additional \$2.8 billion in budget solutions, including a reduction of \$680 million in Proposition 98 appropriations in fiscal year 2009-10 if revenues do not meet a certain threshold. For further details regarding the May Revision, please see the summary thereof published by the California State Department of Finance (the "May Revision Report"). The May Revision Report may be found at www.dof.ca.gov. This website is not incorporated herein by reference and neither the District nor the Underwriter makes any representation as to the accuracy of the information provided therein.

LAO Overview of May Revision. The LAO pointed out that the May Revision proposals included major spending reductions and efforts for long-term State efficiencies and savings and that by acting promptly, rejecting the Governor's revenue anticipation warrants proposal, and reducing reliance on certain of the Governor's proposals, the State Legislature could return the budget to balance, prevent another State cash crunch, and preserve core funding for what it deems to be the State's long-term priorities. To accomplish these goals, the LAO believes that the State Legislature must cut lower-priority programs substantially or eliminate them and, to address significant budget deficits forecast in future years, the State Legislature also needs to begin work on measures that further improve the efficiency of State services in future fiscal years. With regard to K-14 education, the following features were included in the May Revision:

Minimum Guarantee for K-14 Education. From levels assumed in February 2009, the administration estimated that the Proposition 98 minimum guarantee had fallen by \$1.6 billion in 2008-09 and \$3.8 billion in 2009-10. The Governor's May Revision reduced Proposition 98 funding in both years to these lower levels.

Additional Cuts to K-14 Education. The largest current-year proposal in the May Revision was a \$1.3 billion decrease in general purpose funding for K-12 school districts, a revenue limit reduction of 3.7 percent (for a total cut of 6.4 percent when combined with earlier 2008-09 reductions). The May Revision provided for revenue limits to be reduced an additional \$387 million in 2009-10 (for a total cut

of 8.1 percent when combined with earlier reductions). For California Community Colleges ("CCC"), the May Revision reduced support for categorical programs by \$85 million in 2008-09 and an additional \$249 million in 2009-10, equating to a cumulative reduction of almost 50 percent. In addition, for 2009-10, the administration proposed to reduce enrollment growth from 3 percent to 1 percent (\$127 million savings) and lowered the funding rate for recreational courses (\$120 million savings).

Additional Deferrals. The May Revision included two additional K-14 deferrals. Under the administration's plan, \$115 million in 2008-09 community college apportionment payments would be deferred until 2009-10 and \$1.7 billion in 2009-10 K-12 revenue limits payments would be deferred until 2010-11. These deferrals represented approximately one-third of the administration's proposed May Revision K-14 solutions.

Additional Flexibility. To assist school districts and CCCs in responding to the 2009 Budget Act, the May Revision included two major new flexibility proposals. For K-12 school districts, the administration proposed changing state law to provide school districts with the option of reducing instructional time the equivalent of up to 7.5 days a year for the next three years. For CCCs, the administration proposed to consolidate the vast majority of the existing 22 CCC categorical programs into a block grant (similar to the "flex item" created for K-12 school districts in the 2009 Budget Act). Under the block grant approach, community colleges no longer would need to adhere to underlying requirements with respect to financial allocations. They would have discretion to shift funding among existing categorical programs or away from these programs to other priorities.

Federal Stimulus Funding. The May Revision reduced funding for K-12 education by \$2.8 billion and CCC by \$820 million over the 2008-09 and 2009-10 period. These program reductions would be mitigated by the federal economic stimulus funding available to the State. For K-12 education, the State would receive approximately \$6.3 billion in federal stimulus funding over this period. As a result, compared to the February 2009 funding level, K-12 funding, on average, would increase by about \$600 per pupil. Compared to the earlier September 2008-09 Budget Act level, however, per pupil K-12 funding would fall by about \$250, or roughly 3 percent. The impact on a particular district would depend on the amount of federal stimulus funding it receives. As some stimulus funding (such as Title I funding) is not distributed to every district, programmatic effects would vary across districts. Under the May Revision, CCCs would also receive a small amount of federal stimulus funding to partially mitigate proposed cuts.

Community College Fees. The LAO notes that the Federal government recently expanded the tax credits available to CCC students and that by increasing CCC fees, the State could take advantage of this federal aid and mitigate hundreds of millions of dollars of the Governor's proposed reductions without substantially affecting most students and their families.

LAO Recommendations. In connection with the Proposition 98 proposal set forth in the May Revision, the LAO recommended the State Legislature achieve the same level of General Fund savings as the May Revision by reducing spending to the minimum guarantee. Yet, to achieve these savings, the LAO recommended making more targeted reductions based on the merits of individual programs and avoiding additional deferrals. In addition, the LAO recommended the State Legislature work with the Governor to explore additional flexibility options. The LAO believed the May Revision missed several opportunities to eliminate existing programs that are duplicative, inefficient, ineffective, or over-budgeted, and that approximately ten existing categorical programs fall into this category (as well as many education mandates). For example, the LAO recommended the State Legislature eliminate a childcare extended day and the California Technology Assistance Project, among others. The LAO pointed out that the May Revision includes \$1.8 billion in new K-14 deferrals which, together with already existing K-14 deferrals, provides that the State would be deferring \$6.3 billion in K-14 payments from 2009-10 into 2010-11. Accordingly, the LAO suggested that the administration was expecting school districts to run a program in 2009-10 that the State could not afford and that another sizeable

deferral could make many districts, especially small districts with small cash cushions, more susceptible to becoming insolvent. Moreover, the LAO advised against planning for deferrals even before a fiscal year has begun.

