

Financial Statements

The District's general fund finances the legally authorized activities of the District for which restricted funds are not provided. General Fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the District for the Fiscal Year ending June 30, 2015, and prior fiscal years are on file with the District and available for public inspection at the office of the Superintendent of the Coachella Valley Unified School District, 87225 Church Street, Thermal, California 92274, telephone number (760) 399-5137. The audited financial statements for the year ended June 30, 2015, are included in Appendix B hereto.

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

The following table reflects information from the District's audited financial statements for Fiscal Years 2011-12, 2012-13, 2013-14 and 2014-15.

TABLE 4

**AUDITED FINANCIAL STATEMENTS
COACHELLA VALLEY UNIFIED SCHOOL DISTRICT**

BALANCE SHEET – GENERAL FUND

| | <u>June 30, 2012</u> | <u>June 30, 2013</u> | <u>June 30, 2014</u> | <u>June 30, 2015</u> |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| ASSETS | | | | |
| Deposits and investments | \$3,420,967 | \$398,086 | \$5,083,802 | \$18,959,658 |
| Receivables ⁽¹⁾ | 48,709,338 | 28,056,206 | 25,420,374 | 7,435,734 |
| Due from other funds | 812,745 | 997,623 | 813,370 | 1,002,361 |
| Prepaid expenditures | 0 | 68,760 | 0 | 0 |
| Stores inventories | <u>98,782</u> | <u>52,856</u> | <u>33,948</u> | <u>15,833</u> |
| Total Assets | \$53,041,832 | \$29,573,531 | \$31,351,494 | \$27,413,586 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$7,319,736 | \$3,932,936 | \$8,564,270 | \$6,911,650 |
| Due to other funds ⁽²⁾ | 15,743,333 | 7,644,748 | 5,497,388 | 1,295,161 |
| Deferred revenue | <u>389,750</u> | <u>411,841</u> | <u>107,177</u> | <u>216,433</u> |
| Total Liabilities | \$23,452,819 | \$11,989,525 | \$14,168,835 | \$8,423,244 |
| Fund Balances: | | | | |
| Nonspendable | \$148,782 | \$171,616 | \$83,948 | \$65,833 |
| Restricted | 8,969,465 | 6,372,762 | 11,389,331 | 7,882,523 |
| Assigned | 0 | 0 | 29,096 | 0 |
| Unassigned | 20,470,766 | 11,039,628 | 5,680,284 | 11,041,986 |
| Reserved for: | | | | |
| Revolving cash | 0 | 0 | 0 | 0 |
| Stores inventories | 0 | 0 | 0 | 0 |
| Prepaid expenses | 0 | 0 | 0 | 0 |
| Restricted programs | 0 | 0 | 0 | 0 |
| Unreserved: | | | | |
| Designated | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Fund Balance | <u>\$29,589,013</u> | <u>\$17,584,006</u> | <u>\$17,182,659</u> | <u>\$18,990,342</u> |
| Total Liabilities and Fund Balances | \$53,041,832 | \$29,573,531 | \$31,351,494 | \$27,413,586 |

(1) Since 2002, the State has engaged in the practice of deferring certain apportionments to school districts in order to manage the State's cash flow. In recent years this practice included deferring certain apportionments from one fiscal year to the next. Legislation enacted with respect to Fiscal Years 2011-12 and 2012-13 provided for additional inter-fiscal year deferrals. With the economy improving, the State cut back on the amount of deferrals in Fiscal Year 2012-13.

(2) Loans from other funds (Fund 21 and Fund 40) increased in Fiscal Year 2011-12 to offset deferrals from the State. As the State deferrals decreased, the loans in Fiscal Year 2012-13 decreased.

Source: Coachella Valley Unified School District.

Comparative Financial Statements. The following table reflects the District's general fund revenues, expenditures and changes in fund balance for Fiscal Years 2010-11 through 2014-15. Excerpts from the District's audited financial statements for Fiscal Year 2014-15 are included as Appendix B hereto.

TABLE 5

**AUDITED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Fiscal Years 2010-11 through 2014-15
Coachella Valley Unified School District**

| REVENUES | <u>Audited 2010-11⁽¹⁾</u> | <u>Audited 2011-12⁽¹⁾</u> | <u>Audited 2012-13</u> | <u>Audited 2013-14⁽¹⁾</u> | <u>Audited 2014-15⁽¹⁾</u> |
|--|--|--|----------------------------|--|--|
| Revenue Limit Sources/LCFF | \$93,157,256 | \$93,767,151 | \$95,035,408 | \$125,062,428 | \$147,945,545 |
| Federal Sources | 28,682,170 | 24,698,638 | 19,684,093 | 19,452,335 | 16,686,041 |
| Other State Sources | 37,542,172 | 38,928,791 | 39,123,274 | 23,992,758 | 23,951,543 |
| Other Local Sources | <u>10,486,196</u> | <u>9,493,935</u> | <u>9,923,365</u> | <u>8,968,952</u> | <u>9,120,565</u> |
| Total Revenues | 169,867,794 | 166,888,515 | 163,766,140 | 177,476,473 | 197,703,694 |
| EXPENDITURES: | | | | | |
| Instruction | 101,716,554 | 105,306,256 | 111,601,026 | 113,530,235 | 123,487,052 |
| Instruction-Related Activities: | | | | | |
| Supervision of instruction | 3,406,378 | 3,279,466 | 3,543,256 | 3,250,355 | 4,441,612 |
| Instructional library, media and technology | 196,775 | 213,174 | 228,523 | 234,203 | 153,483 |
| School site administration | 17,643,149 | 15,379,719 | 15,905,865 | 15,316,033 | 17,695,177 |
| Pupil Services: | | | | | |
| Home-to-school transportation | 7,791,186 | 8,034,167 | 9,721,235 | 8,691,324 | 10,483,618 |
| Food services | -- | -- | -- | -- | 655 |
| All other pupil services | 6,251,656 | 5,980,495 | 6,648,995 | 6,938,959 | 7,463,583 |
| General Administration: | | | | | |
| Data processing | 1,781,803 | 2,056,286 | 3,111,616 | 2,294,337 | 2,754,588 |
| All other general administration | 7,541,333 | 7,363,035 | 7,449,402 | 7,525,785 | 9,221,334 |
| Plant Services | 14,661,304 | 14,853,415 | 15,454,056 | 15,767,854 | 16,238,191 |
| Facility Acquisition and Construction | 616,807 | 5,005 | 38,238 | 1,480,300 | 418,875 |
| Ancillary Services | -- | -- | -- | -- | 4,000 |
| Capital Outlay | -- | -- | -- | -- | -- |
| Other Outgo | 401,288 | 366,915 | 562,204 | 1,086,155 | 1,136,361 |
| Debt Service: | | | | | |
| Principal | 99,173 | 102,139 | -- | -- | -- |
| Interest and Other | <u>6,019</u> | <u>8,313</u> | <u>--</u> | <u>--</u> | <u>--</u> |
| Total Expenditures | 162,113,425 | 162,948,385 | 174,264,416 | 176,115,540 | 193,498,529 |
| Excess (Deficiency) of Revenues Over Expenditures | 7,754,369 | 3,940,130 | (10,498,276) | 1,360,933 | 4,205,165 |
| Other Financing Sources (Uses): | | | | | |
| Transfers out | (1,717,104) | (1,737,067) | (1,506,731) | (1,762,280) | (2,397,482) |
| Other sources | -- | -- | -- | -- | -- |
| Net Financing Sources (Uses) | (1,717,104) | (1,737,067) | (1,506,731) | (1,762,280) | (2,397,482) |
| NET CHANGE IN FUND BALANCES | 6,037,265 | 2,203,063 | (12,005,007) | (401,347) | 1,807,683 |
| Fund Balance, Beginning | <u>21,348,685</u> | <u>27,385,950</u> | <u>29,589,013</u> | <u>17,584,006</u> | <u>17,182,659</u> |
| Fund Balance, Ending | <u>\$27,385,950</u> | <u>\$29,589,013</u> | <u>\$17,584,006</u> | <u>\$17,182,659</u> | <u>\$18,990,342</u> |

⁽¹⁾ For a comparison of budgeted and audited actual results for Fiscal Years 2011-12 through 2013-14 and budgeted and projected totals for Fiscal Year 2014-15 in object-oriented format, please see "-- Budget Process " and "-- General Fund Budget" herein. Increase in Revenues from Fiscal Year 2012-13 to Fiscal Year 2013-14 is a result of implementation of LCFF.

Source: Coachella Valley Unified School District.

Budget Process

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

School districts must adopt a budget on or before July 1 of each year. The budget must be submitted to the county superintendent of schools (as described in AB 1200) within five days of adoption or by July 1, whichever occurs first. A school district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State-mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved by the county office of education, or as needed.

For both dual and single budgets submitted on July 1, the county superintendent will examine the adopted budget for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the District to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the District to meet its multi-year financial commitments. On or before August 15, the county superintendent will approve or disapprove the adopted budget for each school district. Budgets will be disapproved if they fail the above standards. The school district board must be notified by August 15 of the county superintendent's recommendations for revision and reasons for the recommendations. The county superintendent may assign a fiscal advisor or appoint a committee to examine and comment on the superintendent's recommendations. The committee must report its findings no later than August 20. Any recommendations made by the county superintendent must be made available by the school district for public inspection. The law does not provide for conditional approvals; budgets must be either approved or disapproved. The school district is then required to revise the budget, hold a public hearing thereon, adopt the revised budget and file with the county superintendent no later than September 8. No later than September 22, the county superintendent must notify the State Superintendent of Public Instruction of all school districts whose budgets have been disapproved.

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

Under the provisions of AB 1200, each school district is required to file interim certifications with the county office of education as to its ability to meet its financial obligations for the remainder of the then-current fiscal year and, based on current forecasts, for the subsequent two fiscal years. The county office of education reviews the certification and issues either a positive, negative or qualified certification. A positive certification is assigned to any school district that will meet its financial

obligations for the current fiscal year and subsequent two fiscal years. A negative certification is assigned to any school district that will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year. A qualified certification is assigned to any school district that may not meet its financial obligations for the current fiscal year or subsequent two fiscal years. A school district that receives a qualified or negative certification may not issue tax and revenue anticipation notes or certificates of participation without approval by the county superintendent.

The District has never had an adopted budget disapproved by the County superintendent of schools, and has never received a “negative” certification of an interim financial report pursuant to AB 1200. The District self-certified “qualified,” and the County concurred, for all interim reports from the second interim report in Fiscal Year 2009-10 through the first interim report in Fiscal Year 2013-14, with the exception of the second interim report in Fiscal Year 2010-11. For the second interim report in Fiscal Year 2010-11, the District self-certified “positive,” and the County changed the District’s certification to “qualified.” For all other interim reports, including the second interim for Fiscal Year 2015-16, the District was certified “positive.”

