

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

SCHOOL DISTRICT FINANCIAL INFORMATION

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

Accounting Practices

The accounting practices of the School District conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the California Education Code, is to be followed by all California school districts. Significant accounting policies followed by the School District are explained in Note 1 to the School District's audited financial statements for the Fiscal Year ended June 30, 2015, which are included as Appendix B.

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

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

Financial Statements

The School District's general fund finances the legally authorized activities of the School District for which restricted funds are not provided. General fund revenues are derived from such sources as State school fund apportionments, taxes, use of money and property, and aid from other governmental agencies. Audited financial statements for the School District for the Fiscal Year ended June 30, 2015, and prior fiscal years are on file with the School District and available for public inspection at the office of the Superintendent of the Temecula Valley Unified School District, 31350 Rancho Vista Road, Temecula, California 92592, telephone number (951) 506-7940. The audited financial statements for the year ended June 30, 2015, are included in Appendix B herein.

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

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

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

BALANCE SHEET – GENERAL FUND

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

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

Source: Temecula Valley Unified School District audited financial statements.

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

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

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

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

Source: Temecula Valley Unified School District

Budget Process

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

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

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

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

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

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

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

General Fund Revenues, Expenditures and Changes in Fund Balances

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

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

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

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

Source: Temecula Valley Unified School District.

State Funding of Education

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

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

Prior State Funding of Education

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

Current State Education Funding

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Source: The School District.

Revenue Sources

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

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

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

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

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

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

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

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

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

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

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

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING SCHOOL DISTRICT REVENUES AND APPROPRIATIONS

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

Article XIII A of the California Constitution

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

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

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

Legislation Implementing Article XIII A

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

That portion of annual property tax revenues generated by increases in assessed valuations within each tax rate area within a county, subject to redevelopment agency or successor agency claims on tax

increment, if any, and subject to changes in organizations, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions.

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

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

Inflationary Adjustment of Assessed Valuation

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

Taxation of State-Assessed Utility Property

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

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

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

Article XIII B of the California Constitution

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

Proposition 98

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

Proposition 111

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

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

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

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

c. Exclusions from Spending Limit. Two new exceptions have been added to the calculation of appropriations which are subject to the Article XIII B spending limit. First, excluded are all appropriations for "qualified capital outlay projects" as defined by the Legislature. Second, excluded are any increases in gasoline taxes above the then current cents per gallon level, sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990.

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

e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) a certain percentage of State general fund revenues (the "first test") or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIII B by reference to per capita personal income) and enrollment (the "second test"). Under Proposition 111, school districts will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capita personal income. Under the third test, school districts will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita State general fund revenues, plus an

additional small adjustment factor (the “third test”). If the third test is used in any year, the difference between the third test and the second test will become a “credit” to school districts which will be paid in future years when State general fund revenue growth exceeds personal income growth.

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

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

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

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

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

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

Proposition 39

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

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

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

Jarvis v. Connell

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

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A ("Proposition 1A"), which amended the State Constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State cannot (i) reduce local sales tax rates or alter the method of allocation the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local

governments without two-thirds approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning in Fiscal Year 2008-09, the State could shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

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

Proposition 62; Statutory Limitations

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

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

Proposition 22

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

Proposition 26

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

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

Proposition 30

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

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

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

Statutory Lien for General Obligation Bonds

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

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

State Cash Management Legislation

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

Applications of Constitutional and Statutory Provisions

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

Future Initiatives and Legislation

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

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

APPENDIX B

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

APPENDIX C

ECONOMIC AND DEMOGRAPHIC INFORMATION

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

Population

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

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

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

Note: California Department of Finance for January 1.

Employment

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

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

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

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

* Not seasonally adjusted.

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

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

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

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

⁽¹⁾ Includes persons involved in labor-management trade disputes.

⁽²⁾ Includes all persons without jobs who are actively seeking work.

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

* Not seasonally adjusted.

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

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

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

⁽¹⁾ Includes persons involved in labor-management trade disputes.

⁽²⁾ Includes all persons without jobs who are actively seeking work.

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

* Not seasonally adjusted.

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

Construction Activity

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

BUILDING PERMIT ACTIVITY CITY OF TEMECULA 2010-2014

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

⁽¹⁾ Source: Construction Industry Research Board.

⁽²⁾ Source: California Homebuilding Foundation.

BUILDING PERMIT ACTIVITY COUNTY OF RIVERSIDE 2010-2014

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

⁽¹⁾ Source: Construction Industry Research Board.

⁽²⁾ Source: California Homebuilding Foundation.

Income

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

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

RIVERSIDE COUNTY PERSONAL INCOME

2005-2014

(In Thousands)

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

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

PER CAPITA PERSONAL INCOME

2005-2014

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

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

Retail Sales

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

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

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

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

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

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

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

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

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

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

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

Ladies and Gentlemen:

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

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

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

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

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

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

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

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

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

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

Very truly yours,

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

APPENDIX F

RIVERSIDE COUNTY POOLED INVESTMENT FUND

APPENDIX G

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

APPENDIX H

BOOK-ENTRY-ONLY SYSTEM

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

Procedures and Record Keeping

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2016-B Bonds. The Series 2016-B Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2016-B Bond will be issued for each maturity of the Series 2016-B Bonds, each in the aggregate principal amount of such maturity, and will be deposited through the facilities of DTC.

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

Purchases of Series 2016-B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016-B Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016-B Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016-B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016-B Bonds, except in the event that use of the book-entry-only system for the Series 2016-B Bonds is discontinued.

To facilitate subsequent transfers, all Series 2016-B Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016-B Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016-B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016-B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2016-B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2016-B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2016-B Bonds documents. For example, Beneficial Owners of the Series 2016-B Bonds may wish to ascertain that the nominee holding the Series 2016-B Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2016-B Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the School District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2016-B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, accreted value and redemption price of and interest payments on the Series 2016-B Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the School District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records.

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

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

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

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

Discontinuance of DTC Services

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

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

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

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

APPENDIX I

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

APPENDIX J

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