While the LAO believed that the Governor's estimate of the budget problem that needed to be addressed, namely the \$21.3 billion projected deficit, was reasonable, the LAO's updated estimates of General Fund revenues and expenditures differed somewhat from the administration's, indicating that the problem may be larger by about \$3 billion. In March 2009, the LAO projected that the State faced huge operating shortfalls in future years even after the adoption of the 2009 Budget Act. The LAO estimated that the May Revision proposals would leave the General Fund with an imbalance between resources and expenditures of greater than \$15 billion in 2010-11, with the annual shortfall rising even more in the subsequent three fiscal years. A complete copy of the LAO overview of the May Revision is posted by the Office of the Legislative Analyst at www.lao.ca.gov. This website is not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein.

Revised 2009-10 Budget. On July 29, 2009, Governor Schwarzenegger signed a package of bills (the "Revised 2009-10 Budget") that revised the 2009 Budget Act. The 2009 Budget Act included \$36 billion in budgetary measures at a time when the General Fund budget gap was estimated to be \$42 billion. The Revised 2009-10 Budget includes an additional \$24 billion to address the further deterioration of the State's fiscal situation as identified in the May Revision. The \$60 billion Revised 2009-10 Budget addresses the largest budget gap faced by the State, both in dollar amount and in the percent of General Fund revenues it represents. The largest contributor to the budget gap is the reduction in the baseline revenue forecast for fiscal years 2008-09 and 2009-10. This reduction is due in large part to the economic recession. In May 2008, the Department of Finance forecasted the output of the State's economy (as measured by personal income) to be \$1.589 trillion in 2008, \$1.655 trillion in 2009 and \$1.739 trillion in 2010.

Key components of the Revised 2009-10 Budget pertaining to K-12 education include the following:

Proposition 98. While Proposition 98's minimum education funding guarantee was not suspended in the Revised 2009-2010 Budget, it includes a reduction of \$1.6 billion from Proposition 98 in the fiscal year ended June 30, 2009, which in turn reduced the funding base for fiscal year 2009-10. The Revised 2009-10 Budget also recognizes a maintenance factor of \$11.2 billion that would restore funding to schools in future years. The total reduction in Proposition 98 funding in fiscal years 2008-09 and 2009-10 is \$5.7 billion, which is in addition to cuts made in September, 2008 and in February, 2009, including \$1.6 billion in fiscal year 2008-09 school funding for schools that was appropriated but not received by K-12 school districts or county offices of education; \$2.4 billion from fiscal year 2009-10 general purpose spending for local educational agencies; and \$1.7 billion in revenues that have been deferred from fiscal year 2009-10 into fiscal year 2010-11.

Class Size Reduction. The Revised 2009-10 Budget includes reduced penalties associated with K-3 Class Size Reduction, allowing school districts to retain up to 70 percent of funding if pupil-to-teacher ratios increase more than 25 to 1. Classroom funding has also been preserved to some extent in fiscal year 2009-10 by measures including \$1.8 billion in payments are deferred from the 2009-10 fiscal year to August of the 2010-11 fiscal year from school district revenue limits and community college apportionments and \$850 million in General Fund savings achieved by transferring additional property tax funding to schools.

Quality Education Investment Act. The Revised 2009-10 Budget includes \$450 million in federal funds to be set aside to backfill a reduced appropriation for K-12 schools that receive funding under the

Quality Education Investment Act; that amounts to an even deeper cut, since that money will not be available for its intended purpose of assisting high-priority schools.

Cash Deferrals. Due to State cash flow shortfalls, approximately \$2 billion in K-12 payments for 2009-10 will be moved from scheduled payment dates in the first few months of the 2009-10 fiscal year to December of 2009 and January of 2010. In addition, the payment schedule for K-12 apportionment funding and categorical funding will be revised to distribute five percent of total payments in each of July and August and nine percent in each of the remaining months. This will allow for an even distribution of funding to schools and more predictable outflows from the state General Fund.

School Year. The Revised 2009-10 Budget package also authorizes school districts to reduce the school year from 180 days to 175, allowing each district to make this reduction in the school year.

Instructional Materials. The Revised 2009-10 Budget includes a four-year suspension of the requirement for school districts to purchase instructional materials within 24 months of adoption of those materials by the State Board of Education.

Basic Aid Districts. The Revised 2009-10 Budget reduces categorical programs to basic aid school districts by \$80 million.

LAO Overview of Revised 2009-10 Budget and LAO Five-Year Forecast. The LAO issued its overview of the Revised 2009-10 Budget on October 6, 2009. After considering both the February and July 2009 budget packages (including the Governor's line-item vetoes), the LAO noted that the 2009-10 State spending plan included total State budget expenditures of \$110 billion from the General Fund and special funds and that spending from these funds in fiscal year 2009-10 is projected to be \$20 billion, 15 percent less than in fiscal year 2007-08. In addition, the LAO pointed out that the Revised 2009-10 Budget assumed spending from bond funds of nearly \$10 billion as the State continues to allocate moneys from the \$43 billion bond package approved at the November 2006 election and that while State expenditures decline in fiscal year 2009-10, Federal funds spending will increase dramatically (the Federal stimulus funding provided by the American Recovery and Reinvestment Act ("ARRA") being largely responsible for the increase in spending from Federal funds from \$56 billion in fiscal year 2007-08 to \$77 billion in fiscal year 2008-09 and an estimated fiscal year \$94 billion in fiscal year 2009-10).