The District has projected positive ending fund balances in Fiscal Years 2015-16 through 2016-17 in its Fiscal Year 2015-16 second interim report based on the State’s current plan to fully implement the LCFF by Fiscal Year 2020-21. Full implementation of the LCFF is expected to occur over a period of several years, during which an annual transition adjustment will be calculated for each district, equal to such district’s proportionate share of appropriations included in the State budget to close the gap between the prior-year funding level and the target allocation following full implementation of the LCFF. For a complete discussion of the LCFF implementation plan, see “DISTRICT FINANCIAL INFORMATION – Current State Education Funding – Local Control Funding Formula” herein. However, in the absence of either the full implementation of the LCFF as currently projected by the State or a reduction of general fund expenditures, there can be no assurances that the District will have positive ending fund balances in future years.

General Fund Budget

The District’s General Fund budgets (audited or budgeted, as applicable) for the Fiscal Years ending June 30, 2013, through June 30, 2016, are set forth below:

TABLE 6

GENERAL FUND BUDGETING
Fiscal Years 2012-13 through 2014-15 Audited Actuals and Fiscal Year 2015-16 Adopted Budget
Coachella Valley Unified School District

| | 2012-13 | | 2013-14 | | 2014-15 | | 2015-16 |
|--|--------------------------|----------------------------------|------------------------------|-------------------------------|-----------------------|-------------------------------|--|
| | Budget ⁽¹⁾⁽²⁾ | Audited Actual ⁽¹⁾⁽²⁾ | Budget ⁽¹⁾ | Audited Actual ⁽¹⁾ | Budget ⁽¹⁾ | Audited Actual ⁽³⁾ | 2 nd Interim ⁽³⁾ |
| REVENUES | | | | | | | |
| LCFF/Revenue Limit Sources ⁽⁴⁾ | \$93,151,906 | \$95,035,408 | \$95,225,407 | \$125,062,428 | \$143,274,529 | \$147,945,545 | \$176,969,124 |
| Federal Sources | 22,080,014 | 19,684,093 | 22,739,058 | 19,452,335 | 18,692,027 | 16,686,041 | 26,584,676 |
| Other State Sources | 34,473,562 | 39,123,274 | 36,163,022 | 23,992,758 | 15,095,224 | 23,951,543 | 19,242,933 |
| Other Local Sources | 8,038,343 | 9,923,365 | 7,507,402 | 8,968,952 | 1,385,964 | 9,120,565 | 1,885,475 |
| Other Transfers | -- | -- | -- | -- | 6,215,646 | -- | 6,074,506 |
| TOTAL REVENUES | \$157,743,825 | \$163,766,140 | \$161,634,889 | \$177,476,473 | \$184,663,390 | \$197,703,694 | \$230,756,708 |
| EXPENDITURES | | | | | | | |
| Current | | | | | | | |
| Certificated Salaries | 76,168,618 | 75,200,162 | 75,379,824 | 75,829,169 | 81,161,929 | 81,981,593 | 893,117,129 |
| Classified Salaries | 24,335,222 | 25,776,531 | 25,420,923 | 25,508,469 | 28,835,278 | 31,212,556 | 35,403,644 |
| Employee Benefits | 41,803,517 | 45,625,578 | 44,331,321 | 46,887,447 | 48,184,664 | 50,675,834 | 54,200,692 |
| Books & Supplies | 11,494,693 | 9,131,818 | 12,548,363 | 7,266,947 | 13,396,360 | 9,786,030 | 20,107,749 |
| Services & Operating Expenditures | 17,971,165 | 17,692,228 | 17,860,695 | 18,624,961 | 16,107,358 | 19,244,877 | 24,011,194 |
| Capital Outlay | -- | 820,665 | 100,994 | 1,616,245 | 21,232 | 268,029 | 1,449,189 |
| Other Outgo | (156,477) | 17,434 | 696,942 | 382,302 | 600,000 | 329,610 | 1,300,000 |
| Indirect/Direct Support Costs | -- | -- | (703,796) | -- | (732,132) | -- | (691,535) |
| TOTAL EXPENDITURES⁽²⁾ | \$171,616,738 | \$174,264,416 | \$175,635,266 | \$176,115,540 | \$187,574,689 | \$193,498,529 | \$228,897,862 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (13,872,913) | (10,498,276) | (14,000,377) | 1,360,933 | (2,911,299) | 4,205,165 | 1,858,845 |
| OTHER FINANCING SOURCES/(USES) | | | | | | | |
| Transfers Out | (1,472,560) | (1,506,731) | (750,000) | (1,762,280) | (959,169) | (2,397,482) | (1,404,623) |
| Contributions & Other Sources | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL OTHER FINANCING SOURCES/(USES) | (1,472,560) | (1,506,731) | (750,000) | (1,762,280) | (959,169) | (2,397,482) | (1,404,623) |
| NET INCREASE (DECREASE) IN FUND BALANCE | (15,345,473) | (12,005,007) | (14,750,377) | (401,347) | (3,870,468) | 1,807,683 | 454,222 |
| Fund Balance - Beginning | 29,589,013 | 29,589,013 | 15,177,402 ⁽⁵⁾⁽⁶⁾ | 17,584,006 ⁽⁶⁾ | 12,723,720 | 17,182,659 | 18,990,341 |
| Audit Adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Adjusted Beginning Balance | 0 | 0 | 0 | 0 | 12,723,720 | 0 | 18,990,341 |
| Fund Balance - Ending | \$14,243,540 | \$17,584,006 | \$427,025 | \$17,182,659 | \$8,853,251 | \$18,990,342 | \$19,444,564 |

⁽¹⁾ From the Comprehensive Audited Financial Statements of the District for Fiscal Years 2011-12 through 2013-14. For audited results for Fiscal Years 2011-12 through 2013-14 in the revised reporting format, see " - Comparative Financial Statements" herein.

⁽²⁾ For Fiscal Year 2013-14, on behalf payments of \$3,945,698 are included in the audited actual revenues and expenditures, but have not been included in the budgeted amounts.

⁽³⁾ From the District's Fiscal Year 2014-15 Annual Financial Report, approved by the Board on January 12, 2016. Since the impact of the LCFF on the District's State revenue sources was unknown at the time of preparation of the District's 2013-14 Adopted Budget, the 2013-14 Adopted Budget reflects expected State revenue limit funding prior to the implementation of the LCFF as the nearest available approximation of expected funding. Projected Totals for Fiscal Year 2013-14 assume full LCFF funding. See " - Current State Education Funding - Local Control Funding Formula" herein.

⁽⁴⁾ Beginning with the First Interim Report for Fiscal Year 2013-14, this category of funds is coded as "LCFF/Revenue Limit Sources."

⁽⁵⁾ The beginning fund balance for Fiscal Year 2013-14 is different from the audited ending fund balance for Fiscal Year 2012-13 due to an audit adjustment made after the close of Fiscal Year 2012-13.

⁽⁶⁾ Reflects actual Fiscal Year 2013-14 ending fund balance, as shown in the District's Fiscal Year 2013-14 Audited Actuals.
Source: Coachella Valley Unified School District.

State Funding of Education

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

Until implementation of the Local Control Funding Formula, annual State apportionments of basic and equalization aid to school districts were computed based on a revenue limit per unit of ADA. Revenue limit calculations were adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among California school districts. See “THE DISTRICT – Allocation of State Funding to School Districts; Restructuring the K-12 Funding System – Average Daily Attendance” and the table in that section titled, “Average Daily Attendance, Revenue Limit and Enrollment Fiscal Years 2007-08 to 2016-17,” above.

The District was a revenue limit district. For a discussion of legal limitations on the ability of the District to raise revenues through local property taxes, see “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS” below.

Prior State Funding of Education

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

Current State Education Funding

Local Control Funding Formula. The State Constitution requires that from all State revenues there will be funds set aside to be allocated by the State for support of the public school system and public institutions of higher education. As discussed below, school districts in the State receive a significant portion of their funding from these State allocations. **Bond proceeds from voter approved bond measures, such as the measure approved by District voters at the election held on June 7, 2005, and the *ad valorem* taxes levied to pay them are separately accounted for from District operating revenues.**

The general operating income of school districts in California is comprised of two major components: (i) a State portion funded from the State’s general fund, and (ii) a local portion derived from the District’s share of the 1% local *ad valorem* tax authorized by the State Constitution. School districts

may also be eligible for special categorical and grant funding from State and federal government programs.

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

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

- A base grant for each local education agency per unit of ADA, including an adjustment of 10.4% to the base grant to support lowering class sizes in grades K-3 and an adjustment of 2.6% to reflect the cost of operating career technical education programs in high schools. It should be noted that the authorizing LCFF statute, AB 97, provides for a differentiated base grant amount according to four different grade spans: K-3, 4-6, 7-8, and 9-12. Unless otherwise collectively bargained for, following full implementation of the LCFF, school districts must maintain an average class enrollment of 24 or fewer students in grades K-3 at each school site by the target year so as to continue receiving its adjustment to the K-3 base grant.
- A 20% supplemental grant for English learners (“EL”), students from low-income families, and youth in foster care, to reflect increased costs associated with educating those students. These supplemental grants are only attributed to each eligible student once, and the total student population eligible for the additional funding is known as an “unduplicated count.”
- An additional concentration grant of up to 22.5% of a local educational agency’s base grant, based on the number of English learners, students from low-income families, and youth in foster care served by the local educational agency that comprise more than 55% of enrollment. The District’s eligible student percent for supplemental grants is 92% and is projected to reach the 55% threshold for concentration grants.
- An Economic Recovery Target to ensure that almost every local educational agency receives at least their pre-recession funding level, adjusted for inflating, at full implementation of the LCFF.

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

A summary of the target LCFF funding amounts for California school districts and charter schools based on grade levels and targeted students classified as English learners, those eligible to receive

a free or reduced price meal, foster youth, or any combination of these factors (“unduplicated” count) is shown below: [confirm]:

TABLE 7

**COACHELLA VALLEY UNIFIED SCHOOL DISTRICT
GRADE SPAN FUNDING AT FULL LCFF IMPLEMENTATION
LOCAL CONTROL TARGET FUNDING FORMULA 2015-16**

| <u>Grade Levels</u> | <u>2015-16 Grant or ADA</u> | <u>Grade Span Adjustments</u> | <u>Supplemental Grant⁽¹⁾</u> | <u>Concentration Grant⁽²⁾</u> | <u>Total per ADA</u> [confirm] |
|---------------------|-----------------------------|-------------------------------|---|--|-----------------------------------|
| TK-3 | \$7,083 | \$737 | \$1,564 | \$3,910 | \$13,294 |
| 4-6 | 7,189 | – | 1,438 | 3,595 | 12,222 |
| 7-8 | 7,403 | – | 1,481 | 3,702 | 12,586 |
| 9-12 | 8,578 | 223 | 1,760 | 4,901 | 15,462 |

(1) Based on the District’s percent of eligible students of 92%.

(2) Based on the District’s percent of eligible students of ___%.

(3) Based on the District’s percent of eligible students of ___%.

Source: California Department of Education; District.

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

LCFF and the District. The District’s Fiscal Year 2014-15 actual budget reflected increased revenues of approximately [Review/update: \$ _____ [17.1] million under LCFF and the District’s Fiscal Year 2015-16 revised budget reflects increased revenues of approximately \$ _____ million under LCFF. Base funds received may be spent on a District-wide basis. The District must also identify specific services and expenditures for the targeted students in Fiscal Year 2015-16. Based on current data, the District would need to provide a 15% for services to those targeted students. The District is aware of certain risks associated with the LCFF, including future State budget challenges in the event of an economic recession and the impact of Proposition 30 revenues after the temporary sales and income taxes expire at the end of 2016 and 2018, respectively. See “EFFECT OF STATE BUDGET ON REVENUES” herein.

Actual funding in Fiscal Year 2013-14 and subsequent years is based on the difference between the District’s funding floor and its LCFF target (the LCFF gap). [Review/Update: For Fiscal Year 2015-16, the District estimates it will receive approximately \$ _____ million in its funding floor amount plus a portion of its LCFF gap, which was equivalent to approximately \$ _____ million. Total Fiscal Year 2015-

16 revenues, including federal, other local and other revenues is estimated to be approximately \$ _____ million. As part of the 2015-16 State Budget, the Department of Finance revised its projections and increased the gap funding provided to [Confirm: 51.97% in Fiscal Year 2015-16. The 2016-17 Proposed Budget utilizes funding to implement the LCFF and provides \$2.8 billion in new funding, bringing the Local Control Funding Formula's implementation to 95% complete. Each Fiscal Year thereafter, the District's funding amount will be based on recalculation of its LCFF target and its funding floor including any prior year transition funding converted to a per-ADA value and then adjusted for current year ADA. As LCFF continues to be implemented, the District's base and supplemental grant funding will increase in an effort to bring the District's total funding to its overall LCFF target. This increased funding will provide additional resources for the District to invest in academic, programmatic and operational purposes, while providing a more positive fiscal outlook. The District does not qualify for concentration grant funding.

The following table sets forth the District's actual, funded and projected ADA for Fiscal Years 2013-14 through 2016-17, the District's projected target LCFF funding amounts at full implementation (which represents a combined total of base grant, K-3 class size reduction and grades 9-12 adjustments, supplemental grant funding, each calculated by grade span), projected annual LCFF allocation and gap funding for Fiscal Years 2013-14 through 2017-18. Funded ADA is the greater of current or prior years' ADA. Note the data assumes an unduplicated count of EL, FRPM and foster youth of [Review/update: 92% of enrollment for each of the projected fiscal years, based on current unduplicated counts which are projected to remain stable.

TABLE 8

**COACHELLA VALLEY UNIFIED SCHOOL DISTRICT
LOCAL CONTROL FUNDING FORMULA PROJECTIONS
Fiscal Years 2013-14 through 2017-18⁽¹⁾**

[Review/update:

| Fiscal Year | <u>2013-14</u> | <u>2014-15</u> | <u>2015-16</u> | <u>2016-17</u> | <u>2017-18</u> [update] |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------------------|
| ADA | 17,942.84 | 18,113.03 | 18,113.03 | 18,113.03 | 18,113.03 |
| COLA | 1.57% | 0.85% | 1.02% | 1.6% | 1.6% |
| Total LCFF Target in Millions | 192.8 | 199.90 | 201.9 | 205.1 | 205.1 |
| Total LCFF Revenue in Millions | 125.9 | 148.80 | 176.9 | 87.5 | 87.5 |

⁽¹⁾ Final, preliminary and projected figures for Fiscal Years 2013-14 through 2017-18. For purposes of calculating supplemental and concentration grants, a school district's Fiscal Year 2013-14 percentage of unduplicated EL, FRPM, and foster youth students is expressed solely as a percentage of its Fiscal Year 2013-14 total enrollment. For Fiscal Year 2014-15, the percentage of unduplicated EL, FRPM, and foster youth enrollment was based on the two-year average of EL, FRPM, and foster youth enrollment in Fiscal Years 2013-14 and 2014-15. Beginning in Fiscal Year 2015-16, a school district's percentage of unduplicated EL, FRPM and foster youth students will be based on a rolling average of such school district's EL, FRPM, and foster youth enrollment for the then-current Fiscal Year and the two immediately preceding Fiscal Years. This table assumes 92% of District enrollment is comprised of unduplicated EL, FRPM, and foster youth students for each of the Fiscal Years listed, based on [Review/update: October 2, 2013, certified CALPADS. ADA as of the second principal reporting period (P-2 ADA).
Source: The District.

Revenue Sources

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

LCFF Sources. Since Fiscal Year 1973-74 through Fiscal Year 2012-13, State school districts operated under general purpose revenue limits established by the State Legislature. In general, the base

revenue limits were calculated for each school district by multiplying (1) the ADA for each such district by (2) a base revenue limit per unit of ADA. The base revenue limit calculations were adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all State school districts of the same type. The base revenue limit was then adjusted by the State deficit factor. In Fiscal Year 2013-14, the State implemented a new funding system, referred to as "Local Control Funding Formula." See "EFFECT OF STATE BUDGET ON REVENUES – 2016-17 Proposed State Budget" and "DISTRICT FINANCIAL INFORMATION – Current State Education Funding" above.

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

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

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

Federal Revenues. The federal government provides funding for several District programs, including special education programs, programs under the [Review/update: Educational Consolidation and Improvement Act, and specialized programs such as Drug Free Schools, Education for Economic Security, and the free and reduced lunch program. [Review/update: The federal revenues, most of which are restricted, comprised approximately 12% of general fund revenues in 2013-14, 12% of general fund revenues in 2014-15 and are budgeted to equal approximately 12% of such revenues in 2015-16.

Other State Revenues. As discussed above, the District receives State apportionment of basic and equalization aid in an amount equal to the difference between the District's revenue limit and its property tax revenues. In addition to such apportionment revenue, the District receives substantial other State revenues ("Other State Revenues").

Some of the Other State Revenues are restricted to specific types of program uses, such as special education. These Other State Revenues are primarily restricted revenues funding items such as the Special Education Master Plan, School Improvement Program, Economic Impact Aid, Class Size Reduction Program, home-to-school transportation, instructional materials and mentor teachers. Other State Revenues, including State Lottery Revenue, comprised approximately [Review/update: ___ [12]% of general fund revenues in 2014-15 and are budgeted to equal approximately ___% of such revenues in 2015-16.

Other State revenues include the California State Lottery (the "Lottery"), which was established by a constitutional amendment approved in the November 1984 general election. Lottery revenues must be used for the education of students and cannot be used for non-instructional purposes such as real property acquisition, facility construction, or the financing of research. Lottery revenues comprised a nominal amount [Review/update: (less than 2%) of general fund revenues in 2014-15 and are budgeted to equal approximately the same amount of such revenues in 2015-16.

Other Local Revenues. In addition to property taxes, the District receives additional local revenues from items such as [Review/update: leases and rentals, interest earnings, transportation fees, interagency services, and other local sources. Other local revenues comprised approximately 0.8% of general fund revenues in 2013-14, .8% of general fund revenues in 2014-15 and are budgeted to equal approximately .8% of general fund revenues in 2015-16.

Other Funding Sources

Other Sources. The federal government provides funding for several school district programs, including specialized programs such as No Child Left Behind, special education programs and programs under the Educational Consolidation and Improvement Act. In addition, a small part of a school district’s budget is from local sources other than property taxes, including but not limited to interest income, leases and rentals, educational foundations, donations and sales of property.

Developer Fees. The following table shows a nine-year history of developer fees collected on residential and commercial development within the District.

**TABLE 9
DEVELOPER FEE COLLECTIONS
Fiscal Years 2006-07 through 2014-15
Coachella Valley Unified School District**

| <u>Fiscal Year</u> | <u>Total Collections</u> |
|------------------------|--------------------------|
| 2006-07 | \$6,251,286 |
| 2007-08 | 3,352,576 |
| 2008-09 | 1,285,349 |
| 2009-10 | 650,392 |
| 2010-11 | 857,928 |
| 2011-12 | 946,150 |
| 2012-13 | 1,087,023 |
| 2013-14 | 1,741,074 |
| 2014-15 ⁽¹⁾ | 1,924,348 |
| 2015-16 ⁽²⁾ | 1,611,476 |

(1) Estimated.

(2) Projected.

Source: Coachella Valley Unified School District.

Redevelopment Revenue. The District entered into agreements with several redevelopment agencies formed pursuant the California Community Redevelopment Law (Health and Safety Code Sections 33000 *et seq.*) (generally, “Redevelopment Agencies”), pursuant to which the District has, in the past, received “pass-through” tax increment revenues (the “Redevelopment Revenues”). The District has projected the receipt of \$120,000, \$680,000 and \$2,546,162 in Redevelopment Revenues with respect to agreements entered into in the past with La Quinta, Coachella and Riverside County redevelopment agencies in Fiscal Year 2015-16.

The District, however, can make no representations that Redevelopment Revenues will continue to be received by the District in amounts consistent with prior years, or as currently projected, particularly in light of the recently enacted legislation eliminating redevelopment agencies. See “EFFECT OF STATE BUDGET ON REVENUES – 2016-17 Proposed State Budget – *Litigation Regarding State Budgetary Provisions; Redevelopment Litigation,*” “DISTRICT FINANCIAL INFORMATION – Current State Education Funding – Local Control Funding Formula” and “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS –

Proposition 1A” and “ – Proposition 22” herein. Further, the District can make no representations about the potential impact of litigation regarding such legislation. The Bonds, however, are not payable from such revenue. The Bonds are payable solely from the proceeds of an *ad valorem* tax required to be levied by the Counties in an amount sufficient for the payment thereof. See “INTRODUCTION – Sources of Payment for the Bonds” and “THE BONDS – Security” herein.

Dissolution of Redevelopment Agencies. On December 30, 2011, the State Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos* (“*Matosantos*”), finding ABx1 26, a trailer bill to the 2011-12 State budget, to be constitutional. As a result, all Redevelopment Agencies in the State ceased to exist as a matter of law on February 1, 2012. The Court in *Matosantos* also found that ABx1 27, a companion bill to ABx1 26, violated the State Constitution, as amended by Proposition 22. See “CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 1A and Proposition 22” herein. ABx1 27 would have permitted redevelopment agencies to continue operations provided their establishing cities or counties agreed to make specified payments to school districts and county offices of education, totaling \$1.7 billion statewide.