On November 18, 2009, the LAO released its five-year fiscal forecast for California which suggests that the State's budget problems will outlast the current recession and projects that the State faces a \$21 billion eighteen-month budget deficit, a shortfall mostly attributable to optimistic revenue projections in the 2009 Budget Act, failed budget solutions, such as selling the State Comp Insurance Fund, higher than expected prison costs, expiration of temporary tax increases and implementation of new tax cuts, an increase in the Proposition 98 funding guarantee by \$1 billion in fiscal year 2009-10 and 'sunsetting' of State fiscal stabilization funds from the Federal government. The LAO projects that fiscal year 2010-11 will be a "flat" revenue year for the State, although \$5 billion in temporary taxes will sunset, and while fiscal year 2011-12 should see an organic increase in revenues of \$5.5 billion, \$9 billion in temporary taxes will expire, causing a net reduction in State revenues. This reduction in revenues, combined with required repayments to local governments and workload increases, creates a sustained budget problem for the State that reduces any hope that the State will recover without very significant further cuts or increased taxes.

With regard to K-14 education, for fiscal year 2009-10, the LAO projects an increase in the Proposition 98 minimum guarantee of approximately \$1 billion above the July, 2009 budget appropriation. In fiscal years 2010-11 and 2011-12, the LAO projects consecutive years of decline in the Proposition 98 funding requirement and recommends options for the State to address the increase in fiscal year 2009-10 Minimum Guarantee including suspension of the Proposition 98 minimum guarantee and maintaining the existing funding level which would achieve \$1 billion in fiscal year 2009-10 budget

savings. Assuming the State fully funds the Proposition 98 minimum guarantee in fiscal year 2009–10, the LAO projects a small decrease in the funding requirement in fiscal year 2010–11, with a larger drop in fiscal year 2011–12, largely a result of projected declines in State revenues due to the phase-out of the temporary tax increases adopted as part of the February, 2009, budget agreement. The LAO points out that reductions to education spending in fiscal years 2008–09 and 2009–10 were tempered by the flow of \$6 billion in federal funding from the ARRA, which helped prevent additional reductions to school district budgets. The LAO believes that if the State funds K-14 education at the minimum level in fiscal years 2010–11 and 2011–12 and does not “backfill” these ARRA funds, K-14 districts will face even more difficulty as they experience decreases in Federal funding.

A complete copy of the Revised 2009-10 Budget is posted at www.ebudget.ca.gov. This website is not incorporated herein by reference and neither the District nor the Underwriter make any representation as to the accuracy of the information provided therein. In addition, it is impossible for the District to predict what further actions might be taken by the State Legislature and the Governor to address the State's very severe budget challenges or to determine the exact impact the current budget or any such actions will have on the District or on State revenues available for the District's purposes.

Future State Budgets. Under State law, the State Legislature is required to adopt its budget by June 15 of each year for the upcoming fiscal year, with approval by the Governor to occur on June 30. The State Legislature failed to pass a State budget for fiscal year 2008-09 until September 23, 2008. Accordingly, State payments were held until the 2008-09 State Budget was adopted, including those scheduled to be made to school districts under Proposition 98 and receipt of State categorical funds by the District were delayed until the State budget was adopted for the 2008-09 fiscal year. The events leading to the inability of the State Legislature to pass a budget in a timely fashion are not unique, and the District cannot predict what circumstances may cause a similar failure in future years. In each year where the State budget lags adoption of the District's budget, it will be necessary for the District's staff to review the consequences of the changes, if any, at the State level from the proposals in the Governor's May Revision for that year, and determine whether the District's budget will have to be revised.

The State has in past years experienced budgetary difficulties and has balanced its budget by requiring local political subdivisions to fund certain costs theretofore borne by the State. No prediction can be made as to whether the State will take further measures which would, in turn, adversely affect the District. Further State actions taken to address its budgetary difficulties could have the effect of reducing District support indirectly, and the District is unable to predict the nature, extent or effect of such reductions.

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

In addition, the District cannot predict the effect that the general economic conditions within the State and the State's budgetary problems may have in the future on the District budget or operations.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS

Article XIII A of the California Constitution. Article XIII A of the California Constitution limits the amount of any *ad valorem* tax on real property, to one percent of the full cash value thereof, except

that additional *ad valorem* taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 and on bonded indebtedness for the acquisition or improvement of real property which has been approved on or after July 1, 1978 by two-thirds of the voters on such indebtedness. Article XIII A defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership have occurred after the 1975 assessment." The full cash value may be increased at a rate not to exceed two percent per year to account for inflation.

Article XIII A has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster and in 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 one percent 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 1989.

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

Article XIII B of the California Constitution. In 1979, an initiative added Article XIII B to the State Constitution ("Article XIII B"). Under Article XIII B, the State and each local governmental entity has an annual "appropriations limit" and is not permitted to spend certain moneys that 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 appropriations of moneys that are excluded from the definition of "appropriations subject to limitation," including 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 to be based on certain 1978-79 expenditures, and is to be 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 year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. However, in the event that a school district's revenues exceed its spending limit, the district may, in any fiscal year, increase its appropriations limit to equal its spending by borrowing appropriations limit from the State, provided the State has sufficient excess appropriations limit in such year.

Article XIII C and Article XIII D of the California Constitution. The so-called "Right to Vote on Taxes Act" ("Proposition 218") was approved by the voters in 1996. Proposition 218 added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. Among other things, Article XIII C establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes); prohibits special purpose government agencies such as school districts from levying general taxes; and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote. Article XIII C also provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIII A of the California Constitution and special taxes approved by a two-thirds vote under Article XIII A, Section 4.

Article XIIC also provides that the initiative power shall not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. The State Constitution and the laws of the State impose a mandatory, statutory duty on a county treasurer-tax collector to levy a property tax sufficient to pay debt service on general obligation bonds coming due in each year. The initiative power cannot be used to reduce or repeal the authority and obligation to levy such taxes which are pledged as security for payment of general obligation bonds or to otherwise interfere with performance of the mandatory, statutory duty of the District and the County with respect to such taxes which are pledged as security for payment of the general obligation bonds. 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 U.S. 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 District. Developer fees imposed by the District are neither pledged nor available to pay the Certificates.