ABx1 26 was modified by Assembly Bill No. 1484 (Chapter 26, Statutes of 2011-12) (“AB 1484”), which, together with ABx1 26, is referred to herein as the “Dissolution Act.” The Dissolution Act provides that all rights, powers, duties and obligations of a redevelopment agency under the California Community Redevelopment Law that have not been repealed, restricted or revised pursuant to ABx1 26 will be vested in a successor agency, generally the county or city that authorized the creation of the redevelopment agency (each, a “Successor Agency”). All property tax revenues that would have been allocated to a redevelopment agency, less the corresponding county auditor-controller’s cost to administer the allocation of property tax revenues, are now allocated to a corresponding Redevelopment Property Tax Trust Fund (“Trust Fund”), to be used for the payment of pass-through payments to local taxing entities, and thereafter to bonds of the former redevelopment agency and any “enforceable obligations” of the Successor Agency, as well as to pay certain administrative costs. The Dissolution Act defines “enforceable obligations” to include bonds, loans, legally required payments, judgments or settlements, legal binding and enforceable obligations, and certain other obligations.

Among the various types of enforceable obligations, the first priority for payment is tax allocation bonds issued by the former redevelopment agency; second is revenue bonds, which may have been issued by the host city, but only where the tax increment revenues were pledged for repayment and only where other pledged revenues are insufficient to make scheduled debt service payments; third is administrative costs of the Successor Agency, equal to at least \$250,000 in any year, unless the oversight board reduces such amount for any fiscal year or a lesser amount is agreed to by the Successor Agency; then, fourth tax revenues in the Trust Fund in excess of such amounts, if any, will be allocated as residual distributions to local taxing entities in the same proportions as other tax revenues. Moreover, all unencumbered cash and other assets of former redevelopment agencies will also be allocated to local taxing entities in the same proportions as tax revenues. Notwithstanding the foregoing portion of this paragraph, the order of payment is subject to modification in the event a Successor Agency timely reports to the Controller and the Department of Finance that application of the foregoing will leave the Successor Agency with amounts insufficient to make scheduled payments on enforceable obligations. If the county auditor-controller verifies that the Successor Agency will have insufficient amounts to make scheduled payments on enforceable obligations, it shall report its findings to the Controller. If the Controller agrees there are insufficient funds to pay scheduled payments on enforceable obligations, the amount of such deficiency shall be deducted from the amount remaining to be distributed to taxing agencies, as described as the fourth distribution above, then from amounts available to the Successor Agency to defray administrative costs. In addition, if a taxing agency entered into an agreement pursuant to Health and Safety Code Section 33401 for payments from a redevelopment agency under which the payments were to be

subordinated to certain obligations of the redevelopment agency, such subordination provisions shall continue to be given effect.

As noted above, the Dissolution Act expressly provides for continuation of pass-through payments to local taxing entities. Per statute, 100% of contractual and statutory two percent pass-throughs, and 56.7% of statutory pass-throughs authorized under the Community Redevelopment Law Reform Act of 1993 (AB 1290, Chapter 942, Statutes of 1993) ("AB 1290"), are restricted to educational facilities without offset against revenue limit apportionments by the State. Only 43.3% of AB 1290 pass-throughs are offset against State aid so long as the District uses the moneys received for land acquisition, facility construction, reconstruction, or remodeling, or deferred maintenance as provided under Education Code Section 42238(h).

ABx1 26 states that in the future, pass-throughs shall be made in the amount "which would have been received had the redevelopment agency existed at that time," and that the County Auditor-Controller shall "determine the amount of property taxes that would have been allocated to each redevelopment agency had the redevelopment agency not been dissolved pursuant to the operation of [ABx1 26] using current assessed values and pursuant to statutory [pass-through] formulas and contractual agreements with other taxing agencies."

Successor Agencies continue to operate until all enforceable obligations have been satisfied and all remaining assets of the Successor Agency have been disposed of. AB 1484 provides that once the debt of the Successor Agency is paid off and remaining assets have been disposed of, the Successor Agency shall terminate its existence and all pass-through payment obligations shall cease.

The District can make no representations as to the extent to which its LCFF apportionments from the State may be offset by the future receipt of residual distributions or from unencumbered cash and assets of former redevelopment agencies any other surplus property tax revenues pursuant to the Dissolution Act.

District Debt Structure

Short-Term Debt. The District currently has no outstanding short-term debt.

Long-Term Debt. For information regarding overlapping bonded debt, see “TAX BASE FOR REPAYMENT OF BONDS – Direct and Overlapping Bonded Debt” and Note 8 in APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE DISTRICT.”

Certificates of Participation. On April 3, 2003, the District executed and delivered its 2003 Certificates of Participation (School Financing Project) in an aggregate principal amount of \$15,500,000 (the “April 2003 Certificates”), the net proceeds of which were used to finance the construction and renovation of school facilities and advance refund certain of the District’s 1991 Certificates of Participation.

On November 20, 2003, the District executed and delivered its 2003 Certificates of Participation (East Coachella School Facilities Project) in an aggregate principal amount of \$3,500,000 (the “November 2003 Certificates”), the net proceeds of which were used to finance the construction of school facilities. On September 6, 2013, the District entered into the 2013 Refunding Lease (as defined herein), the proceeds of which were used to currently refund the outstanding April 2003 Certificates and November 2003 Certificates. No April 2003 Certificates or November 2003 Certificates remain outstanding. See “ – Capital Leases” herein.

On April 12, 2006, the District executed and delivered its Certificates of Participation (2006 School Financing Project) in an aggregate principal amount of \$14,485,000 (the “2006 Certificates”), the net proceeds of which were used to finance the acquisition of real property of a school site and provide funds for the construction, reconstruction modernization, rehabilitation and improvement of existing school facilities of the District. On July 5, 2011, the District entered into the 2011 Refunding Lease, the proceeds of which were used to currently refund the District’s outstanding 2006 Certificates. No 2006 Certificates remain outstanding. See “ – Capital Leases” herein.

On January 9, 2007, the District executed and delivered its 2006B Certificates of Participation (School Facilities Project) in an aggregate principal amount of \$23,500,000 (the “2006B Certificates”), the proceeds of which were used to finance the construction, reconstruction, expansion, modernization, and improvement of existing school facilities. On September 16, 2014, the District refunded the 2006B Certificates with its 2014 Refunding Certificates of Participation (the “2014 Refunding Certificates”). The following table summarizes the future annual lease payment requirements of the District with respect to the 2014 Refunding Certificates. The IRS initiated an audit with respect to the 2006B Certificates. In December, 2014, the District received a “Notification of No Change Determination” from the IRS stating that the IRS had completed and closed its examination.

TABLE 10

**2014 REFUNDING CERTIFICATES ANNUAL PAYMENTS
Coachella Valley Unified School District**

| <u>Period Ending September 1</u> | <u>Annual Lease Payments</u> |
|--------------------------------------|----------------------------------|
| 2016 | \$976,700.00 |
| 2017 | 985,100.00 |
| 2018 | 1,288,300.00 |
| 2019 | 1,490,400.00 |
| 2020 | 1,547,250.00 |
| 2021 | 1,580,050.00 |
| 2022 | 1,643,050.00 |
| 2023 | 1,701,050.00 |
| 2024 | 1,708,450.00 |
| 2025 | 1,399,050.00 |
| 2026 | 1,413,300.00 |
| 2027 | 1,550,050.00 |
| 2028 | 1,628,050.00 |
| 2029 | 1,645,775.00 |
| 2030 | 1,686,575.00 |
| 2031 | 2,813,075.00 |
| 2032 | 2,554,200.00 |
| 2033 | 2,614,200.00 |
| 2034 | 664,400.00 |
| 2035 | 683,800.00 |
| 2036 | <u>2,771,600.00</u> |
| Total | \$31,572,825.00 |

Source: Coachella Valley Unified School District.

Lease Refinancing. On July 5, 2011, the District entered into a lease agreement with Banc of America Public Capital Corporation in the aggregate principal amount of \$12,830,000 (the “2011 Refunding Lease”), the proceeds of which were used to currently refund the District’s outstanding 2006 Certificates. The following table summarizes future payment requirements of the District with respect to the 2011 Refunding Lease:

TABLE 11

**2011 REFUNDING LEASE ANNUAL PAYMENTS
Coachella Valley Unified School District**

| Year Ending <u>June 30</u> | Annual Lease <u>Payments</u> |
|-------------------------------|---------------------------------|
| 2016 | \$1,053,125 |
| 2017 | 1,048,125 |
| 2018-22 | 5,241,500 |
| 2023-26 | <u>8,485,250</u> |
| Total | <u>\$15,828,000</u> |

Source: Coachella Valley Unified School District.

On September 6, 2013, the District entered into a lease agreement with Public Property Financing Corporation of California in the aggregate principal amount of \$9,475,000, the proceeds of which were used to currently refund the outstanding April 2003 Certificates and November 2003 Certificates. The following table summarizes the future payment requirements of the District with respect to the 2013 Refunding Lease:

TABLE 12

**2013 REFUNDING LEASE ANNUAL PAYMENTS
Coachella Valley Unified School District**

| <u>Year Ending September 1</u> | <u>Annual Lease Payments</u> |
|------------------------------------|----------------------------------|
| 2016 | \$711,301.25 |
| 2017 | 770,842.50 |
| 2018 | 1,184,697.00 |
| 2019 | 708,760.00 |
| 2020 | 594,235.00 |
| 2021 | 640,540.00 |
| 2022 | 703,940.00 |
| 2023 | 749,331.25 |
| 2024 | 752,855.00 |
| 2025 | 750,445.00 |
| 2026 | 752,101.25 |
| 2027 | 752,720.00 |
| 2028 | 747,405.00 |
| 2029 | 751,052.50 |
| 2030 | 748,558.75 |
| 2031 | 749,923.75 |
| 2032 | <u>745,147.50</u> |
| Total | <u>\$12,813,855.75</u> |

Source: Coachella Valley Unified School District.

Capital Leases. The District leases various equipment items under lease agreements (the “Capital Leases”) that provide for title to pass to the District upon execution of a bargain purchase option. Future minimum lease payments with respect to these Capital Leases as of [[Review/update: June 30, 2015 are shown in Note 8] in APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE DISTRICT.”

General Obligation Bonds. The District received authorization at an election held on March 4, 1997, by at least two-thirds of the votes cast by eligible voters in the District, to authorize the issuance of \$20,000,000 maximum principal amount of general obligation bonds of the District (the “1997 Authorization”). On August 19, 1997, the District issued its General Obligation Bonds, 1997 Election, Series A (Bank Qualified) in the aggregate principal amount of \$10,000,000 (the “1997 Series A Bonds”). On September 2, 1998, the District issued its General Obligation Bonds, 1997 Election, Series B in the aggregate principal amount of \$9,999,277.95 (the “1997 Series B Bonds”). On May 26, 2010, the District issued its 2010 General Obligation Refunding Bonds in the aggregate principal amount of \$6,560,000, the proceeds of which were used to currently refund a portion of the then-outstanding 1997 Series A Bonds (the “2010 Refunding Bonds”). There are currently no 1997 Series A Bonds outstanding. \$722.05 of the 1997 Authorization remains unissued.