Proposition 62. In 1986, California voters adopted Proposition 62, a statutory initiative which amended the California Government Code by the addition of Sections 53720-53730. Proposition 62 requires that (i) any local tax for general governmental purposes (a "general tax") must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a "special tax") must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency's property tax allocation. Provisions applying Proposition 62 retroactively from its effective date to 1985 are unlikely to be of any continuing importance; certain other restrictions were already contained in the Constitution.

Most of the provisions of Proposition 62 were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. Following the California Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62, which was passed in November 1986. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("La Habra"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Although by its terms, Proposition 62 applies to school districts, the District has not experienced any substantive adverse financial impact as a result of the passage of this initiative or the Santa Clara or La Habra decisions and believes that any impact experienced by the District will not adversely effect the ability of the District to make payments with respect to the Certificates.

Proposition 98. In 1988, California voters approved Proposition 98, a combined initiative, constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). The Accountability Act changed State funding of public education below the university level, and the operation of the State's Appropriations Limit, primarily by

guaranteeing State funding for K-12 school districts and community college districts (collectively, "K-14 districts").

Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 districts are guaranteed the greater of (a) in general, a fixed percent of the State's General Fund (the "State General Fund") revenues ("Test 1"), (b) the amount appropriated to K-14 schools in the prior year, adjusted for changes in the cost-of-living (measured as in Article XIII B by reference to State per capita personal income) and enrollment ("Test 2"), or (c) a third test, which would replace Test 2 in any year when the percentage growth in per capita State General Fund revenues from the prior year plus one-half of one percent is less than the percentage growth in State per capita personal income ("Test 3"). Under Test 3, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 would become a "credit" to schools which would be the basis of payments in future years when per capita State General Fund revenue growth exceeds per capita personal income growth. Legislation adopted prior to the end of the 1988-89 fiscal year, implementing Proposition 98, determined the K-14 districts' funding guarantee under Test 1 to be 40.3% of the State General Fund tax revenues, based on 1986-87 appropriations. However, that percentage has been adjusted to 35% to account for a subsequent redirection of local property taxes whereby a greater proportion of education funding now comes from local property taxes.

Proposition 98 permits the State Legislature by a two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 districts' minimum funding formula for a one-year period. In the fall of 1989, the Legislature and the Governor utilized this provision to avoid having 40.3% of revenues generated by a special supplemental sales tax enacted for earthquake relief go to K-14 districts. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the Article XIII B limit to K-14 districts.

Application of Proposition 98. The application of Proposition 98 and other statutory regulations has become increasingly difficult to predict accurately in recent years. One major reason is that Proposition 98 minimum funding levels under Test 1 and Test 2 are dependent on State General Fund revenues. In past fiscal years, the State made actual allocations to K-14 districts based on an assumption of State General Fund revenues at a level above that which was ultimately realized. In such years, the State has considered the amounts appropriated above the minimum as a loan to K-14 districts, and has deducted the value of these loans from future years' estimated Proposition 98 minimum funding levels. The State determined that there were loans to K-14 districts of \$1.3 billion during fiscal year 1990-91, \$1.1 billion during fiscal year 1991-92, \$1.3 billion during fiscal year 1992-93 and \$787 million during fiscal year 1993-94. These loans have been combined with the K-14 1992-93 loans into one loan totaling \$1.760 billion. The State proposed that repayment of this loan would be from future years' Proposition 98 entitlements, and would be conditioned on maintaining current funding levels per pupil for K-12 schools.

In 1992, a lawsuit, *California Teachers' Association et al. v. Gould*, was filed, which challenged the validity of the off-budget loans. As part of the negotiations leading to the 1995-96 Budget Act, an agreement was reached to settle this case. The agreement provides that both the State and K-14 districts share in the repayment of prior years' emergency loans to schools. Of the total \$1.76 billion in loans, the State will repay \$935 million, while K-14 districts will repay \$825 million. The State share of the repayment will be reflected as expenditures above the current Proposition 98 base calculation. The K-14 districts' share of the repayment will count as appropriations that count toward satisfying the Proposition 98 guarantee, and thus are treated as from "below" the current base. Repayments are spread over the eight-year period of 1994-95 through 2001-02 to mitigate any adverse fiscal impact. In April 1996, a court settlement was reached and \$360 million in appropriations from the 1995-96 fiscal year was disbursed to districts in August 1996.

Substantially increased State General Fund revenues, above initial budget projections, in the fiscal years 1994-95 and thereafter have resulted or will result in retroactive increases in Proposition 98 appropriations from subsequent fiscal years' budgets. Because of the State's increasing revenues, per-pupil funding at the K-12 level has increased by about 42% from the level in place from 1991-92 through 1993-94. A significant amount of the "extra" Proposition 98 moneys in the last few years has been allocated to special programs, most particularly an initiative to allow each classroom from grades K-3 to have no more than 20 pupils by the end of the 1997-98 school year. There are also new initiatives to improve reading skills and to upgrade technology in high schools, as well as numerous programs approved by the State Budget Act for Fiscal Year 1999-2000 and proposed for Fiscal Year 2001-02. The economy of the State has slowed and the State is experiencing severe budget shortfalls. For a discussion of State funding of the District, see "FUNDING OF SCHOOL DISTRICTS IN CALIFORNIA" herein.

Proposition 39. On November 7, 2000, California voters approved Proposition 39, called the "Smaller Classes, Safer Schools and Financial Accountability Act" (the "Smaller Classes Act") which amends Section 1 of Article XIII A, Section 18 of Article XVI of the California Constitution and Section 47614 of the California Education Code and allows an alternative means of seeking voter approval for bonded indebtedness by 55 percent of the vote, rather than the two-thirds majority required under Section 18 of Article XVI of the Constitution. The 55 percent voter requirement applies only if the bond measure submitted to the voters includes, among other items: (1) a restriction that the proceeds of the bonds may be used for "the construction, reconstruction, rehabilitation, or replacement of school facilities, including the furnishing and equipping of school facilities, or the acquisition or lease of real property for school facilities," (2) a list of projects to be funded and a certification that the school district board has evaluated "safety, class size reduction, and information technology needs in developing that list" and (3) that annual, independent performance and financial audits will be conducted regarding the expenditure and use of the bond proceeds.

Section 1(b)(3) of Article XIII A has been added to except from the one percent *ad valorem* tax limitation under Section 1(a) of Article XIII A of the Constitution levies to pay bonds approved by the 55 percent of the voters, subject to the restrictions explained above.

The Legislature enacted AB 1908, Chapter 44, which became effective upon passage of Proposition 39 and amends various sections of the Education Code. Under amendments to Section 15268 and 15270 of the Education Code, the following limits on *ad valorem* taxes apply in any single election: (1) for a school district, indebtedness shall not exceed \$30 per \$100,000 of taxable property, (2) for a unified school district, indebtedness shall not exceed \$60 per \$100,000 of taxable property, and (3) for a community college district, indebtedness shall not exceed \$25 per \$100,000 of taxable property. Finally, AB 1908 requires that a citizens' oversight committee must be appointed who will review the use of the bond funds and inform the public about their proper usage.

Proposition 1A. Proposition 1A (SCA 4), proposed by the Legislature in connection with the 2004-05 Budget Act and approved by the voters in November 2004, provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition 1A provides, however, that beginning in fiscal year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also provides that if the State reduces the Vehicle

License Fee rate from 0.65 percent of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning June 1, 2009, to suspend State mandates affecting cities, counties and special districts, schools or community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

Future Initiatives. Article XIII A, Article XIII B, Article XIII C, Article XIII D and Propositions 62, 98 and 39 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

THE RIVERSIDE COUNTY POOLED SURPLUS INVESTMENTS

The following information concerning the Riverside County Pooled Surplus Investments Fund has been provided by the Treasurer and Tax Collector of Riverside County and has not been confirmed or verified by the District nor the Underwriter. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

The Treasurer and Tax Collector (the "Treasurer") of Riverside County has the delegated authority to invest funds on deposit in the County Treasury (the "Treasury Pool"). As of September, 2009, investments in the Treasury Pool were held for local agencies including school districts, community college districts, special districts and discretionary depositors such as cities and independent districts.

Decisions on the investment of funds in the Treasury Pool are made by the County Investment Officer in accordance with established policy, with certain transactions requiring the Treasurer's prior approval. Riverside County investment decisions are governed by California Government Code Section 53601, *et seq.*, which governs legal investments by local agencies in the State of California, and by an Investment Policy developed by the Treasurer and adopted by the Riverside County Board of Supervisors on an annual basis.

The Treasurer prepares a monthly Report of Investments (the "Investment Report") summarizing the status of the Treasury Pool, including the current market value of all investments. This report is submitted monthly to the Board of Supervisors for formal action to approve it. According to the Investment Report prepared for September 30, 2009, the September 30, 2009 book value of the Treasury Pool was approximately \$5.19 billion and the corresponding market value was approximately \$5.22 billion.

An internal controls system for monitoring cash accounting and investment practices is in place. The Treasurer's Compliance Auditor, who operates independently from the Investment Officer, reconciles cash and investments to fund balances daily. This office also reviews each investment trade for accuracy and compliance with the Board-adopted Investment Policy. The County Auditor-Controller's Office performs similar cash and investment reconciliations on a quarterly basis and regularly reviews investment transactions for conformance with the approved policies. Additionally, the County's outside independent auditor annually accounts for all investments.

As of September 30, 2009, approximately 4.30% of the pool investments were scheduled to mature between 30 and 90 days, with a weighted average maturity of 1.04 years for the entire portfolio. The following table identifies the types of securities held by the Treasury Pool as of September 30, 2009.

<u>Type of Investment</u>	<u>Amount</u>
Federal Agency	\$3,754,884,960
Cash Equivalent and Money Market Funds	703,946,000
Commercial Paper	--
Negotiable CD's	--
Medium Term Notes	292,234,602
Municipal Bonds	117,910,322
Certificates of Deposit	--
Bond - U.S. Treasury	<u>250,779,500</u>
Local Agency Obligations	<u>102,309,000</u>
Total:	\$5,222,064,384

Effective January 1, 1996, Section 27131 of the Government Code required all counties investing surplus funds to establish a County Treasury Oversight Committee. The Board of Supervisors approved the establishment of an oversight committee in accordance with that Section. The Committee is required to review and monitor for compliance the investment policies prepared by the Treasurer.

LEGAL MATTERS

The legal opinion of Fulbright & Jaworski L.L.P., Bond Counsel to the District attesting to the validity of the Bonds, will be supplied to the original purchasers of the Bonds without charge. Bond Counsel will receive compensation contingent upon the sale and delivery of the Bonds. Fulbright & Jaworski L.L.P. is also serving as Disclosure Counsel to the District.

TAX MATTERS

The delivery of the Bonds is subject to delivery of the opinion of Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the "Code"), of the owners thereof pursuant to section 103 of the Code, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The delivery of the Bonds is also subject to the delivery of the opinion of Bond Counsel, based upon existing provisions of the laws of the State of California that interest on the Bonds is exempt from personal income taxes of the State of California. The form of Bond Counsel's anticipated opinion is included as APPENDIX A. The statutes, regulations, rulings, and court decisions on which such opinions will be based are subject to change.