The District received authorization at an election held on June 7, 2005, by at least two-thirds of the votes cast by eligible voters in the District, to authorize the issuance of \$250,000,000 maximum principal amount of general obligation bonds of the District (the “2005 Authorization”). On September 7, 2005, the District issued its 2005 Series A Bonds in the aggregate principal amount of \$49,998,180. On February 22, 2007, the District issued its General Obligation Bonds, 2005 Election, Series B in the aggregate principal amount of \$30,000,000 (the “2005 Series B Bonds”). On May 26, 2010, the District issued its General Obligation Bonds, 2005 Election, Series C in the aggregate principal amount of \$24,990,463 (the “2005 Series C Bonds”). On July 12, 2012, the District issued its General Obligation Bonds, 2005 Election, Series D in the aggregate principal amount of \$54,999,882 (the “2005 Series D Bonds”). On February 13, 2014, the District issued its 2014 General Obligation Refunding Bonds, in the aggregate principal amount of \$38,145,000 (the “2014 Refunding Bonds”), to redeem most of the then-outstanding 2005 Series A Bonds. On August 7, 2014, the District issued its General Obligation Refunding Bonds, Series B (the “2014 Series B Refunding Bonds”) in the aggregate principal amount of \$17,455,000 to advance refund a portion of the District’s outstanding 2005 Series A Bonds and a portion of the District’s outstanding 2005 Series B Bonds. On September 15, 2015, the District issued its 2015 General Obligation Refunding Bonds in the aggregate principal amount of \$11,550,000 to advance refund the outstanding portion of the District’s outstanding 2005 Series B Bonds. The Bonds are the fifth series of bonds issued pursuant to the 2005 Authorization, leaving \$ _____ [\$50,011,475] * of the 2005 Authorization authorized but unissued.

The District received authorization at an election held on November 6, 2012, by at least 55% of the votes cast by eligible voters within the District, to authorize the issuance of \$41,000,000 maximum principal amount of general obligation bonds of the District (the “2012 Authorization”). On May 9, 2013, the District issued its General Obligation Bonds, 2012 Election, Series A (Federally Taxable) in the aggregate principal amount of \$20,255,000 (the “2012 Series A Bonds”). On September 15, 2015, the District issued its General Obligation Bonds, 2012 Election, Series B (Federally Taxable) in the aggregate amount of \$5,865,000. \$14,880,000 of the 2012 Authorization remains authorized but unissued.

See Table 1 in “Debt Service Schedule” for the annual debt service requirements of the District for all of its outstanding general obligation bonds (assuming no optional redemptions) prior to issuance of the Bonds.

*Preliminary, subject to change.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

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

Article XIII A of the California Constitution

On June 6, 1978, California voters approved Proposition 13 ("Proposition 13"), which added Article XIII A to the California Constitution ("Article XIII A"). Article XIII A, as amended, limits the amount of any *ad valorem* taxes on real property to 1% of the "full cash value," and provides that such tax shall be collected by the counties and apportioned according to State law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to *ad valorem* taxes levied to pay interest and redemption charges on (i) indebtedness approved by the voters prior to July 1, 1978, (ii) bonded indebtedness for the acquisition or improvement of real property which had been approved on or after July 1, 1978, by two-thirds or more of the votes cast by the voters voting on the proposition, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% of the voters of the district voting on the proposition, but only if certain accountability measures are included in the proposition as provided by Proposition 39. The tax for payment of the Bonds was approved by more than two-thirds of the eligible voters voting on the proposition and was approved without utilization of the exception for bonds approved by a 55% vote.

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

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

Legislation Implementing Article XIII A

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

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

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the annual adjustment of not to exceed 2% are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value. All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

Inflationary Adjustment of Assessed Valuation

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

Taxation of State-Assessed Utility Property

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

Changes in the California electric utility industry structure and in the way in which components of the industry are regulated and owned, including the sale of electric generation assets to largely unregulated, non-utility companies, may affect how utility assets are assessed in the future, and which local agencies are to receive the property taxes. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation or litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to

local taxing agencies, including the District. Because the District is not a basic aid district, taxes lost through any reduction in assessed valuation will be compensated by the State as aid under the State's school financing formula.

Article XIII B of the California Constitution

An initiative to amend the California Constitution entitled "Limitation of Government Appropriations," was approved on November 6, 1979, thereby adding Article XIII B to the California Constitution ("Article XIII B"). Under Article XIII B, state and local governmental entities have an annual "appropriations limit" and are not permitted to spend certain moneys which are called "appropriations subject to limitation" (consisting of tax revenues, state subventions and certain other funds) in an amount higher than the "appropriations limit." Article XIII B does not affect the appropriation of moneys which are excluded from the definition of "appropriations subject to limitation," including appropriations for debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is based on certain Fiscal Year 1978-79 expenditures, and adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIII B, if these entities' revenues in any two consecutive years exceed the combined appropriations limits for those two years, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

In the event the District receives any proceeds of taxes in excess of the allowable limit in any fiscal year, the District may implement a statutory procedure to concurrently increase the District's appropriations limit and decrease the State's allowable limit, thus nullifying the need for any return. Certain features of Article XIII B were modified by Proposition 111 in 1990 (see " - Proposition 111" below).

Proposition 98

As discussed above in " - THE DISTRICT - Allocation of State Funding to School Districts; Restructuring of the K-12 Funding System - State Education Funding; Proposition 98," on November 8, 1988, California voters approved Proposition 98 ("Proposition 98"), a combined initiative constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). Certain provisions of the Accountability Act, have, however, been modified by Proposition 111, discussed below, the provisions of which became effective on July 1, 1990. The Accountability Act changed State funding of public education below the university level and the operation of the State's appropriations limit. The Accountability Act guarantees State funding for K-12 school districts and community college districts (hereinafter referred to collectively as "K-14 school districts") at a level equal to the greater of (a) the same percentage of State General Fund revenues as the percentage appropriated to such districts in Fiscal Year 1986-87 or (b) the amount actually appropriated to such districts from the State General Fund in the previous fiscal year, adjusted for increases in enrollment and changes in the cost of living. The Accountability Act permits the State Legislature (the "Legislature") to suspend this formula for a one-year period. See APPENDIX A - "INFORMATION RELATING TO THE COACHELLA VALLEY UNIFIED SCHOOL DISTRICT'S OPERATIONS AND BUDGET - THE DISTRICT - Allocation of State Funding to School Districts; Restructuring of the K-12 Funding System," " - EFFECT OF STATE BUDGET ON REVENUES" and " - DISTRICT FINANCIAL INFORMATION" above.

Proposition 111

On June 5, 1990, the voters of California approved the "Traffic Congestion Relief and Spending Limitation Act of 1990" ("Proposition 111"), which modified the State Constitution to alter the Article

XIIIB spending limit and the education funding provisions of Proposition 98. Proposition 111 took effect on July 1, 1990.

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

- a. Annual Adjustments to Spending Limit. The annual adjustments to the Article XIIIB spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the "change in the cost of living" is now measured by the change in California per capita personal income. The definition of "change in population" specifies that a portion of the State's spending limit is to be adjusted to reflect changes in school attendance.
- b. Treatment of Excess Tax Revenues. "Excess" tax revenues with respect to Article XIIIB are now determined based on a two-year cycle, so that the State can avoid having to return to taxpayers excess tax revenues in one year if its appropriations in the next fiscal year are under its limit. In addition, the Proposition 98 provision regarding excess tax revenues was modified. After any two-year period, if there are excess State tax revenues, 50% of the excess is to be transferred to K-14 school districts with the balance returned to taxpayers; under prior law, 100% of excess State tax revenues went to K-14 school districts, but only up to a maximum of 4% of the schools' minimum funding level. Also, reversing prior law, any excess State tax revenues transferred to K-14 school districts are not built into the school districts' base expenditures for calculating their entitlement for State aid in the next year, and the State's appropriations limit is not to be increased by this amount.
- c. Exclusions from Spending Limit. Two new exceptions have been added to the calculation of appropriations which are subject to the Article XIIIB spending limit. First, excluded are all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, excluded are any increases in gasoline taxes above the then current cents per gallon level, sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990.
- d. Recalculation of Appropriations Limit. The Article XIIIB appropriations limit for each unit of government, including the State, was recalculated beginning in Fiscal Year 1990-91. It is based on the actual limit for Fiscal Year 1986-87, adjusted forward to Fiscal Year 1990-91 as if Proposition 111 had been in effect.
- e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State General Fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) a certain percentage of State General Fund revenues (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIIB by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, school districts will receive the greater of (1) the first test, (2) the second test, or (3) a third test (defined below), which will replace the second test in any year when growth in per capita State General Fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, school districts will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor (the "third test"). If the third test is used in any year, the difference between the third test and the second test will become a "credit" to school districts which will be paid in future years when State General Fund revenue growth exceeds personal income growth.

Article XIII C and Article XIII D of the State Constitution; Proposition 218

An initiative measure entitled "Right to Vote on Taxes Act," also known as Proposition 218 (the "Proposition 218"), was approved by the California voters at the November 5, 1996, state-wide general election, and became effective on November 6, 1996. Proposition 218 added Articles XIII C and XIII D ("Article XIII C" and "Article XIII D," respectively) to the California Constitution. Articles XIII C and XIII D contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges. All references herein to Articles XIII C and XIII D are references to the text as set forth in Proposition 218.

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

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

Article XIII D deals with assessments and property-related fees and charges. Article XIII D explicitly provides that nothing in Article XIII C or XIII D 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. No developer fees imposed by the District are pledged or expected to be used to pay the Bonds.

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

Proposition 39

On November 7, 2000, California voters approved an amendment (commonly known as "Proposition 39") to the California Constitution. Upon passage of Proposition 39, implementing legislation entitled "Strict Accountability in Local School Construction Bonds Act of 2000" (the "Strict Accountability in Local School Construction Bonds Act") became operative. Proposition 39 (1) allows school facilities' bond measures to be approved by 55% (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1% limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments of Proposition 39 may be changed only with another state-wide vote of the people. The statutory provisions of the Strict Accountability in Local School Construction Bonds Act, as amended, may be changed by a majority vote of both houses of the Legislature and approved by the Governor, but only to further the purposes of the proposition. The local school jurisdictions affected by this proposition and implementing legislation are K-12 school districts, including the District, community college districts and county offices of education. As noted above, the California Constitution previously limited property

taxes to 1% of the value of property. Prior to Proposition 39, property taxes could only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to acquire or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55% vote requirement would apply only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. The Strict Accountability in Local School Construction Bonds Act, approved in June 2000, as amended, places certain limitations on local school bonds to be approved by 55% of the voters. These provisions require that the tax rate levied as the result of any single election be no more than (i) \$60 for a unified school district or school facilities improvement district formed by a unified school district, (ii) \$30 for a high school or elementary school district, or (iii) \$25 for a community college district, per \$100,000 of taxable property value. These requirements are statutory provisions and are not part of the Proposition 39 changes to the California Constitution. The Strict Accountability in Local School Construction Bonds Act statutory provisions can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

Jarvis v. Connell

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

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A ("Proposition 1A"), which amended the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-thirds approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2008-09, the State could shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must

repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

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

Proposition 62; Statutory Limitations

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

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

Proposition 22

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

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and

adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

Proposition 30

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

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

Statutory Lien for General Obligation Bonds

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

was amended to include an addition to the California Government Code to similarly clarify the process of lien perfection for general obligation bonds issued by cities, counties, authorities and special districts.