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

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, State or local tax consequences under present law, or proposed legislation, resulting from the

receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, Owners of an interest in a financial asset securitization investment trust, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

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

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering of certain of the Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. Such original issue discount accruing on a Discount Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and exempt from California personal income tax. Original issue discount on any Discount Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Discount Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Discount Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Discount Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of the Discount Bonds who purchase the Discount Bonds other than at the initial offering price and pursuant to the initial offering. Any person considering purchasing a Discount Bond should consult his or her own tax advisors with respect to the tax consequences of ownership of bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering and at the original offering price, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such bonds under federal individual and corporate alternative minimum taxes.

The initial offering price (as furnished by the Underwriter) of certain Bonds (the "Premium Bonds"), may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that at least ten percent of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year

by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the Premium Bonds for federal income purposes and with respect to the state and local tax consequences of owning Premium Bonds.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission, the District will enter into a Continuing Disclosure Agreement on or prior to the sale of the Bonds in which the District will undertake (the "Continuing Disclosure Agreement"), for the benefit of the beneficial Owners of the Bonds, to provide audited financial statements of the District and certain other information to Municipal Securities Rulemaking Board, or any other repository then recognized by the Securities and Exchange Commission, at the times and in the manner set forth in the Continuing Disclosure Agreement. The District was late in filing its annual report for certain fiscal years with respect to its previous continuing disclosure undertakings, but has subsequently filed all required portions of such reports and is now current on all filings required pursuant to its previous continuing disclosure undertakings. The form of Continuing Disclosure Agreement is attached to this Official Statement as APPENDIX C.

LEGALITY FOR INVESTMENT

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

RATING

Standard & Poor's, a Division of McGraw-Hill Companies ("S&P") has assigned its municipal bond rating of "___" to the Bonds. Such rating reflects only the views of the rating agency, and any explanation of the significance of such rating may be obtained as follows: Standard & Poor's, a Division of McGraw-Hill Companies, 55 Water Street, 45th Floor, New York, New York 10041. There can be no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely if, in the judgment of the rating agency, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by Piper Jaffray & Co. (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase the Bonds at a purchase price of \$_____ (reflecting an aggregate principal amount of \$_____, plus original issue premium of \$_____, less an Underwriter's discount of \$_____, less \$_____ for payment of certain costs of issuance). The purchase contract provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

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

NO LITIGATION

No litigation is pending concerning the validity of the Bonds, and the District's certificate to that effect will be furnished to purchasers at the time of the original delivery of the Bonds. No litigation is pending and the District is not aware of any litigation pending or threatened questioning the political existence of the District or contesting the District's ability to receive *ad valorem* taxes or to collect other revenues or contesting the District's ability to issue the Bonds or to pay the principal and interest thereon.

OTHER INFORMATION

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of the Resolution are available upon request from the Superintendent, Val Verde Unified School District, 975 West Morgan Street, Perris, California 92571. The District may impose a fee for copying, mailing and handling.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not be construed as a contract or agreement between the District and the purchasers or owners of any of the Bonds.

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

VAL VERDE UNIFIED SCHOOL DISTRICT

By: _____
Superintendent

APPENDIX A

FORM OF BOND COUNSEL OPINION

February __, 2010

Board of Supervisors
County of Riverside
County Administrative Center
4080 Lemon Street
Riverside, California 92510

Board of Education
Val Verde Unified School District
975 West Morgan Street
Perris, California 92571

Re: \$_____ Val Verde Unified School District General Obligation Bonds,
2008 Election, 2010 Series B

Ladies and Gentlemen:

We have acted as bond counsel for the Val Verde Unified School District, County of Riverside, State of California (the "District"), in connection with the issuance by the Board of Supervisors of the County of Riverside (the "County Board") of \$_____ aggregate principal amount of the District's General Obligation Bonds, 2008 Election, 2010 Series B (the "Bonds"), in the name and on behalf of the District. The Bonds are issued pursuant to Title 1, Division 1, Part 10, Chapter 1 of the Education Code of the State of California (commencing at Section 15264), as amended, that certain resolution adopted by the Board of Education of the District on January __, 2010 (the "District Resolution") and that certain resolution adopted by the County Board on January __, 2010 (the "Bond Resolution," and together with the District Resolution, the "Resolutions"). All terms used herein and not otherwise defined shall have the meanings given to them in the Resolutions.

As bond counsel, we have examined copies certified to us as being true and complete copies of the proceedings of the District for the authorization and issuance of the Bonds, including the Resolution and the Tax Exemption Certificate of the District, dated the date hereof (the "Tax Certificate"). Our services as bond counsel were limited to an examination of such proceedings and to the rendering of the opinions set forth below. In this connection, we have also examined such certificates of public officials and officers of the District as we have considered necessary for the purposes of this opinion.

Certain agreements, requirements and procedures contained or referred to in the Resolutions, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

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 or events are taken or do occur. Our

engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by any parties other than the District. We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolutions and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Resolutions and the Tax Certificate may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents. We express no opinion and make no comment with respect to the sufficiency of the security or the marketability of the Bonds. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

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

1. The Bonds constitute valid and binding obligations of the District, payable as to principal and interest from the proceeds of a levy of *ad valorem* taxes on all property subject to such taxes in the District, which taxes are unlimited as to rate or amount.
2. The District Resolution has been duly adopted and constitutes a valid and binding obligation of the District.
3. The County Resolution has been duly adopted and constitutes a valid and binding obligation of the County.
4. It is further our opinion, based upon the foregoing, that pursuant to section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance with the provisions of the Resolution and in reliance upon representations and certifications of the District made in the Tax Certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, when the Bonds are delivered to and paid for by the initial purchasers thereof, interest on the Bonds (1) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof.