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

State Cash Management Legislation

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

Applications of Constitutional and Statutory Provisions

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

Future Initiatives and Legislation

Articles XIII A, XIII B, XIII C, XIII D and Propositions 26, 30, 98, 111 and 218 were each adopted pursuant to a measure qualified for the ballot pursuant to California’s constitutional initiative process. Propositions 1A and 39 were each legislatively referred constitutional amendments which were approved by the electorate and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the State Legislature. For example, during 2013, a proposal (2013-14 Assembly Bill 182) was introduced in the State Legislature and later enacted to place limitations on the ability of school districts to issue capital appreciation bonds or convertible capital appreciation bonds commencing on and after January 1, 2014. The adoption of any such initiative or enactment of legislation might place limitations on the ability of the State, the Counties, any city whose students are served by the District, the District or local districts to increase revenues or to increase appropriations.

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

APPENDIX C

ECONOMIC AND DEMOGRAPHIC INFORMATION

The following information concerning the communities served by the District, including the cities of Indio and Coachella and the County of Riverside,⁽¹⁾ is included only for the purpose of supplying general information thereof. The Bonds are not obligations of the County of Riverside and do not represent a lien or charge against any funds or property of the County of Riverside or of any city. The following information is provided only to give prospective investors an overview of the general economic condition of the County of Riverside and the State of California.

General

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

The Coachella Valley (the "Valley") runs southeast from the San Bernardino Mountains to the Salton Sea, a distance of approximately 45 miles. The Valley is roughly 15 miles wide along most of its length, bordering the San Jacinto Mountains and the Santa Rosa Mountains to the west and to the east by the Little San Bernardino Mountains. The San Andreas Fault crosses the Valley in southeast corner and along the centerline of the Little San Bernardino Mountains. Hot and dry, the Valley is an agricultural desert, growing 95% of the dates produced in the United States along with many other fruits and vegetables. Besides Indio and Coachella, other sizeable towns in the Valley include Cathedral City, Palm Springs and Palm Desert.

The City of Indio ("Indio") is located in the Valley, approximately 120 miles east of the city of Los Angeles. Initially a railroad town, Indio developed an agricultural economy and more recently, has largely become a residential and recreational area. Indio operates under a city council-city manager form of government with five elected members of the city council that appoint a city manager and city attorney.

The City of Coachella ("Coachella," and together with Indio, the "Cities") is the easternmost city in the Valley and borders Indio on its eastern side. Coachella is known as the "City of Eternal Sunshine," and most of its land lies below sea level. Coachella became a city in 1946, and is a popular destination for vacationers and retirees. Coachella is a general law city with a five-member city council that appoints the mayor. Coachella is the primary shipping point for the Valley's agricultural goods.

Population

The County has experienced a long period of growth and development. It is currently the eleventh most populous county in the United States, and fourth largest in the State. Total population for the County is expected to be over three million by the year 2030. The County's population as of January 1, 2015, is estimated to be 2,308,441 people. The estimated population of the County is approximately 49.4% greater than the 2000 population, representing an average annual compound growth rate of 4.09%.

⁽¹⁾ Information regarding Imperial County has not been included in Appendix C because of the aggregate assessed value of property in the District, approximately 97% of such assessed valuation relates to property located within Riverside County and approximately 3% of such assessed valuation relates to property located within Imperial County.

The Cities have also grown rapidly, as Coachella's population has grown by 93.3% since the year 2000, for an annual compound growth rate of approximately 6.81%, and Indio's population has increased by over 71% since the year 2000, producing an annual compound growth rate of 4.09%.

A summary of the population estimates of the Cities, County and State for the past 16 years is shown in the following table.

POPULATION ESTIMATES
City of Coachella, City of Indio, Riverside County and the State of California
2000-2015

| <u>Year⁽¹⁾</u> | <u>City of Coachella</u> | | <u>City of Indio</u> | | <u>Riverside County</u> | | <u>State of California</u> | |
|---------------------------|--------------------------|----------------------|----------------------|----------------------|-------------------------|----------------------|----------------------------|----------------------|
| | <u>Population</u> | <u>Annual Change</u> | <u>Population</u> | <u>Annual Change</u> | <u>Population</u> | <u>Annual Change</u> | <u>Population</u> | <u>Annual Change</u> |
| 2000 ⁽²⁾ | 22,724 | - | 49,116 | - | 1,545,387 | - | 33,873,086 | - |
| 2001 | 23,146 | 1.9% | 49,681 | 1.2% | 1,589,708 | 2.9% | 34,256,789 | 1.1% |
| 2002 | 23,974 | 3.6 | 50,815 | 2.3 | 1,655,291 | 4.1 | 34,725,516 | 1.4 |
| 2003 | 26,422 | 10.2 | 52,551 | 3.4 | 1,730,219 | 4.5 | 35,163,609 | 1.3 |
| 2004 | 27,214 | 3.0 | 56,655 | 7.8 | 1,814,485 | 4.9 | 35,570,847 | 1.2 |
| 2005 | 29,754 | 9.3 | 62,024 | 9.5 | 1,895,695 | 4.5 | 35,869,173 | 0.8 |
| 2006 | 33,964 | 14.1 | 66,670 | 7.5 | 1,975,913 | 4.2 | 36,116,202 | 0.7 |
| 2007 | 36,851 | 8.5 | 70,948 | 6.4 | 2,049,902 | 3.7 | 36,399,676 | 0.8 |
| 2008 | 38,521 | 4.5 | 74,007 | 4.3 | 2,102,741 | 2.6 | 36,704,375 | 0.8 |
| 2009 | 39,079 | 1.4 | 74,590 | 0.8 | 2,140,626 | 1.8 | 36,966,713 | 0.7 |
| 2010 | 40,508 | 3.7 | 75,263 | 0.9 | 2,179,692 | 1.8 | 37,223,900 | 0.7 |
| 2011 | 41,339 | 2.1 | 76,817 | 2.1 | 2,205,731 | 1.2 | 37,427,946 | 0.5 |
| 2012 | 42,030 | 1.7 | 78,299 | 1.9 | 2,234,209 | 1.3 | 37,668,804 | 0.6 |
| 2013 | 42,795 | 1.8 | 81,415 | 4.0 | 2,255,653 | 1.0 | 37,984,138 | 0.8 |
| 2014 | 43,601 | 1.9 | 82,375 | 1.2 | 2,280,191 | 1.1 | 38,357,121 | 1.0 |
| 2015 | 43,917 | 0.7 | 84,201 | 2.2 | 2,308,441 | 1.2 | 38,714,725 | 0.9 |

⁽¹⁾ As of January 1.

⁽²⁾ As of April 1.

Source: 2000, 2010: U.S. Department of Commerce, Bureau of the Census, for April 1. 2001-09, 2011-14 (2000 and 2010 DRU Benchmark): California Department of Finance for January 1.

Personal Income

The following tables show the per capita personal income for Indio, the County, the State of California and the United States from 2007 through 2013.

PER CAPITA PERSONAL INCOME⁽¹⁾
City of Indio, County of Riverside, State of California and United States
2007-2013*

| <u>Year</u> | <u>City of Indio</u> | <u>County of Riverside</u> | <u>California</u> | <u>United States</u> |
|-------------|--------------------------|--------------------------------|-------------------|----------------------|
| 2007 | \$16,265 | \$30,871 | \$43,157 | \$39,804 |
| 2008 | 18,365 | 30,808 | 43,609 | 40,873 |
| 2009 | 19,855 | 29,433 | 41,569 | 39,357 |
| 2010 | 22,350 | 29,563 | 42,297 | 40,163 |
| 2011 | 20,374 | 31,074 | 44,666 | 42,298 |
| 2012 | 19,748 | 31,742 | 46,477 | 43,735 |
| 2013 | 18,722 | 33,163 | 47,401 | 44,543 |

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

*2014 annual figures are unavailable.

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

Employment

The following table presents the annual average labor force for the Cities, County and State from 2008 through 2014.

CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT City of Indio, City of Coachella, County of Riverside and State of California 2008-2014

| <u>Year</u> | <u>Area</u> | <u>Labor Force</u> | <u>Employment</u> | <u>Unemployment</u> | <u>Unemployment Rate</u> |
|-------------|---------------------|--------------------|-------------------|---------------------|--------------------------|
| 2008 | City of Coachella | 11,900 | 10,300 | 1,600 | 13.7% |
| | City of Indio | 27,200 | 24,700 | 2,500 | 9.3 |
| | Riverside County | 911,500 | 833,300 | 78,200 | 8.6 |
| | State of California | 18,178,100 | 16,854,500 | 1,323,600 | 7.3 |
| 2009 | City of Coachella | 12,400 | 9,800 | 2,600 | 20.9% |
| | City of Indio | 27,500 | 23,500 | 4,000 | 14.5 |
| | Riverside County | 915,800 | 795,800 | 120,000 | 13.1 |
| | California | 18,215,100 | 16,182,600 | 2,032,600 | 11.2 |
| 2010 | City of Coachella | 18,000 | 14,300 | 3,700 | 20.5% |
| | City of Indio | 35,200 | 30,000 | 5,200 | 14.9 |
| | Riverside County | 976,200 | 841,100 | 135,200 | 13.8 |
| | State of California | 18,336,300 | 16,091,900 | 2,249,300 | 12.2 |
| 2011 | City of Coachella | 18,000 | 14,500 | 3,500 | 19.6% |
| | City of Indio | 35,200 | 30,200 | 5,000 | 14.2 |
| | Riverside County | 978,200 | 849,400 | 128,800 | 13.2 |
| | State of California | 18,419,500 | 16,260,100 | 2,159,400 | 11.7 |
| 2012 | City of Coachella | 18,100 | 14,900 | 3,200 | 17.5% |
| | City of Indio | 35,600 | 31,100 | 4,500 | 12.5 |
| | Riverside County | 989,100 | 873,900 | 115,200 | 11.6 |
| | State of California | 18,554,800 | 16,630,100 | 1,924,700 | 10.4 |
| 2013 | City of Coachella | 18,000 | 15,300 | 2,700 | 15.0% |
| | City of Indio | 35,900 | 32,000 | 3,800 | 10.7 |
| | Riverside County | 998,600 | 899,800 | 98,800 | 9.9 |
| | State of California | 18,671,600 | 17,002,900 | 1,668,700 | 8.9 |
| 2014 | City of Coachella | 18,100 | 15,500 | 2,300 | 12.6% |
| | City of Indio | 36,300 | 33,000 | 3,200 | 8.9 |
| | Riverside County | 1,010,270 | 927,300 | 83,400 | 8.2 |
| | State of California | 18,811,400 | 17,397,100 | 1,414,300 | 7.5 |

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2014 Benchmark.

Industry

The following figures represent industry employment estimates in the County from 2008 through 2014.

INDUSTRY EMPLOYMENT & LABOR FORCE County of Riverside 2008-2014⁽¹⁾

| | <u>2008</u> | <u>2009</u> | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total Farm | 13,100 | 12,400 | 12,400 | 12,400 | 12,900 | 12,100 | 12,200 |
| Mining and Logging | 500 | 500 | 400 | 400 | 400 | 300 | 300 |
| Construction | 54,700 | 40,400 | 35,400 | 34,100 | 35,200 | 42,600 | 47,300 |
| Manufacturing | 48,400 | 39,000 | 37,900 | 38,600 | 39,500 | 39,000 | 40,400 |
| Wholesale Trade | 20,400 | 18,700 | 19,100 | 19,700 | 20,600 | 22,400 | 23,200 |
| Retail Trade | 84,900 | 78,800 | 78,500 | 81,600 | 81,100 | 82,400 | 85,200 |
| Transportation, Warehousing & Utilities | 21,200 | 19,700 | 19,400 | 20,200 | 21,100 | 24,900 | 28,400 |
| Information | 7,700 | 8,500 | 10,200 | 7,600 | 6,300 | 6,300 | 6,300 |
| Financial Activities | 22,300 | 20,700 | 19,300 | 18,600 | 19,300 | 20,000 | 20,600 |
| Professional & Business Services | 58,000 | 53,600 | 50,300 | 52,200 | 53,900 | 57,600 | 61,200 |
| Education & Health Services | 58,100 | 68,300 | 67,800 | 70,700 | 76,100 | 83,800 | 88,500 |
| Leisure & Hospitality | 72,800 | 68,700 | 67,700 | 68,900 | 72,200 | 75,000 | 81,000 |
| Other Services | 19,400 | 18,100 | 18,300 | 18,800 | 19,200 | 20,300 | 21,700 |
| Government | <u>110,600</u> | <u>109,300</u> | <u>109,200</u> | <u>114,200</u> | <u>112,100</u> | <u>111,200</u> | <u>112,800</u> |
| Total (all industries) | 592,000 | 556,700 | 545,800 | 557,900 | 570,700 | 597,800 | 628,900 |

⁽¹⁾ Annual averages, unless otherwise specified.

Note: Items may not add to total due to independent rounding.

Source: California Employment Development Department, Labor Market Information Division. March 2014 Benchmark.

Largest Employers

The following tables show the largest employers located in the County and Indio as of Fiscal Year ending June 30, 2015.

LARGEST EMPLOYERS County of Riverside 2015

| <u>Rank</u> | <u>Name of Business</u> | <u>Type of Business</u> | <u>Employees</u> | <u>% of County Employment</u> |
|-------------|---|-------------------------|------------------|-------------------------------|
| 1. | County of Riverside | County Government | 20,684 | 2.17% |
| 2. | March Air Reserve Base | Military Reserve Base | 8,500 | 0.89 |
| 3. | Stater Bros. Markets | Supermarkets | 6,900 | 0.72 |
| 4. | Walmart | Retail | 6,550 | 0.69 |
| 5. | University of California, Riverside | University | 5,768 | 0.60 |
| 6. | Kaiser Permanente Riverside Med. Center | Medical Center | 5,300 | 0.56 |
| 7. | Corona-Norco Unified School District | School District | 4,932 | 0.52 |
| 8. | Temecula Valley Unified School District | School District | 4,000 | 0.42 |
| 9. | Riverside Unified School District | School District | 3,871 | 0.41 |
| 10. | Hemet Unified School District | School District | 3,400 | 0.36 |

Source: County of Riverside 'Comprehensive Annual Financial Report' for the year ending June 30, 2015.

LARGEST EMPLOYERS City of Indio 2015

| <u>Rank</u> | <u>Name of Business</u> | <u>Type of Business</u> | <u>Employees</u> | <u>% of City Employment</u> |
|-------------|--------------------------------------|-------------------------|------------------|-----------------------------|
| 1. | County of Riverside | County Government | 1,443 | 3.96% |
| 2. | Desert Sands Unified School District | School District | 1,154 | 3.17 |
| 3. | Fantasy Springs Casino | Resort | 1,065 | 2.93 |
| 4. | John F. Kennedy Memorial Hospital | Medical Center | 782 | 2.15 |
| 5. | City of Indio | City Government | 232 | 0.64 |
| 6. | Riverside Superior Court | Legal | 169 | 0.46 |
| 7. | Cardenas Market | Grocery | 125 | 0.58 |
| 8. | Super Target | Retail | 150 | 0.41 |
| 9. | Ralphs | Grocery | 135 | 0.37 |

Source: City of Indio 'Comprehensive Annual Financial Report' for the year ending June 30, 2015.

Taxable Sales

The following tables show the recent history of taxable transactions in the County and Cities.

TAXABLE SALES County of Riverside (Dollars in Thousands) 2007-2014*

| <u>Year</u> | <u>Retail Permits</u> | <u>Retail Stores Taxable Transactions</u> | <u>Total Permits</u> | <u>Total Outlets Taxable Transactions</u> |
|-------------|-----------------------|---|----------------------|---|
| 2007 | \$22,918 | \$21,242,516 | 45,279 | \$29,023,609 |
| 2008 | 23,604 | 18,689,249 | 46,272 | 26,003,595 |
| 2009 | 29,829 | 16,057,488 | 42,765 | 22,227,877 |
| 2010 | 32,534 | 16,919,500 | 45,688 | 23,152,780 |
| 2011 | 33,398 | 18,576,285 | 46,886 | 25,641,497 |
| 2012 | 34,683 | 20,016,668 | 48,316 | 28,096,009 |
| 2013 | 33,391 | 21,306,774 | 46,805 | 30,065,467 |
| 2014* | 34,511 | 16,609,524 | 48,009 | 23,479,455 |

Note: In 2009, retail permits expanded to include permits for food services.

*2014 data is through 3rd Quarter.

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

TAXABLE SALES City of Indio (Dollars in Thousands) 2007-2014*

| <u>Year</u> | <u>Retail Permits</u> | <u>Retail Stores Taxable Transactions</u> | <u>Total Permits</u> | <u>Total Outlets Taxable Transactions</u> |
|-------------|-----------------------|---|----------------------|---|
| 2007 | 1,048 | \$21,813 | 1,607 | \$615,851 |
| 2008 | 1,153 | 539,400 | 2,260 | 673,527 |
| 2009 | 1,651 | 460,477 | 2,065 | 566,670 |
| 2010 | 2,160 | 481,228 | 2,636 | 582,332 |
| 2011 | 2,240 | 534,873 | 2,750 | 650,281 |
| 2012 | 2,206 | 606,582 | 2,740 | 724,256 |
| 2013 | 2,040 | 670,393 | 2,592 | 806,604 |
| 2014* | 2,050 | 540,896 | 2,605 | 653,722 |

Note: In 2009, retail permits expanded to include permits for food services.

*2014 data is through 3rd Quarter.

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

**TAXABLE SALES
City of Coachella
(Dollars in Thousands)
2007-2014***

| <u>Year</u> | <u>Retail Permits</u> | <u>Retail Stores Taxable Transactions</u> | <u>Total Permits</u> | <u>Total Outlets Taxable Transactions</u> |
|-------------|-----------------------|---|----------------------|---|
| 2007 | 267 | \$241,819 | 411 | \$307,494 |
| 2008 | 257 | 185,768 | 349 | 243,176 |
| 2009 | 257 | 185,768 | 349 | 243,176 |
| 2010 | 257 | 197,136 | 344 | 259,829 |
| 2011 | 270 | 215,754 | 364 | 289,223 |
| 2012 | 248 | 227,022 | 347 | 302,053 |
| 2013 | 237 | 232,627 | 332 | 309,858 |
| 2014* | 233 | 188,362 | 325 | 250,587 |

Note: In 2009, retail permits expanded to include permits for food services.

*2014 data is through 3rd Quarter.

Source: "Taxable Sales in California (Sales & Use Tax)," California Board of Equalization.

Building Activity

The following tables provide summaries of the building permit valuations and the number of new dwelling units authorized in the County and Cities from 2010 through 2014.

**BUILDING PERMIT VALUATIONS
County of Riverside
2010-2014
(Dollars in thousands)**

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|--------------------|----------------|----------------|----------------|----------------|----------------|
| Valuation (\$000): | | | | | |
| Residential | \$1,079,637 | \$948,710 | \$885,473 | \$1,375,593 | \$1,621,751 |
| Non-residential | <u>539,379</u> | <u>490,647</u> | <u>526,369</u> | <u>873,977</u> | <u>814,990</u> |
| Total | \$1,619,016 | \$1,439,357 | \$1,411,842 | \$2,249,570 | \$2,436,741 |
| Residential Units: | | | | | |
| Single family | 4,031 | 2,659 | 2,981 | 4,716 | 5,007 |
| Multiple family | <u>526</u> | <u>1,061</u> | <u>560</u> | <u>1,427</u> | <u>1,931</u> |
| Total | 4,557 | 3,720 | 3,541 | 6,143 | 6,938 |

Note: Totals may not add to sums because of rounding.

Source: California Homebuilding Foundation/Construction Industry Research Board.

BUILDING PERMIT VALUATIONS**City of Indio****2010-2014****(Dollars in thousands)**

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|--------------------|---------------|--------------|---------------|--------------|---------------|
| Valuation (\$000): | | | | | |
| Residential | \$42,078 | \$37,959 | \$35,380 | \$35,555 | \$90,669 |
| Non-residential | <u>12,458</u> | <u>8,992</u> | <u>17,847</u> | <u>8,212</u> | <u>32,660</u> |
| Total | \$54,536 | \$46,951 | \$53,227 | \$43,767 | \$123,329 |
| Residential Units: | | | | | |
| Single family | 286 | 251 | 214 | 348 | 516 |
| Multiple family | <u>0</u> | <u>0</u> | <u>0</u> | <u>124</u> | <u>-0-</u> |
| Total | 286 | 251 | 214 | 472 | 516 |

Note: Totals may not add to sums because of rounding.

Source: California Homebuilding Foundation/Construction Industry Research Board.