In our opinion, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California.

We express no other opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain S corporations with subchapter C earnings and profits, certain foreign corporations doing business in the United States, owners of an interest in a

FASIT, individuals otherwise qualifying for the earned income tax credit, individual recipients of Social Security or Railroad Retirement benefits, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Respectfully submitted,

APPENDIX B

**VAL VERDE UNIFIED SCHOOL DISTRICT
AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR ENDED JUNE 30, 2009**

APPENDIX C

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by the Val Verde Unified School District (the "District") in connection with the execution and delivery of \$_____ aggregate principal amount of the District's General Obligation Bonds, 2010 Election, 2008 Series B (the "Bonds"). The Bonds are being issued pursuant to a resolution adopted by the Board of Supervisors of the County of Riverside on January __, 2010 (the "County Resolution"). Capitalized terms used but not defined herein shall have the meanings ascribed thereto in the County Resolution.

In consideration of the execution and delivery of the Bonds by the District and the purchase of such Bonds by the Underwriter described below, the District hereby covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the District for the benefit of the Bondholders and in order to assist Piper Jaffray & Co. (the "Underwriter") in complying with Rule 15c2-12(b)(5) (the "Rule") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

SECTION 2. Additional Definitions. In addition to the above definitions and the definitions set forth in the County Resolution, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 4 and 5 of this Disclosure Agreement.

"Bondholder" or "Holder" means any holder of the Bonds or any beneficial owner of the Bonds so long as they are immobilized with DTC.

"Designated Material Event" means any of the events listed in Section 6(a) of this Disclosure Agreement.

"Dissemination Agent" shall mean any Dissemination Agent, or any alternate or successor Dissemination Agent, designated in writing by the Superintendent (or otherwise by the District), which Agent has evidenced its acceptance in writing. Initially, and in the absence of the specific designation of a successor or alternate Dissemination Agent, the Dissemination Agent shall be U.S. Bank National Association.

"Material Events Disclosure" means dissemination of a notice of a Material Event as set forth in Section 6.

"MSRB" shall mean the Municipal Securities Rulemaking Board, through its electronic municipal market access system, which can be found at <http://emma.msrb.org/>, or any repository of disclosure information that may be designated by the Securities and Exchange Commission for purposes of the Rule.

"Repository" shall mean the MSRB.

SECTION 3. CUSIP Numbers and Final Official Statement. The CUSIP Numbers for the Bonds have been assigned. The Final Official Statement relating to the Bonds is dated _____, 2009 ("Final Official Statement").

SECTION 4. Provision of Annual Reports.

(a) The District shall cause the Dissemination Agent, not later than 240 days after the end of the District's fiscal year (currently ending June 30), commencing with the report for the fiscal year ending June 30, 2010, to provide to each Repository an Annual Report which is consistent with the requirements of Section 5 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 5 of this Disclosure Agreement; provided that the audited financial statements of the District may be submitted, when and if available, separately from the balance of the relevant Annual Report.

(b) If the District is unable to provide to the Repositories an Annual Report by the date required in paragraph (a) above, the District shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine the name and address of each Repository each year prior to the date established hereunder for providing the Annual Report; and

(ii) if the Dissemination Agent is other than the District or an official of the District, the Dissemination Agent shall file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 5. Content of Annual Report. The District's Annual Report shall contain or incorporate by reference the following:

(a) Financial information including the general purpose financial statements of the District for the preceding Fiscal Year, prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. If audited financial information is not available by the time the Annual Report is required to be filed pursuant to Section 4(a) hereof, the financial information included in the Annual Report may be unaudited, and the District will provide audited financial information to each Repository as soon as practical after it has been made available to the District.

(b) Operating data, including the following information with respect to the District's preceding Fiscal Year (to the extent not included in the audited financial statements described in paragraph (a) above):

- (i) Outstanding indebtedness and lease obligations;
- (ii) General fund budget and actual results;
- (iii) Enrollment and revenue limit information, or equivalent information, as may be reasonably available;
- (iv) Assessed valuations; and
- (v) Largest local secured taxpayers.

(c) Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or to the Securities and Exchange Commission. If the document

incorporated by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each other document so incorporated by reference.

SECTION 6. Reporting of Designated Material Events.

(a) The District agrees to provide or cause to be provided, in a timely manner to the MSRB notice of the following events with respect to the Bonds, if material:

- (i) Principal, Accreted Value and interest payment delinquencies.
- (ii) Nonpayment-related defaults.
- (iii) Unscheduled draws on any debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on any credit enhancements reflecting financial difficulties.
- (v) Substitution of or failure to perform by any credit provider.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
- (vii) Modifications to rights of security holders.
- (viii) Bond calls (other than mandatory, scheduled redemptions, not otherwise contingent upon the occurrence of an event).
- (ix) Defeasances.
- (x) Release, substitution or sale of any property securing the repayment of the Bonds.
- (xi) Rating changes.

SECTION 7. Termination of Reporting; Obligation. The District's obligations under this Disclosure Agreement shall terminate when the District is no longer an obligated person with respect to the Bonds, as provided in the Rule, upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 8. Dissemination Agent. The Superintendent may, from time to time, appoint or engage an alternate or successor Dissemination Agent to assist in carrying out the District's obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

The Dissemination Agent shall be entitled to the protections, limitations from liability, immunities and indemnities provided to the Paying Agent as set forth in the County Resolution which are incorporated by reference herein. The Dissemination Agent agrees to perform only those duties of the Dissemination Agent specifically set forth in the Agreement, and no implied duties, covenants or obligations shall be read into this Agreement against the Dissemination Agent.