BUILDING PERMIT VALUATIONS**City of Coachella****2010-2014****(Dollars in thousands)**

| | <u>2010</u> | <u>2011</u> | <u>2012</u> | <u>2013</u> | <u>2014</u> |
|--------------------|--------------|--------------|-------------|--------------|--------------|
| Valuation (\$000): | | | | | |
| Residential | \$13,679 | \$9,696 | \$3,590 | \$27,602 | \$7,049 |
| Non-residential | <u>4,458</u> | <u>3,509</u> | <u>437</u> | <u>7,047</u> | <u>3,687</u> |
| Total | \$18,137 | \$13,205 | \$4,027 | \$34,649 | \$10,329 |
| Residential Units: | | | | | |
| Single family | 120 | 87 | 33 | 108 | 34 |
| Multiple family | <u>0</u> | <u>0</u> | <u>0</u> | <u>56</u> | <u>0</u> |
| Total | 120 | 87 | 33 | 164 | 34 |

Note: Totals may not add to sums because of rounding.

Source: California Homebuilding Foundation/Construction Industry Research Board.

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

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

Board of Trustees of the
Coachella Valley Unified School District
87225 Church Street
Thermal, CA 92274

Re: \$[Principal Amount] Coachella Valley Unified School District
 General Obligation Bonds, 2005 Election, Series 2016-E
 Final Opinion

Ladies and Gentlemen:

We have acted as Bond Counsel for the Coachella Valley Unified School District (“District”) in connection with the proceedings for the issuance and sale by the District of \$[Principal Amount] principal amount of Coachella Valley Unified School District General Obligation Bonds, 2005 Election, Series 2016-E (“Bonds”). The Bonds are being issued pursuant to the Resolution of Issuance of the Board of Trustees of the District, adopted on April 12, 2016 (Resolution No. 2016-70) (“District Resolution”), and a Resolution of the Board of Supervisors of the County of Riverside (“County”), adopted on April 26, 2016 (Resolution No. 2016-091) (“County Resolution” and collectively with the District Resolution, the “Bond Resolution”), in accordance with the provisions of the California Constitution, the provisions of California Government Code Section 53506 *et seq.*, and as applicable, the statutory authority set forth in Title 1, Division 1, Part 10, Chapter 1 of the State of California Education Code, commencing with Section 15100 and related California law.

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

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

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

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

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

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

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

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

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

Very truly yours,

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

[\$[PRINCIPAL AMOUNT]]
COACHELLA VALLEY UNIFIED SCHOOL DISTRICT
GENERAL OBLIGATION BONDS, 2005 ELECTION, SERIES 2016-E
(Riverside and Imperial Counties, California)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Coachella Valley Unified School District (the "District") in connection with the issuance of \$[Principal Amount] of the District's 2015 General Obligation Bonds, 2005 Election, Series 2016-E (the "Bonds"). The Bonds are being issued pursuant to a Resolution of the District adopted on April [12], 2016 (the "District Resolution") and a Resolution of the Board of Supervisors of Riverside County, adopted on April [26], 2016 (the "County Resolution") (collectively, the "Bond Resolution"). The District covenants and agrees as follows:

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

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

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Annual Report Date" shall mean January 31 next following the end of the District's fiscal year, which fiscal year ends, as of the date of this Disclosure Agreement, are June 30.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Disclosure Representative" shall mean the Disclosure Compliance Officer of the District (as outlined by the District's policies and procedures), acting on behalf of the District, or his or her designee, or such other officer or employee as each District shall designate in writing to the Dissemination Agent from time to time.

"Dissemination Agent" shall mean initially Applied Best Practices, LLC, or any successor Dissemination Agent designated in writing by the District (which may be the District) and which has filed with the District a written acceptance of such designation.

"EMMA System" shall mean the Electronic Municipal Market Access System of the MSRB (as defined below) or such other electronic system designated by the MSRB or the Securities and Exchange Commission (the "S.E.C.") for compliance with S.E.C. Rule 15c2-12(b).

"Holders" shall mean registered owners of the Bonds.

“Listed Events” shall mean any of the events listed in Section 5 of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Participating Underwriter” shall mean RBC Capital Markets, LLC, Los Angeles, California.

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

“State” shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The District shall, or shall cause the Dissemination Agent to, not later than nine months after the end of the District’s fiscal year (presently ending June 30), commencing with the report for the 2015-16 Fiscal Year, provide to the MSRB through the EMMA System in an electronic format and accompanied by identifying information as prescribed by the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. 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 4 of this Disclosure Certificate; *provided* that the audited financial statements of the District may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the District’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(b).

(b) Not later than thirty (30) days (nor more than sixty (60) days) prior to said date the Dissemination Agent shall give notice to the District that the Annual Report shall be required to be filed in accordance with the terms of this Disclosure Certificate. Not later than fifteen (15) Business Days prior to said date, the District shall provide the Annual Report in a format suitable for reporting to the MSRB through the EMMA System to the Dissemination Agent (if other than the District). If the District is unable to provide to the MSRB through the EMMA System an Annual Report by the date required in subsection (a), the District shall send a notice to the MSRB through the EMMA System in substantially the form attached as Exhibit A, with a copy to the Dissemination Agent. The Dissemination Agent shall not be required to file a Notice to the MSRB of Failure to File Annual Report.

(c) The Dissemination Agent shall file a report with the District stating it has filed the Annual Report in accordance with its obligations hereunder, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The District’s Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the District for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District's audited financial statements):

1. State funding received by the District for the last completed fiscal year;
2. average daily attendance of the District for the last completed fiscal year;
3. outstanding District indebtedness;
4. summary financial information on revenues, expenditures and fund balances for the District's general fund reflecting adopted budget for the current fiscal year;
5. assessed valuation of property within the District for the current fiscal year; and
6. tax delinquencies, to the extent that the Counties are no longer on the Teeter Plan.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB through the EMMA System or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The District shall clearly identify each such other document so included by reference. The Annual Report shall be filed in an electronic format, and accompanied by identifying information, as prescribed by the MSRB.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5(a), the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not in excess of 10 business days after the occurrence of the event:

- (i) Principal and interest payment delinquencies;
- (ii) Tender offers;
- (iii) Defeasances;
- (iv) Rating changes;
- (v) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB);
- (vi) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (vii) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (viii) Substitution of credit or liquidity providers, or their failure to perform;

(ix) Bankruptcy, insolvency, receivership or similar event of the obligated person.⁽¹⁾

(b) Pursuant to the provisions of this Section 5(b), the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. non-payment related defaults.
2. modifications to rights of Bondholders.
3. optional, contingent or unscheduled Bond calls.
4. unless described under Section 5(a)(5) above, material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
5. release, substitution or sale of property securing repayment of the Bonds.
6. the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
7. Appointment of a successor or additional trustee or paying agent with respect to the Bonds or the change of name of such a trustee or paying agent.

(c) Upon the occurrence of a Listed Event under Section 5(b) hereof, the District shall as soon as possible determine if such event would be material under applicable federal securities laws and if the District determines that knowledge of such Listed Event would be material under applicable federal securities laws, the District shall (i) file a notice of such occurrence with the MSRB through the EMMA System in a timely manner not in excess of 10 business days after the occurrence of the event or (ii) provide notice of such reportable event to the Dissemination Agent in format suitable for filing with the MSRB through the EMMA System in a timely manner not in excess of 10 business days after the occurrence of the event. The Dissemination Agent shall have no duty to independently prepare or file any report of Listed Events. The Dissemination Agent may conclusively rely on the District's determination of materiality pursuant to Section 5(c).

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(a) or 5(b).

⁽¹⁾ For the purposes of the event identified in subparagraph (ix), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent (or substitute Dissemination Agent) to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign upon fifteen (15) days written notice to the District. Upon such resignation, the District shall act as its own Dissemination Agent until it appoints a successor. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate and shall not be responsible to verify the accuracy, completeness or materiality of any continuing disclosure information provided by the District. The District shall compensate the Dissemination Agent for its fees and expenses hereunder as agreed by the parties. Any entity succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the execution or filing of any paper or further act.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a) or 5(b), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

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

(c) The amendment or waiver does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds; and

(d) No duties of the Dissemination Agent hereunder shall be amended without its written consent thereto.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the District. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under 5(b), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Bond Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate. The Dissemination Agent acts hereunder solely for the benefit of the District; this Disclosure Certificate shall confer no duties on the Dissemination Agent to the Participating Underwriter, the Holders and the Beneficial Owners. The District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. The Dissemination Agent shall have no liability for the failure to report any event or any financial information as to which the District has not provided an information report in format suitable for filing with the MSRB through the EMMA System. The Dissemination Agent shall not be required to monitor or enforce the District's duty to comply with its continuing disclosure requirements hereunder.

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

Dated: _____, 2016

COACHELLA VALLEY UNIFIED SCHOOL
DISTRICT

By: _____
Dr. Derwin S. (Darryl) Adams, Superintendent

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of District: COACHELLA VALLEY UNIFIED SCHOOL DISTRICT

Name of Bond Issue: General Obligation Bonds, 2005 Election, Series 2016-E

Date of Issuance: _____, 2016

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate relating to the Bonds. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

COACHELLA VALLEY UNIFIED SCHOOL DISTRICT

By _____ [form only; no signature required]

APPENDIX F

**COUNTY OF RIVERSIDE
TREASURER'S POOLED INVESTMENT FUND**

APPENDIX G

BOOK-ENTRY SYSTEM

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

Procedures and Record Keeping

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com. The information on such website is not incorporated herein by such reference or otherwise.

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 the 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 the 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bonds documents. For example, Beneficial Owners of the Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 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 as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal amount and redemption price of 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 the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal amount and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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 thereof.

Discontinuance of DTC Services

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

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

The District and the Paying Agent do not have any responsibility or obligation to DTC Participants, to the persons for whom they act as nominees, to Beneficial Owners, or to any other person who is not shown on the registration books as being an owner of the Bonds, with respect to (i) the accuracy of any records maintained by DTC or any DTC Participants; (ii) the payment by DTC or any DTC Participant of any amount in respect of the principal amount of, redemption price of the Bonds; (iii) the delivery of any notice which is permitted or required to be given to registered owners under the Bond Resolution; (iv) the selection by DTC or any DTC Participant of any person to receive payment in the event of a partial redemption of the Bonds; (v) any consent given or other action taken by DTC as registered owner; or (vi) any other matter arising with respect to the Bonds or the Bond Resolution. The District and the Paying Agent cannot and do not give any assurances that DTC, DTC Participants or others will distribute payments of principal amount of the Bonds paid to DTC or its nominee, as the registered owner, or any notices to the Beneficial Owners or that they will do so on a timely basis or will serve and act in a manner described in this Official Statement. The District and the Paying Agent are not responsible or liable for the failure of DTC or any DTC Participant to make any payment or give any notice to a Beneficial Owner in respect to the Bonds or any error or delay relating thereto.

APPENDIX H

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