The Dissemination Agent shall have no duty or obligation to review the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the District in a timely manner in a form suitable for filing. In accepting the appointment under this Agreement, the Dissemination Agent is not acting in a fiduciary capacity to the registered holders or beneficial owners of the Bonds, the District, or any other party or person.

The Dissemination Agent may consult with counsel of its choice and shall be protected in any action taken or not taken by it in accordance with the advice or opinion of such counsel. No provision of this Agreement shall require the Dissemination Agent to risk or advance or expend its own funds or incur any financial liability. The Dissemination Agent shall have the right to resign from its duties as Dissemination Agent under this Agreement upon thirty days' written notice to the District. The Dissemination Agent shall be entitled to compensation for its services as Dissemination Agent and reimbursement for its out-of-pocket expenses, attorney's fees, costs and advances made or incurred in the performance of its duties under this Agreement in accordance with its written fee schedule provided to the District, as such fee schedule may be amended from time to time in writing. The District agrees to indemnify and hold the Dissemination Agent harmless from and against any cost, claim, expense, cost or liability related to or arising from the acceptance of and performance of the duties of the Dissemination Agent hereunder, provided the Dissemination Agent shall not be indemnified to the extent of its willful misconduct or negligence. The obligations of the District under this Section shall survive the termination or discharge of this Agreement and the Bonds.

SECTION 9. Amendment. Notwithstanding any other provision of this Disclosure Agreement, the District may amend this Disclosure Agreement under the following conditions provided no amendment to this Agreement shall be made that affects the rights, duties or obligations of the Dissemination Agent without its written consent:

(a) The amendment may be made only in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the obligated person, or type of business conducted;

(b) This Disclosure Agreement, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment does not materially impair the interests of Holders, as determined either by parties unaffiliated with the District or another obligated person (such as the Bond Counsel) or by the written approval of the Bondholders; provided, that the Annual Report containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 10. Additional Information. If the District chooses to include any information from any document or notice of occurrence of a Material Event in addition to that which is specifically required by this Disclosure Agreement, the District shall have no obligation under this Disclosure Agreement to update such information or to include it in any future disclosure or notice of occurrence of a Designated Material Event.

Nothing in this Disclosure Agreement shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Designated Material Event, in addition to that which is required by this Disclosure Agreement.

SECTION 11. Default. The District shall give notice to the MSRB of any failure to provide the Annual Report when the same is due hereunder, which notice shall be given prior to July 1 of that year. In the event of a failure of the District to comply with any provision of this Disclosure Agreement, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an event of

default under the County Resolution, and the sole remedy under this Disclosure Agreement in the event of any failure of the District to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the District, the Dissemination Agent, the Underwriter and Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Governing Law. This Disclosure Agreement shall be governed by the laws of the State, applicable to contracts made and performed in such State.

Dated: _____, 2010

VAL VERDE UNIFIED SCHOOL DISTRICT

By: _____

Alan Jensen, Ed.D.
Superintendent

ACCEPTED:

U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent

By: _____

Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: Val Verde Unified School District

Name of Issue: \$ _____ General Obligation Bonds, 2008 Election, 2010 Series B

Date of Issuance: _____, 2010

NOTICE IS HEREBY GIVEN that the above-named Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Section 4(a) of the Continuing Disclosure Agreement dated _____, 2010. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

[ISSUER/DISSEMINATION AGENT]

By: _____

APPENDIX D

BOOK-ENTRY ONLY SYSTEM

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

General

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The 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 Bond will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. *The foregoing internet addresses are included for reference only, and the information on these internet sites is not incorporated by reference herein.*

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all 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 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 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.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 District (or the Paying Agent on behalf thereof) 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 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Principal, Maturity Value, premium, if any, and interest payments on the 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 District or 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 nor its nominee, Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, Maturity Value, premium, if any, 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 District or 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 Bonds at any time by giving reasonable notice to the District or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of use of the system of book-entry transfers through

DTC may require the approval of DTC Participants under DTC's operational arrangements. In that event, printed certificates for the Bonds will be printed and delivered.

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Discontinuation of Book-Entry Only System; Payment to Beneficial Owners

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

The principal, Maturity Value of the Bonds and any premium and interest upon the redemption thereof prior to the maturity will be payable in lawful money of the United States of America upon presentation and surrender of the Bonds at the office of the Paying Agent, initially located in Los Angeles, California. Interest on the Bonds will be paid by the Paying Agent by check or draft mailed to the person whose name appears on the registration books of the Paying Agent as the registered owner, and to that person's address appearing on the registration books as of the close of business on the Record Date. At the written request of any registered owner of at least \$1,000,000 in aggregate principal, payments shall be wired to a bank and account number on file with the Paying Agent as of the Record Date.

Any Bond may be exchanged for Bonds of any authorized denomination upon presentation and surrender at the office of the Paying Agent, initially located in Los Angeles, California, together with a request for exchange signed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. A Bond may be transferred only on the Bond registration books upon presentation and surrender of the Bond at such office of the Paying Agent together with an assignment executed by the registered owner or by a person legally empowered to do so in a form satisfactory to the Paying Agent. Upon exchange or transfer, the Paying Agent shall complete, authenticate and deliver a new Bond or Bonds of any authorized denomination or denominations requested by the owner equal in the aggregate to the unmatured principal amount of the Bond surrendered and bearing interest at the same rate and maturing on the same date.

Neither the District nor the Paying Agent will be required to exchange or transfer any Bond during the period from the Record Date through the next Interest Payment Date.